

DIARY

Book 640

June 7 - 10, 1943

- B -

	Book	Page
Baruch, Bernard		
See Financing, Government: War Savings Bonds (Organization Plans)		
Business Conditions		
Haas memorandum on situation, week ending June 5, 1943 - 6/7/43.....	640	23

- C -

Canada		
U.S. Dollar Reserve: Conference to discuss implementation of agreement to maintain; present: Clark and Plumtre, White and Miss Kistler - 6/8/43.....		72
China		
Stabilization Board:		
Adler reports on Kung's desire for reconsideration of 1941 agreement - 6/9/43.....		138
(See also Book <u>641</u> , page 257 - 6/14/43, and Book <u>644</u> , page 336 - 6/24/43)		
Treasury reply - 6/23/43: Book <u>644</u> , page 229		
Madam Chiang-HMJr conversation reported to White - 6/25/43: Book <u>645</u> , page 45		
Kung decides to request revision: Book <u>645</u> , pages 146 and 359		
Compulsory Savings		
For FDR's press conference see Revenue Revision		

- D -

Dewey, Thomas E. (Governor, New York)		
See Financing, Government: War Savings Bonds (Organization Plans)		

- F -

Financing, Government		
Blocked enemy funds - investment of in Government bonds:		
Aarons memorandum opposing - 6/8/43.....		70
Estimated receipts, cash expenditures, etc., for fiscal year 1944 - 6/9/43.....		127
Financing requirements and sources of funds for this summer and 3rd War Loan - Haas memorandum - 6/10/43..		249
War Savings Bonds:		
Organization Plans:		
New York City press conference - 6/7/43.....		1
New York State set-up announced - 6/7/43.....		15
a) Governor Dewey offered State chairmanship - 6/8/43.....		55
b) Patterson-HMJr exchange of messages - 6/9/43..		133, 246
c) Baruch offers complete cooperation - 6/9/43...		137

- F - (Continued)

	Book	Page
Financing, Government (Continued)		
War Savings Bonds (Continued):		
Percentage of income payments absorbed by purchases of Federal securities by individuals - 6/9/43.....	640	121
a) Press release.....		123
2nd War Loan: Cash sales of Government departments - Bartelt report - 6/9/43.....		130
3rd War Loan: Financing requirements and sources of funds for this summer and 3rd War Loan - Haas memorandum - 6/10/43.....		249
Foreign Funds Control		
Blocked enemy funds - investment of in Government bonds:		
Aarons memorandum opposing - 6/8/43.....		70
Viner memorandum - 6/18/43: See Book <u>643</u> , page 191		

- I -

Inflation

  Compulsory Savings: For FDR's statement see Revenue  
  Revision

- L -

Latin America

  Paraguay: Report on economic conditions in connection  
    with Paraguayan President visit - 6/10/43.....

97

Lend-Lease

  Report for week ending June 5, 1943 - 6/8/43.....

94

  United Kingdom:

    Aircraft flight delivery as at June 1, 1943 -  
      British Air Commission report - 6/7/43.....

39

    Aircraft despatched, week ending June 1, 1943 -  
      British Air Commission report - 6/7/43.....

41

    Gold and dollar assets for May 1943 - 6/8/43.....

93

- N -

New York

  See Financing, Government: War Savings Bonds  
  (Organization Plans)

New York Herald-Tribune

  See Revenue Revision

New York Times

  See Revenue Revision

- O -

Occupied Territories

  North Africa: Report of Purchases

    May 31-June 6, 1943 - 6/7/43.....

35

    June 7-June 13, 1943: See Book 641, page 239

    June 14-June 20, 1943: Book 643, page 281

    June 21-June 27, 1943: Book 645, page 178

- O - (Continued)

	Book	Page
Office of War Mobilization		
Tax subsidy message to accompany signing of tax bill prepared by Cohen discussed - 6/10/43.....	640	244
(See also page 171)		

- P -

Paraguay

See Latin America

Patterson, Richard C.

See Financing, Government: War Savings Bonds  
(Organization Plans)

- R -

Revenue Revision

Revenue Bill of 1943:

FDR at press conference advocates compulsory savings as he announces impending signature of bill -

6/8/43..... 44, 46

a) HMJr-Bell conversation - 6/9/43..... 101

b) FDR-HMJr conversation reported to Bell - 6/9/43..... 110

FDR corrects impression that he favors compulsory savings - 6/11/43: See Book 641, pages 1, 22, and 25

a) Sullivan account of conference with Early: Book 641, page 85

FDR's attention called to New York Herald-Tribune article - (6/10/43): "HMJr no longer Administration's tax policy maker" - 6/10/43..... 141

a) Gaston-HMJr conversation - 6/10/43..... 141, 164, 169

b) Actual article..... 154

c) New York Times article..... 155

d) HMJr's own copy of letter to FDR..... 156

e) Drafts of letter to FDR..... 158, 161, 190, 192, 217

1) Gaston's opinion on letter..... 180

2) Paul's " " " "..... 182

3) Sullivan's " " " "..... 185

4) White's " " " "..... 194

f) Paul reports on conference with Byrnes..... 171

1) Cohen draft of message, "Tax and Subsidy Message," reported..... 171, 244

2) Compulsory savings endorsement included

g) Letter as sent to FDR through Miss Tully - 6/10/43..... 214

h) FDR's lack of statement at time of signature discussed by Treasury group - 6/10/43..... 219

i) Sullivan account of conference with Early - 6/11/43: See Book 641, page 85

j) FDR's answering memorandum - 6/12/43: Book 641, page 173

1) FDR-HMJr conversation - 6/15/43: Book 642, page 39

- T -

Book 640

Taxation  
See Revenue Revision

- U -

United Kingdom  
See Lend-Lease

- W -

War Savings Bonds  
See Financing, Government: War Savings Bonds

MINUTES OF A PRESS CONFERENCE  
OF HON. HENRY W. MORGENTHAU, JR.  
SECRETARY OF THE TREASURY,  
HELD AT THE HOTEL WALDORF ASTORIA  
NEW YORK, N. Y., JUNE 7, 1943  
AT 4.30 P.M. O'CLOCK

\* \* \* \* \*

Reported by:

Robert Jordan,  
15 Park Row, Room 817,  
New York, N. Y.

Barclay 7 - 5051

MINUTES OF A PRESS CONFERENCE  
TAKEN AT THE HOTEL WALDORF  
NEW YORK, N. Y., JUNE 8, 1943  
4.30 P.M.

- - - - -

MR. MORGENTHAU: Gentlemen, I don't know whether you had a chance to read this, but if you have and you have any questions you would like to ask Mr. Burgess or myself, we will be glad to answer them.

Q (By the Press) What is the fundamental reason for the unification - the merger?

A Well we thought -- I am at a little disadvantage in not knowing to whom I speak. What is your name, and the paper you represent?

A I am Adams, of the Times.

A We simply felt that after the experience we have had, we want one organization. We tried to get it and this is the result, and we are going ahead as fast as we can and build up each State organization with the best men we can get and with the best committees we can get.

We think we have tops here in New York.

And then, as a separate matter, we will sell government bonds to the banks, insurance companies and government bond dealers.

Q To banks and insurance companies?

A Banks, insurance companies and government bond dealers.

Q How about mutual savings banks?

A Yes - Mutuals. They come in that category.

Q Mr. Morgenthau my name is Dillman, of A.P. Wire. I wonder whether it is true that through your payroll savings you expect to get about fifty percent more than you have been getting?

A We have been getting about, just about ten percent of the payroll through the country and we are going to aim for twenty-five. We may have set our goal a little too high, but that is what we are going to aim for.

Q You mean on that twenty-five percent on bonds. Do you mean the government is aiming to get twenty-five percent of the national income?

A No.

Q There have been two or three discussions on that - the other day.

A I think what we are aiming for is to try and get twenty-five percent of the payroll, if we can. It seems very high but we will make that effort.

Q To invest in bonds?

A In bonds.

Q How much money would that come to?

A Well I can only tell you what we are doing now. We are doing about four hundred twenty-five a month. Multiply that by two and a half. It will give you roughly about a billion a month - roughly. That is a very high goal. I

don't know whether we can obtain it. When we started out with the ten percent, we didn't think we would get that.

Q There will be no individual goals? You will probably have to get the twenty-five percent -- this is a blank figure?

A The whole underlying principle is a voluntary one.

Q To some people the ten percent was a hell of a lot of money.

A Yes.

Q Mr. Morgenthau, if the whole underlying principle is a voluntary one, then doesn't it mean that you will have to use more energetic methods to get the twenty-five where you had been getting ten?

A Yes. We will use not only more energetic methods but we hope to come through the State organizations, to have better organizations, to reach more people. We think that the interest of the people in the country in the war effort is constantly mounting. Their investment in the bonds has steadily increased and we have hoped that it will continue to do so. We have no reason to believe that it will not continue to do so.

Q By saying "voluntary" you still believe it is necessary for forced savings?

A If the amount of money and the number of people -- or put it the other way around; if the number of people continues to subscribe the amount that they do, forced sav-

ings is not necessary. Senator George said the other day, "This thing is going so far and been so successful" that he doesn't think forced savings will be necessary.

But that depends on the American people. If we can get the money this way, it is grand. And everybody wants to keep it this way. But if we cannot, we have got to get it some other way.

Q You mean if they continue subscribing the present amount?

A An increasing amount.

Q That means an increase of Fifteen percent in payroll savings. What would be the increase in the other divisions?

A It would be proportionate. That doesn't mean that if we don't reach twenty-five percent we will have to have forced savings. It is nice to have a goal.

The second war loan, we sold thirty-two million pieces of bonds. It was ~~far~~ in excess of what we did in the first. I think that the few States that we have set up, if the enthusiasm that we are meeting is any indication, I think in the third war loan we will still find more people. If that continues, I think the people themselves will be satisfied.

Q Has any goal been set for the third war loan?

A Not yet. The only thing that we settled so far is for the balance of this month -- some of this is new, some of it is not -- we announced this morning that we would borrow two and one-half billions. We didn't set the date.

The date would be June 28th. We are going to ask for two and one-half billions with a maturity of ten years or less, open to everybody, and then -- I don't know how closely you follow this, but I can give you the whole picture. On the 15th of June there are six hundred twenty-nine million 1-1/8 Treasury Notes maturing which we will pay off in cash. And we will call the four hundred fifty-four million of 3-3/8 Treasury Bonds 1943-47 -- we will pay that off in cash.

Beginning next week we will raise our bills to a billion dollars a week, which will give us \$200,000,000. additional, going up to July 21st, and after that \$100,000,000 new money and we will complete that cycle on the second week of September.

Now those of you who have covered financial pages ---

MR. BURGESS: That is new.

A (Continuing) --- those of you financial writers will understand. The rest of you may be bored.

Q You said if it was not successful you would have to get it some other way. Would you enlarge on that?

A My job as Mr. Roosevelt's appointee is to raise the money. We will get it one way or another. That is what I meant. I am encouraged to believe that we will continue to get it on our volunteer plan. But we are going to get it! We won't let the Commander-in-Chief down. I know the American people are going to get it one way or the other.

Q You were quoted a few days ago in a Washington report as saying forty-five more billion dollars was needed this year.

Does that cover what you were saying a while ago?

A Yes. All I gave you here were our financing plans up to the 4th of July. That gives you the program from now until the 4th of July.

Q What about this plan to have separate offerings to banks in private capacities? What was the reason for that?

A Well the reason for that was this: that we want, when we have the third ward loan, through the help of the newspapers, the radio and all other forms of publicity, we want to concentrate on the individual and get just as much as we can from the individuals and by supporting the bank drive over the drive of individuals, I feel we can concentrate more on the individuals and we get more subscriptions out of it.

Q In this last drive was the contributions from individuals up to what was expected and hoped for?

A Oh yes. Yes sir. We had set five billion dollars from the banks and eight billion dollars from individuals and corporations, the non-banking group. We got thirteen and a half billions from the non-banking group and we only started out to get eight billions. So we exceeded our real hopes by five and a half billion dollars.

Q Actually, wasn't it only three billions over, raised from the so-called public, in that thirteen and a half billions, the rest coming in from the banks and insurance companies?

A That is correct. I was dividing it from non-banking and the rest.

Q Coming back on the one point where you said in here "billion a month," that would really -- would that three billions plus have to be raised from the public?

A Yes.

MR. BURGESS: The billion a month would be raised every month. It is a little over a billion for May. It was one and one-quarter billions that month.

Q Do you anticipate any difficulty because of the larger withholding tax?

A No, because after all, once the thing is instituted the withholding tax is, - you are paying a tax each month instead of paying it four times a year.

MR. BURGESS: It is not actually an increase in taxes.

A (Continuing) No. Once it is understood, that is our job with the help of you gentlemen to get it understood, I think the man will have just as much left to invest in savings as he had before. As a matter of fact he ought to psychologically be better off because he has not got the worry of what is he going to do on income tax day.

Q Do you think it will work out actually in practise that way, as before there were a lot of people who didn't have to pay much taxes and many none at all, whereas now they will have to go through the form of getting a refund.

A I beg to differ. The number of people who have not paid an income tax is very limited. It is amazing how few people have not paid their taxes, and this idea that this will

bring in a lot of new tax work, I don't think that is so.

Q There have been a lot of people who have been seasonal workers, who hold a job for two or three months and then move on. Like a lot of people in the building trades. Their aggregate salary over a year would warrant their paying a tax but they don't and how can you get them?

A I think you are incorrect. It is hard for us to get a man who has a two months' job at a government plant when he moves on, to get him on the payroll plan. But these men we find do pay their taxes. They may not be on the payroll plan but there are very few people in this country who have not paid their taxes, amongst the smaller people.

Q Can you say when the third drive will be held?

A Some time in September.

Q Will this new set-up change the area? For instance, we had a quota in the Second Federal District consisting of New York and New Jersey and part of Connecticut. Will this group handle that entire territory?

A No. Mr. Burgess will be responsible for the State of New York and Mr. D'Olier will be responsible for the State of New Jersey.

Q The quotas will be set by the States?

A Yes. And in some ways we think it will be worked out better than before. For instance, the State of New Jersey will have a quota for the entire State instead of dividing up the northern half of New Jersey and the southern half.

There will be a certain feeling of pride going with it.

Q You are going to have a separate organization in each of the forty-eight States?

A A separate organization in each of the forty-eight States.

MR. BURGESS: And the District of Columbia.

MR. MORGENTHAU: Yes.

MR. BURGESS: Making forty-nine.

Q When you said that under the withholding plan it would be every month instead of four times a year, you meant every pay day?

A Yes, that's right.

Q You say this is the first State. Do you have any plans as to the next State?

A Well I have not read that carefully, but we have set-up now New Jersey, Illinois, Indiana and Michigan, and New York, and we appointed -- when I say "set-up" we have a State Chairman. And Missouri.

Q That is about six out of the forty-eight.

A Six. And the others will go very rapidly. It will all be finished by this month so that they will have July and August to plan for the third drive. It will be completed by this month.

Q You are not expecting the difficulties elsewhere that you had here?

A Well, one never knows.

Q Are you envisioning any changes in the methods of arousing interest in the general war loan drive?

A Maybe Mr. Burgess would like to say something on that. May I say this: We are very fortunate in getting this Chairman. I have great confidence that he will do a grand job.

MR. BURGESS: Thank you.

Q Is there going to be another committee to handle the drive among the banks?

A (By Mr. Burgess) They will be handled by one division of the State organization. The State organization will have at least three divisions. One division will be the banking investment division, and that will handle the whole job that is done - that is bank customers, corporations, special names, with the whole mass that the volume of the money comes from.

In other things, the number of subscribers who fall over in the category of payroll savings, that is the second division.

And the third, is what you might call community activity - the booths that you put around in different places; the foreign language group, which is very active here in New York; the house-to-house canvas, if that is done. Community Division of Possible Contests. That comes under community divisions; broadcasts to get all the people in on that.

But the job that the banks will do, and that is not selling to the banks directly but the bank customers, that will be handled by the banking investment division. And that will have an Advisory Commission, of which Mr. Potter will be the

Chairman.

There will be a director of that division. I can't tell his name. I am not ready to announce it. We have the assurance of the support of the whole banking community on that. That job will be done in book fashion, just as it was the last time, only a little better.

Q By separating the banking and investment groups from the other two, do you think it would be possible to get anywhere near the thirteen and one-half billions raised in the last drive?

A The non-banking groups includes bank customers. There is no thought that there will be any sales in the bank. The quotas will have to be adjusted. It is too early to work out yet. The national income is increasing and the interest is much greater now so that we may keep on going. On the other hand, if you don't have the banks in the drive we may have to cut out the quota.

Q Mr. Morgenthau I am from the Daily Mirror. You say twenty-five percent of the salary is the goal?

A Yes.

Q I make sixty dollars a week. Under the new withholding tax they take eight dollars. That would leave fifty-two. If I subscribe twenty-five percent that would be \$15.00, which would leave me \$37.00 a week to live on.

A Not very good.

Q Do you think your plan is practical?

A (By Mr. Burgess) It is a hell of a lot more practical

than forced savings because with forced savings you would have to pay the same figure that a workman, who formerly got twenty dollars a week but was stepped up to sixty dollars. But with the voluntary plan the fellow who gets more money is the fellow who pays more, whereas the white collar person, whose salary has not gone up very much, pays what he can, five percent or ten percent. You want a goal high enough for the fellow who has had a big increase in salary.

Q Who will give the twenty-five percent?

A (By Mr. Morgenthau) For example, the Kaiser Shipyards with ninety thousand employees during this last drive, in Portland, Oregon, gave twenty-three percent, but the thing that I say, the difference between the voluntary and the forced savings is you appeal more to the men who have gone, as Mr. Burgess said, from twenty dollars to one hundred dollars a week, but if we have to force savings, you won't have a chance.

Q I am only giving my case as an example.

A I am glad you asked us. You gave Mr. Burgess a chance to give a very intelligent answer to the question.

MR. BURGESS: Here is the reason for changing the goal. I heard about a family the other day where they have five in the family working, and they are getting a monthly income of something like a thousand dollars, whereas they used to earn maybe one hundred dollars a month combined. You go to them and say "You are going to buy more bonds." They say, "We are buying our 10%."

A VOICE: On the other hand we have quite a large number of cases of women working in factories with husbands working and meeting all their expenses, who are giving their entire salary into bonds. A great many of them working around the country, the husband supports the family. So that while this twenty-five percent is represented by a total number of people, you will have that many over and above it.

Q Mr. Morgenthau, have you made any guesses or estimates of what the Post War Debt is going to be?

A (By Mr. Morgenthau) No. I live from sunrise to sunset. It is a fairly busy day at that.

Q One Congressman put it at 300 billions.

A Well, as I said, I stay on a twenty-four hour basis, as I say, from sunrise to sunset. I don't make any forecasts and therefore don't have to swallow any of my words.

MR. BURGESS: There is a good expression: "Sufficient unto the day is the evil thereof."

Q This means that harmony has been restored and the air is a little bit clear now.

(No response.)

- - - -

WHEREUPON, at 5.00 p.m. o'clock the conference was closed.

- - - - -

JUNE 7, 1945

THIS WIRE SENT TO ALL NAMES ON ATTACHED LIST

TODAY I AM ANNOUNCING THE REORGANIZATION OF THE NEW YORK STATE  
~~XOXO~~ BOND SELLING ORGANIZATION. WE ARE MERGING THE WAR SAVINGS  
STAFF WITH THE NEW YORK MEMBERSHIP OF THE VICTORY FUND COMMITTEE  
TO FORM THE WAR FINANCE COMMITTEE FOR NEW YORK STATE UNDER THE  
CHAIRMANSHIP OF W. RANDOLPH BURGESS, WITH BAYARD POPE AS VICE  
CHAIRMAN AND NEVIL FORD AS EXECUTIVE MANAGER. TO SECURE THE  
BEST ADVICE AND COUNSEL AVAILABLE FOR THE OFFICERS OF THE NEW  
WAR FINANCE COMMITTEE WE ARE SETTING UP A WORKING COMMITTEE OF  
APPROXIMATELY FORTY PEOPLE WHOSE EXPERIENCE WILL BE VALUABLE.  
THIS COMMITTEE WILL MEET PERIODICALLY TO CONSIDER BROAD QUESTIONS  
OF POLICY, ORGANIZATION AND ACTIVITIES. MR. BURGESS AND I BELIEVE  
THAT YOUR SERVICE ON THIS COMMITTEE WOULD BE HELPFUL IN MAKING OUR  
WAR FINANCING PROGRAM MORE EFFECTIVE, AND I THEREFORE INVITE YOU TO  
BE A MEMBER. WILL YOU PLEASE WIRE YOUR REPLY TO ME AT WASHINGTON.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY.

W. Randolph Burgess  
Vice-Chairman, of the Board,  
National City Bank of New York,  
55 Wall Street,  
New York, New York. Chairman

Bayard P. Pope,  
Chairman, Marine Midland Corporation,  
180 Broadway,  
New York, New York. Vice-Chairman

Bruce Barton,  
Batten, Barton, Durstine & Osborn,  
383 Madison Avenue,  
New York, New York.

Henry Bruere,  
President, Bowery Savings Bank,  
110 East 42nd Street,  
New York, New York.

Frank S. Columbus,  
State Legislative Representative,  
Brotherhood of Enginemen & Firemen,  
11 North Pearl Street,  
Albany, New York.

Guy Emerson,  
Vice President, Bankers Trust Company,  
14 Wall Street,  
New York, New York.

Chester Gersten,  
President, Public National Bank & Trust Company,  
37 Broad Street,  
New York, New York.

Dr. Arthur K. Getman,  
New York State Department of Education,  
Albany, New York.

Walter S. Gifford,  
President, American Telephone & Telegraph Company,  
196 Broadway,  
New York, New York.

Henry H. Heimann,  
Executive Manager, National Association of Credit Men,  
1 Park Avenue,  
New York, New York.

Allan Sproul (Alternate - Robert G. House)  
President, Federal Reserve Bank of New York,  
33 Liberty Street,  
New York, New York.

-2-

Gale F. Johnston,  
Third Vice President,  
Metropolitan Life Insurance Company,  
1 Madison Avenue,  
New York, New York.

John Price Jones,  
John Price Jones Corporation,  
150 Nassau Street,  
New York, New York.

Arthur Kudner,  
Arthur Kudner, Inc.,  
630 Fifth Avenue,  
New York, New York.

Thomas A. Murray,  
President, New York State Federation of Labor,  
265 West 14th Street,  
New York, New York.

Dr. William I. Myers,  
New York State College of Agriculture,  
Cornell University,  
Ithaca, New York.

Samuel W. Reyburn,  
c/o Associated Dry Goods Corporation,  
366 Fifth Avenue,  
New York, New York.

Robert G. Rouse (Alternate for Mr. Allan Sproul)  
Vice President, Federal Reserve Bank of New York,  
33 Liberty Street,  
New York, New York.

Miss Rose Schneiderman,  
Secretary, New York State Department of Labor,  
90 Center Street,  
New York, New York.

Gustave Strebek,  
President, New York State Industrial Union of CIO,  
1133 Broadway,  
New York, New York.

Dr. Channing H. Tobias,  
National Council Y.M. C.A.,  
347 Madison Avenue,  
New York, New York.

-3-

Mrs. Courtland D. Barnes, ex-officio,  
134 East 62nd Street,  
New York, New York.

Nevil Ford, ex-officio,  
Lloyd Lane,  
Huntington, Long Island, New York.

Mrs. Lytle Hull, ex-officio,  
Hampshire House,  
150 Central Park South,  
New York, New York.

Edward H. Letchworth, ex-officio,  
Kenafiek, Cook, Mitchell, Bass & Letchworth,  
Marine Midland Trust Building,  
Buffalo, New York.

Mrs. Edward H. Cumpston, ex-officio,  
60 Council Rock Road,  
Rochester, New York.

Lewis E. Pierson, ex-officio,  
Metropolitan Club,  
New York, New York.

John P. Stevens, Jr., ex-officio,  
J. P. Stevens & Co. Inc.,  
350 Fifth Avenue,  
New York, New York.

Withthrop W. Aldrich,  
Chairman of the Board,  
Chase National Bank of New York,  
18 Pine Street,  
New York, New York.

Perry E. Hall,  
Morgan Stanley & Company,  
2 Wall Street,  
New York, New York.

Lewis Harriman,  
President, Manufacturers & Traders Trust Company,  
Buffalo, New York.

George L. Harrison,  
President, New York Life Insurance Company,  
51 Madison Avenue,  
New York, New York.

John D. Rockefeller, Jr.,  
30 Rockefeller Plaza,  
New York, New York.

-4-

Clarence Dillon,  
Dillon Read & Company,  
28 Nassau Street,  
New York, New York.

Bernard M. Baruch,  
597 Madison Avenue,  
New York, New York.

Russell Leffingwell,  
J. P. Morgan & Company,  
23 Wall Street,  
New York, New York.

William M. Holmes,  
President, Bonwit Teller & Co.,  
56th Street & Fifth Avenue,  
New York, New York.

John C. Traphagen,  
President, Bank of New York,  
48 Wall Street,  
New York, New York.

William C. Potter,  
Chairman, Executive Committee,  
Guaranty Trust Company of New York,  
140 Broadway,  
New York, New York.

Emil Schram,  
President, New York Stock Exchange,  
11 Wall Street,  
New York, New York.

Harold B. Thomas,  
Vice President, Sterling Drug, Inc.,  
170 Varick Street,  
New York, New York.

Alfred E. Smith,  
350 Fifth Avenue,  
New York, New York.

John W. Davis,  
Davis, Polk, Wardwell, Gardiner & Reed,  
15 Broad Street,  
New York, New York.

Thomas I. Parkinson,  
President, Equitable Life Assurance Society,  
393 Seventh Avenue,  
New York, New York.

Samuel Capen,  
President, Buffalo University,  
Buffalo, New York.

John A. Brown,  
President, Socony-Vacuum Corporation,  
26 Broadway,  
New York, New York.

Owen D. Young,  
Chairman of the Board,  
General Electric Company,  
570 Lexington Avenue,  
New York, New York.

Thomas J. Hargrave,  
President, Eastman Kodak Company,  
343 State Street,  
New York, New York.

Henry Morgenthau, Sr.,  
1133 Fifth Avenue,  
New York, New York.

Robert E. McConnell,  
President, General Aniline & Film Co.,  
230 Park Avenue,  
New York, New York.

Frederick C. Ecker, (Alternate - Mr. Gale F. Johnston)  
President, Metropolitan Life Insurance Company,  
1 Madison Avenue,  
New York, New York.

Colonel Richard C. Patterson, Jr.,  
Vice-Chairman of the Board,  
RKO Corporation,  
1270 Sixth Avenue,  
New York, New York.

Mrs. Charles Heming,  
1010 Fifth Avenue,  
New York, New York.

Samuel A. Lewisohn,  
61 Broadway,  
New York, New York.

-6-

Edwin P. Maynard,  
Chairman of the Board,  
Brooklyn Trust Company,  
177 Montague Street,  
Brooklyn, New York.

## THE ADVERTISING COUNCIL, INC.

1010 VERMONT AVENUE, N.W.  
WASHINGTON, D. C.  
Telephone: District 9043

60 EAST 42ND STREET  
NEW YORK, N. Y.  
Telephone: Murray Hill 2-2773

June 7, 1943

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

My dear Mr. Secretary:

I appreciate a great deal your kind letter of May 29. I am very glad indeed if the advertisement served your purpose.

I shall be happy to help in future War Bond Drives in any way I can, although I confess to being a little rusty on my writing.

Sincerely yours,

*T. S. Reppner*  
T. S. Reppner

THE ADVERTISING COUNCIL, INC.

1010 VERMONT AVENUE, N.W.  
WASHINGTON, D. C.  
Telephone: District 9043

60 EAST 42ND STREET  
NEW YORK, N. Y.  
Telephone: Murray Hill 2-2773

June 7, 1943

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

My dear Mr. Secretary:

I appreciate a great deal your kind letter of May 29. I am very glad indeed if the advertisement served your purpose.

I shall be happy to help in future War Bond Drives in any way I can, although I confess to being a little rusty on my writing.

Sincerely yours,

*T. S. Repplier*  
T. S. Repplier

THE ADVERTISING COUNCIL, INC.

1010 VERMONT AVENUE, N.W.  
WASHINGTON, D. C.  
Telephone: District 9043

60 EAST 42ND STREET  
NEW YORK, N. Y.  
Telephone: Murray Hill 2-2773

June 7, 1943

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

My dear Mr. Secretary:

I appreciate a great deal your kind letter of May 29. I am very glad indeed if the advertisement served your purpose.

I shall be happy to help in future War Bond Drives in any way I can, although I confess to being a little rusty on my writing.

Sincerely yours,

*T. S. Repliser*  
T. S. Repliser

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 7, 1943

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending June 5, 1943.

Summary

Coal strike: A shortage of beehive coke resulting from last week's coal strike has forced the Carnegie-Illinois Steel Corporation to close down 11 blast furnaces, and furnaces have also been closed by at least two other pig iron producers. With coke supplies depleted by recent work stoppages, further recurrence of labor trouble in the coal mines would be particularly serious.

Price control: The program to subsidize rollbacks and stabilize food prices has failed to satisfy labor demands, and has aroused opposition from business and farm leaders. Indications are appearing that the Farm Bloc is preparing to renew its drive for higher farm prices.

Wholesale prices: Although basic commodity prices have levelled out since the President's anti-inflation order of early April, the BLS all-commodity index has continued its gradual rise. In the week ending May 29, the all-commodity index rose slightly to 104.0, which is the highest level since 1925.

National income: Payments to individuals in April declined moderately, due largely to a seasonal decline in dividend payments and a contra-seasonal decline in cash farm income. However, on an annual basis, income payments rose to a new high of \$139.0 billion from \$137.6 billion in the previous month. Income payments during April were 25 percent above the 1942 level.

Stock prices: Industrial stock prices last week rose to a new high since May 1940 on moderately increased trading activity.

- - - -

- 2 -

### Pig iron output cut by coal strike

Although the resumption of coal mining operations has averted large scale disruption of war production, the steel industry appears to have been somewhat harder hit by the work stoppage than was at first expected. This became evident on Saturday when the Carnegie-Illinois Steel Corporation announced that it had been forced to close 11 blast furnaces due to lack of coke. Inasmuch as at least two other companies are known to have had pig iron production curtailed by the strike, a fairly substantial loss in output seems to have occurred although precise figures are not available.

Despite the drop in coal output due to labor troubles around the beginning of May, cumulative production in the first 5 months of 1943 was about 5 percent above the previous year's level. (See Chart 1.) As a result, aggregate coal stocks at the outset of last week's work stoppage were estimated at about 49 days' supply. Uneven distribution of stocks, however, made the supply situation much less comfortable than the figures would indicate.

At current high operating rates, the steel industry is forced to rely on beehive coke for the production of about 600,000 tons of pig iron per month. Beehive coke ovens are dependent on daily coal shipments, and a stoppage of mining consequently is felt almost at once in coke output. This development already has caused the drop in pig iron output previously mentioned, and it is now estimated that at least 10 days will elapse before the current coke shortage can be overcome.

### Price control plans under heavy pressure

Efforts of OPA to placate labor demands for a rollback and stabilizing of food prices seem to have failed to satisfy labor groups, and have aroused severe opposition from business and farm leaders. Moreover, the Farm Bloc, which has remained relatively quiet during the coal-wage controversy, is giving signs of a renewed drive for higher farm prices.

At a White House conference last week, AFL and CIO leaders asked the President to intervene with OPA in order to strengthen the control of food prices. Furthermore, they indicated that some definite action must be taken to roll back prices. CIO President Murray stated that "in a nation spending about 90 billion dollars to run a war, it is the judgment of labor that our country can appropriate a sum of money of about 2 billion

- 3 -

dollars to roll back these prices and hold them at a level to enable workers to secure for themselves adequate standards, the kind of nutrition and other essentials necessary to maintain their morale."

On the other hand, the plan to subsidize a rollback of food prices was threatened last week by Congressional action. In a bill to extend the life of the CCC for 2 years, the House Banking and Currency Committee voted against continuation of all CCC purchase-and-resale "subsidy" programs except that dealing with vegetable oils and fats, and its action indirectly would forbid CCC or any other Government agency to subsidize food production to enable prices to be rolled back. If Congress should concur in the committee's action, not only would the plan to subsidize a 10 percent reduction in retail prices of meats, coffee, and butter be barred, but present efforts of the CCC to subsidize the production of such products as canning vegetables and cheese, and to hold down the price of milk in certain cities, would be curtailed.

#### Higher farm prices sought

At the same time the Banking and Currency Committee voted to give the War Food Administrator power to increase ceiling or maximum prices on commodities and foods when such increases are necessary for the war effort. Although this action only indirectly gave portent of a move for higher farm prices, a bill (HR 2658) was reported out of the House Rules Committee which would undoubtedly have the effect of raising cotton prices. The bill provides that no Government-owned cotton shall be sold at a price less than 23½ cents per pound, determined on the basis of 7/8-inch middling, but any Government-owned cotton may be sold at 25 cents or more per pound without regard to the limitations of the AAA Act of 1938. (This act limits sales to 1,500,000 bales a year and to 300,000 bales in any one month.) Since CCC is now offering cotton at approximately 20.45 cents per pound for 7/8 middling in the ten spot markets, the passage of this bill would prevent further Government sales until prices rise very substantially.

#### Integration of food control suggested

Dissatisfaction with OPA's handling of food price control was apparent in a bill (HR 2537) introduced by Representative Fulmer last week to give the War Food Administrator control over prices and rationing of foods. Some support for such a move was given by the release of a study of the Brookings Institution last week which attributed the stability in the British cost-of-living index mainly to

- 4 -

organization of price controls along commodity lines. The British organization for price control places in separate agencies, one for each commodity and service group, the combined responsibility for price control, rationing, import and export control, subsidies, licensing, conservation, and standardization. This type of organization, the study notes, has made possible "an effective integration" of control over supply, demand, and prices for each product.

#### Subsidy rollback program under way

Following the recent establishment of a butter subsidy, the OPA announced late last week that a subsidy on meats would be started today. Retail prices of most meats will not be rolled back until June 21, however, and cured and processed pork prices will not be reduced until July 5 in order to prevent inventory losses. It is estimated that the meat subsidy will cost from \$250 million to \$300 million annually, and that retail meat prices will be reduced on the average by more than 3 cents per pound. The subsidy has been vigorously opposed by the meat industry in full-page newspaper ads, as costing the taxpayers hundreds of millions of dollars without solving major wartime meat problems.

Details of a subsidized rollback of coffee prices will be announced at the end of this week, it is reported in the press. Coffee dealers, fearing a loss, are protesting the rollbacks. They maintain that coffee prices have not been raised during the past fifteen months, and are too low under existing ceiling prices, in view of the increase in costs of doing business during that time. The coffee subsidy, it is estimated, will cost about \$30 million annually.

#### Rise in retail food prices

The basis for mounting concern over the rising cost of foods is clearly indicated by the steep rise in the BLS retail food price index during the past two years. The index advanced fully 21 points in the year ending April 1943, which largely covered the period since the General Maximum Price Regulation became effective, while in the preceding year the advance had been 19 points.

Despite the greater efforts in control, the prices of some foods have increased much more in the year ending

- 5 -

April 1943 than during the preceding 12 months. Retail prices of fresh fruits and vegetables and of eggs increased almost 3 times as much from April 1942 to April 1943 as during the preceding year. (See Chart 2.) Moreover, prices of meats and dairy products have shown large advances in the past year. In contrast, the price of an item like sugar, which has been under price ceilings and rationed throughout most of the past year, registered little change in that period.

#### Wholesale prices move higher

Despite the leveling out of basic commodity prices since the President's anti-inflation order of early April, the BLS all-commodity index has continued to move gradually upward. (See Chart 3.) In the week ending May 29 the all-commodity index rose 0.2 percent to a new high since 1925, and at 104.0 is 38.7 percent above the pre-war level of August 1939. Increases in farm and food prices continue to be largely responsible for the rise in the index, higher prices for fresh fruits and vegetables, rye flour, calves and sheep contributing to the latest week's advance.

Little change occurred in the commodity markets last week, although the BLS index of 28 basic commodities rose slightly. Barley prices were up 3 cents a bushel as a result of an advance in the Canadian export tax on barley. Wheat prices rose 1 cent, while corn prices were off  $1\frac{1}{2}$  cents.

#### Farm prices continue rise

Prices of all major groups of farm products, except dairy products and meat animals, increased or held steady during the month ending May 15. (See Chart 4.) Seasonal advances of 25 cents a bushel in the price of apples and 32 cents a box in the price of oranges largely accounted for the more than 12 percent rise in the fruit index in May. (This advance was substantially larger than usual for this time of the year.) Reflecting sharp increases in the prices of potatoes and tobacco, the miscellaneous group rose over 11 percent. The dairy products index, however, declined slightly (less than the usual seasonal decline), and the meat animal index fell about 2 percent. Truck crop prices were off sharply as heavier supplies became available.

Continuing the upward trend of the past two years, the combined index of farm prices advanced 2 points last month,

- 6 -

and at 187 is 23 percent higher than last year. Since the index of prices paid by farmers (including interest and taxes) advanced only 1 point, farm prices averaged 115 percent of parity as compared to 114 percent a month earlier, and 100 percent a year earlier.

Cash farm income (including Government payments) declined contraseasonally in April, principally because of a relatively lighter movement of meat animals and a less than usual increase in income from butter and eggs. Nevertheless, cash farm income continues at very high levels. In the first four months of this year farm income has averaged more than 30 percent above 1942 levels.

#### Rise in income payments slackens moderately

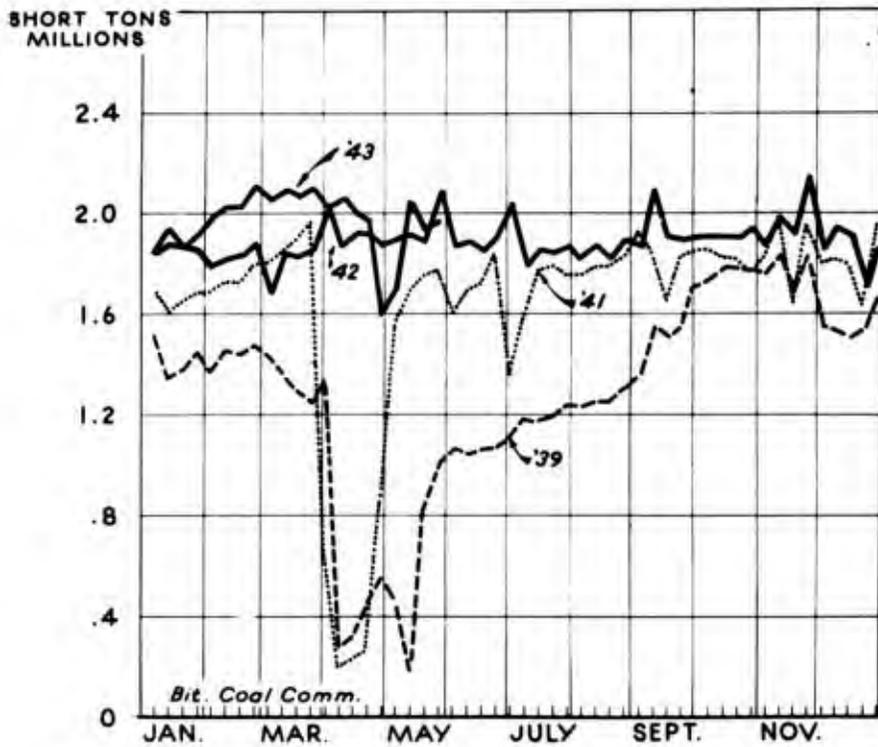
Due largely to a seasonal drop in interest and dividends, total income payments in April declined moderately from the previous month. On an annual basis, however, income payments continued to rise and reached a new peak of \$139.0 billion as compared with \$137.6 billion in the previous month. (See Chart 5.) April income payments were 25 percent higher than in the same month in 1942.

In addition to the seasonal decrease in dividend payments, farmers' cash income from farm marketings declined in April and the rate of increase in Federal Government payrolls slowed down. Payments for salaries and wages continued to rise during the month and were 30 percent higher than in April 1942. In reflection of the great expansion of personnel in the military establishments, payments to individuals from Government sources jumped 88 percent in the same period. On the other hand, interest and dividend payments in April dropped 3 percent below the corresponding month last year, and "other income payments" (including work relief, direct relief, etc.) also declined. (Refer to Chart 5.)

#### Industrial stock prices continue to rise

Industrial stock prices continued to forge gradually higher last week, and on Saturday closed at a new peak about 1 percent above the previous week's close. On the other hand, railroad stocks showed a net decline of about 2 percent during the week, while utility stocks recorded a smaller decline. Trading activity increased somewhat, although it remained substantially below the heavy volume attained in the early part of last month. (See Chart 5.)

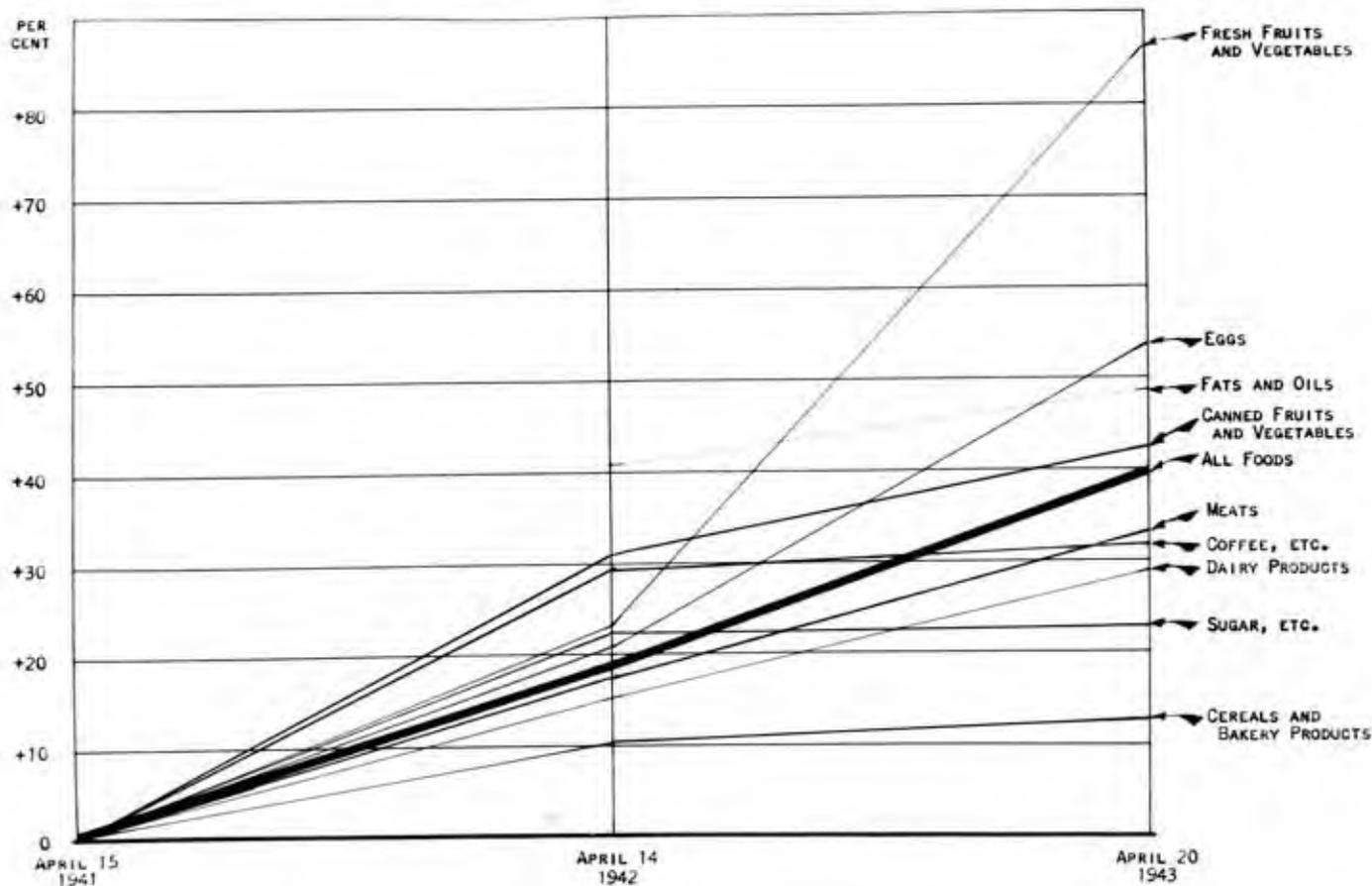
## BITUMINOUS COAL PRODUCTION



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

C-484

RETAIL FOOD PRICES BY MAJOR GROUPS  
 Percentage Changes April 15, 1941 to April 14, 1942 and April 20, 1943



SOURCE: B.L.S

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

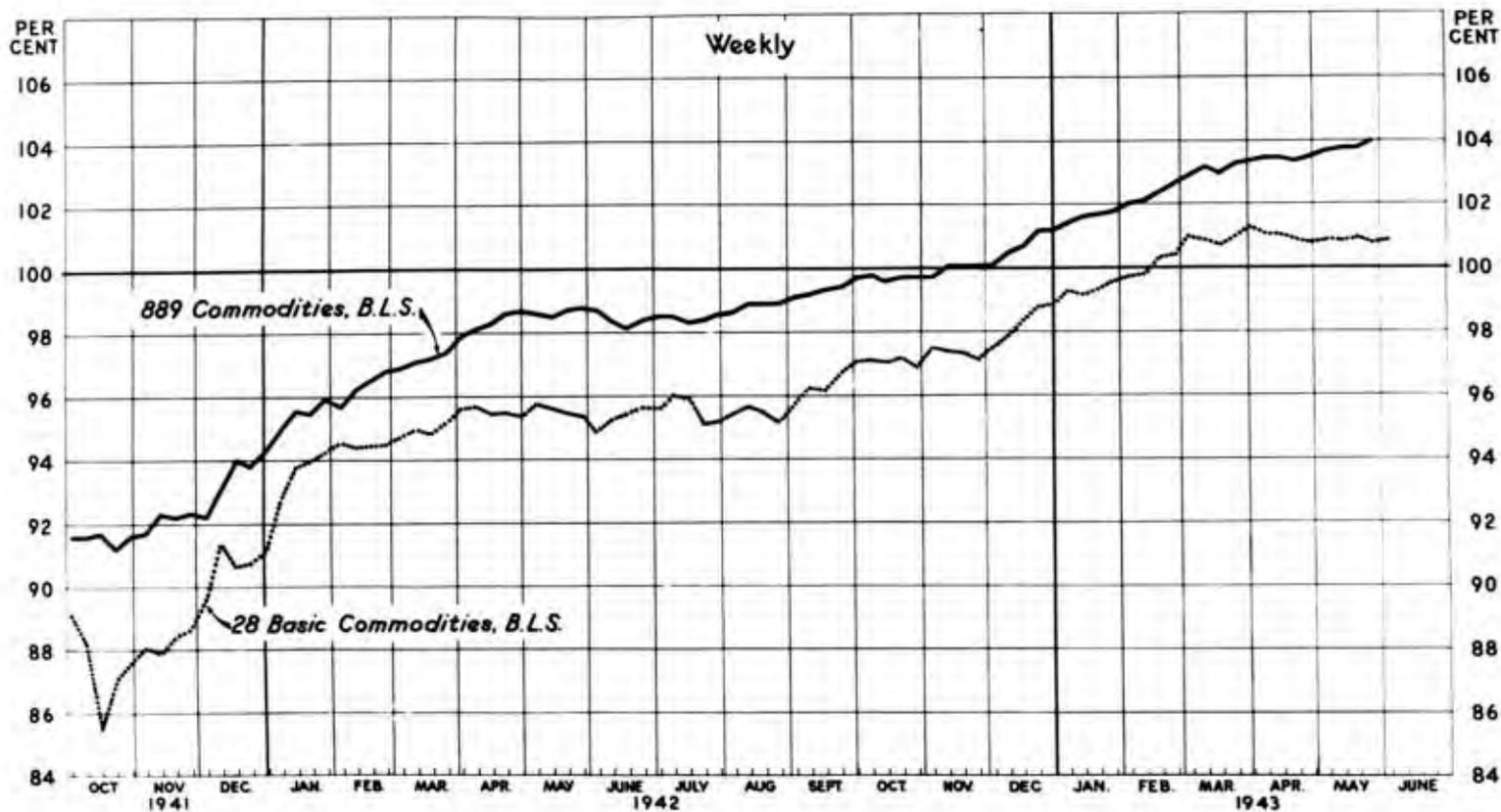
P - 261

Chart B

30

# COMMODITY PRICES

1926 = 100



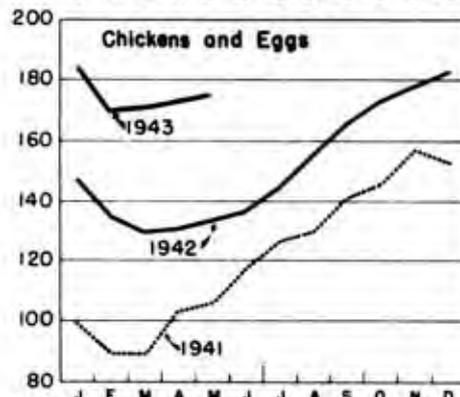
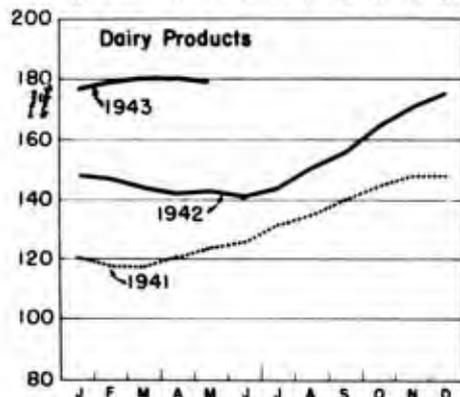
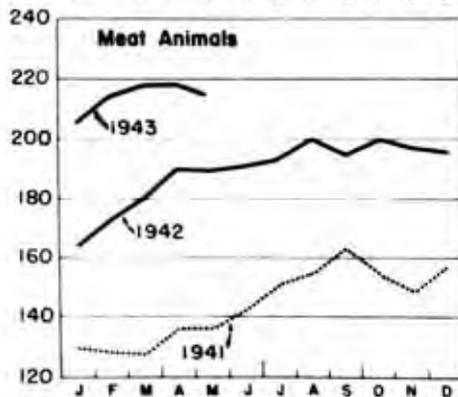
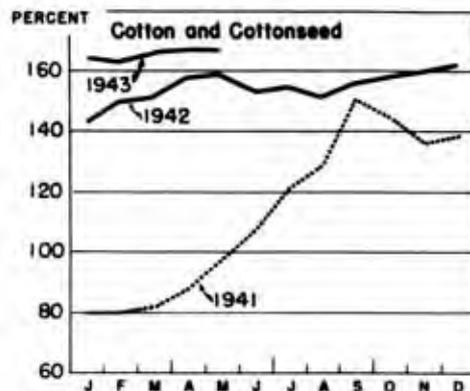
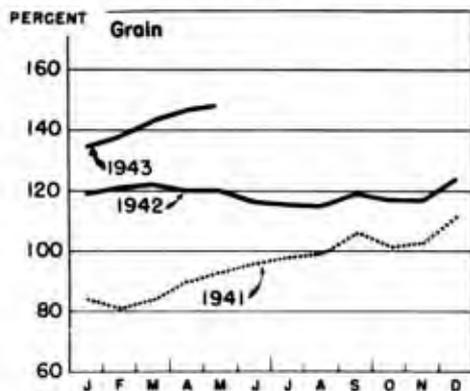
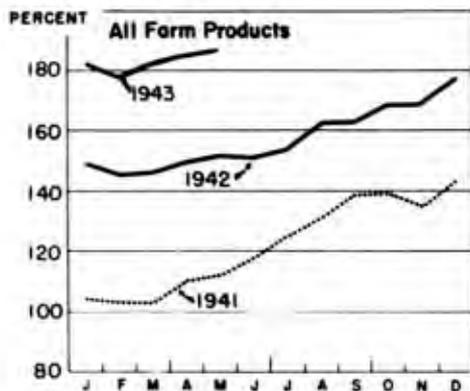
Office of the Secretary of the Treasury  
Division of Research and Statistics

P-196-E

Chart 3

# AVERAGE PRICES RECEIVED BY FARMERS

Indexes. August 1909 - July 1914=100

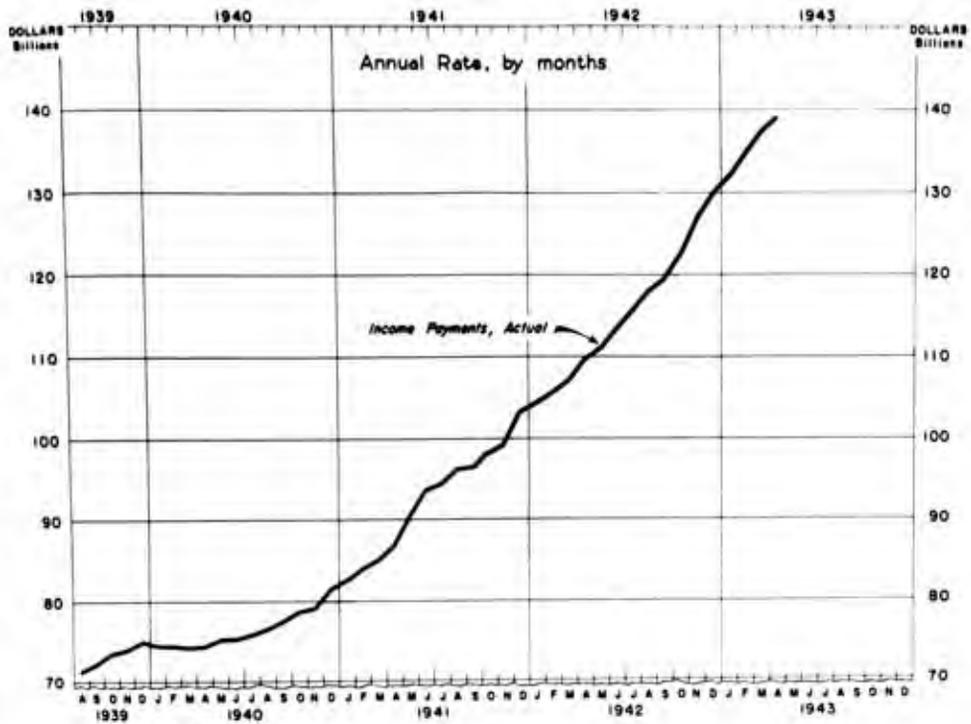


Office of the Secretary of the Treasury  
Division of Research and Statistics

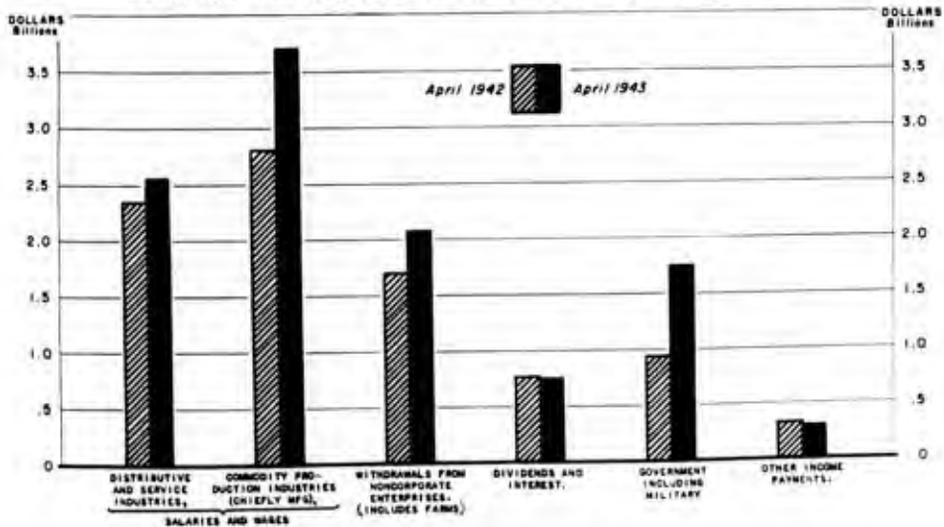
P-257

Chart 4

### NATIONAL INCOME PAYMENTS AND COMPONENTS



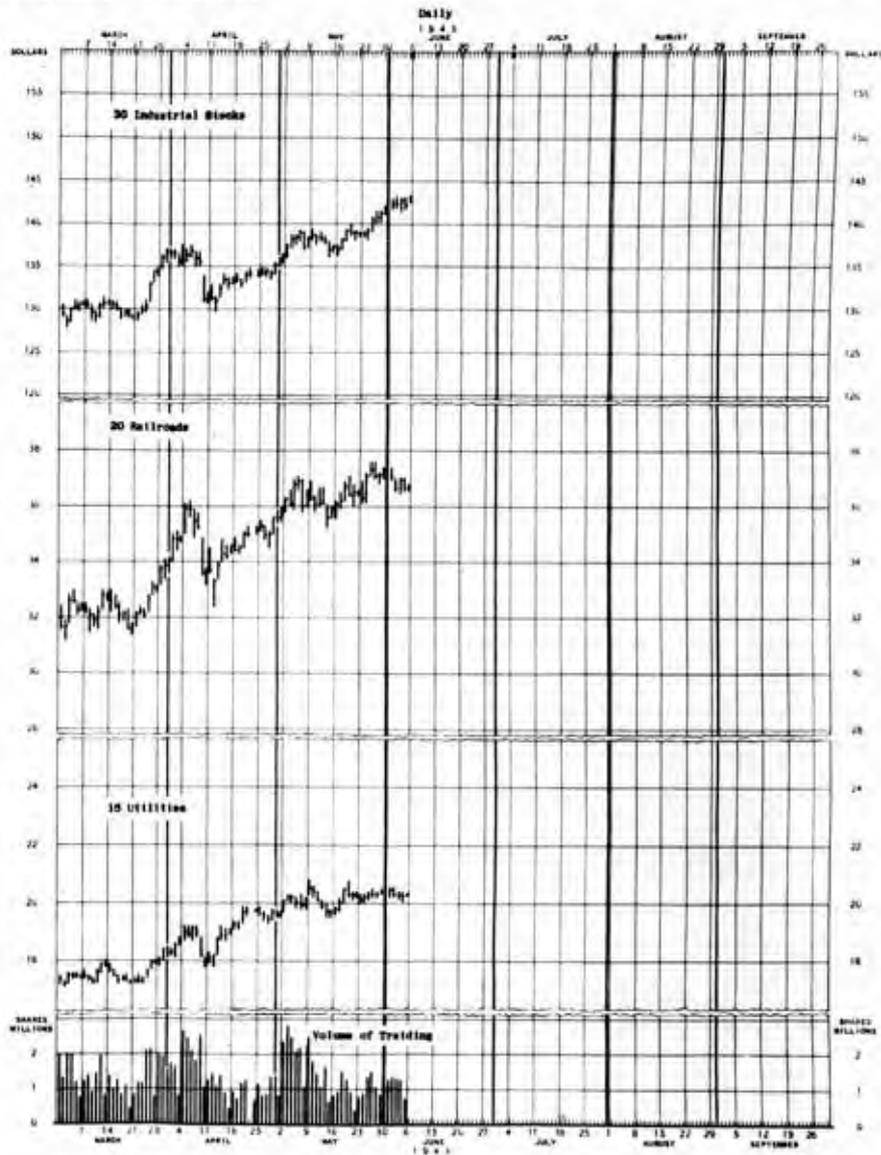
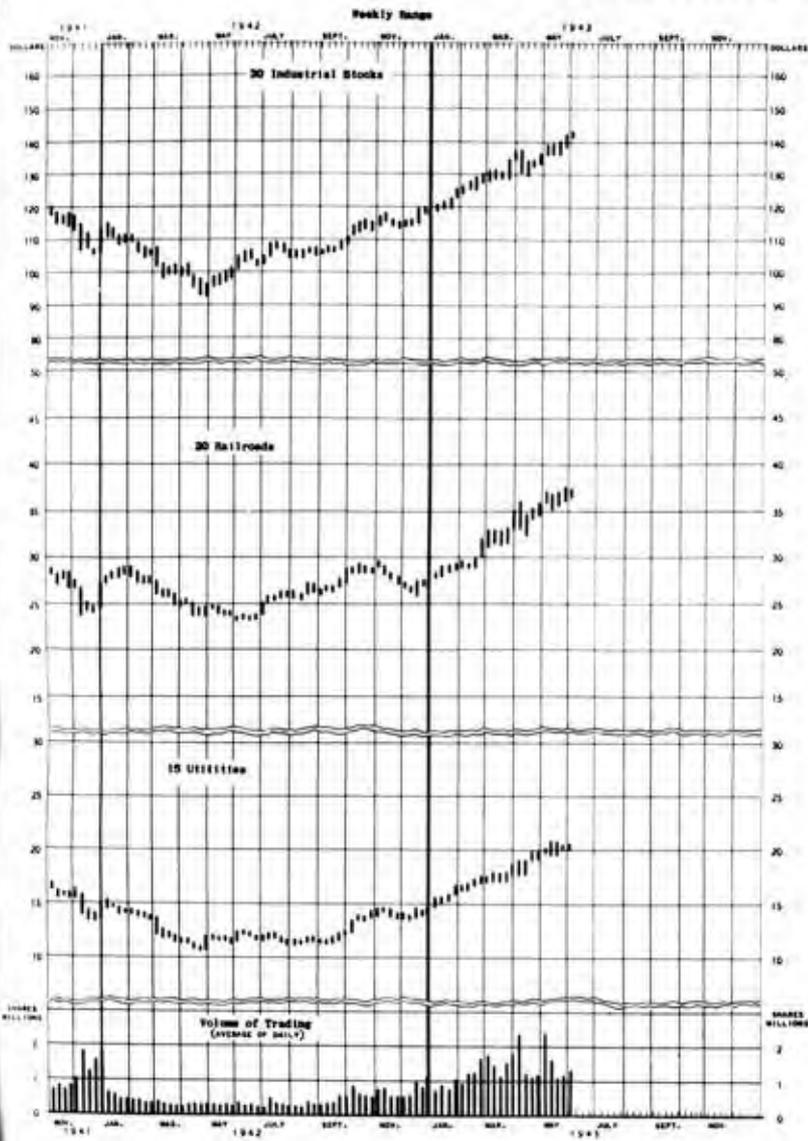
Dollar Totals for Selected Components, April 1942 and April 1943



Source: Department of Commerce

# STOCK PRICES, DOW-JONES AVERAGES

Chart 6



Office of the Secretary of the Treasury  
Bureau of Economic Warfare



OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

PROCUREMENT DIVISION

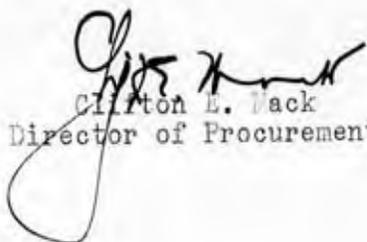
WASHINGTON

June 7, 1943

## MEMORANDUM TO THE SECRETARY:

Supplementing report to you of May 31, 1943, the purchases against the African Program from May 31, 1943, to June 6, 1943, totaled \$711,457.05 or a total of purchases for the program thus far of \$43,553,745.48.

Attached is report giving status of shipping against these purchases.

  
Clinton E. Mack  
Director of Procurement



(37861)

<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>
Aluminum sulphate			14.5	
Asbestos sheet packing	2			
Boiler tubes				19
Bone glue		20.5	37	
Books & booklets	2			
Brass rods & sheets	62.23	63.82	36.5	
Babbitt metal	53.85			
Brick	129		40	
Calcium carbide	228.62	940.43	340	1105.7
Cement				20
Cement, rubber			19.5	
Chemicals	255.26	733.04	954.1	5
Coal cutters	12			
Copper tubing		18	57.1	24.5
Corrugated boards		90	34.4	22
Clothing	2265.46	208.8	196	4
Copper sulphate	5697.7		47.5	
Cotton thread	69.25	30		
Cordage & twine	235	29.5	26.5	
Drugs	6.5	20.5	12.5	2
Electrodes	9.4	9.6	.03	3
Envelopes	.94	10.56	17.68	
Files, steel	15	15	.4	
Fullers earth	72			
Gelatin	1	1		
Glass, window		76	21	24.3
Glass lamp chimneys			17	
Glycerine	12.75			
Horse shoes & nails	156.99	29.91	30.06	10.72
Hosiery	26	5	18.5	1
Jute bags	175.45	428.55	555	

<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>
Light bulbs			11.6	
Lithopone			10.2	
Lumnite	30			
Mach. finished book paper	2			
Matches	394.38		9.1	70.15
Newsprint	913	131	81	28
Nipples, bottles, eye cups			9	
Paper products	557		200	403.47
Paper bags		190.6		
Paint pigments	15.5	33.5	12.7	1.9
Piece goods, textiles	10,643.11	275.16	2099.75	847.5
Pig iron	65	432	65	
Pig tin	64			
Powdered milk	119			
Printers ink & supplies	.1	12		
Raw sugar	1545			
Refined sugar	4196.5			
Sheet copper, rods, cable	39.46	7.54	67.1	64
Shoe tacks	14.5	9		
Spare parts for autos, tractors & harvesters	604.68	21.9	205.6	523.29
Spark plugs	4.5	5		
Storage batteries & flashlights	51.7		15.15	25.8
Steel, pipe, bars, angles, wire	38	2032	4252.2	1039.22
Shoes, boots & soling	273.25	113.75	123	85
Sulphur commercial flour		1282	1453.2	2269
Tin plate	845			
Tires, tubes & tape	240.75	85	127.7	319.54
Tools	40.48	1.02	394.3	264.5
Tooth brushes			.75	

<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>
Tea	171.75			
Typewriter ribbons		.5		
Wire nails	100.5			
Wire rope	88.5		17	
X-Ray films	1			
Blasting caps	1.4		18	
Transformers				6
Wire cloth			3.5	
Padlocks				2.5
Hooks, eyes, buttons, needles			17	6
Electric motors			4.5	
Trucks			133	22
Ball bearings		1		
Spiegeleisen				161
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	30,548.46	7,364.18	11,905.62	7,380.09



**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE  
REFERENCE NO. \_\_\_\_\_

With the compliments of British Air Commission  
who enclose weekly Statement No. 106 covering  
Aircraft Flight Delivery as at June 1, 1943.

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

June 7, 1943.

REF. NO. D-55  
MONTHLY REPORT NO. 106

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT  
(Covering Movements through June 1, 1943)

U. S.

SECRET

JUN 2 1943

MUST SECRET

(1) TYPE (RAC)	(2) LBR. (RAC)	(3) HQB. (RAC)	(4) VINT. (RAC)	(5) FL. BOAT (RAC-L/L)	(6) VINT. (L/L)	(7) HQB. (L/L)	(8) BOPT. (L/L)	(9) BALE. (L/L)	(10) ELTR. P (A-R-L/L)	(11) R24B (A-R)	(12) R25 (A-R)	(13) R26 (A-R)	(14) R27 (L/L)	(15) TOTAL	
UNITED KINGDOM	20	96	432	140	294	4	314	169	1	64	150	107	4	22	1,817
MIDDLE EAST		5					95						48	31	179
SOUTH AFRICA				127											127
FRENCH							91								91
AUSTRALIA					27										27
SINGAPORE					9										9
INDIA														3	3
OPS'S IN CANADA			45	60			165								270
RAF					28			1			16				45
RACON											18	43			61
FERRY SERVICE	7										5				12
Acra				2					351				1	69	423
En route Overseas				3		3	9	1	45				1	12	75
Center, Base, etc.							3	2		5	1				14
Hawaii or Bermuda (en route)				3	1				61					20	85
Special duty **	4	1		15	4		20		1						45
Montreal				4		9	26	11	35		14	6	1	2	108
En route Montreal (in Canada)											1				1
CRASHED AFTER EXPORT			18	20	9		33	14	15		3	2	6		120
En route export									10		8		1		19
At installations center				1	19		7		1			1		2	31
En route installation center				2			5								7
At modification center											16	39			55
En route modification center						8									8
Special duty in U. S.	1								3						4
Under repair	1	2					1						2		6
At starting point (Long Beach, etc)							7	1	10					11	29
CRASHED IN U. S.	1	2	5				25	1	9		2	2	7		54
DIVERTED TO U. S.		20	201	10											352
TOTAL	20	165	520	643	397	24	801	208	548	64	238	202	71	172	4,077

\* Including one transferred to U. S. after delivery to U. K.  
\*\* In Canada, Bermuda, or Hawaii.

PLANNING AND AIRFRAME SUPPLY  
BRITISH AIR COMMISSION  
WASHINGTON, D. C.

Regraded Unclassified

41



**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE  
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. \_\_\_\_\_

With the compliments of British Air Commission  
who enclose Statement No. 88 - Aircraft Despatched  
- for week ended June 1, 1943.

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

June 7, 1943.

SECRET

## STATEMENT NO. 88

Aircraft Despatched from the United StatesWeek Ended June 1st, 1943.

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>Consolidated</u>					
Catalina IV	U.K.	U.K.		1	
Liberator GR V	U.K.	U.K.		23	
Liberator GR V (A)	Canada	Canada			1
Liberator GR V	Bahamas	Nassau		1	
<hr/>					
<u>Beechcraft</u>					
Beechcraft	Mombasa	Mombasa		1	
<hr/>					
<u>Curtiss</u>					
Kittyhawk	Australia	Sydney	15		
Seamew I (B)	Canada	Canada			4
<hr/>					
<u>Douglas</u>					
Dakota III	U.K.	U.K.		1	
Dakota III	India	India		2	
Dakota III	M.E.	M.E.		3	
<hr/>					
<u>Lockheed</u>					
Ventura	N. Zealand	Auckland	3		
Lodestar	N. Zealand	Auckland	4		
Hudson III A	U.K.	U.K.		18	
<hr/>					
<u>Glenn Martin</u>					
Baltimore IV	M.E.	M.E.		19	
<hr/>					
<u>North American</u>					
Mitchell II	Bahamas	Nassau		1	
Harvards	N. Zealand	Auckland	8		
Harvards	Ceylon	Colombo	2		
Harvards	S. Africa	Capetown	17		
Harvards	S. Rhodesia	Capetown	1		
<hr/>					
<u>Vultee</u>					
Vengeance	Australia	Sydney	4		
<hr/>					
<u>Vega</u>					
Ventura GR V	U.K.	U.K.		5	
Ventura GR V	Bahamas	Nassau		4	
<hr/>					

(A) Exported week ended May 25th.  
 (B) Exported week ended May 25th.

Total 55 78 5

Elements Division, British Air Commission.

June 5, 1943.

OFFICE  
SECRETARY OF TREASURY

1943 JUN 8 PM 2 27

NOT TO BE RE-TRANSMITTED  
TREASURY DEPARTMENT

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 185

Information received up to 7 a.m., 7th June, 1943.

1. NAVAL

One of H.M. Submarines was damaged in collision with a Spanish Ship West of CAPE ST. VINCENT yesterday and is returning to port. One of H.M. Yachts was mined and sunk off ST. ALBANS HEAD yesterday.

2. AIR OPERATIONS

WESTERN FRONT. 6th. Aircraft of fighter command damaged 2 minesweepers off BOULOGNE and 6 locomotives in BRITANNY. 14 enemy fighter-bombers operated over EAST BOURNE. Spitfires destroyed 1.

SICILY. 4th. 22 Lightnings, 2 of which are missing, bombed TRAPANI/HILO airfield setting on fire 3 hangars. 4th/5th. 24 tons were dropped at CATANIA. Cloud prevented observation.

PANTELLERIA. 4th. U.S. aircraft dropped 125 tons on various military objectives.

EASTERN MEDITERRANEAN. 4th. Beaufighters damaged 2 Caiques, a Tug and a Dredger. 1 Beaufighter missing.

3. HOME SECURITY

EASTBOURNE. 6th. At mid-day, 14 H.E. were dropped causing considerable damage to property. Casualties reported - 10 killed including 5 service.

June 8, 1943

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Schwarz (oo)

SUBJECT: President's Press Conference, Tuesday, June 8,  
1943 - 4:00 P. M.

TAXES--SAVINGS -- President Roosevelt said this afternoon he thinks the new tax bill will be signed very shortly and he also thinks the Treasury knows he is going to sign it. The President said he believed compulsory savings or more taxes or probably a combination of the two will be needed to close the gap of savings which causes increases of prices. He said that this combination is probably as necessary now as it was last January when he proposed it in his Budget Message, and that he will probably make new tax recommendations to Congress before it takes a summer recess. The President said he thinks everybody realizes we have an inflationary gap and that we can't stand too much pressure from it. Asked how to close it, he said the details were up to Congress, but at the present time it is not closed and the sooner it is closed the better. Nick Gregory asked if the President thought there may be a need for compulsory savings in spite of the success of the last Bond drive and the answer was that it was perfectly possible. Asked if more than \$16,000,000,000 would be requested, the President said he would have to go into that when he decides whether he will say anything. He is still opposed to a general sales tax because it hits the poorer people of the country and most of the people are in that category. That should not apply to some excise taxes, the President said, pointing out that England has made heavy levies on cigarettes, tobacco and liquor and yet they are consuming just as much of these items. Such a tax, he said, has an excellent method of closing the gap.

GAS -- The President promised "swift retaliation in kind" should any of the Axis armies resort to gas warfare. Such an attack against any one of the United

- 2 -

Nations will be considered an attack against the United States and will be treated accordingly. (Statement attached) After reading the statement, the President said he thought it was strong enough.

OWM -- The President said that today's meeting of the War Mobilization Committee was very successful and that a great many subjects were discussed. He declined to be more specific. Asked if the group could be called a war cabinet, he said it should be called the War Mobilization Committee, that the longer name didn't cost much more. He said he would try to meet with the group on Mondays but that it could hold more frequent meetings without him.

WAR -- Asked if an American officer had been chosen as supreme commander for an invasion of Europe, the President said it was a leading question but he supposed we will know within a couple of months after one is chosen . . . He cannot comment on Churchill's speech in Commons today because he has not yet read it all.

MISCELLANY -- He had no news yet on whether the new French National Committee will be recognized as a government . . . He is sorry that the President of Chile has had to postpone his visit . . . He has not yet named a United States delegate for the Food Conference Interim Commission . . . At his luncheon today with Sister Kenny, he discussed the need for training more people in infantile paralysis treatment methods.

-oOo-

Question: Mr. President, at your press conference last Tuesday you <sup>(6/2)</sup> indicated that both higher taxes and compulsory savings would be necessary to close the inflationary gap, and you indicated that you would ask Congress to do something about it. Do you intend to ask Congress for a compulsory savings plan before the September Bond Drive? It seems to me that if you did, there wouldn't be much use to have a bond drive.

President: I didn't say that a compulsory savings plan was an immediate necessity.

I was asked "if compulsory savings may still be necessary to eliminate this inflationary gap," and I replied that this was possible. I also said that taxes and compulsory savings might be used jointly -- I didn't say that they necessarily would be used jointly in the immediate future.

At the present time the public is supporting bond drives with a great deal of enthusiasm. As long as they continue to do this, I feel, as Chairman George (?) expressed himself as feeling after the Second War Loan, that compulsory savings will not be necessary.

If the public oversubscribes the Third War Loan as they did the second, that will certainly put the need for compulsory savings still further in the background.

However, if the war goes on long enough, and the inflationary gap gets wider, and increased taxes along with the voluntary purchase of bonds is not able to siphon off enough of the added money that is going into people's pockets, then compulsory savings may become necessary.

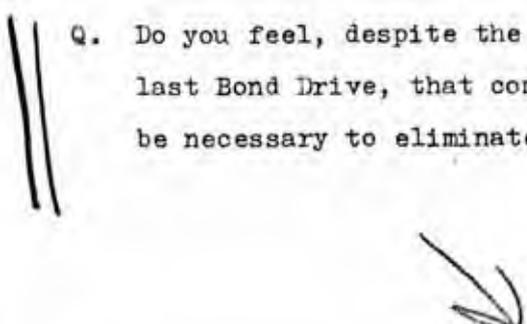
TRANSCRIPT OF FDR PRESS  
CONFERENCE

47

(paraphrase)

- Q. Mr. President, is there word on the signing of the pay-as-you-go tax bill?
- P. The President said he thinks the Treasury knows he will sign it and that preparations are being made to carry it into effect.
- Q. Mr. President, will that be followed by a request for more taxes?
- P. The President said he did not know whether it can be put into the form of a request, but he thinks everybody realizes that there is a gap of savings that causes increase in prices, and that there can't be any economic change in the country except to close the gap -- and that isn't a change -- it's the same thing -- to close the gap one way or another. The President said there are probably two ways which might be used jointly. Compulsory savings is one and taxes is another, probably the two combined -- which is just as necessary now as it was in January.
- Q. Mr. President, Congress is getting ready to take a couple of months vacation. Is it likely that there will be any tax recommendation before they depart?

- 2 -

- P. The President said he thinks there will be a recommendation before Congress goes.
- Q. From you, sir?
- P. The President said it would probably be from him.
- Q. Mr. President, is the 16 billion dollars to be revised upward in the new taxes?
- P. The President said he will say something about it when he knows it.
- Q. Mr. President, can they get--close that gap as of now, unless you have more excise taxes and more sales taxes, or whatever you want to call them, which couldn't be done by an income tax increase, because it would--
- P. The President said he knows nothing of the details as it is up to Congress. But he added that at the present time this gap has not been closed. He added further that the sooner it is closed the better it will be.
- Q. Do you feel, despite the tremendous success of the last Bond Drive, that compulsory savings may still be necessary to eliminate this inflationary gap?
- 

- 3 -

|| P. The President said this was possible.

Q. Mr. President, you said you were not going into details. It would be fair to assume from that--

P. The President said he wouldn't assume it as it's up to Congress.

Q. Mr. President, are you still mad at a sales tax?

P. The President asked if his questioner meant a general sales tax?

Q. Yes.

P. The President said he was, for it hits the poorer people in the country, and most people belong in that class. He said further that that doesn't mean that every excise tax could be classified as a sales tax.

As an example he mentioned that in England the excise taxes on cigarettes, tobacco and liquor have been greatly increased, but that they are consuming as many cigarettes today and probably as much liquor as ever -- which shows that they have a very excellent method of closing the gap.

W. RANDOLPH BURGESS  
55 WALL STREET  
NEW YORK

June 8, 1943.

Dear Henry:

Enclosed herewith is a photostat of a recent letter handed me by Mr. Potter after a meeting of the New York money market committee. I thought you might like to have this for your files.

Sincerely yours,



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

41 2 72

# Guaranty Trust Company of New York

140 Broadway

New York

Foreign Offices  
London Paris  
Liverpool Vichy  
Brussels

June 4, 1943.

William C. Potter

Chairman of the Executive Committee

W. Randolph Burgess, Esq., Vice Chairman,  
National City Bank of New York,  
55 Wall Street,  
New York, N. Y.

My dear Randolph:

As you know, I called a meeting of the New York Money Market Committee, and added to it various bank executives.

At that meeting, I explained that you had been asked to take the State chairmanship, and that I desired on your behalf to have a frank discussion of individual opinion regarding your acceptability to them for the position.

There was not at any time any question with respect to your fitness for the position, and the response, as expressed by the resolution, was unanimous. Various questions were asked with respect to the proposed organization and other matters connected with it, which I answered to the best of my ability, and which I will discuss with you verbally.

I now enclose the list of names and the resolution which was passed. I think you may rely on its sincerity.

Very sincerely yours,



Enclosure

On motion made by Mr. George Whitney and seconded by Mr. Baxter Jackson, it was

Resolved, That if Mr. Randolph Burgess were offered the position of Chairman of New York State for the distribution of Government securities during the war, under conditions satisfactory to him, the group of men whose names are attached hereto wish to record their hope that Mr. Burgess would accept the position, and they in turn unreservedly pledge themselves to give him their active and wholehearted support.

Meeting of the General Committee  
of the New York Money Market

at the

Federal Reserve Bank of New York  
on Friday, June 4, 1943, at  
3 P.M.

Representing commercial banks:

Bank of the Manhattan Company	J. Stewart Baker	Chairman
Bank of New York	J. C. Traphagen	President
Bankers Trust Company	B. A. Tompkins	Vice President
Central Hanover Bank & Trust Co.	William S. Gray, Jr.	President
Chase National Bank	Eugene Black	Vice President
Chemical Bank and Trust Company	N. Baxter Jackson	Vice President
Commercial National Bank & Trust Co.	Walter G. Kimball	President
Corn Exchange Bank Trust Company	Dunham B. Sherer	Chairman
First National Bank	Leon Fraser	President
Guaranty Trust Company of New York	William C. Potter	Chairman of Exec. Committee
Irving Trust Company	(representative unknown)	
J. P. Morgan & Co., Inc.	George Whitney	President
Marine Midland Trust Company	H. S. Tenney	Vice President
Manufacturers Trust Company	D. A. Park	Vice President
National City Bank of New York	(no representative)	
New York Trust Company	John E. Bierwirth	President
Public National Bank and Trust Co.	E. Chester Gersten	President

Representing investment bankers:

Morgan, Stanley and Company	Harold Stanley	Senior partner
-----------------------------	----------------	----------------

Representing savings banks:

Savings Banks Trust Company	August Ihlefeld	President
-----------------------------	-----------------	-----------

Representing insurance companies:

Mr. Harrison out of town.

Mr. Ecker unable to attend.

Representing stock exchange houses:

New York Stock Exchange	Emil Schram	President
-------------------------	-------------	-----------

## EXPENSES OF LOANS

JUNE 8, 1945

HONORABLE THOMAS E DEWEY  
GOVERNOR OF NEW YORK  
EXECUTIVE MANSION  
ALBANY NY

I HAVE JUST EFFECTED A MERGER BETWEEN THE WAR SAVINGS STAFF AND THE VICTORY FUND COMMITTEES, BOTH OF WHOM HAVE ENGAGED IN ENCOURAGING PARTICIPATION BY ALL THE PEOPLE IN FINANCING THE WAR THROUGH THE PURCHASE OF WAR SAVINGS BONDS AND STAMPS AND GENERAL TREASURY SECURITIES. THE NEW COMMITTEE WILL BE KNOWN AS THE TREASURY WAR FINANCE COMMITTEE FOR THE STATE OF NEW YORK AND WILL BE HEADED BY W. RANDOLPH BURGESS. YOU HAVE SERVED AS HONORARY CHAIRMAN OF THE WAR SAVINGS COMMITTEE AND I WILL BE MUCH GRATIFIED IF YOU, AS CHIEF EXECUTIVE, WILL ACCEPT THE HONORARY CHAIRMANSHIP OF THIS NEW COMMITTEE.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY

RMC  
YAG:jdg

JUN 8 1943

Dear Mr. Feldman:

Mr. LaRoche tells me that you are one of the Young & Rubicam men who worked on the advertising campaign for the Second War Loan Drive.

I want you to know that I appreciate what you and the other men of Young & Rubicam have done, and I sincerely hope that all of you will be with us again when the next drive comes up.

The job will get much tougher before it gets any easier, and we will need everyone's help to succeed.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Charles Feldman,  
Young & Rubicam, Inc.,  
225 Madison Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-4-43

JUN 8 1943

Dear Mr. Garrett:

I understand that you are one of the men who helped to produce the advertising campaign for the Second War Loan Drive.

Please accept my thanks and the appreciation of our entire organization. The work that you men did had much to do with the success of the drive, and you can rest assured that you have served your country well.

I hope all of you will be with us in the next War Loan Drive.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ted Garrett,  
Young & Rubicam, Inc.,  
225 Madison Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-4-43

JUN 8 1943

Dear Mr. Halpert:

Mr. LaRoche tells me that you were one of the men who worked on the Second War Loan Drive advertising campaign.

This advertising had a great deal to do with the success of the drive, and I think you can rightfully be proud of your part in preparing it.

I hope you will help us on future drives, which are likely to prove even more difficult than the last. We will need all of the help we had last time, and more besides.

Sincerely,

(Signed) H. Morgenthau, Jr.

11  
Mr. Fred Halpert,  
Young & Rubicam, Inc.,  
285 Madison Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-4-43

JUN 8 1943

Dear Mr. Rainbolt:

I have learned from Mr. LaRoche that you are one of the creative men of Young & Rubicam who helped prepare the advertising campaign for the Second War Loan Drive.

I want you to know that I appreciate your help. I can assure you that the work you have done contributed materially to the success of our drive.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Max Rainbolt,  
Young & Rubicam, Inc.,  
285 Madison Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-5-43

JUN 8 1943

Dear Mr. Rubican:

I want to express my appreciation to you for the contribution that you and the other men at Young & Rubican made in the Second War Loan Drive.

The advertising campaign which you helped prepare put across the greatest War Loan Drive in the history of the world.

Our job, however, is not done. Other drives are coming along and I hope you will be with us in future drives as you were in the last.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Harry Rubican,  
Young & Rubican, Inc.,  
285 Madison Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-4-43

JUN 8 1943

Dear Mr. Pinkham:

Mr. LaRoche tells me that you are one of the Ervin Wasey & Co. men who worked on the advertising campaign for the Second War Loan Drive.

I want you to know that I appreciate what you and the other men of Ervin Wasey & Co. have done, and I sincerely hope that all of you will be with us again when the next drive comes up.

The job will get much tougher before it gets any easier, and we will need everyone's help to succeed.

Sincerely,

(Signed) H. Morgenthau, Jr

Mr. Charles H. Pinkham,  
Ervin Wasey & Co.,  
420 Lexington Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-5-43

JUN 8 1943

Dear Mr. Snyder:

I understand that you are one of the men who helped to produce the advertising campaign for the Second War Loan Drive.

Please accept my thanks and the appreciation of our entire organization. The work that you men did had much to do with the success of the drive, and you can rest assured that you have served your country well.

I hope all of you will be with us in the next War Loan Drive.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Julian Snyder,  
Ervin Wacey & Co.,  
420 Lexington Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-5-43

JUN 8 1943

Dear Mr. Williams:

I have learned from Mr. LaRoche that you are one of the creative men of Erwin Wasey & Co. who helped prepare the advertising campaign for the Second War Loan Drive.

I want you to know that I appreciate your help. I can assure you that the work you have done contributed materially to the success of our drive.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. E. D. Williams,  
Erwin Wasey & Co.,  
420 Lexington Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-4-43

JUN 8 1943

Dear Mr. Grady:

I have learned from Mr. LaRoche that you are one of the creative men of Bathrauff & Ryan who helped prepare the advertising campaign for the Second War Loan Drive.

I want you to know that I appreciate your help. I can assure you that the work you have done contributed materially to the success of our drive.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Everett Grady,  
Bathrauff & Ryan, Inc.,  
405 Lexington Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-4-43

JUN 8 1943

Dear Mr. Mulholland:

I understand from Mr. LaRoche that you are one of the men who worked on the advertising campaign for the Second War Loan Drive.

I want you to know that I appreciate the work you and your group did, and I believe the advertisements you produced have set a standard that will be difficult to improve.

Future drives will call for more work and more careful planning than ever. I hope we can count on your continuing help.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Edward Mulholland,  
Rathrauff & Ryan, Inc.,  
405 Lexington Avenue,  
New York, New York.

FS:cf  
6-4-43

Copies in Diary

JUN 8 1943

Dear Mr. Sinclair:

I understand that you are one of the men who helped to produce the advertising campaign for the Second War Loan Drive.

Please accept my thanks and the appreciation of our entire organization. The work that you men did had much to do with the success of the drive, and you can rest assured that you have served your country well.

I hope all of you will be with us in the next War Loan Drive.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ralph Sinclair,  
Bathreaff & Ryan, Inc.,  
405 Lexington Avenue,  
New York, New York.

Copies in Diary

FS:cf  
6-5-43

JUN 8 1943

Dear Mr. Cobb:

I want you to know that I appreciate the work that you did in connection with the outstanding advertising campaign for the Second War Loan Drive.

I can assure you that it constitutes a great contribution toward the winning of the war. I hope you will continue to help us.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William T. Cobb,  
Albert Frank-Guenther Law, Inc.,  
131 Cedar Street,  
New York, New York.

FS:cf  
6-4-43

Copies in Diary

JUN 8 1943

Dear Mr. Corrigan:

I understand from Mr. LaRoche that you are one of the men who worked on the advertising campaign for the Second War Loan Drive.

I want you to know that I appreciate the work you and your group did, and I believe the advertisements you produced have set a standard that will be difficult to improve.

Future drives will call for more work and more careful planning than ever. I hope we can count on your continuing help.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Emmett Corrigan,  
Albert Frank-Guenther Law, Inc.,  
131 Cedar Street,  
New York, New York.

Copies in Diary

FS:cf  
6-5-43

JUN 8 1943

Dear Mr. Laitin:

Mr. LaRoche tells me that you are one of the Albert Frank-Guenther Law men who worked on the advertising campaign for the Second War Loan Drive.

I want you to know that I appreciate what you and the other men of Albert Frank-Guenther Law have done, and I sincerely hope that all of you will be with us again when the next drive comes up.

The job will get much tougher before it gets any easier, and we will need everyone's help to succeed.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ben F. Laitin,  
Albert Frank-Guenther Law, Inc.,  
131 Cedar Street,  
New York, New York.

Copies in Diary

FS:cf  
6-4-43

6/8/43

MEMORANDUM

The following are the reasons it is felt that the forced investment of blocked enemy funds in Government bonds would not be of significance in connection with the June financing:

The total amount of enemy funds in the United States which would be readily available for conversion into Government obligations is small -- around \$35,000,000. This sum represents the total available bank balances and gold holdings of the six enemy countries and their nationals. These balances are now effectively "frozen" and the continuation of their present immobilization involves no substantial cost in money or manpower to the United States. On the other hand, it is felt that the affirmative steps involved in the forced conversion of these balances into Government obligations would require costs in money and manpower without any commensurate gain to the United States.

The reason that there would be no commensurate gain to the United States is that these funds already are in fact invested in Government obligations. Because of their complete immobilization through freezing, there is no danger of their being withdrawn. As a consequence, the banks in which they are held are able to purchase and hold Government obligations in their own portfolios. In the New York area, where close to 90% of such enemy balances are held, the banks holding such balances have a bare minimum of reserves as measured by the legal requirement, and the conversion of enemy balances would have a tendency either to force the sale of Government bonds by the depository banks or compel a reduction in their subscriptions to future issues.

There would be no net gain or benefit to be derived by the United States from such a shifting of balances.

The only other substantial class of enemy assets which would be available for conversion into Government obligations are corporate securities held for enemy account. The amount of such securities so available also is small -- estimated at 30 to 40 million dollars. The costs of converting such securities would be substantial. Many of them are actually physically situated outside the United States, and it would

be necessary in such cases to bring about their cancellation and the issuance of new securities which would be subject to sale by this Department. It would also be incumbent upon the Department to take all appropriate measures to assure itself that a fair price was being received. Furthermore, many of the securities would be found to be unsalable or to present time-consuming difficulties in effecting their sale. The end result, after incurring the necessary expense and using the necessary manpower, would be no more fruitful in the interests of the United States than the result indicated in the case of cash balances. The forced sale of such securities would absorb from the market funds which would otherwise be available for the investment in Government bonds.

In addition to the funds held for the six enemy countries, (Germany, Italy, Japan, Roumania, Bulgaria and Hungary) and nationals thereof, there are of course, very substantial balances held in favor of the occupied countries and the four neutral countries of Europe. The foregoing objections to the forced conversion of enemy assets into Government obligations apply with equal or greater force to any conversion of the dollar assets held by the occupied and neutral countries of Europe. Of course, in addition to these objections any such move would involve very serious diplomatic and political repercussions.

W.Aarons:lhb 6/8/43

June 8, 1943

Meeting in Mr. White's Office  
June 8, 1943  
10:30 A.M.

Present: Dr. Clark and Mr. Plumptre  
Mr. White and Miss Kistler

Dr. Clark called on Mr. White to discuss the implementation of the agreement to maintain Canada's U.S. dollar reserve. He submitted a revised forecast of Canada's U.S. dollar position and a statement on Canada's spot U.S. dollar position in May 1943 as well as a Memorandum on Special Factors in the Canadian Exchange Position as of June 1, 1943. Copies of the three documents are attached.

Dr. Clark explained that the set up of the revised forecast differs from those submitted to us in the past. He stated that past receipts of U.S. dollars on security account and from War Supplies Limited sales are recorded but that no attempt has been made to forecast these items because of their unique position as the balancing factors.

Dr. Clark carefully reviewed the Memorandum on Special Factors in the Canadian Exchange Position as of June 1, 1943. He explained that so far this year practically all the Canadian securities sold to Americans have been bonds; sales of stocks have totalled only \$4 million. He stressed the reluctance of the Canadian Government, on the one hand, to permit the continuance of Canadian security sales to the United States and, on the other, to take mandatory steps to stop the capital inflow. Mr. White expressed doubt as to the wisdom of stopping the inflow of American capital into Canada. In regard to his second suggestion of reducing Canada's U.S. dollar reserves, as outlined in the Memorandum on Special Factors in the Canadian Exchange Position, Dr. Clark stated that after he had arrived here the evening of June 7, he found that Canadian procurement officials in Washington as well as General Clay, Director of Material, Supply Services, War Department, are strenuously opposed to the cancelling of U.S. Government contracts in Canada. Dr. Clark said that the only alternative he had been able to think of is the repayment of the United States by Canada for goods delivered under "Canex" requisitions. Up to March 31, 1943, they totalled \$44 million.

Mr. White said that he would place the matter before the Inter-departmental Committee and that he would investigate the objections of General Clay to the cancelling of orders, and would ascertain the opinion of our other procurement people to the proposal to divert deliveries as a means of maintaining Canada's dollar balances within the agreed-upon range. Dr. Clark had reported General Clay was opposed to

Division of Monetary  
Research

- 2 -

the suggestion because of his desire to control the allocation of the materials coming off the delivery line in Canada in fulfillment of orders placed there by the U.S. Government.

The discussion then turned to Canada's Mutual Aid Bill. Dr. Clark explained that the Canadian Government did not contemplate asking for a further appropriation when the present billion dollar appropriation is exhausted but rather its intention is to reexamine the entire situation again just as it did after the exhaustion of the billion dollar gift last December. In other words, the Mutual Aid Bill is thought of merely as a mechanism of meeting this year's deficit with no commitment as to the future. Dr. Clark and Mr. Plumptre explained the difference between lend-lease and mutual aid in terms of the time of settlement of the payment obligation; under lend-lease the settlement of the obligation is left for future determination while under the Mutual Aid Bill it is decided at the time the transfer takes place. Under the Canadian arrangement, the material is either given outright or, as in the case of ships, they are chartered to the using government.

In addition to that portion of the Mutual Aid Bill appropriation which will be used to finance the Sterling Area's deficit with Canada, Dr. Clark reported Canada has taken over the financing of its air squadrons in the Sterling Area; they now number 38 and will cost this year the equivalent of \$341 million of sterling. In addition, Canada expects to spend this year \$471 million to finance the rest of its army in Sterling Area countries. The transfer of British investments in Canadian war plants, valued at over \$200 million, made a further sum of over \$200 million available to Britain to finance its expenditures in Canada.

Dr. Clark stated that Canada has recently become a co-signer with the United States and the United Kingdom of the Russian Protocol under which it has agreed to take over certain of the U.K. and U.S. commitments amounting to \$60 million.

The meeting ended with some discussion of our international currency proposal and the progress being made in the bilateral country discussions and the problems still to be faced.

T. M. Kistler

NOTES ON CANADA'S SPOT U.S. DOLLAR POSITION IN MAY, 1943

(\$000,000)

Spot Position

Aggregate of gold, treasury bills and U.S. balances at April 30, 1943	-506
Aggregate of gold, treasury bills and U.S. balances at May 31, 1943	<u>582</u>
Increase during month	<u>76</u>

Important Factors in Position Change

(\$000,000)

Net current account deficit (incl. Newfoundland but excl. gold and War Supplies, Limited)	- 12
Gold sales	11
War Supplies, Limited deposits	40
Net capital surplus (excl. securities)	4
Net proceeds from security sales	<u>33</u>
Total (equal to increase in position)	<u>76</u>

3. Reconciliation with Forecast

- (a) February forecast showed surplus of \$54 Mm. for 2Q'43, an average of \$18 Mm. a month. Actual surplus for April and May was \$46 Mm., i. e., an average of \$5 Mm. a month more than forecast, which is a better basis of comparison than May alone.
- (b) May forecast has been computed with much of the April and May data at hand so there is no purpose in attempting to reconcile the quarter's forecast with May actual data. The average for the quarter is not indicative of any month because of a number of large unusual items.

June 5, 1943

Handed to Mr. White by Dr. Clark in White's office, June 8, 1943

Regraded Unclassified

MEMORANDUM ON SPECIAL FACTORS IN THE CANADIAN  
EXCHANGE POSITION AS OF JUNE 1, 1943

The Canadian exchange position vis-a-vis the United States is now in need of adjustment. As of May 31st, 1943, Canadian reserves of gold and dollar balances amounted to \$582 million, of which \$103 million has accrued from the net proceeds of security sales during 1943 and is being held for the redemption of Canadian obligations, leaving a net balance of \$479 million, which exceeds by \$129 million the maximum exchange reserve provided for under the maximum-minimum balances arrangement. This excess has been built up largely during the period that Canada's Mutual Aid Act was in process of preparation and enactment. It gives rise to the problem which must now be solved.

Estimates now completed for the remainder of the Canadian fiscal year ending March 31, 1944, indicate that Canada's deficit of U.S. dollars, apart from the proceeds of security transactions and of sales by War Supplies Ltd. to the United States under the Hyde Park Agreement, will amount to approximately \$460 million for the year as a whole. Of this amount \$56 million has already accumulated in April and May, leaving \$404 million as the estimated probable deficit during the ten months June 1, 1943, to March 31, 1944, (of which amount \$306 million will likely accrue by December 31, 1943.)

As already indicated, these estimates exclude the effect on Canada's exchange position of the net proceeds of security sales and current receipts from sales by War Supplies Ltd. to U.S. war procurement agencies. Each of these factors is a special variable, capable of some degree of management, and to each of them special consideration must be given.

Under the maximum-minimum balances arrangement, the net proceeds of security transactions during 1943 may be offset by the calling or redemption of Canadian securities which are payable in U.S. currency. For the first five months of 1943 the total of such proceeds had already amounted to \$103 million — and for the first six months they are estimated at at least \$118 millions. Previous forecasts of these capital movements have repeatedly been falsified by events and it is particularly difficult at the present juncture to forecast them during even the next few months — in view of the possible effect of the declining volume of U.S. ~~may~~ Canadian securities, higher prices for such securities and the possibility  
Handed to Mr. White by Dr. Clark in White's office, June 1, 1943. Regraded Unclassified

the buying movement might switch into Canadian dollar securities. The net proceeds of security sales should continue in anything like the present volume, it may be difficult to offset such sales without redeeming Canadian issues callable only at substantial premiums. Canada can hardly contemplate the continuance of this heavy volume of involuntary foreign borrowing, if, because of the limits on her balances, it were merely to result in a reduction of current receipts on income account. Nor is it believed that the U.S. would regard it as in her own interest that such borrowing by Canada should continue on a large scale without offset. On the other hand, mandatory restriction of such capital inflow would involve very grave difficulties in foreign exchange control and might readily give rise to misunderstandings. The problem is one which may warrant joint discussion a little later but for the purpose of the present calculations and arrangements it is assumed that such additions to our exchange reserves in 1943 as result from the net proceeds of security sales can be offset, as already agreed upon, by the calling or redemption of Canadian securities payable in U.S. currency.

It is the second factor, namely, the receipts from sales by War Supplies Ltd. to U.S. war procurement agencies which must apparently be the chief adjusting item in the balance of payments between Canada and the United States. Unfortunately these receipts are also difficult to forecast with any certainty, even apart from the necessity of adjusting them for exchange reasons. In the first place, cash receipts from these sales in the past have differed substantially from the value of shipments, due to the time required for the preparation, checking and passing of invoices, and it is very difficult to anticipate the effects of this factor in the future. Secondly, substantial revisions of production schedules and contracts have recently been under way as part of the general revision of 1944 production programs and substantial cancellations have already occurred. Thirdly, there are adjustments to be made in the tentative contract prices on which values and payments have been based up to the present, and the effects of such adjustments both in respect of rebates on past sales and the proceeds of future sales, cannot yet be foreseen with any accuracy. These price adjustments also will depend in part upon the revisions being made in production schedules, as a reduced volume of production will in most cases mean a higher unit cost.

It is however expected that, apart from further cancellations or adjustments for exchange reasons, the value of War Supplies Ltd. shipments during the current fiscal year ending March 31, 1944, will be about \$450 million, of which shipments in April accounted for \$37 million and in May for roughly \$40 million (figure not finalized yet) — leaving a total of roughly \$375 million of probable shipments during the ten months commencing June 1st. The values do not yet reflect the price adjustments that will probably be made and might be discounted by perhaps 5 or 10% on that account.

It seems at this time unlikely that payments during the current fiscal year will overtake shipments on these War Supplies Ltd. contracts, and it is possible they might continue to fall further behind — as they have in recent months. On the whole, it is probably best to take the figure for shipments as the best forecast of payments that can be made, in the absence of more definite information. This would suggest probable receipts of the order of \$410-\$425 million for the fiscal year as a whole. Deducting from this the actual receipts of \$48 million for April and May would leave probable receipts for the 10 months commencing June 1st as roughly \$360-\$375 million.

These figures may be compared with a probable Canadian deficit of U.S. dollars, apart from War Supplies Ltd. sales and the net proceeds of security transactions, of \$460 million for the fiscal year ending March 31, 1944, and of \$404 million for the remaining 10 months of the year.

In addition to these items, account must be taken of the adjustments to be made in respect of the prices of goods already sold by War Supplies Ltd. to the United States. While the details of these adjustments cannot yet be prepared, it is understood they will amount to at least \$50 million. On the other hand, it should be noted, of course, that receipts from War Supplies Ltd. sales have lagged substantially behind both shipments and invoices up to date, but it is not expected that this lag will be materially reduced during the current fiscal year.

If one adds the present excess of Canadian balances over the agreed maximum, namely, \$129 million (excluding balances held for security redemption during 1943), to the probable War Supplies Ltd. receipts noted above for the next 10 months - \$360 to \$375 million - and deducts the \$50 million rebate, one gets a net total of available funds of the order

of \$439-\$454 million for the 10 months, to compare with an estimated requirement (assuming a balancing or offsetting of security transactions) of \$404 million. This suggests the order of magnitude of the adjustment now required in respect of War Supplies Ltd. sales. It should again be emphasized, however, that these forecasts, particularly of War Supplies Ltd. receipts, are highly uncertain, and that it is desirable to make adjustments in such a way as to permit some flexibility in the light of developments.

It is therefore suggested that the following steps should be taken as an immediate program to place Canada's exchange reserves within the terms of the maximum-minimum balances arrangement which has been agreed upon between the two treasuries:

- (a) that Canada should immediately pay to the appropriate United States agency or agencies ~~approximately~~ the sum of \$50 million as a rebate representing revision of prices charged on supplies delivered to U.S. war procurement agencies by War Supplies Ltd. up to March 31, 1943, subject to final adjustment later in respect of the allocation to particular items; and
- (b) that Canada should ask the appropriate U.S. war procurement agencies to allow her to cancel approximately \$50 million of orders placed with War Supplies Ltd. for supplies to be lend-leased to the United Kingdom and should herself assume the financial burden of delivering the said supplies to the United Kingdom under Canada's new Mutual Aid legislation. The orders so cancelled might be orders for specific types of goods or alternatively all orders for goods to be lend-leased to the United Kingdom which would be ready for delivery by Canada during the months of July, August and September. On this point it would be necessary to secure the agreement of the appropriate U.S. procurement officers, the Joint Assignments Board and the Canadian Mutual Aid Board.

SECRET

FORECAST OF CANADA'S UNITED STATES DOLLAR  
POSITION

---

June 1943

General Comments.

Footnotes to the Tables.

Table I. Financing Canada's Needs for  
U.S. Dollars.

Table II. Current Account.

Table III. Capital Account

Table IV. Effect of Hyde Park Transactions, Gross.

Table V. U.S. Dollars obtained outside the  
United States.

Table VI. Canada's Liquid Reserves.

Handed to Mr. White by Dr. Clark in White's office, June 8, 1943.

### General Comments.

1. Form of the Tables. A change in the form of the tables, as used in the reports since the summer of 1942, has been thought advisable in view of the agreement to maintain Canada's balances of U.S. dollars between 300 and 350 millions, and to effect this by the adjustment of U.S. purchases in Canada through War Supplies Limited.

In summary, the change involves:

- (a) The security transactions are separated from other capital movements, and future net movements are not forecast.
- (b) War Supplies Limited receipts are no longer forecast, only the record of actual past receipts being shown. In effect this will become the primary balancing item.
- (c) Certain minor differences in presentation, mainly resulting from (a) and (b). For example "Hyde Park Transactions, Gross" (item 10 of Table I in the old form) does not appear in the new form; some of these transactions are included in the main table, some are in Table II.

Summary of content. Canada's U.S. dollar position as set out in the following tables may be summarized thus:

(in millions of U.S. dollars)

	<u>1942</u>	<u>1943</u>
<u>Needs for U.S. Dollars</u>		
Current account deficit, excluding receipts from prepayments under the Hyde Park agreement and from War Supplies Ltd.....	451	544
	<u>      </u>	<u>      </u>
<u>Sources of U.S. Dollars</u>		
Receipts from prepayments under the Hyde Park agreement and (until Mar. 31, 1943) from War Supplies Ltd. ....	310	73
Net U.S. purchases of securities in Canada .....	114	7
Other forms of capital imports from the U.S. ....	38	28
Ordinary transactions with other countries .....	60	47
Special transactions with the U.K. ..	27	169
Errors and omissions in the record of transactions .....	<u>33</u>	<u>30</u>
	<u>582</u>	<u>347</u>
<u>Surplus (+) or Deficit (-)</u>	131	-197

In 1942 U.S. purchases of securities were approximately equal to the increase in Canada's cash balances. In 1943 it is expected that substantially all of the net proceeds of U.S. security purchases in Canada will be used for the redemption of outstanding Canadian indebtedness in the United States, but the amounts cannot now be forecast and remain subject to agreements yet to be concluded. In 1943, also, purchases of munitions etc. in Canada by the United States through War Supplies Limited are not forecast as such; it is expected that these purchases will be adjusted in amount so as to stabilize Canadian balances of U.S. dollars. Both of these changes in procedure--the treatment of the proceeds of sales of securities, and the changed policy with respect to War Supplies Limited--are those prescribed by the recent agreement on minimum and maximum balances.

Footnotes to the Tables

Footnotes to Table II. Current Account.

(a) War Imports.

The following table indicates the way in which the forecast of war imports for 1943 was made up.

Calculation of War Imports, 1943.

	Item No.	Quarters of 1943				1944
		I	II	III	IV	I
<u>Estimated by Department</u>						
<u>Munitions and Supply</u>						
Payments for U.S. purchases by contractors and suppliers" .....	1.	98.4	105.3	115.3	118.4	105.0
Expenditures in the U.S. for capital equipment...	2.	11.0	8.0	5.0	4.0	3.0
U.S. dollar expenditure required for the production of metals and minerals...	3.	5.0	5.2	5.5	6.0	5.0
Total of the above (1/2/3) ..	4.	114.4	118.5	125.8	128.4	113.0
(b) Total adjusted roughly to allow for the freight included by Dept. of Munitions and Supply in the above but included by us in the freight item of Table II .....	5.	105	109	116	118	104
Add estimated payments by U.S. Purchases branch of Dept. of Munitions and Supply on purchases in the U.S. other than "Canpay" purchases....	6.	5	5	5	5	5.
Adjusted total of war imports excluding "Canpay" items (5/6) .....	7.	110	114	121	123	109
Estimate of payments on purchases through "Canpay" channels by Dept. of Munitions and Supply. ....						
Miscellaneous .....	8.	10	15	15	15	10
PBY's .....	9.	-	20*	25	25	25
Advance payment during April .....	10.	-	30*	-	-	-
Tanks .....	11.	-	-	40	-	-
Total (8/9/10/11) .....	12.	10	65	80	40	35
Less adjustment in the light of later information .....	13.	-	-10	-	-	-
Estimated total payments on account of war imports from the U.S. (7/12/13) .....	14.	120	169	201	163	144

\* These items make up the April special payment of \$50,000,000.

War Imports (continued)

The above table items 1,2,3, are from the Department of Munitions and Supply estimate of the U.S. dollar content of war purchases made May 26, 1943. Item 5 is the result of a deduction from the total of item 4 as a rough allowance for freight. Similarly as e.g. in 1942 the payments estimated in item 6 were the actual payments by the U.S. purchases branch of the Department of Munitions and Supply. Towards the end of last year purchases began to be made through the U.S. Lend-Lease administration under the Canpay category. A part of the purchases formerly made by the Department of Munitions and Supply of such things as components are now made by the contractors themselves and are thus included in item 1 of the above table. For the remainder an estimate of \$5 million a quarter has been included in item 6.

For the last quarter of 1942 and the first of 1943 most of the purchases in the U.S. under the Canpay category were of a wide range of miscellaneous articles and one large type of store: mechanical transport. In item 8 an estimate is made of the probable amount of such orders likely to be received by Canada during future quarters as some rough indication of the volume of payments which it might be possible to make on this account.

Item 9 is an estimate of rate at which payments for PBV aircraft from the United States might be expected to fall due over future quarters. It is purely arbitrary except for the allocation of \$20 million special payment made in April 1943 to this account.

Item 10 is the advance payment during April 1943 with respect to outstanding Canpay liabilities.

Item 11 is the estimated payment to be made as a result of a purchase of tanks for the Canadian Army.

Item 13 is a revision and is due to the fact that information available for April and May 1943 indicates the deficit on current account will be somewhat less than first thought.

The relatively large "errors and omissions" items are believed to be largely due to an outstanding liability on "Campay" orders involving a lag or lags in payments made by Canada. The amount is estimated at \$40 million as of March 31, 1943, but its distribution in time is not known.

June 5, 1943.

Item 2. Non-war Imports.

There were two stages to the calculation of this item. In the first place total imports were roughly estimated by projecting (with variations deemed appropriate) the past record of imports under one of the Dominion Bureau of Statistics classifications after these had been adjusted to eliminate non-payment items. From this total there was then subtracted an early estimate of war imports thus giving a preliminary estimate of non-war imports. This estimate was then further adjusted, as far as the forecast is concerned, to a round figure of \$140 million for the second quarter/and \$150 million per quarter thereafter in the light of present trends of non-war import items.

Item 3. Total Imports.

Though an independent estimate of total imports was first made as described immediately above, the present total is just the sum of the war imports and non-war imports estimated as explained in the two preceding notes.

Item 4. Freight Payable in U.S. Dollars.

This item includes inland freight on coal and other commodities reported from or through the U.S., ocean freight on imports which is payable in U.S. dollars to U.S. or other foreign agencies, and a part of the freight on Canadian exports to sterling area countries which is payable by Canada in U.S. dollars. Estimates on some of these items, e.g., freight on coal imports, are based on up-to-date information; for other parts of the estimate the basic data is usually a quarter behind. As a record, the estimates of the larger part of the freight payments are probably quite accurate.

Item 5. Tourist Payments.

These are based upon Foreign Exchange Control Board data as to bonds sold to tourists for travel in the United States.

Item 6. Interest Payments.

Based upon Dominion Bureau of Statistics estimates of the holdings of Canadian bonds in the United States. The quarterly distribution was made after studying the seasonal tendency in the

the Foreign Exchange Control Board of U.S. dollars for  
the purchase of Canadian bonds.

Dividends and Profits Payments.

Based on F.E.C.B. records of approvals for the remittance of  
dividends and profits to residents of the U.S. dollar area. The  
forecast has been made on the assumption that remittances will con-  
tinue to be below earnings as they have been in the recent past and  
that there will be no tendency to remit to the U.S. the considerable  
volume of profits eligible for remittance under the regulations of  
the F.E.C.B. which have thus been built up.

Item 9. Miscellaneous.

This item includes mainly payments for commercial and financial  
services and payments to companies in the U.S. for management engineer-  
ing and similar professional services.

Item 10. Exports (excluding Hyde Park exports).

For the past the figure of exports to the United States is  
arrived at by adjusting the Customs figures to eliminate some  
items for which no U.S. dollars are received and to exclude as  
far as possible the exports made under the Hyde Park agreement  
which are included in Table IV.

As in the case of "total imports", the forecast of "total  
exports" was made by the examination of the recent trends of exports  
in each of the commodity groups, and the individual items within  
each group.

Item 11. Sales of Metals to the Metals Reserve Corporation.

This item appeared formerly in Table I as part of the receipts  
from "Hyde Park Transactions, Gross". It is now introduced into the  
Current Account, in consequence of the changes described in the  
General Comments.

Item 12. Exports of Newly-mined Gold.

The exports for the past are from data compiled by the Bank  
of Canada. It is still difficult to forecast accurately the  
effect which restrictions on gold-mining may have on the volume

ports. The estimates here made may well turn out to be high.

Freight Receipts.

This item includes Canadian railway earnings on exports to the United States; United States payments to Canadian railways on freight in transit through Canada; and expenditures in Canada by United States railways, particularly those in southern Ontario. For the past an estimate is made on the basis of railway revenue and traffic statistics as these become available; the record is therefore subject to revision in future compilations. The forecast is made upon the basis of probable future traffic.

There is also included expenditures in Canada on account of U.S. and other foreign ships and some earnings of Canadian ships which are received in U.S. dollars.

The \$10 million received from the U.S. Army Transport Division during April 1943 is included in this item.

Item 14. U.S. Tourist Travel in Canada.

This estimate is based on F.E.C.B. receipts of U.S. dollars which are believed to originate in the tourist trade. The Dominion Bureau of Statistics estimate is based on tourist traffic and includes Canadian dollar receipts which cannot be separated from U.S. dollar receipts. However, the F.E.C.B. data appear to be in line with the estimates based on the figures for the tourist traffic to Canada.

Item 15. Interest, Dividends and Profits from the United States.

F.E.C.B. data, including income from other than U.S. securities, dividends received from Canadian companies operating in Latin America are excluded, as these are included in Table V, item 1.

Item 16. Miscellaneous.

The income included here is mostly from services. It includes receipts originating in the activities of the U.S. government in Canada, as for instance the Alaska Highway.

... to Table IV. Effect of Hyde Park Transactions, Gross.

1. Prepayments and Capital Advances.

Record and forecast by the Department of Munitions and Supply. This item is used in Table I, item 11.

Item 2. Current Receipts on Orders placed through War Supplies Ltd.

Recorded receipts to the end of March 1943. This item is used in Table I, item 12. No forecast of these receipts is made here (see the General Comments).

Item 3. Sales of metals to the Metals Reserve Corporation.

The metals include aluminum, lead, mercury, mica, cobalt and other metals. Both the record and the forecast are by the Department of Munitions and Supply. This item is included in Table II, item 11.

Item 5. Petroleum products purchased by the U.S. on account of the United Kingdom for the Combined Air Training Plan.

To March 31, 1943 no U.S. dollars had been received under this arrangement. The forecast is made on the basis of present expectations. This forecast of receipts is included in the "miscellaneous receipts", Table II, item 16.

Item 6. Imports of components and materials obtained by the United Kingdom under Lend-Lease for execution of British orders in Canada.

The Department of Munitions and Supply is the source for both the record and the forecast. In the revision of Table I this item, which formerly appeared on both the debit and the credit side of Table I, has been eliminated. It is included here as additional information of interest. The record and forecast of this item are still but rough approximations.

Item 8. Exports against prepayments.

These exports are not included in the current account. The item is included here as additional information.

Item 10. This is a rough estimate of the probable U.S. purchases which must be made by Canada to produce the commodities

...ed under the Hyde Park arrangements as in item 9.

Notes to Table v. United States Dollars obtained outside  
the United States.

Item 1. Receipts by Canada.

Customs figures (adjusted to eliminate items producing no U.S. dollars), including wheat exports to neutral countries in Europe from U.S. ports, and F.E.C.B. data on dividends transferred to Canada by Canadian companies operating abroad. The irregularities in the second and fourth quarters are due mainly to the payment of dividends.

Item 2. Payments by Canada.

Customs figures adjusted to eliminate items for which no payment in U.S. dollars is required.

Item 4. Net Receipts of U.S. Dollars from Newfoundland.

Net amount of exchange sold to the Foreign Exchange Control Board.

Notes to Table III. Capital Account

In view of the new importance attached to capital movements originating in security transactions between Canada and the United States, the table has been changed in form to separate these capital movements from those of a different character. It should also be noted that this table does not include the capital imports in the form of prepayments, advances and other loans by United States governmental agencies and some banks which have resulted from the Hyde Park arrangements. These are given in Table IV, item 1 and are included in the balance of payments in Table I, item 12.

For items 1, 2, 3, 5, 7, 8 and 9 of Table III the record is provided by the Foreign Exchange Control Board; the forecasts are rough estimates only, and none have been made for items 7, 8, and 9 beyond the second quarter of 1943 (see the General Comments). For item 11, the record is also provided by the Foreign Exchange Control Board but the forecast is based on the estimated foreign holdings of Canadian bonds maturing in the United States.

Table I Financing Canada's Needs for U.S. Dollars

(in millions of U.S. dollars)

Item No.	Calendar		Calendar 1942				Calendar 1943				(1944)	Fiscal	
	1942	1943	I	II	III	IV	I	II	III	IV	I	1944	
<u>Excess of Current Account Payments</u>													
<u>Over Receipts (excluding War</u>													
<u>Supplies Ltd.) (Table II).</u>													
Total current account payments	1.	1,474	1,678	322	387	365	400	343	424	466	445	371	1,706
Total current account receipts	2.	1,023	1,134	236	241	260	286	246	309	294	285	252	1,140
Excess of payments (-) or receipts (+) (1-2)	3.	-451	-544	-86	-146	-105	-114	-97	-115	-172	-160	-119	-566
<u>Capital Transactions Excluding</u>													
<u>Securities (Table III)</u>													
Capital imports	4.	42	32	17	8	9	8	11	7	7	7	7	28
Capital exports	5.	4	4	1	1	1	1	1	1	1	1	1	4
Net capital import (+) or export (-) (4-5)	6.	+38	+28	+16	+7	+8	+7	+10	+6	+6	+6	+6	+24
<u>U.S. Dollars obtained from Newfoundland</u>													
<u>and Other Non-Sterling Area Countries</u>													
<u>Outside the U.S. (Table V)</u>													
Net Receipts (+) or Payments (-)	7.	+60	+47	+11	+23	+10	+16	+10	+19	+4	+24	+5	+42
<u>Canada's Net Need (-) for U.S. Dollars</u>													
<u>Arising from the Above Transactions</u>													
<u>(3/6/7)</u>													
	8.	-353	-469	-59	-116	-87	-91	-77	-90	-162	-140	-108	-500
<u>Special Receipts (+) of U.S. Dollars</u>													
<u>from the U.K.</u>													
	9.	+27	+169	-	-	-	+27	+139	+10	+10	+10	+10	+40
<u>Canada's Net Need for (-) or Surplus</u>													
<u>of (+) U.S. Dollars Arising from</u>													
<u>the Above Transactions (8/9)</u>													
	10.	-326	-300	-59	-116	-87	-64	+62	-80	-152	-130	-98	-460
<u>Reconciliation with Changes in Canada's</u>													
<u>Actual U.S. Dollar Position</u>													
<u>Receipts from Hyde Park exports:</u>													
Prepayments and capital advances	11.	+79		+44	+34	+1	-	-					
War Supplies Ltd. current receipts	12.	+231		+7	+42	+83	+99	+73					
<u>Security movements:</u>													
Security purchases by the U.S.	13.	+134		+36	+45	+23	+30	+170					
Maturities of Canadian securities in the U.S.	14.	-20		-1	-6	-5	-5	-117					
Net proceeds from security movements (13-14)	15.	+114		+32	+39	+18	+25	+53					
Total change thus accounted for (10/11/12/15)	16.	+98		+24	-1	+15	+60	+188					
Actual change in Canada's U.S. dollar position	17.	+131		+42	+14	+17	+58	+218					
Therefore errors and omissions (17-16)	18.	+33		+18	+15	+2	-2	+30					

Table II Current Account

(in millions of U.S. dollars)

Item No.	Calendar		Calendar 1942				Calendar 1943				(1944) I	Fiscal 1944	
	1942	1943	I	II	III	IV	I	II	III	IV			
<b>Payments by Canada to the U.S.</b>													
<b>Exports:</b>													
War production and military equipment (excl. Lend-Lease)													
Other imports	1.	456	653	100	107	112	117	120	169	201	163	144	677
Total imports (1/2)	2.	586	562	136	165	144	141	122	140	150	150	130	570
Freight payable in U.S. dollars	3.	1,022	1,215	236	272	256	258	242	309	351	313	274	1,247
Tourist and other travel in the U.S.	4.	145	157	21	35	39	50	28	40	46	43	30	159
Interest	5.	14	16	4	4	3	3	4	4	4	4	4	16
Dividends and profits	6.	88	92	19	24	20	25	20	25	21	26	21	93
Miscellaneous	7.	114	102	20	32	23	39	25	22	20	35	18	95
	8.	91	96	22	20	24	25	24	24	24	24	24	96
Total payments (3/4/5/6/7/8)	9.	1,474	1,678	322	387	365	400	343	424	466	445	371	1,706
<b>Receipts by Canada from the U.S.</b>													
<b>Exports of merchandise by Canada (excl. Hyde Park)</b>													
Sales of metals to the Metals Reserve Corporation	10.	567	611	140	139	133	155	126	159	164	162	137	622
Exports of newly mined gold	11.	33	72	4	7	13	9	14	17	20	21	21	79
Freight receipts in U.S. dollars	12.	167	124	44	42	40	41	36	33	30	25	25	112
Tourist and other travel by the U.S. in Canada	13.	74	77	16	18	19	21	17	30	20	20	17	77
Interest, dividends and profits from the U.S.	14.	52	42	7	11	22	12	7	10	15	10	7	42
Miscellaneous	15.	51	45	12	10	12	17	13	10	10	12	10	42
	16.	79	146	13	14	21	31	33	50	55	35	35	148
Total Receipts (10/11/12/13/14/15/16)	17.	1,023	1,134	236	241	260	286	246	309	294	286	252	1,140
Excess of payments over receipts (9-17)	18.	451	544	86	146	105	114	97	115	172	160	119	566

Table III Capital Account

(in millions of U.S. dollars)

Item No.	Calendar		Calendar 1942				Calendar 1943				(1944) I	Fiscal 1944	
	1942	1943	I	II	III	IV	I	II	III	IV			
<b>Section I Non-Security Transactions</b>													
<b>Sales by Canadians of U.S. and other assets:</b>													
U.S. assets	1.	23	16	11	3	5	4	4	4	4	4	4	16
Canadian assets	2.	19	11	6	5	4	4	2	3	3	3	3	12
Other new borrowing	3.	-	5	-	-	-	-	5	-	-	-	-	-
Total receipts on these items (1/2/3)	4.	42	32	17	8	9	8	11	7	7	7	7	28
Less debt payments	5.	4	4	1	1	1	1	1	1	1	1	1	4
Net capital inflow on these items (4-5)	6.	38	28	16	7	8	7	10	6	6	6	6	24
<b>Section II Security Transactions</b>													
<b>Sales of securities by Canadians:</b>													
U.S. and other foreign securities	7.	22		9	5	4	4	6	5				
Canadian outstanding issues	8.	112		27	40	19	26	67	72				
New Canadian issues	9.	-		-	-	-	-	97	-				
Total (7/8/9)	10.	134		36	45	23	30	170	77				
Less maturities of Canadian securities in the U.S.	11.	20	156	4	6	5	5	117	12	20	7		
Net capital inflow on securities transactions (10-11)	12.	114		32	39	18	25	53	65				
<b>Recapitulation</b>													
Total capital receipts (4/10)	13.	176		53	53	32	36	181	84				
Total capital payments (5/11)	14.	24		5	7	6	6	118	13				
Net capital inflow (13-14, & 6/12)	15.	152		48	46	26	32	63	71				

**Table IV. Effect of Hyde Park Transactions, Gross**

(in millions of U.S. dollars)

Item No.	Calendar		Calendar 1942				Calendar 1943				(1944)	Fiscal
	1942	1943	I	II	III	IV	I	II	III	IV	I	1944
Prepayments and capital advances												
Current receipts on orders placed through War Supplies Ltd.	1.	79	2	44	34	1	-	-	2	-	-	2
Sales of metals to the Metals Reserve Corporation	2.	231		7	42	83	99	73				
Total (1/2/43)	3.	33	72	4	7	13	9	14	17	20	21	79
Petroleum products lend-leased by the U.S. to the U.K. for the Combined Air Training Plan.	4.	343		55	83	97	106	87				
Imports of components and materials obtained by the U.K. under Lend-Lease for execution of British orders in Canada	5.	-	19	-	-	-	-	-	11	3	3	20
Total (4/5/46)	6.	50	19	5	17	16	13	7	8	2	2	13
Additional Information	7.	393		60	100	112	121	94				
Exports against prepayments and capital advances of Item I of this Table	8.	17	51	2	2	5	8	14	13	13	11	48
Total of items 2, 3 and 8.	9.	281		13	51	101	116	101				
U.S. dollar content of item 9, estimated at 12%	10.	34		2	6	12	14	12				

**Table V. U.S. Dollars Obtained Outside the United States**

(in millions of U.S. dollars)

Receipts by Canada												
From non-sterling area countries other than Newfoundland and the United States.												
1.	82	89	18	26	14	24	19	29	15	26	18	88
Payments by Canada												
To non-sterling area countries other than Newfoundland and the United States.												
2.	55	66	14	13	12	16	18	16	16	16	16	64
Net Receipts (1-2)												
3.	27	23	4	13	2	8	1	13	-1	10	2	24
Receipts of U.S. Dollars from Newfoundland												
4.	33	24	7	10	8	8	9	6	5	4	3	18
Total Net Receipts (3/4)												
5.	60	47	11	23	10	16	10	19	4	14	5	42

**Table VI. Canada's Liquid Reserves**

(in millions of U.S. dollars)

I. Amounts	Gold	U.S. \$ Balances	Total Official <sup>#</sup>	Private Balance <sup>##</sup>	Total	Of which held to offset net security movements in 1943
September 15, 1939	205	56	261	133	394	
December 30, 1939	216	88	306	99	405	
December 31, 1940	136	194	330	5	335	
December 31, 1941	136	52	188	0	188	
December 31, 1942	155	164	319	-	319	
March 31, 1943	184	413	537	-	537	53
May 31, 1943	151	431	582	-	582	103
II. Changes in Amounts from Previous Period						
September 15, 1939	-	-	-	-	-	
December 30, 1939	/13	/32	/45	-34	/11	
December 31, 1940	-82	/106	/24	-96	-72	
December 31, 1941	-	-142	-142	-3	-145	
December 31, 1942	/19	/112	/131	-	/131	61
March 31, 1943	-31	/249	/218	-	/218	152
May 31, 1943	/27	/18	/45	-	/45	63
						50

<sup>#</sup> Total "official" holdings - Foreign Exchange Control Board, Minister of Finance and Bank of Canada.

<sup>##</sup> Total holdings of U.S. dollars by all other residents of Canada, excluding Canadian banks and insurance companies whose holdings of U.S. dollars are required for the purpose of their U.S. business. The totals shown are exclusive of \$80 million in minimum working balances.

Prior to the war, a very large proportion of Canada's exchange reserves was held by private rather than official agencies. In the spring of 1940, the Foreign Exchange Control Board, which had been charged with responsibility for managing the country's exchange reserves, took over all such balances in private hands other than the minimum amount considered essential for day-to-day working balances.

# THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

PHONE REPUBLIC 7860



Box 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

June 8th, 1943.

SECRET

Dear Dr. White:

The gold and dollar figures for May 1943 are as follows:

	<u>May 7</u>	<u>May 14</u>	<u>May 21</u>	<u>May 28</u>
Total Gold	935	942	944	941
Official Dollar Balance	<u>255</u>	<u>281</u>	<u>248</u>	<u>257</u>
Total Gold and Dollars	1190	1223	1192	1198
Scattered Gold	140	148	149	181
Gold Reserve against immediate liabilities	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
AVAILABLE GOLD AND DOLLARS	<u>1040</u>	<u>1065</u>	<u>1033</u>	<u>1007</u>

Yours sincerely,

A.T.K. Grant.

A.T.K. Grant.

H.D. White,  
United States Treasury,  
Washington, D. C.



TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

OFFICE OF THE DIRECTOR

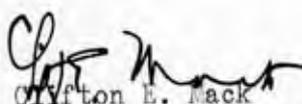
SECRET

June 8, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended June 5, 1943.

The United Kingdom has requested allocations of 403,038 net tons of steel for the third quarter of this year. Thus far there have been allocated and purchased 324,538 net tons of that total, and the balance is pending allocation by the War Production Board.

  
Clayton E. Mack  
Director of Procurement



(37861)

LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF JUNE 5, 1943  
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous &amp; Undistributed</u>
Allocations	\$3160.5 (3159.8)	\$1595.8 (1595.7)	\$1186.9 (1186.9)	\$103.4 (103.4)	\$6.7 (6.1)	\$267.7 (267.7)
Purchase Authoriza- tions (Requisitions)	\$2658.6 (2647.0)	\$1475.8 (1467.9)	\$1041.1 (1026.5)	\$40.3 (40.5)	- -	\$101.4 (112.1)
Requisitions Cleared for Purchase	\$2577.8 (2566.1)	\$1442.0 (1428.7)	\$998.0 (989.1)	\$40.3 (40.1)	- -	\$97.5 (108.2)
Obligations (Purchases)	\$2486.0 (2457.1)	\$1406.5 (1390.9)	\$958.9 (936.0)	\$39.8 (39.7)	\$5.9 (5.9)	\$74.9 (84.6)
Deliveries to Foreign Governments at U. S. Ports*	\$1090.7 (1073.3)	\$778.3 (774.5)	\$282.3 (268.8)	\$18.2 (18.2)	- -	\$11.9 (11.8)

\*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 May 29, 1943.

## EXPLANATION OF DIFFERENCE

The reduction in China requisitions is a result of transfers of material in storage to the War Department.

The decreases in the Miscellaneous column are caused by the reduction of Contract 22207 for French North Africa.

Treasury Department  
Division of Monetary Research

97

Date June 10 1943.

To: Miss Chauncey

Please call this memorandum  
to the attention of the Secretary  
in the event he is to meet the  
President of Paraguay who has  
just arrived in the United States.

H. D. W.

MR. WHITE  
Branch 2058 - Room 214½

Treasury Department  
Division of Monetary Research

97

Date June 10 1943.

To: Miss Chauncey

Please call this memorandum  
to the attention of the Secretary  
in the event he is to meet the  
President of Paraguay who has  
just arrived in the United States.

H. D. W.

MR. WHITE  
Branch 2058 - Room 214½

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 8, 1943.

TO Secretary Morgenthau  
FROM Mr. White  
Subject: Salient data on Paraguay.

I. Paraguay's economic and financial problems

1. Paraguay is a purely agricultural country, with the smallest foreign trade and national income of all of the South American countries. About three-fourths of the exports consist of five commodities: quebracho, canned meat, hides, cotton, and yerba mate. She has no mineral deposits and very little industry.

2. Paraguay is in the economic orbit of Argentina. Paraguay's trade depends on Argentine trade channels, and almost all of her export items compete directly with Argentine exports. In the past two years, however, Brazil has attempted to lessen Paraguay's dependence on Argentina by establishing a free port at Santos (mainly to handle Paraguayan trade) and by granting a \$5 million loan to Paraguay.

3. Inflation in Paraguay, while not as serious as in most other Latin American countries, is beginning to be a problem. The cost of living is reported to have risen 25 percent in the past year. The primary factor responsible is the increasing note circulation, which has almost doubled in the last two years and is now ten times greater than a decade ago.

4. Paraguay has virtually chronic fiscal deficits, that for 1942, reportedly, having been about 50 percent of the combined ordinary and special budgets.

II. United States Cooperation with Paraguay

1. The United States has concluded a Lend-Lease Agreement and has an Export-Import loan agreement. Together these total about \$19 million. Among other things, the United States is responsible for the construction at present of the only sewerage system in Paraguay, in the capital city of Asuncion.

2. There are no purchase agreements by R.F.C. subsidiaries.

- 2 -

### III. Freezing Controls in Paraguay

Although Paraguay broke relations with the Axis after the Rio Conference and froze the funds of Axis nationals, the freezing decrees are susceptible to evasion. In the main, evasion takes place by operations with Axis firms in Argentina. Moreover, the Government has refused to clamp down hard on the German Bank, a renewal of the Government's loan contract with the German Bank having taken place in March, 1943. Paraguay has instituted controls over dollar currency, however.

### IV. Foreign Trade and Public Finances

1. Paraguay's exports are running at about \$10 million per year, or at about 35 percent above pre-war levels.
2. Paraguay's gold holdings were stable at a mere \$79,000 for the past several years until \$2 million of gold was purchased from the United States in May, 1945.
3. Accurate figures as to the state of the public finances of Paraguay are not available. The external debt is about \$11 million, while the internal debt probably amounts to \$5-69 million. Most of the external debt has been in default during the past decade, but Paraguay is now arranging to service the sterling and dollar debt on a reduced basis. Estimated full service on the foreign debt is \$.7 million, compared with an average unfavorable balance of trade of \$.2 million during the last six years.

### V. Population and Natural Resources

1. Paraguay's population is about 900,000, of which ~~nine~~ tenths are Mestizo and Indian. The white population is predominantly of Spanish descent. There are several thousand Germans.
2. The area of Paraguay is 150,000 square miles, or just under the size of California. Two-thirds is in the temperate zone. The western portion consists of fertile plains, on which cattle and cotton are produced, while the eastern section of rolling hills is the source of quebracho and yerba mate. Paraguay's water power potential is high, but most of the sites are far from inhabited centers.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET

U.S. SECRET

OFFICE OF  
OPERATIONS  
NO. 187

SECRETARY OF  
NAVAL  
AFFAIRS  
JUN 9 1943

CASUALTY DEPARTMENT

Information received up to 7 a.m., 8th June, 1943.

1. PANTELLERIA was bombarded for the 5th time by a Cruiser and 2 Destroyers on the 5th.

2. AIR OPERATIONS

WESTERN FRONT. 7th. 4 Squadrons of Spitfires and 9 of Thunderbolts carried out sweeps over Northern France; Spitfires damaged 3 locomotives, 4 Spitfires missing.

ITALY and SICILY. 5th. 115 Fortresses dropped 220 tons on SPEZIA, a cargo ship was hit. Photographs 6th show that a LITTORIO class battleship was hit and damaged forward. 6th. 50 Liberators dropped 134 tons on the ferry termini at MESSINA, SAN GIOVANNI and REGGIO. Enemy fighter casualties - 8, 3, 5.

SARDINIA. 5th. Medium and fighter bombers dropped 24 tons on airfields and 22 tons on PORTO PONTE ROIANO where a large ship was hit.

PANTELLERIA. On 5th and 5th/6th, Allied aircraft dropped total of 116 tons on the harbour and other objectives.

June 9, 1943  
10:06 A. M.

Daniel Bell: Good morning.

HMJr: Hello. Bell?

B: Yes, sir.

HMJr: How are you?

B: Pretty good. How are you?

HMJr: Well, I was all right until I read the papers and saw what - read Crider's account of what the President said yesterday.

B: Yes. We got that late last night. Chic was over at his press conference and came back with the notes, and it was on the ticker also last night that he's now recommending both taxes and compulsory savings.

HMJr: Well, did he say it in sort of an offhand way, or did he have a memorandum, or what?

B: Well, the ticker said that: "Asked whether he planned to recommend additional taxes, the President said it was generally realized that there is too much money in the people's hands and that this inflationary gap can be closed only through compulsory savings and taxes. A combination of these two methods, he added, probably is as necessary now as it was last January, when he proposed them in his budget message." Wait a minute. (Talks aside: Chic, did....) He said it was offhand, no - no memorandum, but there wasn't any question about the intention of it.

HMJr: Does Paul know what the status is of his signing it or what he's going to say?

B: Signing the bill?

HMJr: Yeah.

B: No. We know nothing about that, Paul says.

(Cont'd.)

B: (Cont'd.) There was something said in the press conference about it. He said that - "I will sign it shortly and the Treasury knows - Treasury knows that I'm going to sign it." Now we didn't know whether that was sufficient to go ahead with sending out material. We thought we probably should wait a day or two, at least a day, anyhow, and see what happens.

HMJr: But Paul doesn't know anything?

B: No, he does not, except what was stated in the press conference last night.

HMJr: Yeah. Well....

B: The - Schwarz' memo of the conference said the President said this afternoon he thinks the new tax bill will be signed very shortly and he also thinks the Treasury knows he is going to sign it. So that's - that's as much as we know about it. We thought maybe that possibly today or tomorrow we might call Early to see whether or not we should go ahead sending out the material.

HMJr: Yeah.

B: Think we might do that?

HMJr: Yeah.

B: All right.

HMJr: I wouldn't call Early. I - I'd call Tully.

B: Tully?

HMJr: Talk with Tully.

B: Well, I didn't know whether to bother the President about it. She'd probably have to go in and ask him.

HMJr: Well, that's all right. Why not?

B: Well, he might be disturbed. That was what I was thinking of.

HMJr: Now let me - let me talk a minute to - to Fred Smith. I want to tell him something.

B: Who?

HMJr: Fred Smith.

S: Smith. All right.

Fred Smith: Yep.

HMJr: Fred?

S: Yeah.

HMJr: In a moment of weakness I promised last night to go Saturday to Kingston at two o'clock to present the city with the Treasury flag....

S: Yeah.

HMJr: ....and then at four o'clock do - do the same at Beacon.

S: Yeah.

HMJr: And you'd better know the man in charge of the rally here. His name is Dick Meyers.

S: Dick?

HMJr: Yeah. Meyers. I think it's M-e-y-e-r-s.

S: Yeah.

HMJr: He's in charge of four or five counties.

S: Yeah.

HMJr: Now think over whether that release we're going to give out whether I can use it in a speech.

S: Uh huh. That is - that's when?

HMJr: That'll be two o'clock at Kingston Saturday....

S: Yeah.

HMJr: ....and four o'clock at Beacon.

S: Yeah. Uh huh.

HMJr: Now I'd like somebody to go up - Gamble's away -

(Cont'd.)

HMJr: we always send somebody up to these cities -  
(Cont'd.) Vince Callahan or somebody....

S: Yeah.

HMJr: ....to sort of prepare the way.

S: Yeah. All right.

HMJr: They're both over radio at Newburg and ?  
I think this fellow, Meyers, will need a little  
help.

S: All right.

HMJr: And I think that we ought to let the State  
Chairman know first that I'm going to do this.

S: All right.

HMJr: I'd like to pin this whole thing on you.

S: All right. I'll take care of it.

HMJr: What?

S: I'll take care of it.

HMJr: And then maybe your friend when he comes back, he  
might like to help us.

S: I think he would.

HMJr: I don't want any great - but I would like some-  
thing by Friday night, if I could, to break all  
records.

S: Well, you're not going to use it until Saturday,  
are you?

HMJr: That's right.

S: (Laughs) Well, you'll get - you'll get it by  
1:30 Saturday. (Laughs) All right.

HMJr: Well, I was thinking that somehow or other we  
could get together maybe Friday afternoon or Friday  
evening in the country.

S: All right.

HMJr: You and Albee.

S: All right.

- 5 -

S: I'll get in touch with Albee right away and I'll get in touch with Meyers, and send Callahan out there and get in touch with Burgess.

HMJr: Well, do you want to do it through Meyers direct, or do you want it worked through Burgess?

S: Well, we'd better work through Burgess, but we'd better talk to Meyers and find out what the score is there, that's all.

HMJr: Right.

S: I can talk with Burgess first and clear it.

HMJr: Right.

S: Uh?

HMJr: Right.

S: All right. And then we'll have something for you and I think we can release this - I think it would be a good idea to release this story there. You can just work it into your speech. It would - it's a good - it's - it's a good thing.

HMJr: Yeah.

S: Because it - it lays down what a terrible job there is ahead.

HMJr: Right.

S: All right?

HMJr: Okay.

S: All right.

HMJr: I'll be hearing from you.

S: All right. Who else do you want to talk to?

HMJr: I want to talk to Blough a minute.

S: Blough?

HMJr: Yeah.

S: All right.

Roy  
Blough: Yes, Mr. Secretary.

HMJr: Roy, in figuring....

B: Yes.

HMJr: ....these estimates of income and the gap and all that, the fact that the national income has gone up -- I don't know, fifteen or twenty or twenty-five million -- does that -- have we made all allowances for that in the way of income that we get from taxes, at the beginning -- say, for the first of July.

B: Well, I don't think the estimates are quite up to the latest income figures. George is here and might know more about it than I, but the latest income estimate, I understand, from the Department of Commerce is \$142 billion, and the estimates which have been made up to date have been made up at a level of about \$132 billion, so we're practically up to the latest estimates.

HMJr: Well, let me -- this -- this -- I -- I -- is George there?

B: Yes. George is here.

HMJr: Let me talk to him.

B: (Talks aside: George)

George  
Haas: Hello, Mr. Secretary.

HMJr: George.

H: Yes.

HMJr: Have you any more recent estimates of what the income -- about how much revenue we take in each month beginning with the first of July?

H: Yes. We've got some which we use -- which Dan is using in the Financing Program.

HMJr: You have?

H: Yes, sir.

HMJr: Well, give them to Dan and he can give them to me Thursday.

H: Fine. All right. I'll - I'll - I shall do that.

HMJr: Will you do that?

H: Okay.

HMJr: I think that'll be good.

H: All right, sir. You want to talk to someone else?

HMJr: Only if they want to talk to me.

H: (Talks aside) The only other thing, we just want to know how Mrs. Morgenthau is.

HMJr: Well, she - she - her temperature was lowest this morning than it's been.

H: Lowest, huh?

HMJr: Yeah. The lowest.

H: Well, that's fine.

HMJr: She's had the best night she's had for a month.

H: Oh, she's coming all right now.

HMJr: Well....

H: Could I be here?

HMJr: Yes. I - I think you can make....

H: Hmm.

HMJr: And I - I think, Dan - are you coming up on the train tonight?

Daniel Bell: Yes.

HMJr: Well, why not let's say that we'll meet at the hospital at 11 o'clock.

B: Meet at the hospital at 11 o'clock.

HMJr: Yeah.

B: All right.

HMJr: They can tell you where it is.

B: All right. I'll be there.

HMJr: At eleven.

B: All right. Now you're going to see Mills tomorrow.

HMJr: Yeah. I'll arrange that with you.

B: All right. He's coming up either tonight or early tomorrow morning.

HMJr: Why not say we'll meet him sometime after lunch.

B: All right. If I - if I....

HMJr: I can have him at the War Bond Office - let's say at two o'clock on.

B: All right.

HMJr: Would that be a good place?

B: Yes, very good. And Burgess said he'd give us a room.

HMJr: Well, let us - let Mills be there from two o'clock on.

B: All right. And I'll see you at the hospital at eleven.

HMJr: I don't know what to do about this thing. The President might have something he might have to suggest. ? very flat.

B: What we should do.....

HMJr: Yeah.

B: Just a moment. (Talks aside: The Secretary wants to know if there are any suggestions as to what we can do about the President. Am I going into a conference?) Paul says he doesn't think that there's much we can do and for to know more about it - what's the origin of it, and what's behind it.

HMJr: Well, I may call up the President and ask him.

- 9 -

B: All right. Wait just a moment. (Talks aside: What is the first one? Mr. What?) Harry White says that the movie "For Whom the Bells Toll" is ready and they'll probably give you a private showing in New York if you want to see it, or Washington, either one.

HMJr: I'd rather have it in Washington next week.

B: All right. That's all, I think.

HMJr: Thank you.

B: Thank you.

HMJr: Goodbye.

June 9, 1943  
10:38 A. M.

HMJr: Hello.

Daniel Bell: Hello.

HMJr: Dan?

B: Yes, sir.

HMJr: I called the President - am I making a record?

B: Yes, sir.

HMJr: And I told him that he certainly ran the steam-roller over me yesterday.

B: I see.

HMJr: He said, "What did you - what do you mean by that?" I said, "Well, on your statement on compulsory saving." He said, "Well, I never said anything about it." He said, "I told them it was up to Congress." He said, "Send for the stenographic report of my meeting and you'll see." Well, if Chic was there, we know what he said.

B: Yeah. He - he was there and what was reported in the press was accurate according to Chic's notes.

HMJr: Well, he told us to send for the - the report, I - I would do it.

B: All right.

HMJr: Now I said, "Will you please ask Steve Early to correct this thing, because", I said, "it's terrible what you've done to me." And he said, "I will. I'll do it the minute this meeting is over." And then I repeated. I said, "Will you send for Steve Early?" He said, "Well, of course, you never catch up with those things." I said, "I know, but you should correct that statement." And he said he would.

B: Uh huh. What did he mean "when the meeting is over"?

HMJr: He was in some meeting.

B: Oh, I see. Uh huh.

HMJr: He said, "I said, 'It's entirely up to Congress'."

B: Well, he - he went a good deal further, as you've seen.

HMJr: Well....

B: Well, now what should we do? Call Steve?

HMJr: Well, what I would do, is to call Steve and - and say that - that I'd talked to the President and the President said that the whole matter is up to Congress. He said he didn't say anything about....

B: Uh huh.

HMJr: ....compulsory savings and that the President's going to talk to him and they put us into an impossible position. Anything that he can do after the President talks to him, we'll appreciate it. I think maybe - hello....

B: Yes.

HMJr: ....I was just thinking -- I think maybe you'd better wait until the President talks to him first.

B: Yeah. I thought maybe we might wait a little while and then call Steve and then send Chic over to copy the record.

HMJr: Yeah. I think I'd wait, oh, maybe a couple of hours.

B: Yeah.

HMJr: The President said two or three times, "You can look at the record." But - and twice he said he would tell Steve to correct it.

B: All right. And he didn't say anything about signing the bill, did he?

HMJr: Yes, he said he'd do it today or tomorrow.

B: Good. It's a lot better if he does it today. We can get this stuff going.

HMJr: He said he'd do it today or tomorrow and he hasn't yet made up his mind what - hasn't yet - hasn't made

(Cont'd.)

- 3 -

HMJr: up his mind yet whether he'd say anything  
(Cont'd.) or not.

B: He's going to sign it, but he may make a  
statement.

HMJr: He may or may not make a statement.

B: I see. Then it's the latter that he hasn't  
made up his mind on.

HMJr: That's right.

B: Yeah.

HMJr: I - I - the reason I wanted it sent there, I  
think that between Blough and Cox -- if I'm going  
to say something, I ought to clear up this ques-  
tion and the way I feel -- I mean -- I don't know  
whether we need sixteen billion dol. - dollars  
worth of taxes -- whether we need it worse than  
we did in - in January, or whether -- by that, I  
mean -- the same thing that Vinson brought up;  
Has the increased revenue to the people - does  
that mean more taxes? Because they're going to  
earn more.

B: Uh huh.

HMJr: That hasn't been made clear to me.

B: Well, the problem is bigger than it was in January.

HMJr: You - you see - you - you know what I'm talking  
about.

B: Yes, I see what you mean.

HMJr: I mean - let's say just for argument -- the na-  
tional income is \$25,000,000,000 increase - well,  
does that mean that with the present tax rate, that  
we're going to get more taxes because the people  
have more income? And that's what Vinson asked.

B: Yes.

HMJr: And that's never been cleared up for me, anyway.

B: Well, I think they can clear that. What's happened --  
your national income has gone up quite a bit and  
your prices haven't -- the goods available haven't

(Cont'd.)

- 4 -

B:  
(Cont'd.) gone up quite as much, so the gap is a little larger, I think, than it was in January, on the dollar basis. (Talks aside: That's right, isn't it?) Paul says - Paul agrees to that.

HMJr: Yeah.

B: Well, we'll get together on that and....

HMJr: Maybe you can have something to give me and I - I - as I'm going to make a speech Saturday, I might say something.

B: Yeah. Well, would you want to say something on this savings thing?

HMJr: How do you mean?

B: On the enforced saving.

HMJr: Well, I'm going to speak by myself. The President told me today that - 50% revenue. Hello....

B: Yeah.

HMJr: And - is - is Smith listening?

B: Yes, sir.

HMJr: I'm going to speak of 50% revenue on a monthly basis. In other words -- in July, if we're going to spend \$8 billion -- I'm using round figures -- I want \$4 billion in revenue -- on an average.

B: On an average.

HMJr: On an average.

B: Yeah.

HMJr: And I'm going to stick by that and I'm going to stick by the thing as long as the people are doing as well as they are. I'm for voluntary plans, and I'm going to stick by it until the President - and he won't say anything to Congress.

B: He indicated in that that he was going to say something to Congress before they left.

HMJr: Well, this morning he said, "Why, I - I just left it up to Congress to do something. I'm not going to tell them what to do."

- 5 -

B: Yeah. But they asked him this specific question - Whether he intended to send a message on revenue? He said, "I probably will", or "I might", or something like that.

HMJr: Well. We'll have to - I - I - I'm going to make a very firm decision and I'm going to do so - the way I feel this morning, I'm going to stick by my guns publicly.

B: And do you want to do that in your Saturday's talk?

HMJr: I don't know.

B: I see.

HMJr: But - or I may just give a local talk to local citizens here. But certainly, I'm not going to be here just because the President went off half-cocked yesterday. And when I talked to him, he - he completely refuted his own statement.

B: Uh huh.

HMJr: He said, "I said no such thing. Don't pay any attention to the papers...."

B: (Laughs)

HMJr: "...send for my stenographic notes. I simply said, 'It's up to Congress to do something'."

B: Unfortunately, everybody heard him differently.

HMJr: I know. But maybe he'll - he'll get some decent changes now.

B: Yeah.

HMJr: You know Steve.

B: No, Steve won't want to change that, it's too clear.

HMJr: Steve'll never do anything - he's never done anything yet to help.

B: Yeah.

HMJr: If he does anything now, it'll be the first time.

B: Yeah. I kind of hate to go to him. I'm -  
I'm hoping that the President will give them....

HMJr: I don't - and I think if we go - I don't think  
there's any sense to call up Steve.

B: Except to read the record.

HMJr: You might get the written record, which I - I  
expect to see it next week and I can show them  
this is what he said.

B: Yeah. All right.

HMJr: I think we ought to get his written record on it,  
though.

B: All right. We'll do that, but we'll wait a couple  
of hours before we call him.

HMJr: Oh, on the written record?

B: Yeah.

HMJr: Can't Schwarz just do that.

B: I - I suppose. Is he entitled to go over and  
look at it without.....

HMJr: Well.....

B: .....before the President talks to Steve?

HMJr: I'd call up Steve after lunch and say that I'd  
spoken to the President and he volunteered the  
suggestion that I get a copy of what he said.

B: All right. I'll do that.

HMJr: But - is Paul with you?

B: Yes.

HMJr: Well, let me just talk to him a minute.

B: All right. (Talks aside)

Randolph  
Paul: Hello.

HMJr: Paul?

P: Yeah.

- HMJr: As long as the President's - so to speak - reversed himself, as soon as I called him, I'm - I'm going to continue to stick by my position.
- P: Well, I hope you have in mind in connection with your position, the idea that - that the sixteen billion was on a fiscal forty-four basis.
- HMJr: Well, of course....
- P: And we've been talking on an annual basis. You see?
- HMJr: Yeah. Don't throw all those things at me. Let's get them down in writing. See?
- P: Yeah.
- HMJr: I asked him what was the position - I mean - nobody could tell me the other day what the national income was when the President delivered it Wednesday? night. Now what I'm trying to find out is how to make these estimates for - for the budget; what the situation was then; what is it now?
- P: Yeah.
- HMJr: And I think that - the way I feel I want to get away from the sixteen billion. I want to stick to my 50%.
- P: Yeah.
- HMJr: On an annual basis. Nothing the matter with that, is it?
- P: Well, the matter with it is that you can't get a bill enacted in time if you - if you don't get a bill enacted until October, and the bill goes into effect then, and allowing for collection at the source, and they're having a lag and receipts into the Treasury, it's virtually impossible to get even on a monthly basis, for the early months when....
- HMJr: The chances are that I'm not going to say anything until after our meeting on the 15th anyway.
- P: All right. Well, I think that's wise.

(8)

HMJr: Because I think it would be.....

P: Suppose I try to get you up in the meantime, a very short summary of the picture.

HMJr: I wish you would.

P: All right. I'll try to do that.

HMJr: And get it up to me so I can....

P: Well, I'll have it - I'll have it - let's see - today's Wednesday -- I'll have it in your hands Friday morning.

HMJr: All right.

P: Yeah. Up there in New York.

HMJr: Right. Because I - because I - I feel it would be bad face on my part to shoot off my mouth between now and the fifteenth.

P: Well, I - I don't think we - I think we ought to get on the fifteenth a congressional reaction of what the President said.

HMJr: Yeah. Well, I - I simply feel this way....

P: Yeah.

HMJr: ....I - I was very blunt this morning, and instead of his saying to me, "Well, Henry, I've changed my mind," he said, "Henry, I never said any such thing."

P: Yeah. Well, you know the President, though, he...

HMJr: I know.

P: ....he's a - all things to all who come.

HMJr: Well.

P: I don't know what the - I don't know - I don't understand what's happened here; whether somebody's been to him, or what. Hello....

HMJr: Well, it's possible.

P: I mean I don't know -- I wouldn't think Vinson had done it from his attitude the other day.

(9)

HMJr: Oh.

P: Which is not to press it immediately.

HMJr: Yeah.

P: I'm trying to get Pritchard to see if I can get any low grapevine gossip.

HMJr: Yeah.

P: He always - usually knows it.

HMJr: It'll be low.

P: (Laughs) He's all right.

HMJr: Pritchard is.

P: (Laughs) Well, if his - if his belly is down on the ground, he doesn't have far to go.

HMJr: Okay.

P: (Laughs)

HMJr: Thank you.

P: Is that all?

HMJr: That's all.

TO:

119

6-9-43  
1652

Called Miss Connor,  
Bynes No 1 at Amg's  
request to advise  
Justice Bynes that  
Randolph Paul would  
attend for the Treasury  
with full power  
to act.

From: Mr. Fitzgerald

**OFFICE OF WAR MOBILIZATION**

**WHITE HOUSE  
WASHINGTON, D. C.**

James F. Byrnes  
DIRECTOR

June 9, 1943.

Dear Mr. Secretary:

I hope you can meet with me at my office tomorrow morning (Thursday) at 10:30 to consider various recommendations made to the President on tax policy. I have also asked the Economic Stabilization Director and the Director of the Budget to attend.

Sincerely yours,

*James F. Byrnes*  
Director.

Honorable Henry Morgenthau,  
Secretary of the Treasury.



Percentage of Income Payments Absorbed by  
Purchases of Federal Securities by Individuals

The tentative schedule of sources of funds for Federal borrowing in the calendar year 1943, released to the press last April, calls for total borrowing from individuals this year of about \$25 billions. Revised figures bringing this material up to date continue this goal for individuals. It is estimated that total income payments to individuals this year will amount to \$142 billions. Sales of securities aggregating \$25 billions would thus absorb about 18 percent of income payments for the year.

This is not the whole story, however, for sales of securities to individuals this year are scheduled to increase successively in our war loan drives. About 10 percent of income payments is being devoted to Federal securities in the first 6 months of the year; the schedule calls for 24 percent in the last 6 months of the year. (You used a round figure of 25 percent in your press conference in New Jersey.) The percentage figures relate to income payments before taxes are paid. The following table shows the figures for the two 6-month periods:

Percent of Income Payments Invested in Federal Securities,  
Calendar Year 1943  
(Dollar figures in billions)

	: First : half	: Second : half	: Total : for year
Income payments to individuals .....	\$68	\$74	\$142
Net purchases of Federal securities .	7	18	25
Percent invested in war bonds .....	10%	24%	18%

The figures for net purchases of securities include both continuing sales between drives such as those made under the payroll savings plan, and sales made during war loan campaigns. About \$2-1/2 billions of the total of \$7 billions of sales in the first 6 months this year are being made under the payroll savings plan. The corresponding figure will be higher in the last 6 months, and will probably exceed \$3 billions.

It will obviously take very intensive sales efforts to achieve the sales scheduled for individuals in the last half of

- 2 -

this year. This is evidenced by the fact that the goal for individuals in the Third War Loan will probably need to be around \$7 billions with over \$4 billions accounted for by E bonds. The money is definitely there, however, and the goals can be reached.

If we are to absorb about 25 percent of income payments by the end of the year through sales of war bonds to individuals, a great deal of flexibility in individual family goals will have to be observed. Families with workers in war plants whose incomes have been increased should go over the 25 percent. Many men working in war plants are able to save vastly more than ever before because their incomes have been increased and things available for them to buy are becoming scarcer. Many housewives are now working and are able to invest a large part of their incomes in war bonds. In other cases more than two people in the family are working and family savings invested in war bonds may go very much higher than 25 percent. On the other hand, there are families whose incomes have not increased since the war began. Many of these families have commitments for mortgage debt repayment and for life insurance that make it almost impossible for them to place 25 percent of their incomes in war bonds. The 25 percent goal is a total which averages all families. Some can do more, some can only do less. All families together can make the 25 percent.

June 9, 1943

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Wednesday, June 2, 1943.

Press Service  
No. 36-78

Newark, N. J., June 2. -- By the end of 1943 the average American family should be investing approximately 25 cents of every dollar of income in War Bonds, Secretary of the Treasury Henry Morgenthau, Jr., told New Jersey's war finance leaders here today during a luncheon at which plans were laid for New Jersey's new simplified bond selling organization.

The New Jersey group is the first in the United States to reorganize since Mr. Morgenthau's announcement last week that state bond organizations were to be "streamlined and amplified in order to concentrate on individuals and to sell bonds to a still greater number of people."

"Of the forty-five billion dollars still necessary to complete our war financing needs for 1943," Mr. Morgenthau told the New Jersey group, "at least eighteen billions, or almost 25 percent, of the national income for the remainder of the year should come from purchases of bonds by individuals.

"From those workers earning from <sup>zero</sup> ~~one thousand~~ to five thousand net who will have seven-eighths of all the current available individual savings, 25 cents of each dollar is not too much to expect. In fact they should and must invest more if our goal is to be met. But getting this money is a big order. To do the job will require hard work on the part of everyone. Our volunteers will even have to work harder than they did in the successful Second War Loan Drive. And we can get this job done only if every state sets up its continuing organization promptly and goes to work enthusiastically with a realization of the importance of the task we are undertaking. In this the New Jersey group is setting an admirable example."

In the New Jersey plan, announced at the luncheon, the War Finance leaders of the state have completely merged the War Savings Staff, which has been in operation here for two years, and the Victory Fund Committee, which was set up prior to the First War Loan Drive. In bringing the two committees into a single group, Secretary Morgenthau announced the appointment as

- 2 -

chairman of Col. Franklin D'Olier, President of the Prudential Life Insurance Company and formerly state chairman of the War Savings Staff. Working closely with Col. D'Olier as vice chairman in charge of Bond sales to customers of banks and investment dealers is Horace K. Corbin, President of the Fidelity Union Trust Company, New Jersey's largest banking institution, and formerly head of New Jersey Victory Fund Committee.

"We have set up this new operation as you outlined it," Col. D'Olier told Secretary Morgenthau, "and we can guarantee ahead of time that it is going to produce far better than any previous arrangement."

Pointing out that the New Jersey leaders saw the problem of war finance as a war on three battle fronts, he explained that the new arrangement would include three divisions -- one to function through banking and investment groups, one in the industrial field and one to handle general community activities.

"While the industrial and community operations are vital because through them we will get the widest Bond distribution," Col. D'Olier said, "the appeals to customers of banks and other financial institutions will in the end produce 65 percent of the money. To get this money, Mr. Corbin, as head of the new banking and investment committee, will work with former members of the merged Victory Fund Committee which accomplished so much in the Second War Loan Drive. They will take complete charge of bank cooperation, both during and between the drives.

"In the industrial field we must depend for success upon labor-management cooperation in New Jersey's industries. Labor and management working together can increase the number of participants in the payroll deduction plan and the percentage of pay deducted. We can supplement the efforts of labor and management with good leadership in our state committee but any help we give is only supplementary. New Jersey firms and the unions to whom our working men and women belong are faced with a huge responsibility because whether or not we are able to reach into the places where, as Mr. Morgenthau has pointed out, seven-eighths of all currently available money in the hands of individuals lies, depends squarely upon them. Our community activities encourage the steady purchase of War Bonds and handling special promotions to attract the widest possible attention to the need for more and more individual sales will be under competent leadership, not only at the state level but also at the county and local levels. We have an ample force of patriotic, conscientious hard-working people, as I am sure every state has. Our new plan will give them a greater opportunity than ever before and opportunity is all they want."

- 3 -

Col. D'Olier explained that a state-wide steering committee was in the process of formation and would include active representatives of labor, industry, banking and investment business groups, women's groups, educational groups, agricultural groups, interracial groups and others "without whose help the new arrangement cannot completely succeed."

Mr. Corbin pointed out that the job of the banking and investment committee will be especially important during drives but will continue on a skeleton basis fifty-two weeks of the year. He said that the banks and investment houses demonstrated what they can do during the Second War Loan Drive. "They established outstanding sales records through sales to their customers and they were then only learning how to do it," Mr. Corbin said, "With the experience we have gained I am sure we can make a truly remarkable showing. I have been assured by the banks of New Jersey that they will cooperate completely and enthusiastically under this new arrangement."

In closing the luncheon meeting, which was attended by nearly forty prominent state figures who have helped New Jersey establish one of the best sales records at the smallest expense of any state-wide operation, Mr. Morgenthau said:

"I want to commend you all on the promptness with which you have gathered your forces together to carry on this vitally important phase of the war. Within a week of my request to state groups that they streamline and amplify their Bond-selling operations, you have proved the soundness of our decision to move ahead along the lines of a single committee with a single state authority and concentration on individual Bond sales. I confidently believe you have set a pattern that can and will be followed in general by all the other states. It is exactly what I had in mind in issuing the statement from Washington - it is exactly what will be needed to accomplish our formidable mission.

"I want to thank you in the name of the United States Treasury and in the name of our Commander-in-Chief."

-oOo-

619/43

[PUBLIC LAW 68—78TH CONGRESS]

[CHAPTER 120—1ST SESSION]

[H. R. 2570]

AN ACT

To provide for the current payment of the individual income tax, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) this Act may be cited as the "Current Tax Payment Act of 1943".*

(b) MEANING OF TERMS USED.—Except as otherwise expressly provided, terms used in this Act shall have the same meaning as when used in the Internal Revenue Code.

SEC. 2. COLLECTION OF TAX AT SOURCE ON WAGES.

(a) IN GENERAL.—Chapter 9 of the Internal Revenue Code (relating to employment taxes) is amended by inserting at the end thereof the following new subchapters:

"SUBCHAPTER D—COLLECTION OF INCOME TAX AT SOURCE ON WAGES

"SEC. 1621. DEFINITIONS.

"As used in this subchapter—

"(a) WAGES.—The term 'wages' means all remuneration (other than fees paid to a public official) for services performed by an employee for his employer, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include remuneration paid—

"(1) for services performed as a member of the military or naval forces of the United States, other than pensions and retired pay includible in gross income under Chapter 1, or

"(2) for agricultural labor (as defined in section 1426 (h)), or

"(3) for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority, or

"(4) for casual labor not in the course of the employer's trade or business, or

"(5) for services by a citizen or resident of the United States for a foreign government or for the government of the Commonwealth of the Philippines, or

"(6) for services performed by a nonresident alien individual, other than a resident of a contiguous country who enters and leaves the United States at frequent intervals, or

"(7) for such services, performed by a nonresident alien individual who is a resident of a contiguous country and who enters and leaves the United States at frequent intervals, as may be designated by regulations prescribed by the Commissioner with the approval of the Secretary, or

"(8) for services for an employer performed by a citizen or resident of the United States while outside the United States (as defined in section 3797 (a) (9)) if the major part of the services for such employer during the calendar year is to be performed outside the United States, or

"(9) for services performed as a minister of the gospel.

For the purpose of paragraph (8) services performed on or in connection with an American vessel (as defined in section 1426 (g)) under a contract of service which is entered into within the United States or during the performance of which the vessel touches at a port in the United States, or on or in connection with any vessel as an employee of the United States employed through the War Shipping Administration, shall not constitute services performed outside the United States.

"(b) **PAYROLL PERIOD.**—The term 'payroll period' means a period for which a payment of wages is ordinarily made to the employee by his employer, and the term 'miscellaneous payroll period' means a payroll period other than a daily, weekly, biweekly, semimonthly, monthly, quarterly, semiannual, or annual payroll period.

"(c) **EMPLOYEE.**—The term 'employee' includes an officer, employee, or elected official of the United States, a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing. The term 'employee' also includes an officer of a corporation.

"(d) **EMPLOYER.**—The term 'employer' means the person for whom an individual performs or performed any service, of whatever nature, as the employee of such person, except that—

"(1) if the person for whom the individual performs or performed the services does not have control of the payment of the wages for such services, the term 'employer' (except for the purposes of subsection (a)) means the person having control of the payment of such wages; and

"(2) in the case of a person paying wages on behalf of a non-resident alien individual, foreign partnership, or foreign corporation, not engaged in trade or business within the United States, the term 'employer' (except for the purposes of subsection (a)) means such person.

"(e) **SINGLE PERSON.**—The term 'single person' means a person with respect to whom a withholding exemption certificate is in effect under section 1622 (h) stating that such person is single, or is married and not living with husband or wife, and is not the head of a family.

"(f) **MARRIED PERSON.**—The term 'married person' means a person with respect to whom a withholding exemption certificate is in effect under section 1622 (h) stating that he is married and living with husband or wife.

"(g) **MARRIED PERSON CLAIMING ALL OF PERSONAL EXEMPTION FOR WITHHOLDING.**—The term 'married person claiming all of personal exemption for withholding' means a married person with respect to whom a withholding exemption certificate is in effect under section 1622 (h) stating that for the purposes of this subchapter such person claims all of the personal exemption and that for the purposes of this subchapter his spouse is claiming none of the personal exemption.

"(h) **MARRIED PERSON CLAIMING HALF OF PERSONAL EXEMPTION FOR WITHHOLDING.**—The term 'married person claiming half of the personal exemption for withholding' means a married person with respect to whom a withholding exemption certificate is in effect under section 1622 (h) stating that for the purposes of this subchapter such person claims half of the personal exemption and that for the purposes of this subchapter his spouse is claiming not more than half of such exemption.

"(i) **MARRIED PERSON CLAIMING NONE OF PERSONAL EXEMPTION FOR WITHHOLDING.**—The term 'married person claiming none of the personal exemption for withholding' means a married person with respect to whom a withholding exemption certificate is in effect under section 1622 (h) making no claim with respect to the personal exemption for the purposes of this subchapter.

"(j) **HEAD OF FAMILY.**—The term 'head of a family' means a person with respect to whom a withholding exemption certificate is in effect under section 1622 (h) stating that he is the head of a family.

"(k) **DEPENDENT.**—The term 'dependent' means a person included in a withholding exemption certificate in effect under section 1622 (h) as a person dependent upon and receiving his chief support from the employee and either under eighteen years of age or incapable of self-support because mentally or physically defective.

#### "SEC. 1622. INCOME TAX COLLECTED AT SOURCE.

"(a) **REQUIREMENT OF WITHHOLDING.**—Every employer making payment of wages shall deduct and withhold upon such wages a tax equal to the greater of the following:

"(1) 20 per centum of the excess of each payment of such wages over the family status withholding exemption allowable under subsection (b) (1) (A), or

"(2) 3 per centum of the excess of each payment of such wages over the Victory tax withholding exemption allowable under subsection (b) (1) (B).

"(b) **WITHHOLDING EXEMPTION.**—

"(1) In computing the tax required to be deducted and withheld under subsection (a), there shall be allowed as a withholding exemption with respect to the wages paid for each payroll period—

"(A) in computing the tax required to be deducted and withheld under subsection (a) (1), a family status withholding exemption determined in accordance with the following schedule:

"Family Status Withholding Exemption

"Payroll period	Single person	Married person claiming whole of personal exemption for withholding or head of family	Married person claiming half of personal exemption for withholding	Married person claiming none of personal exemption for withholding	Each dependent, other than the first dependent in the case of the head of a family
Weekly	\$12	\$24	\$12	0	\$6
Biweekly	\$24	\$48	\$24	0	\$12
Semimonthly	\$26	\$52	\$26	0	\$13
Monthly	\$52	\$104	\$52	0	\$26
Quarterly	\$156	\$312	\$156	0	\$78
Semiannual	\$312	\$624	\$312	0	\$156
Annual	\$624	\$1,248	\$624	0	\$312
Daily or miscellaneous (per day of such period)	\$1.70	\$3.40	\$1.70	0	\$.85

"(B) in computing the tax required to be deducted and withheld under subsection (a) (2), a Victory tax withholding exemption determined in accordance with the following schedule:

"Payroll Period	Victory Tax Withholding Exemption
Weekly	\$12.00
Biweekly	24.00
Semitmonthly	26.00
Monthly	52.00
Quarterly	156.00
Semiannual	312.00
Annual	624.00
Daily or Miscellaneous (per day of such period)	1.70

"(2) If wages are paid with respect to a period which is not a payroll period, the withholding exemption allowable with respect to each payment of such wages shall be the exemption allowed for a miscellaneous payroll period containing a number of days (including Sundays and holidays) equal to the number of days in the period with respect to which such wages are paid.

"(3) In any case in which wages are paid by an employer without regard to any payroll period or other period, the withholding exemption allowable with respect to each payment of such wages shall be the exemption allowed for a miscellaneous payroll period containing a number of days equal to the number of days (including Sundays and holidays) which have elapsed since the date of the last payment of such wages by such employer during the calendar year, or the date of commencement of employment with such employer during such year, or January 1 of such year, whichever is the later.

"(4) In any case in which the period, or the time described in paragraph (3), in respect of any wages is less than one week, the Commissioner, under regulations prescribed by him with the approval of the Secretary, may authorize an employer, in computing the tax required to be deducted and withheld, to use the excess of the aggregate of the wages paid to the employee during the calendar week over the withholding exemption allowed by this subsection for a weekly payroll period.

"(5) In determining the amount to be deducted and withheld under this subsection, the wages may, at the election of the employer, be computed to the nearest dollar.

"(c) WAGE BRACKET WITHHOLDING.—

"(1) At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be deducted and withheld under subsection (a).

If the payroll period with respect to an employee is weekly

And the wages are		And, (1) such person is a married person claiming none of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents	
At least	But less than	Or, (2) such person is a married person claiming half of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (3) such person is a single person and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (4) such person is a married person claiming all of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents					
		Or, (5) such person is head of a family and has—										
		No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents					
		The amount of tax to be withheld shall be—										
		30	\$10	\$1.00								
10	15	2.50	\$1.30	\$0.10								
15	20	3.50	2.30	1.10	\$0.20							
20	25	4.50	3.30	2.10	.80							
25	30	5.50	4.30	3.10	1.90	.70	.50	.30	.50	.50	.50	
30	40	7.00	5.80	4.60	3.40	2.20	1.00	.70	.70	.70	.70	
40	50	9.00	7.80	6.60	5.40	4.20	3.00	1.80	1.00	1.00	1.00	
50	60	11.00	9.80	8.60	7.40	6.20	5.00	3.80	2.60	1.40	1.30	
60	70	13.00	11.80	10.60	9.40	8.20	7.00	5.80	4.60	3.40	2.20	
70	80	15.00	13.80	12.60	11.40	10.20	9.00	7.80	6.60	5.40	4.20	
80	90	17.00	15.80	14.60	13.40	12.20	11.00	9.80	8.60	7.40	6.20	
90	100	19.00	17.80	16.60	15.40	14.20	13.00	11.80	10.60	9.40	8.20	
100	110	21.00	19.80	18.60	17.40	16.20	15.00	13.80	12.60	11.40	10.20	
110	120	23.00	21.80	20.60	19.40	18.20	17.00	15.80	14.60	13.40	12.20	
120	130	25.00	23.80	22.60	21.40	20.20	19.00	17.80	16.60	15.40	14.20	
130	140	27.00	25.80	24.60	23.40	22.20	21.00	19.80	18.60	17.40	16.20	
140	150	29.00	27.80	26.60	25.40	24.20	23.00	21.80	20.60	19.40	18.20	
150	160	31.00	29.80	28.60	27.40	26.20	25.00	23.80	22.60	21.40	20.20	
160	170	33.00	31.80	30.60	29.40	28.20	27.00	25.80	24.60	23.40	22.20	
170	180	35.00	33.80	32.60	31.40	30.20	29.00	27.80	26.60	25.40	24.20	
180	190	37.00	35.80	34.60	33.40	32.20	31.00	29.80	28.60	27.40	26.20	
190	200	39.00	37.80	36.60	35.40	34.20	33.00	31.80	30.60	29.40	28.20	
\$200 or over.....		20% of the excess over \$200 plus										
		\$40.00	\$38.80	\$37.60	\$36.40	\$35.20	\$34.00	\$32.80	\$31.60	\$30.40	\$29.20	

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by \$1.20 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 5 per centum of the excess of the median wage in the bracket in which the wages fall (or if the wages paid are \$200 or over, of the excess of the wages) over \$12, computed, in case such amount is not a multiple of \$0.10, to the nearest multiple of \$0.10.

## If the payroll period with respect to an employee is biweekly

And the wages are		And, (1) such person is a married person claiming none of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents	
At least	But less than	Or, (2) such person is a married person claiming half of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (3) such person is a single person and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (4) such person is a married person claiming all of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents					
		Or, (5) such person is head of a family and has—										
		No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents					
		The amount of tax to be withheld shall be—										
		\$0	\$20	\$2.00	\$2.00	\$0.25						
20	30	5.00	4.00	2.25	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30		
30	40	7.00	6.00	3.25	1.80	1.60	1.60	1.60	1.60	1.60		
40	50	8.00	6.00	4.25	1.80	1.60	1.60	1.60	1.60	1.60		
50	60	11.00	8.00	6.25	3.80	1.40	1.40	1.40	1.40	1.40		
60	80	14.00	11.00	8.25	0.80	4.40	2.00	1.40	1.40	1.40		
80	100	18.00	15.00	12.25	10.80	8.40	6.00	3.60	2.00	2.00		
100	120	22.00	19.00	17.25	14.80	12.40	10.00	7.60	5.20	2.60		
120	140	26.00	23.00	21.25	18.80	16.40	14.00	11.60	9.20	6.80		
140	160	30.00	27.00	25.25	22.80	20.40	18.00	15.60	13.20	10.80		
160	180	34.00	31.00	29.25	26.80	24.40	22.00	19.60	17.20	14.80		
180	200	38.00	35.00	33.25	30.80	28.40	26.00	23.60	21.20	18.80		
200	220	42.00	39.00	37.25	34.80	32.40	30.00	27.60	25.20	22.80		
220	240	46.00	43.00	41.25	38.80	36.40	34.00	31.60	29.20	26.80		
240	260	50.00	47.00	45.25	42.80	40.40	38.00	35.60	33.20	30.80		
260	280	54.00	51.00	49.25	46.80	44.40	42.00	39.60	37.20	34.80		
280	300	58.00	55.00	53.25	50.80	48.40	46.00	43.60	41.20	38.80		
300	320	62.00	59.00	57.25	54.80	52.40	50.00	47.60	45.20	42.80		
320	340	66.00	63.00	61.25	58.80	56.40	54.00	51.60	49.20	46.80		
340	360	70.00	67.00	65.25	62.80	60.40	58.00	55.60	53.20	50.80		
360	380	74.00	71.00	69.25	66.80	64.40	62.00	59.60	57.20	54.80		
380	400	78.00	75.00	73.25	70.80	68.40	66.00	63.60	61.20	58.80		
\$400 or over.....		3% of the excess over \$400 plus										
		\$86.00	\$77.00	\$78.20	\$72.80	\$76.40	\$68.00	\$62.00	\$63.20	\$60.80	\$58.40	

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by \$2.40 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 3 per centum of the excess of the median wage in the bracket in which the wages fall (or if the wages paid are \$400 or over, of the excess of the wages) over \$24, computed, in case such amount is not a multiple of \$0.10, to the nearest multiple of \$0.10.

## If the payroll period with respect to an employee is semimonthly

And the wages are		And, (1) such person is a married person claiming none of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents	
At least	But less than	Or, (2) such person is a married person claiming half of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (3) such person is a single person and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (4) such person is a married person claiming all of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents					
		Or, (5) such person is head of a family and has—										
		No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents					
		The amount of tax to be withheld shall be—										
		\$0	\$20	\$2.00								
20	30	5.00	\$2.40									
30	40	7.00	4.40	\$1.80	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20		
40	50	9.00	6.40	3.80	1.20	1.20	1.20	1.20	1.20	1.20		
50	60	11.00	8.40	5.80	3.20	1.00	1.00	1.00	1.00	1.00		
60	80	14.00	11.40	8.80	6.20	2.60	1.30	1.30	1.30	1.30		
80	100	18.00	15.40	12.80	10.20	7.60	3.00	2.40	1.90	1.90		
100	120	22.00	19.40	16.80	14.20	11.60	8.00	6.40	3.80	2.30		
120	140	26.00	23.40	20.20	18.20	15.60	13.00	10.80	7.80	5.30		
140	160	30.00	27.40	24.80	22.20	19.60	17.00	14.40	11.80	9.30		
160	180	34.00	31.40	28.80	26.20	23.60	21.00	18.40	15.80	13.60		
180	200	38.00	35.40	32.80	30.20	27.60	25.00	22.40	19.80	17.20		
200	220	42.00	39.40	36.80	34.20	31.60	29.00	26.40	23.80	21.20		
220	240	46.00	43.40	40.80	38.20	35.60	33.00	30.40	27.80	25.20		
240	260	50.00	47.40	44.80	42.20	39.60	37.00	34.40	31.80	29.20		
260	280	54.00	51.40	48.80	46.20	43.00	41.00	38.40	35.80	33.20		
280	300	58.00	55.40	52.80	50.20	47.60	45.00	42.40	39.80	37.20		
300	320	62.00	59.40	56.80	54.20	51.60	49.00	46.40	43.80	41.20		
320	340	66.00	63.40	60.80	58.20	55.60	53.00	50.40	47.80	45.20		
340	360	70.00	67.40	64.80	62.20	59.60	57.00	54.40	51.80	49.20		
360	380	74.00	71.40	68.80	66.20	63.60	61.00	58.40	55.80	53.20		
380	400	78.00	75.40	72.80	70.20	67.60	65.00	62.40	59.80	57.20		
\$400 or over.....		2% of the excess over \$400 plus										
		\$86.00	\$77.40	\$74.80	\$72.20	\$69.60	\$67.00	\$64.40	\$61.80	\$59.20	\$56.60	

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by \$2.60 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 3 per centum of the excess of the median wage in the bracket in which the wages fall (or if the wages paid are \$400 or over, of the excess of the wages) over \$26, computed, in case such amount is not a multiple of \$0.10, to the nearest multiple of \$0.10.

If the payroll period with respect to an employee is monthly

And the wages are		And, (1) such person is a married person claiming none of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents	
At least	But less than	Or, (2) such person is a married person claiming half of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (3) such person is a single person and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (4) such person is a married person claiming all of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents					
		Or, (5) such person is head of a family and has—										
		No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents					
		The amount of the tax to be withheld shall be—										
		20	\$40	\$4.00								
40	50	9.00	\$3.80									
60	60	11.00	5.80	\$0.00	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	
70	70	13.00	7.80	2.00	.40	.40	.40	.40	.40	.40	.40	
80	80	15.00	9.80	4.00	.70	.70	.70	.70	.70	.70	.70	
90	100	18.00	12.80	7.00	2.40	1.10	1.10	1.10	1.10	1.10	1.10	
100	120	22.00	16.80	11.00	6.40	1.70	1.70	1.70	1.70	1.70	1.70	
120	140	26.00	20.80	15.00	10.40	3.20	2.30	2.30	2.30	2.30	2.30	
140	160	30.00	24.80	19.00	14.40	4.80	3.80	3.80	3.80	3.80	3.80	
160	200	35.00	30.80	25.00	20.40	15.20	10.00	4.80	3.80	3.80	3.80	
200	240	44.00	38.80	33.00	28.40	23.20	18.00	12.80	7.60	5.00	5.00	
240	280	52.00	46.80	41.00	36.40	31.20	25.00	20.80	15.60	10.40	6.20	
280	320	60.00	54.80	49.00	44.40	39.20	34.00	28.80	23.60	18.40	13.20	
320	360	68.00	62.80	57.00	52.40	47.20	42.00	36.80	31.60	26.40	21.20	
360	400	76.00	70.80	65.00	60.40	55.20	50.00	44.80	39.60	34.40	29.20	
400	440	84.00	78.80	73.00	68.40	63.20	58.00	52.80	47.60	42.40	37.20	
440	480	92.00	86.80	81.00	76.40	71.20	66.00	60.80	55.60	50.40	45.20	
480	520	100.00	94.80	89.00	84.40	79.20	74.00	68.80	63.60	58.40	53.20	
520	560	108.00	102.80	97.00	92.40	87.20	82.00	76.80	71.60	66.40	61.20	
560	600	116.00	110.80	105.00	100.40	95.20	90.00	84.80	79.60	74.40	69.20	
600	640	124.00	118.80	113.00	108.40	103.20	98.00	92.80	87.60	82.40	77.20	
640	680	132.00	126.80	121.00	116.40	111.20	106.00	100.80	95.60	90.40	85.20	
680	720	140.00	134.80	129.00	124.40	119.20	114.00	108.80	103.60	98.40	93.20	
720	760	148.00	142.80	137.00	132.40	127.20	122.00	116.80	111.60	106.40	101.20	
760	800	156.00	150.80	145.00	140.40	135.20	130.00	124.80	119.60	114.40	109.20	
\$500 or over.....		20% of the excess over \$500 plus										
		\$160.00	\$154.80	\$149.00	\$144.40	\$139.20	\$134.00	\$128.80	\$123.60	\$118.40	\$113.20	

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by \$5.20 for each dependent over the largest number shown, except that in no event shall the amount in be withheld be less than 3 per centum of the excess of the median wage in the bracket in which the wages paid fall (or if the wages paid are \$800 or over, of the excess of the wages) over \$52, computed, in case such amount is not a multiple of \$0.10, to the nearest multiple of \$0.10.

If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period

And the wages divided by the number of days in such period are—		And, (1) such person is a married person claiming none of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents	Eight dependents	Nine dependents	
At least	But less than	Or, (2) such person is a married person claiming half of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (3) such person is a single person and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents	Seven dependents			
		Or, (4) such person is a married person claiming all of personal exemption for withholding and has—										
		No dependents	One dependent	Two dependents	Three dependents	Four dependents	Five dependents					
		Or, (5) such person is head of a family and has—										
		No dependents or one dependent	Two dependents	Three dependents	Four dependents	Five dependents	Six dependents					
		The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period										
		\$0	\$1	\$0.10	\$0.15							
1	2	.30	.35	\$0.15								
2	3	.50	.55	.35								
3	4	.70	.75	.55	\$0.20	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	
4	5	.90	.95	.75	.40	.20	.10	.10	.10	.10	.10	
5	6	1.10	.95	.75	.60	.40	.25	.10	.10	.10	.10	
6	7	1.30	1.15	.95	.80	.60	.45	.30	.15	.15	.15	
7	8	1.50	1.35	1.15	1.00	.80	.65	.50	.30	.15	.15	
8	9	1.70	1.55	1.35	1.20	1.00	.85	.70	.50	.35	.30	
9	10	1.90	1.75	1.55	1.40	1.20	1.05	.90	.70	.55	.55	
10	12	3.20	2.05	1.85	1.70	1.50	1.35	1.20	1.00	.85	.65	
12	14	2.60	2.45	2.25	2.10	1.90	1.75	1.60	1.40	1.25	1.05	
14	16	3.00	2.85	2.65	2.50	2.30	2.15	2.00	1.80	1.65	1.45	
16	18	3.40	3.25	3.05	2.90	2.70	2.55	2.40	2.20	2.05	1.85	
18	20	2.80	3.65	3.45	3.30	3.10	2.95	2.80	2.60	2.45	2.25	
20	22	4.70	4.05	3.85	3.70	3.50	3.35	3.20	3.00	2.85	2.65	
22	24	4.00	4.45	4.25	4.10	3.90	3.75	3.60	3.40	3.25	3.05	
24	26	5.00	4.85	4.65	4.50	4.30	4.15	4.00	3.80	3.65	3.45	
26	28	5.40	5.25	5.05	4.90	4.70	4.55	4.40	4.20	4.05	3.85	
28	30	5.80	5.65	5.45	5.30	5.10	4.95	4.80	4.60	4.45	4.25	
\$30 or over.....		20% of the excess over \$30 plus										
		\$0.00	\$0.85	\$0.65	\$0.50	\$0.30	\$0.15	\$0.00	\$4.80	\$4.65	\$4.45	

If the number of dependents is in excess of the largest number of dependents shown, the amount of tax to be withheld shall be that applicable in the case of the largest number of dependents shown reduced by \$2.15 for each dependent over the largest number shown, except that in no event shall the amount to be withheld be less than 3 per centum of the excess of the product of the median wage in the bracket in which the wages fall and the number of days in the period (or if the wages paid are \$30 or over, of the excess of the wages) over the product of \$1.70 and the number of days in the period, computed, in case such amount is not a multiple of \$0.05, to the nearest multiple of \$0.05.

"(2) If wages are paid with respect to a period which is not a payroll period, the amount to be deducted and withheld shall be that applicable in the case of a miscellaneous payroll period containing a number of days (including Sundays and holidays) equal to the number of days in the period with respect to which such wages are paid.

"(3) In any case in which wages are paid by an employer without regard to any payroll period or other period, the amount to be deducted and withheld shall be that applicable in the case of a miscellaneous payroll period containing a number of days equal to the number of days (including Sundays and holidays) which have elapsed since the date of the last payment of such wages by such employer during the calendar year, or the date of commencement of employment with such employer during such year, or January 1 of such year, whichever is the later.

"(4) In any case in which the period, or the time described in paragraph (3), in respect of any wages is less than one week, the Commissioner, under regulations prescribed by him with the approval of the Secretary, may authorize an employer to determine the amount to be deducted and withheld under the tables applicable in the case of a weekly payroll period, in which case the aggregate of the wages paid to the employee during the calendar week shall be considered the weekly wages.

"(5) If the wages exceed the highest wage bracket, in determining the amount to be deducted and withheld under this subsection, the wages may, at the election of the employer, be computed to the nearest dollar.

"(d) **TAX PAID BY RECIPIENT.**—If the employer, in violation of the provisions of this subchapter, fails to deduct and withhold the tax under this subchapter, and thereafter the tax against which such tax may be credited is paid, the tax so required to be deducted and withheld shall not be collected from the employer; but this subsection shall in no case relieve the employer from liability for any penalties or additions to the tax otherwise applicable in respect of such failure to deduct and withhold.

"(e) **NONDEDUCTIBILITY OF TAX IN COMPUTING NET INCOME.**—The tax deducted and withheld under this subchapter shall not be allowed as a deduction either to the employer or to the recipient of the income in computing net income for the purpose of any tax on income imposed by Act of Congress.

"(f) **REFUNDS OR CREDITS.**—

"(1) **EMPLOYERS.**—Where there has been an overpayment of tax under this subchapter, refund or credit shall be made to the employer only to the extent that the amount of such overpayment was not deducted and withheld under this subchapter by the employer.

"(2) **EMPLOYEES.**—For refund or credit in cases of excessive withholding, see section 322 (a).

"(g) **INCLUDED AND EXCLUDED WAGES.**—If the remuneration paid by an employer to an employee for services performed during one-half or more of any payroll period of not more than thirty-one consecutive days constitutes wages, all the remuneration paid by such employer to such employee for such period shall be deemed to be wages; but if the remuneration paid by an employer to an employee for services performed during more than one-half of any such payroll period does not constitute wages, then none of the remuneration paid by such employer to such employee for such period shall be deemed to be wages.

"(h) **WITHHOLDING EXEMPTION CERTIFICATES.**—Every employee receiving wages shall furnish his employer a signed withholding exemption certificate relating to his status for the purpose of computing the withholding exemption, or if the employer exercises his election under section 1622 (c) (relating to wage bracket withholding), for the purpose of computing the amount to be deducted and withheld under such subsection. In case of a change of status, a new certificate shall be furnished not later than ten days after such change occurs. The certificate shall be in such form and contain such information as the Commissioner may, with the approval of the Secretary, by regulations prescribe. Such certificate—

"(1) If furnished after the date of commencement of employment with the employer by reason of a change of status, shall take effect with respect to the first payment of wages made on or after the first status determination date which occurs at least thirty days from the date on which such certificate is furnished to the employer, except that at the election of the employer such certificate may be made effective with respect to any previous payment of wages made on or after the date of the furnishing of such certificate. For the purposes of this paragraph the term 'status determination date' means January 1 and July 1 of each year.

"(2) If furnished otherwise than by reason of a change of status, shall take effect as of the beginning of the first payroll period ending, or the first payment of wages made without regard to a payroll period, on or after the date on which such certificate is furnished to the employer.

A certificate which takes effect under this subsection shall continue in effect with respect to the employer until another such certificate furnished by the employee takes effect under this subsection. If no certificate is in effect under this subsection with respect to an employee, such employee shall be treated, for the purposes of the withholding exemption, or in case the employer exercises his election under section 1622 (c) (relating to wage bracket withholding), for the purpose of computing the amount to be deducted and withheld under such subsection, as a married person claiming none of the personal exemption for withholding and having no dependents.

"(i) **OVERLAPPING PAY PERIODS, AND SO FORTH.**—If a payment of wages is made to an employee by an employer—

"(1) with respect to a payroll period or other period, any part of which is included in a payroll period or other period with respect to which wages are also paid to such employee by such employer, or

"(2) without regard to any payroll period or other period, but on or prior to the expiration of a payroll period or other period with respect to which wages are also paid to such employee by such employer, or

"(3) with respect to a period beginning in one and ending in another calendar year, or

"(4) through an agent, fiduciary, or other person who also has the control, receipt, custody, or disposal of, or pays, the wages payable by another employer to such employee,

the manner of withholding and the amount to be deducted and withheld under this subchapter shall be determined in accordance with regulations prescribed by the Commissioner with the approval of the Secretary under which the withholding exemption allowed to the employee in any calendar year shall approximate the withholding exemption allowable with respect to an annual payroll period.

"(j) **WITHHOLDING ON BASIS OF AVERAGE WAGES.**—The Commissioner may, under regulations prescribed by him with the approval of the Secretary, authorize employers (1) to estimate the wages which will be paid to any employee in any quarter of the calendar year, (2) to determine the amount to be deducted and withheld upon each payment of wages to such employee during such quarter as if the appropriate average of the wages so estimated constituted the actual wages paid, and (3) to deduct and withhold upon any payment of wages to such employee during such quarter such amount as may be necessary to adjust the amount actually deducted and withheld upon the wages of such employee during such quarter to the amount required to be deducted and withheld during such quarter without regard to this subsection.

**"SEC. 1623. LIABILITY FOR TAX.**

"The employer shall be liable for the payment of the tax required to be deducted and withheld under this subchapter, and shall not be liable to any person for the amount of any such payment.

**"SEC. 1624. RETURN AND PAYMENT BY GOVERNMENTAL EMPLOYER.**

"If the employer is the United States, or a State, Territory, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return of the amount deducted and withheld upon any wages may be made by any officer or employee of the United States, or of such State, Territory, or political subdivision, or of the District of Columbia, or of such agency or instrumentality, as the case may be, having control of the payment of such wages, or appropriately designated for that purpose.

**"SEC. 1625. RECEIPTS.**

"(a) **REQUIREMENT.**—Every employer required to deduct and withhold a tax in respect of the wages of an employee shall furnish to each such employee in respect of his employment during the calendar year, on or before January 31 of the succeeding year, or, if his employment is terminated before the close of such calendar year, on

the day on which the last payment of wages is made, a written statement showing the wages paid by the employer to such employee during such calendar year, and the amount of the tax deducted and withheld under this subchapter in respect of such wages.

"(b) **STATEMENTS TO CONSTITUTE INFORMATION RETURNS.**—The statements required to be furnished by this section in respect of any wages shall be furnished at such other times, shall contain such other information, and shall be in such form as the Commissioner, with the approval of the Secretary, may by regulations prescribe. A duplicate of such statement if made and filed in accordance with regulations prescribed by the Commissioner with the approval of the Secretary shall constitute the return required to be made in respect of such wages under section 147.

"(c) **EXTENSION OF TIME.**—The Commissioner, under such regulations as he may prescribe with the approval of the Secretary, may grant to any employer a reasonable extension of time (not in excess of thirty days) with respect to the statements required to be furnished under this section.

**"SEC. 1626. PENALTIES.**

"(a) **PENALTIES FOR FRAUDULENT RECEIPT OR FAILURE TO FURNISH RECEIPT.**—In lieu of any other penalty provided by law (except the penalty provided by subsection (b) of this section), any person required under the provisions of section 1625 to furnish a receipt in respect of tax withheld pursuant to this subchapter who willfully furnishes a false or fraudulent receipt, or who willfully fails to furnish a receipt in the manner, at the time, and showing the information required under section 1625, or regulations prescribed thereunder, shall for each such failure, upon conviction thereof be fined not more than \$1,000, or imprisoned for not more than one year, or both.

"(b) **ADDITIONAL PENALTY.**—In addition to the penalty provided by subsection (a) of this section, any person required under the provisions of section 1625 to furnish a receipt in respect of tax withheld pursuant to this subchapter who willfully furnishes a false or fraudulent receipt, or who willfully fails to furnish a receipt in the manner, at the time, and showing the information required under section 1625, or regulations prescribed thereunder, shall for each such failure be subject to a civil penalty of not more than \$50.

"(c) **FAILURE OF EMPLOYER TO FILE RETURN OR PAY TAX.**—In case of any failure to make and file return or pay the tax required by this subchapter, within the time prescribed by law or prescribed by the Commissioner in pursuance of law, unless it is shown that such failure is due to reasonable cause and not due to willful neglect, the addition to the tax shall not be less than \$10.

"(d) **PENALTIES IN RESPECT OF WITHHOLDING EXEMPTION CERTIFICATES.**—Any individual required to supply information to his employer under section 1622 (h) who willfully supplies false or fraudulent information, or who willfully fails to supply information thereunder which would require an increase in the tax to be withheld under section 1622, shall, in lieu of any penalty otherwise provided, upon conviction thereof, be fined not more than \$500, or imprisoned for not more than one year, or both.

**"SEC. 1627. OTHER LAWS APPLICABLE.**

"All provisions of law, including penalties, applicable with respect to the tax imposed by section 1400 shall, insofar as applicable and not inconsistent with the provisions of this subchapter, be applicable with respect to the tax under this subchapter.

**"SUBCHAPTER E—GENERAL PROVISIONS****"SEC. 1630. VERIFICATION OF RETURNS, ETC.**

"(a) **POWER OF COMMISSIONER TO REQUIRE.**—The Commissioner, under regulations prescribed by him with the approval of the Secretary, may require that any return, statement, or other document required to be filed under this chapter shall contain or be verified by a written declaration that it is made under the penalties of perjury, and such declaration shall be in lieu of any oath otherwise required.

"(b) **PENALTIES.**—Every person who willfully makes and subscribes any return, statement, or other document, which contains or is verified by a written declaration that it is made under the penalties of perjury, and which he does not believe to be true and correct as to every material matter, shall be guilty of a felony, and, upon conviction thereof, shall be subject to the penalties prescribed for perjury in section 125 of the Criminal Code.

**"SEC. 1631. USE OF GOVERNMENT DEPOSITARIES IN CONNECTION WITH PAYMENT OF TAXES.**

"The Secretary may authorize incorporated banks or trust companies which are depositaries or financial agents of the United States to receive any taxes under this chapter in such manner, at such times, and under such conditions as he may prescribe; and he shall prescribe the manner, times, and conditions under which the receipt of such taxes by such depositaries and financial agents is to be treated as payment of such taxes to the collectors.

**"SEC. 1632. ACTS TO BE PERFORMED BY AGENTS.**

"In case a fiduciary, agent or other person has the control, receipt, custody, or disposal of, or pays the wages of an employee or group of employees, employed by one or more employers, the Commissioner, under regulations prescribed by him with the approval of the Secretary, is authorized to designate such fiduciary, agent or other person to perform such acts as are required of employers under this chapter and as the Commissioner may specify. Except as may be otherwise prescribed by the Commissioner with the approval of the Secretary, all provisions of law (including penalties) applicable in respect of an employer shall be applicable to a fiduciary, agent or other person so designated but, except as so provided, the employer for whom such fiduciary, agent or other person acts shall remain subject to the provisions of law (including penalties) applicable in respect of employers."

**(b) TECHNICAL AMENDMENTS.—**

(1) **AMENDMENT TO SECTION 34.**—Section 34 of the Internal Revenue Code (cross reference) is amended by striking out "453, 454, and 466 (e)" and inserting in lieu thereof "453 and 454".

(2) **AMENDMENT TO SECTION 322.**—Section 322 (f) of the Internal Revenue Code (cross reference) is amended to read as follows:

"(f) **TAX WITHHELD AT SOURCE.**—For refund or credit in case of withholding agent, see section 143 (f). For refund or credit in case of employer required to deduct and withhold tax on wages, see section 1622 (f)."

(c) **EXPIRATION DATE FOR WITHHOLDING AT SOURCE ON WAGES UNDER SUBCHAPTER D OF CHAPTER 1.**—Section 476 of the Internal Revenue Code (prescribing the expiration date for the taxes imposed by Subchapter D) is amended to read as follows:

**"SEC. 476. EXPIRATION DATE.**

"The tax imposed by Part I of this subchapter shall not apply with respect to any taxable year commencing after the date of cessation of hostilities in the present war. The tax imposed by Part II of such subchapter shall not apply with respect to any wages paid after June 30, 1943, unless paid during the calendar year 1943 with respect to a payroll period beginning on or before such date."

(d) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (b) shall take effect July 1, 1943, and shall be applicable to all wages paid on or after such date, except that such amendments shall not be applicable to wages paid during the calendar year 1943 with respect to a payroll period beginning before such date.

**SEC. 3. CREDIT FOR TAX WITHHELD AT SOURCE.**

Section 35 of the Internal Revenue Code (relating to the credit for tax withheld on wages) is amended to read as follows:

**"SEC. 35. CREDIT FOR TAX WITHHELD ON WAGES.**

"The amount deducted and withheld as tax under Subchapter D of Chapter 9 during any calendar year upon the wages of any individual shall be allowed as a credit to the recipient of the income against the tax imposed by this chapter for the taxable year beginning in such calendar year. If more than one taxable year begins in any such calendar year such amount shall be allowed as a credit against the tax for the last taxable year so beginning."

**SEC. 4. REFUNDS.**

(a) **EXCESSIVE WITHHOLDING, ETC.**—Section 322 (a) (2) of the Internal Revenue Code (relating to excessive withholding) is amended to read as follows:

"(2) **EXCESSIVE WITHHOLDING.**—Where the amount of the tax withheld at the source under Part II of Subchapter D or Subchapter D of Chapter 9 exceeds the taxes imposed by this chapter

against which the tax so withheld may be credited under section 35 or 466 (e), the amount of such excess shall be considered an overpayment.

"(3) CREDITS AGAINST ESTIMATED TAX.—The Commissioner is authorized to prescribe, with the approval of the Secretary, regulations providing for the crediting against the estimated tax for any taxable year of the amount determined by the taxpayer or the Commissioner to be an overpayment of the tax for a preceding taxable year."

(b) PRESUMPTION AS TO DATE OF PAYMENT.—Section 322 (e) of the Internal Revenue Code (relating to presumption as to date of payment) is amended to read as follows:

"(e) PRESUMPTION AS TO DATE OF PAYMENT.—For the purposes of this section, any tax actually deducted and withheld at the source during any calendar year under Part II of Subchapter D or under Subchapter D of Chapter 9 shall, in respect of the recipient of the income, be deemed to have been paid by him not earlier than the fifteenth day of the third month following the close of his taxable year with respect to which such tax is allowable as a credit under section 35 or section 466 (e). For the purposes of this section, any amount paid as estimated tax for any taxable year shall be deemed to have been paid not earlier than the fifteenth day of the third month following the close of such taxable year."

(c) DELEGATION OF AUTHORITY TO COLLECTORS TO MAKE REFUNDS.—Section 3770 (a) of the Internal Revenue Code (relating to authority to make refunds) is amended (1) by striking out "(4)" at the beginning of paragraph (4) and inserting in lieu thereof "(5)"; and (2) by inserting after paragraph (3) the following:

"(4) DELEGATION OF AUTHORITY TO COLLECTORS TO MAKE REFUNDS.—The Commissioner is authorized to delegate, with the approval of the Secretary, to collectors any authority, duty, or function which the Commissioner is authorized or required to exercise or perform under paragraph (1), (2), or (3) of this subsection, or under section 322 or 1027, where the amount involved (exclusive of interest, penalties, additions to the tax, and additional amounts) does not exceed \$1,000."

(d) OVERPAYMENTS.—Section 3770 of the Internal Revenue Code (relating to authority to make credits and refunds) is amended by inserting at the end thereof the following:

"(c) RULE WHERE NO TAX LIABILITY.—An amount paid as tax shall not be considered not to constitute an overpayment solely by reason of the fact that there was no tax liability in respect of which such amount was paid."

(e) CROSS-REFERENCE.—The last subsection of section 3771 of the Internal Revenue Code (relating to interest on overpayments) is amended to read as follows:

"(f) ESTIMATED TAX AND TAX WITHHELD AT SOURCE.—For date of payment in respect of estimated tax and of tax withheld at source on wages, see section 322 (e)."

(f) REVIEW OF ALLOWANCE OF INTEREST.—Section 3790 of the Internal Revenue Code (prohibiting administrative review of Commissioner's decisions) is amended by inserting at the end thereof the following: "In the absence of fraud or mistake in mathematical calculation, the allowance or nonallowance by the Commissioner, of interest on any credit or refund under the internal revenue laws shall not, except as provided in Chapter 5, be subject to review by any other administrative or accounting officer, employee, or agent of the United States."

#### SEC. 5. CURRENT PAYMENT OF TAX NOT WITHHELD AT SOURCE.

(a) IN GENERAL.—The Internal Revenue Code is amended by striking out sections 58, 59, and 60 and inserting in lieu thereof the following:

#### "SEC. 58. DECLARATION OF ESTIMATED TAX BY INDIVIDUALS.

"(a) REQUIREMENT OF DECLARATION.—Every individual (other than an estate or trust and other than a nonresident alien with respect to whose wages, as defined in section 1621 (a), withholding under Subchapter D of Chapter 9 is not made applicable) shall, at the time during the taxable year prescribed in subsection (d), make a declaration of his estimated tax for the taxable year if—

"(1) his gross income from wages (as defined in section 1621)

"(A) in case such individual is single or married but not living with husband or wife: can reasonably be expected to exceed \$2,700 for the taxable year; or did exceed \$2,700 for the preceding taxable year; or

"(B) in case such individual is married and living with husband or wife: can, when added to the gross income which can reasonably be expected to be received by such husband or wife from wages (as so defined), reasonably be expected to exceed \$3,500 for the taxable year; or did when added to the gross income of such husband or wife from wages (as so defined) for the preceding taxable year, exceed \$3,500 for such preceding taxable year; or

"(2) his gross income from sources other than wages (as defined in section 1621)

"(A) in case such individual is single or married but not living with husband or wife: can reasonably be expected to exceed \$100 for the taxable year and his gross income to be such as will require the making of a return for the taxable year under section 51; or did exceed \$100 for the preceding taxable year and such individual either was required to make a return under section 51 or 455 for such preceding taxable year or would have been so required if he had been single during the whole of such preceding taxable year; or

"(B) in case such individual is married and living with husband or wife: can, when added to the gross income which can reasonably be expected to be received by husband or wife from such sources, reasonably be expected to exceed \$100 for

the taxable year and the aggregate gross income of such husband and wife can reasonably be expected to be such as will require the making of a return under section 51 or 455; or did, when added to the gross income of such husband or wife from such sources for the preceding taxable year, exceed \$100 for such preceding taxable year and such individual would have been required to make a return under section 51 or 455 for such preceding taxable year if he had been married and living with husband or wife during the whole of such preceding taxable year; or

"(3) in case such taxable year is the taxable year beginning in 1943, such individual was required to make a return under section 51 for the taxable year beginning in 1942, and his gross income from wages (as defined in section 1621) for such taxable year is greater than the gross income which can reasonably be expected to be received from wages for the taxable year beginning in 1943.

"(b) **CONTENTS OF DECLARATION.**—In the declaration required under subsection (a) the individual shall state—

"(1) the amount which he estimates as the amount of tax under this chapter for the taxable year, without regard to any credits under sections 32, 35, and 466 (e);

"(2) the amount which he estimates as the credits for the taxable year under sections 32, 35, and 466 (e); and

"(3) the excess of the amount estimated under paragraph (1) over the amount estimated under paragraph (2), which excess for the purposes of this chapter shall be held and considered the estimated tax for the taxable year.

The declaration shall also contain such other information for the purposes of carrying out the provisions of this chapter as the Commissioner, with the approval of the Secretary, may by regulations prescribe, and shall contain or be verified by a written statement that it is made under the penalties of perjury.

"(c) **JOINT DECLARATION BY HUSBAND AND WIFE.**—In the case of a husband and wife living together, a single declaration under this section may be made by them jointly, in which case the liability with respect to the estimated tax shall be joint and several. No joint declaration may be made if either the husband or wife is a nonresident alien. If a joint declaration is made but a joint return is not made for the taxable year, the estimated tax for such year may be treated as the estimated tax of either the husband or the wife, or may be divided between them.

"(d) **TIME AND PLACE FOR FILING.**—The declaration required under subsection (a) shall be filed on or before the fifteenth day of the third month of the taxable year, except that if the requirements of subsection (a) are first met after such date, the declaration shall be filed on or before the fifteenth day of the last month of the quarter of the taxable year in which such requirements are first met. An individual may make amendments or revisions of a declaration filed under this subsection, under regulations prescribed by the Commissioner with the approval of the Secretary. If so made, such amendments or revisions

shall be filed on or before the fifteenth day of the last month of any quarter of the taxable year subsequent to that in which the declaration was filed and in which no previous amendments or revisions have been made or filed. Declarations and amendments and revisions thereof shall be filed with the Collector specified in section 53 (b) (1).

"(e) **EXTENSION OF TIME.**—The Commissioner may grant a reasonable extension of time for filing declarations and paying the estimated tax, under such rules and regulations as he shall prescribe with the approval of the Secretary. Except in the case of taxpayers who are abroad, no such extension shall be for more than six months.

"(f) **PERSONS UNDER DISABILITY.**—If the taxpayer is unable to make his own declaration, the declaration shall be made by a duly authorized agent or by the guardian or other person charged with the care of the person or property of such taxpayer.

"(g) **SIGNATURE PRESUMED CORRECT.**—The fact that an individual's name is signed to a filed declaration shall be prima facie evidence for all purposes that the declaration was actually signed by him.

"(h) **PUBLICITY OF DECLARATION.**—For the purposes of section 55 (relating to publicity of returns), a declaration of estimated tax shall be held and considered a return under this chapter.

#### "SEC. 59. PAYMENT OF ESTIMATED TAX.

"(a) **IN GENERAL.**—The estimated tax shall be paid in four equal installments except that—

"(1) if the declaration is filed (otherwise than pursuant to an extension of time) after the fifteenth day of the third month of the taxable year, the estimated tax shall be paid in equal installments the number of which is equal to the number of quarters remaining in the taxable year (including the quarter in which the declaration is filed); and

"(2) if any amendment or revision of a declaration is filed, the remaining installments shall be ratably increased or decreased, as the case may be, to reflect the increase or decrease, as the case may be, in the estimated tax by reason of such amendment or revision; and

"(3) at the election of the individual, any installment of the estimated tax may be paid prior to the date prescribed for its payment.

One installment of the estimated tax shall be paid at the time of making the declaration, and an installment thereof shall be paid on the fifteenth day of the last month of each succeeding quarter of the taxable year. Payment of any installment of the estimated tax shall be considered payment on account of the tax for the taxable year.

"(b) **ASSESSMENT.**—The estimated tax shall be assessed only to the extent paid.

#### "SEC. 60. SPECIAL RULES FOR APPLICATION OF SECTIONS 58 AND 59.

"(a) **FARMERS.**—In the case of an individual whose estimated gross income from farming for the taxable year is at least 80 per centum

of the total estimated gross income from all sources for the taxable year, in lieu of the time prescribed in section 58 (d), the declaration for the taxable year may be made at any time on or before the fifteenth day of the last month of the taxable year.

"(b) APPLICATION TO SHORT TAXABLE YEARS.—The application of sections 58, 59, and 294 (a) (3), (4), and (5) to taxable years of less than twelve months shall be as prescribed in regulations prescribed by the Commissioner with the approval of the Secretary.

"(c) APPLICATION TO TAXABLE YEARS BEGINNING IN 1943.—If the taxable year is the calendar year 1943, the fifteenth day of September, 1943, shall be substituted for the fifteenth day of March for the purposes of section 58 (d). If the taxable year begins in 1943 after January 1, the date which shall be substituted for the fifteenth day of the third month of the taxable year for the purposes of section 58 (d) shall be prescribed by regulations prescribed by the Commissioner with the approval of the Secretary. In either case installments of the estimated tax for such taxable year payable after September 1, 1943, shall be ratably decreased to reflect the payments on account of a taxable year beginning in 1942 which are treated as payments on account of the estimated tax for a taxable year beginning in 1943."

(b) ADDITIONS TO TAX.—Section 294 (a) of the Internal Revenue Code (relating to additions to tax in case of nonpayment) is amended by inserting at the end thereof the following:

"(3) FAILURE TO FILE DECLARATION OF ESTIMATED TAX.—In the case of a failure to make and file a declaration of estimated tax within the time prescribed, there shall be added to the tax an amount equal to 10 per centum of the tax.

"(4) FAILURE TO PAY INSTALLMENT OF ESTIMATED TAX.—In the case of the failure to pay an installment of the estimated tax within the time prescribed, there shall be added to the tax \$2.50 or 2½ per centum of the tax, whichever is the greater, for each installment with respect to which such failure occurs.

"(5) SUBSTANTIAL UNDERESTIMATE OF ESTIMATED TAX.—If 80 per centum of the tax (determined without regard to the credits under sections 32, 35, and 466 (e)), in the case of individuals other than farmers exercising an election under section 60 (a), or 66⅔ per centum of such tax so determined in the case of such farmers, exceeds the estimated tax (increased by such credits), there shall be added to the tax an amount equal to such excess, or equal to 6 per centum of the amount by which such tax so determined exceeds the estimated tax so increased, whichever is the lesser. This paragraph shall not apply to the taxable year in which falls the death of the taxpayer."

(c) PENALTIES.—Section 145 (a) of the Internal Revenue Code (relating to criminal penalties) is amended (1) by inserting after "return" wherever appearing therein the words "or declaration", and (2) by inserting before "tax" wherever appearing therein the words "estimated tax or".

(d) PAYMENT BY INSTALLMENTS.—Section 56 (b) of the Internal Revenue Code (relating to installment payments) is amended by strik-

ing out "The" at the beginning thereof and inserting in lieu thereof "Except in the case of an individual (other than an estate or trust and other than a nonresident alien with respect to whose wages, as defined in section 1621 (a), withholding under Subchapter D of Chapter 9 is not made applicable), the".

(e) DATE FOR MAKING RETURN BY CERTAIN NONRESIDENT ALIENS.—

(1) Section 217 (a) of the Internal Revenue Code (relating to returns by nonresident aliens) is amended by inserting after "In the case of a nonresident alien individual" the following: "with respect to whose wages, as defined in section 1621 (a), withholding under Subchapter D of Chapter 9 is not made applicable."

(2) Section 218 (a) of the Internal Revenue Code (relating to payment of tax by nonresident aliens) is amended by inserting after "In the case of a nonresident alien individual" the following: "with respect to whose wages, as defined in section 1621 (a), withholding under Subchapter D of Chapter 9 is not made applicable."

(f) TAXABLE YEARS TO WHICH APPLICABLE.—The amendments made by this section shall be effective with respect to taxable years beginning after December 31, 1942, except that section 294 (a) (5) of the Internal Revenue Code shall not be applicable to a taxable year beginning in 1943 in the case of an individual not required to make a declaration under section 58 of the Internal Revenue Code for such year.

#### SEC. 6. RELIEF FROM DOUBLE PAYMENTS IN 1943.

(a) TAX FOR 1942 NOT GREATER THAN TAX FOR 1943.—In case the tax imposed by Chapter 1 of the Internal Revenue Code upon any individual (other than an estate or trust and other than a nonresident alien not subject to the provisions of sections 58, 59, and 60 of such chapter) for the taxable year 1942 (determined without regard to this section, without regard to interest or additions to the tax, and without regard to credits against the tax for amounts withheld at source) is not greater than the tax for the taxable year 1943 (similarly determined), the liability of such individual for the tax imposed by such chapter for the taxable year 1942 shall be discharged as of September 1, 1943, except that interest and additions to such tax shall be collected at the same time and in the same manner as, and as a part of, the tax under such chapter for the taxable year 1943. In such case if the tax for the taxable year 1942 (determined without regard to this section and without regard to interest or additions to the tax) is more than \$50, the tax under such chapter for the taxable year 1943 shall be increased by an amount equal to 25 per centum of the tax for the taxable year 1942 (so determined) or the excess of such tax (so determined) over \$50, whichever is the lesser. This subsection shall not apply in any case in which the taxpayer is convicted of any criminal offense with respect to the tax for the taxable year 1942 or in which additions to the tax for such taxable year are applicable by reason of fraud.

(b) **TAX FOR 1942 GREATER THAN TAX FOR 1943.**—In case the tax imposed by Chapter 1 of the Internal Revenue Code upon any individual (other than an estate or trust and other than a nonresident alien not subject to the provisions of sections 58, 59, and 60 of such chapter) for the taxable year 1942 (determined without regard to this section, without regard to interest or additions to the tax, and without regard to credits against the tax for amounts withheld at source) is greater than the tax for the taxable year 1943 (similarly determined), the liability of such individual for the tax imposed by such chapter for the taxable year 1942 shall be discharged as of September 1, 1943, except that interest and additions to such tax shall be collected at the same time and in the same manner as, and as a part of, the tax under such chapter for the taxable year 1943. In such case the tax under such chapter for the taxable year 1943 shall be increased by—

(1) the amount by which the tax imposed by such chapter for the taxable year 1942 (determined without regard to this section and without regard to interest and additions to such tax) exceeds the tax imposed by such chapter for the taxable year 1943 (determined without regard to this section, without regard to interest and additions to such tax, and without regard to credits against such tax under section 466 (e) or under section 35 of such chapter), plus

(2) if the tax for the taxable year 1943 (determined without regard to this section, without regard to interest or additions to the tax, and without regard to credits against such tax under section 466 (e) or under section 35 of such chapter) is more than \$50, an amount equal to 25 per centum of the tax for the taxable year 1943 (so determined) or the excess of such tax (so determined) over \$50, whichever is the lesser. Such amount shall in no case exceed 25 per centum of the tax for the taxable year 1942 (determined without regard to this section and without regard to interest and additions to such tax) or the excess of such tax (so determined) over \$50, whichever is the lesser.

This subsection shall not apply in any case in which the taxpayer is convicted of any criminal offense with respect to the tax for the taxable year 1942 or in which additions to the tax for such taxable year are applicable by reason of fraud. An individual who becomes subject to tax for the taxable year 1943 under this subsection shall be an individual required to make a return for the taxable year 1943 under section 51 of the Internal Revenue Code.

(c) **ADDITIONAL INCREASE IN 1943 TAX WHERE INCREASED INCOME.**—

(1) **TAX FOR 1942 NOT GREATER THAN THAT FOR 1943.**—In the case of a taxpayer whose liability for the tax for the taxable year 1942 is discharged under subsection (a), and whose surtax net income for the base year plus \$20,000 is less than that for the taxable year 1942, the tax imposed by Chapter 1 of the Internal Revenue Code for the taxable year 1943 shall be increased by the excess of 75 per centum of the tax imposed by such chapter for the taxable year 1942 (determined without regard to this section and without regard to interest and additions to the tax) over a

tentative tax computed as if the portion of the surtax net income for the taxable year 1942 which is not greater than the sum of the surtax net income for the base year plus \$20,000 constituted both the surtax net income for the taxable year 1942, and the net income for such taxable year after allowance of all credits against net income;

(2) **TAX FOR 1942 GREATER THAN THAT FOR 1943.**—In the case of a taxpayer whose liability for the tax for the taxable year 1942 is discharged under subsection (b) and whose surtax net income for the base year plus \$20,000 is less than that for the taxable year 1943, the tax imposed by Chapter 1 of the Internal Revenue Code for the taxable year 1943 shall be increased by the excess of 75 per centum of the tax imposed by such chapter for the taxable year 1943 (determined without regard to this section and without regard to interest and additions to the tax) over a tentative tax for the taxable year 1943 computed as if the portion of the surtax net income for such taxable year which is not greater than the sum of the surtax net income for the base year plus \$20,000 constituted both the surtax net income for the taxable year 1943, and the net income for such taxable year after allowance of all credits against net income.

For the purposes of this subsection "base year" means any one of the taxable years 1937, 1938, 1939, or 1940, to be selected by the taxpayer.

(d) **RULES FOR APPLICATION OF SUBSECTIONS (A), (B), AND (C).**—

(1) **APPLICATION OF SUBSECTION (B) TO MEMBERS OF ARMED FORCES.**—If the taxpayer is in active service in the military or naval forces of the United States or any of the other United Nations at any time during the taxable year 1942 or 1943, the increase in the tax for the taxable year 1943 under subsection (b) (1) shall be reduced by an amount equal to the amount by which the tax for the taxable year 1942 (determined without regard to this section) is increased by reason of the inclusion in the net income for the taxable year 1942 of the amount of the earned net income (as defined in section 25 (a) (4)).

(2) **JOINT RETURNS.**—If the taxpayer either for the taxable year 1942 or for the taxable year 1943 makes a joint return with his spouse, the taxes of the spouses for the taxable year for which a joint return is not made shall be aggregated for the purposes of subsections (a), (b), and (c), and in case the taxable year for which a joint return is not made is the taxable year 1943, the liability for the increase in the tax for the taxable year 1943 under subsections (b) and (c), shall be joint and several.

(3) **FOREIGN TAX CREDIT AND APPLICATION OF SECTIONS 105, 106, AND 107.**—The credit against the tax imposed by Chapter 1 of the Internal Revenue Code for the taxable year 1943 allowed by section 31 of such chapter (relating to taxes of foreign countries and of possessions of the United States), shall be determined without regard to subsections (a), (b), and (c). Sections 105, 106, and 107 of such chapter (relating to limitations on tax) shall be applied without regard to subsections (a), (b), and (c).

(4) SECTION 107 INCOME ATTRIBUTED TO BASE YEAR.—That portion of the compensation which is received or accrued in the taxable year 1942 (if the tax for such year is not greater than that for the taxable year 1943), or in the taxable year 1943 (if the tax for such year is less than that for the taxable year 1942), and which under section 107 of the Internal Revenue Code is attributed to the base year, shall for the purposes of subsection (c) be excluded in computing the surtax net income for the taxable year 1942 or 1943, as the case may be, and be included in computing the surtax net income for the base year.

(5) PARTNERSHIP BUSINESS FORMERLY OPERATED AS CORPORATION.—If, during the base year of any individual, such individual was a shareholder in a corporation and if substantially all of the assets of such corporation were at any time prior to May 1, 1943, acquired by such individual or a partnership of which he is a partner pursuant to the complete liquidation of such corporation, and if at all times after such liquidation up to and including the taxable year 1942 (if subsection (a) is applicable) or the taxable year 1943 (if subsection (b) is applicable) the trade or business of such corporation was carried on by such individual or partnership, for the purposes of subsection (c) such individual may compute his surtax net income for the base year as if the earnings and profits of the corporation for the taxable year ending with or within the base year had all been distributed as dividends at the end of such taxable year. If the interest of such individual in the partnership is proportionately less than his interest in the corporation, his distributive share of such dividends shall for the purposes of this paragraph be adjusted to reflect such difference.

(6) CERTAIN PORTIONS OF INCREASE IN 1943 TAX NOT PART OF ESTIMATED TAX.—The amount by which the tax for the taxable year 1943 is increased under subsection (a), (b) (2), or (c) shall not be considered to be a part of the tax for such taxable year for the purposes of sections 58, 59, 60, and 294 (a) (3), (4), and (5) of the Internal Revenue Code.

(7) TAXPAYER DYING IN TAXABLE YEAR 1942.—If the individual dies during the taxable year 1942, subsections (a), (b), and (c) shall not apply.

(e) EXTENSION OF TIME FOR PAYMENT OF PORTIONS OF INCREASE IN 1943 TAX.—

(1) TWENTY-FIVE PER CENTUM INCREASE UNDER SUBSECTION (A) OR (B).—At the election of the taxpayer, made under regulations prescribed by the Commissioner with the approval of the Secretary, the Commissioner shall, except as hereinafter provided, extend the time for the payment of the portion of the tax for the taxable year 1943 equal to one-half of the amount of the 25 per centum increase therein under subsection (a) or (b) (2) for the taxable year 1943, in which case such portion shall be paid on or before the fifteenth day of the fifteenth month following the close of the taxable year. The Commissioner may condition the exten-

sion upon the furnishing by the taxpayer of a bond in such amount, not exceeding the amount with respect to which the extension applies, with such surety or sureties, as the Commissioner deems necessary, conditioned upon the payment of such amount in accordance with the terms of the extension. If such amount is not paid on or before the date on which it is payable, it shall be paid upon notice and demand from the Collector. If such amount is not paid on or before the date on which it is payable, there shall be collected, as a part of the tax, interest on such amount at the rate of 6 per centum per annum for the period beginning with the date on which such amount is payable and ending with the date on which it is paid.

(2) INCREASE UNDER SUBSECTION (C).—At the election of the taxpayer, made under regulations prescribed by the Commissioner with the approval of the Secretary, the Commissioner shall, except as hereinafter provided, extend the time for the payment of the portion of the tax for the taxable year 1943 equal to the increase therein under subsection (c), in which case such portion shall be paid in four equal annual installments, the first of which shall be paid on the fifteenth day of the fifteenth month following the close of the taxable year, and of the remaining installments one of which shall be paid on the last day of each succeeding twelve-month period, except that any installment may be paid prior to the date prescribed for its payment. The Commissioner may condition the extension upon the furnishing by the taxpayer of a bond in such amount, not exceeding the amount of such increase, with such surety or sureties, as the Commissioner deems necessary, conditioned upon the payment of such amount in accordance with the terms of the extension. If the time for the payment of such portion is extended, there shall be collected, as a part of the tax, interest on each installment at the rate of 4 per centum per annum for the period beginning with the date prescribed for the payment of the tax for such taxable year and ending with the date on which such installment is paid or the date on which it is payable, whichever is the earlier. If any installment is not paid on or before the date on which it is payable, it and the remaining installments shall be paid upon notice and demand from the Collector. If any installment is not paid on or before the date on which it is payable, there shall be collected, as part of the tax, interest on such installment at the rate of 6 per centum per annum for the period beginning with the date on which such installment is payable and ending with the date on which it is paid.

(f) TREATMENT OF PAYMENTS ON ACCOUNT OF 1942 TAX.—Any payment (other than interest and additions to the tax) made on account of the tax imposed by Chapter 1 of the Internal Revenue Code for the taxable year 1942 upon a taxpayer whose liability for such tax is discharged under subsection (a) or (b) shall be considered as payment on account of the estimated tax for the taxable year 1943. In the case of any extension of time for the payment of such tax granted by the Commissioner prior to September 1, 1943, payment of

the portion thereof which if such extension had not been granted would have been payable under section 56 (b) prior to such date shall be made notwithstanding subsection (a) or (b), but the foregoing provisions of this subsection shall apply to any such payment. In case the taxpayer becomes delinquent, prior to September 1, 1943, in the payment of such tax or any installment thereof, subsection (a) or (b) shall not relieve the taxpayer of his liability for the tax, but the foregoing provisions of this subsection shall be applicable to payment of such liability. If any payment on account of the tax imposed by such chapter for the taxable year 1942 is made pursuant to a joint return made by husband and wife for such taxable year, and such payment is considered as a payment on account of the estimated tax for the taxable year 1943, such payment may be treated as a payment on account of the estimated tax of either the husband or the wife for such taxable year or may be divided between them.

(g) **USE OF TERM "TAXABLE YEAR".**—For the purposes of this section the terms "taxable year 1937", "taxable year 1938", "taxable year 1939", "taxable year 1940", "taxable year 1942", and "taxable year 1943" mean, respectively, the taxable year beginning in 1937, 1938, 1939, 1940, 1942, and 1943, respectively; and "taxable year" as applied to the taxable year 1942 or 1943 shall not include any period of less than twelve months unless occasioned by the death of the taxpayer or unless there is no taxable year of twelve months beginning in such calendar year.

(h) **REGULATIONS.**—This section shall be applied in accordance with regulations prescribed by the Commissioner with the approval of the Secretary.

#### SEC. 7. ADDITIONAL ALLOWANCE FOR MEMBERS OF ARMED FORCES.

(a) **IN GENERAL.**—Section 22 (b) (13) of the Internal Revenue Code (relating to additional allowance for military and naval personnel in computing net income) is amended to read as follows:

"(13) **ADDITIONAL ALLOWANCE FOR MILITARY AND NAVAL PERSONNEL.**—In the case of compensation received during any taxable year and before the termination of the present war as proclaimed by the President, by a member of the military or naval forces of the United States for active service in such forces during such war, or by a citizen or resident of the United States who is a member of the military or naval forces of any of the other United Nations for active service in such forces during such war, so much of such compensation as does not exceed \$1,500."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply with respect to taxable years beginning after December 31, 1942.

#### SEC. 8. ABATEMENT OF TAX FOR MEMBERS OF ARMED FORCES UPON DEATH.

Chapter 1 of the Internal Revenue Code is amended by inserting after section 404 the following new supplement:

#### "Supplement U—Abatement of Tax for Members of Armed Forces Upon Death

##### "SEC. 421. ABATEMENT OF TAX FOR MEMBERS OF ARMED FORCES UPON DEATH.

"In the case of any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations and prior to the termination of the present war as proclaimed by the President, the tax imposed by this chapter shall not apply with respect to the taxable year in which falls the date of his death, and the tax under this chapter and under the corresponding title of each prior revenue law for preceding taxable years which is unpaid at the date of his death (including interest, additions to the tax, and additional amounts) shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment."

##### SEC. 9. ASSISTANT COMMISSIONERS.

Subchapter B of Chapter 39 of the Internal Revenue Code is amended to read as follows:

#### "SUBCHAPTER B—ASSISTANT COMMISSIONERS

##### "SEC. 3905. APPOINTMENT.

"There shall be in the Bureau of Internal Revenue two Assistant Commissioners, who shall be appointed by the President, by and with the advice and consent of the Senate.

##### "SEC. 3906. DUTIES.

"The Assistant Commissioners shall perform such duties as may be prescribed by the Commissioner or required by law."

##### SEC. 10. EXTENSION OF TIME IN CONNECTION WITH RELEASE OF POWERS OF APPOINTMENT.

Section 403 (d) (3) of the Revenue Act of 1942 is amended by striking out "July 1, 1943" wherever it appears and inserting in lieu thereof "March 1, 1944"; and section 452 (c) of the Revenue Act of 1942 is amended to read as follows:

"(c) **RELEASE BEFORE MARCH 1, 1944.**—

"(1) A release of a power to appoint before March 1, 1944, shall not be deemed a transfer of property by the individual possessing such power.

"(2) This subsection shall apply to all calendar years prior to 1944 and to that part of the calendar year 1944 prior to March 1, 1944."

Approved June 9, 1943, 7 p. m., E. War Time.

(In millions)

	<u>Net</u> <u>Expenditures</u>	<u>Net</u> <u>Receipts</u>	<u>Net</u> <u>Deficit</u>
July	\$ 8.281	\$ 1.198	\$ 7.083
Aug	8.152	2.153	5.999
Sept	8.782	5.419	3.363
Oct	8.857	1.021	7.836
Nov	8.877	1.822	7.055
Dec	9.387	5.716	3.671
Jan	8.982	752	8.230
Feb	9.066	1.892	7.174
Mar	9.542	9.685	+ 143
Apr	9.818	994	8.824
May	10.586	1.755	8.831
June	9.587	6.599	2.988
	<u>\$109.917</u>	<u>\$39.006</u>	<u>70.911</u>



439

ESTIMATED CASH EXPENDITURES, FISCAL YEAR 1944

(In millions of dollars)

	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>Total</u>
<u>Budgetary items:</u>													
War activities .....	7,200	7,500	7,900	8,100	8,200	8,300	8,300	8,300	8,300	8,300	8,300	8,300	97,000
General .....	310	265	260	290	285	300	325	300	300	290	260	275	3,460
Interest .....	20	40	300	120	30	450	30	25	500	80	35	650	2,280
Total .....	<u>7,530</u>	<u>7,805</u>	<u>8,460</u>	<u>8,510</u>	<u>8,515</u>	<u>9,050</u>	<u>8,655</u>	<u>8,625</u>	<u>9,100</u>	<u>8,670</u>	<u>8,595</u>	<u>9,225</u>	<u>102,740</u>
<u>Corporate items:</u>													
General .....	300	275	250	265	290	260	250	250	270	500	300	285	3,495
Debt redemption .....	381	2	2	12	2	2	2	116	97	573	1,616	2	2,807
Total .....	<u>681</u>	<u>277</u>	<u>252</u>	<u>277</u>	<u>292</u>	<u>262</u>	<u>252</u>	<u>366</u>	<u>367</u>	<u>1,073</u>	<u>1,916</u>	<u>287</u>	<u>6,302</u>
Trust funds, etc. ....	70	70	70	70	70	75	75	75	75	75	75	75	875
Grand total ,.....	<u>8,281</u>	<u>8,152</u>	<u>8,782</u>	<u>8,857</u>	<u>8,877</u>	<u>9,387</u>	<u>8,982</u>	<u>9,066</u>	<u>9,542</u>	<u>9,818</u>	<u>10,586</u>	<u>9,587</u>	<u>109,917</u>

INTERDEPARTMENTAL WAR SAVINGS BOND COMMITTEE  
WASHINGTONOFFICE OF CHAIRMAN  
TREASURY DEPARTMENT

June 9, 1943

MEMORANDUM TO THE SECRETARY OF THE TREASURY:

Prior to the Second War Loan Drive, as Acting Chairman of the Interdepartmental Committee, I pointed out how Government employees could participate in the campaign by increasing pay roll authorizations, by encouraging non-participants to enroll in the Plan, and by making special cash purchases of War Bonds during the campaign over and above their pay roll allotments. As a result of these efforts, a number of the agencies established facilities for cash purchases. Such agencies have now reported a total of \$10,888,187 (purchase price) bonds were sold. Of this amount, the Navy reported \$6,474,763, the War Department \$2,905,521, and the Treasury \$648,880. Attached hereto is a summary of such sales, arranged by departments, agencies, and independent establishments, as well as a breakdown of the Treasury sales by bureaus and offices.

In addition to these cash sales, there was a noticeable increase in pay roll allotments. The total monthly amount allotted by Federal employees increased from \$31,124,943 in March to \$34,896,289 in April and it would appear that this upward trend is being continued, as evidenced by reports now being received.

Attachments



Cash Sales of War Bonds and Stamps  
Second War Loan Drive

Department, Agency or Independent Establishment	Amount Sold
Bureau of the Budget .....	\$ 749.00
Alien Property Custodian .....	3,375.00
Office of Civilian Defense .....	2,105.00
Office of Defense Transportation .....	2,287.00
War Manpower Commission .....	3,781.00
Office of Censorship .....	194,397.00
Office of Price Administration .....	5,991.00
Treasury .....	648,880.00
War .....	2,905,521.00
Post Office (Departmental) .....	5,850.00
Navy .....	6,474,763.00
Commerce .....	164,531.00
Federal Communications Commission .....	7,331.00
Federal Reserve Board .....	23,293.00
Federal Trade Commission .....	20,603.00
Public Roads Administration .....	15,275.00
Public Works Administration .....	1,500.00
Maritime Commission and War Shipping Administration .....	3,806.00
National Advisory Committee for Aeronautics .....	52,258.00
National Mediation Board .....	500.00
Panama Railroad Company .....	27,687.00
The Panama Canal .....	48,562.00
Reconstruction Finance Corporation .....	51,143.00
National Gallery of Art .....	975.00
Tariff Commission .....	5,756.00
National Archives .....	600.00
Interior .....	216,668.00
<b>Total .....</b>	<b><u>\$10,888,187.00</u></b>

TREASURY DEPARTMENT  
Cash Sales of War Bonds and Stamps  
Second War Loan Drive

Bureau, Division or Office	Amount
Office of the Secretary	\$ 1,218.75 -
Division of Research & Statistics	-0-
Office of the General Counsel	-0-
Division of Personnel	-0-
Office of the Chief Clerk	7,400.00
Office of Superintendent of Treasury Buildings	-0-
Bureau of Accounts	37,487.50
Bureau of Public Debt	46,450.00
Treasurer of the United States	23,704.25
Bureau of Customs	-0-
Comptroller of the Currency	546.25
Bureau of Internal Revenue	464,151.00
Bureau of Narcotics	-0-
Bureau of Engraving & Printing	20,568.50
Secret Service	-0-
Bureau of the Mint	15,000.00
Procurement Division	-0-
Division of Monetary Research	-0-
Division of Tax Research	-0-
War Savings Staff	7,653.60
Foreign Funds Control	1,000.00
Credit Union	3,700.00
<b>Total</b>	<b>648,879.85</b>

## EXPENSES OF LOANS

June 9, 1943

COL. RICHARD PATTERSON  
VICE CHAIRMAN OF RKO CORP.  
RKO BUILDING  
NEW YORK CITY

I CAN'T BEGIN TO TELL YOU HOW MUCH I APPRECIATED YOUR WIRE AND THE UNSELFISH SPIRIT WHICH PROMPTED IT. I CAN SAY THAT IT IS ONE OF THE FINEST AND MOST CONSIDERATE GESTURES THAT ANYONE HAS EVER MADE TO ME. BY YOUR WILLINGNESS TO COOPERATE YOU ENABLED ME TO SETTLE A RATHER DIFFICULT PROBLEM. I SINCERELY HOPE THAT I MAY HAVE THE BENEFIT OF YOUR HELP FROM TIME TO TIME.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY

TRG:cea

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

# WESTERN UNION

1201

134  
SYMBOLS

DL = Day Letter
NT = Overnight Telegram
LC = Deferred Cable
NLT = Cable Night Letter
Ship Radiogram

A. N. WILLIAMS  
PRESIDENT

NEWCOMB CARLTON  
CHAIRMAN OF THE BOARD

J. C. WILLEVER  
FIRST VICE-PRESIDENT

Time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

CAE155 67= NEWYORK NY 5 657P

1943 JUN 5 PM 7 47

HONOR HENRY MORGENTHAU JR=

DEAR HENRY I HAVE A COMPLETE UNDERSTANDING OF THIS NEWYORK SITUATION. WITH ALL YOUR PROBLEMS I DONT WANT YOU TO BE WORRIED ABOUT ME. GAMBLE AND I HAVE HAD A THOROUGHLY SATISFACTORY TALK AND I WANT YOU TO KNOW THAT IF I CAN SERVE YOU AT ANY TIME YOU HAVE BUT TO SAY THE WORD. MY BEST WISHES TO YOU FOR THE SUCCESS OF YOUR

WORLD PROGRAM=

RICHARD C PATTERSON JR

*Handwritten notes:*  
TO Broughton  
657P  
R  
- 657P TO BE??

COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

## EXPENSES OF LOANS

June 9, 1943

HON. FRANK ISBEY  
STATE CHAIRMAN  
WAR SAVINGS STAFF  
DETROIT, MICHIGAN

I HAVE JUST SENT THE FOLLOWING WIRE TO WALTER MC LUCAS QUOTE  
I WANT YOU TO KNOW THAT I APPRECIATE YOUR TELEGRAM AND AM  
HAPPY TO KNOW THAT YOU HAVE ACCEPTED THE CHAIRMANSHIP OF THE  
IMPORTANT BANKING AND INVESTMENT DIVISION OF THE WAR FINANCE  
COMMITTEE FOR MICHIGAN. THE SECOND WAR LOAN WAS A REMARKABLE  
DEMONSTRATION OF THE EFFECTIVE WORK BEING DONE BY YOURSELF  
IN PARTICULAR AND COMMERCIAL AND INVESTMENT BANKERS IN GENERAL  
THROUGHOUT MICHIGAN. I AM SURE THAT WITH THE HELP YOU CAN  
GIVE FRANK ISBEY THAT THE TREASURY CAN LOOK FOR EVEN GREATER  
SUCCESS IN THE THIRD WAR LOAN IN SEPTEMBER UNQUOTE. I AM  
DELIGHTED WITH THE MICHIGAN ARRANGEMENT AND AM LOOKING FOR  
AN EXCITING PACE BEING SET THERE FOR THE THIRD WAR LOAN

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY

HR:ca

**EXPENSES OF LOANS**

**June 9, 1943**

**MR. WALTER McLUCAS  
FIRST NATIONAL BANK  
DETROIT, MICHIGAN**

I WANT YOU TO KNOW THAT I APPRECIATE YOUR TELEGRAM AND AM HAPPY TO KNOW THAT YOU HAVE ACCEPTED THE CHAIRMANSHIP OF THE IMPORTANT BANKING AND INVESTMENT DIVISION OF THE WAR FINANCE COMMITTEE FOR MICHIGAN. THE SECOND WAR LOAN WAS A REMARKABLE DEMONSTRATION OF THE EFFECTIVE WORK BEING DONE BY YOURSELF IN PARTICULAR AND COMMERCIAL AND INVESTMENT BANKERS IN GENERAL THROUGHOUT MICHIGAN. I AM SURE THAT WITH THE HELP YOU CAN GIVE FRANK ISBEY THAT THE TREASURY CAN LOOK FOR EVEN GREATER SUCCESS IN THE THIRD WAR LOAN IN SEPTEMBER.

**HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY**

TRG:esa

31

BERNARD M. BARUCH  
597 MADISON AVENUE  
NEW YORK

June 3, 1947

My dear Secretary Morgenthau:

Your telegram of June 2 has just come to my home, and I hasten to reply.

You've got a tough job in front of you -- no one knows better than I how tough it is -- not alone to sell bonds, but to get more bonds.

I do not go on committees but if you really think I can be helpful, I cannot refuse you.

Sincerely yours,

*Bernard M. Baruch*

Hon. Harry Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 9, 1943, 1 p.m.

NO.: 879

This is a strictly confidential, priority telegram being a message from Adler (his no. TF-128) for the Secretary of the Treasury only.

I refer to my telegram TF-128, dated June 1. Yesterday I saw Dr. Kung, who again reviewed the status of the Stabilization Board. He referred to the change in circumstances since the negotiation of the 1941 Stabilization Agreement, and indicated that in view of the change and particularly in view of the fact that the agreement has been rendered out of date by the closer relations between the United States and China since it was entered into, he is wondering whether it is not now time to reconsider the agreement. He asks therefore that I informally sound you out as to whether you would prefer (a) that the 1941 agreement be terminated and a new agreement be negotiated, or (b) that the 1941 agreement be revised.

I. Dr. Kung in his conversation with me appeared to have great confidence in his ability to negotiate a new agreement which would be more favorable to China, and I understand that the same confidence was displayed in his discussion of the matter with his Finance Ministry advisors and with the Chinese members of the Stabilization Board, all of whom favored renewing or at the most revising the present agreement. I hear reliably that Dr. Kung has not infrequently said that the 1941 agreement is not a good one and in particular has objected to the first sentence of paragraph 9 whereby you could unilaterally terminate the agreement at 30 days notice. On several occasions Dr. Kung himself has mentioned that he wishes foreign representatives to be retained on the Board, but more nationalistic circles regard the presence of foreign representatives on the Board as a derogation of Chinese sovereignty. Yesterday Dr. Kung informed me that in case negotiations for a new agreement are opened, China will ask repayment terms identical with or similar to those of the Lend-Lease arrangements.

II. Apparently personal motives may in part actuate Dr. Kung's desire to negotiate a new agreement. It appears that Dr. T. V. Soong has recommended renewal of the 1941 agreement. Dr. Kung would like to show that he can get a better agreement than Dr. Soong could get, and moreover

an

an agreement free from any of the "stigmas" of the unequal treaties. Possibly another factor is a wish to find a job for T. L. Soong, just appointed Chinese Legation member to the preliminary discussions on international monetary cooperation. If such a job were given T. L. Soong, who was formerly manager of the Southwestern Transportation Company which had the monopoly of traffic on the Burma Road, presumably he would replace K. P. Chen as chairman.

III. Of course broader considerations of the policy will determine your reaction to Dr. Kung's question, but I feel it my duty to report my impression derived from observations here that preservation of the 1941 agreement essentially in its present form is to the interests of China as well as of the United States.

ATCHESON

OFFICE  
SECRETARY OF TREASURY

1943 JUN 10 PM 12 22

NOT FOR DEPARTMENT  
USE ONLY TO BE TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 188

Information received up to 7 a.m., 9th June, 1943.

1. NAVAL

MEDITERRANEAN. 3rd. One of H.M. Submarines torpedoed an 8,000 ton Tanker North of MESSINA.

2. AIR OPERATIONS

WESTERN FRONT. 8th. Fighters operating over HOLLAND, damaged 7 Barges, 4 Coasters and an Armed Trawler.

SICILIAN CHANNEL. 6th and 7th. PANTELLERIA attacked by 826 aircraft. 465 tons bombs dropped. Combat casualties - Enemy 8, 1, 4; Allied 3, 0, 0.

June 10, 1943  
11:38 a.m.

Herbert  
Gaston:

Yes.

HMJr:

I want to make a record of this call, and I've only got six minutes to do it.

G:

Yes.

HMJr:

And I've got to talk awful fast. If you want to talk with Bell afterwards because I've got to go upstairs to see Mrs. Morgenthau.

G:

Yes.

HMJr:

Now the main thing is I want to make a record.

G:

Yes.

HMJr:

And I'll talk faster than they can take it dictation.

G:

Yes.

HMJr:

"My dear Mr. President: On June I wrote you a letter, copy attached, advising you of a meeting that took place in my office to discuss the tax policy. May I point out to you that you approved of this meeting in advance. (Paragraph) I also reported on the meeting at Cabinet at which Mr. Byrnes was present. It was decided at the meeting that the Congressional members present would think the matter over and they asked to come back again on June 15th. (Paragraph) The enclosed clipping from the New York Tribune announces that the meeting will take place. (Now that is on page 12 at the end of column 1, 2, 3, 4, 5, 6 starting "Senator George said...."

G:

Uh huh.

HMJr:

It's the end of that article. Anybody can look it up.

G:

Yes. Today's Herald-Tribune.

HMJr:

Hello?

- 2 -

G: Today's Herald-Tribune.

HMJr: Yeah.

G: Yeah.

HMJr: "In view of Mr. Byrnes' announcement of his interest in future tax policy as typically reported by Mr. Crider in the New York Times today and the general interpretation by the press that - quote - (and now I go to Crider's article on the front page of the Times. Where the heck is that? Where's Crider? Wait a minute. We had it. Where's Crider? Here. Oh, yes.) The article starts: "Following so closely upon the President's press conference..." - and it ends - "...Mr. Morgenthau will no longer be the Administration's tax policy-maker."

G: Hmmm.

HMJr: "I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15th, and I would like to feel free to show your communication to the conferees and, better yet, make it public..."

G: Yes.

HMJr: "...because if I am to continue to represent you before Congress on tax matters, this is as good a time as any to clear up the confusion due to the statement - due to the statement made by Mr. Byrnes yesterday."

G: Yes.

HMJr: "I can assure..." - wait a minute - "I can assure you presenting the Administration's tax program before Congress for the last 9 1/2 years has been a thankless task and one of extreme difficulty, and if you would prefer to have someone else do it, please say so now."

G: Uh huh.

HMJr: "The Treasury led the fight for four months against the Ruml plan, and with your generous assistance beat the Republican machine three times. During that period I succeeded in bringing together in my

(Cont'd.)

- 3 -

HMJr: office John McCormack and Bob Doughton and  
(Cont'd.) having them bury the hatchet. After what I  
had - after what I (what'd I say?) - what I  
had every reason to believe was a complete  
victory for the Administration in the House.  
Just as soon as the bill went to conference,  
Mr. Byrnes stepped in and proceeds to repre-  
sent the Administration, leaving us out in the  
cold and in ignorance of what was going on.  
It would only be natural for the Democratic  
members of the conferees to feel that this was  
a repudiation of the Treasury by you. Mr.  
Doughton informed me that he invited Mr. Byrnes  
to sit down with the conferees and give him  
the benefit of his advice...."

G: Give "them" the benefit.

HMJr: "...which he refused to do."

G: Uh huh.

HMJr: "As the bill finally came out of the conference,  
you did not get anything you asked for as pre-  
sented to Senator George and Congressman  
Doughton by Mr. Byrnes." (Now this part about  
the four - the four months' tax, you see, the  
fight - hello?

G: Yes, yes.

HMJr: That's sort of extraneous.

G: Yes.

HMJr: I don't know whether we want to put it in.

G: Uh huh.

HMJr: But up to that point....

G: Yeah.

HMJr: ....where I say - I'm hanging it on....

G: Yeah.

HMJr: ....the fact that we've got a meeting on  
June 15th....

- 4 -

G: Yes.

HMJr: ....and I'm - I want to know before I go into this meeting....

G: Yes, uh huh.

HMJr: ....in writing from the President, does he want us to represent him on the Hill?

G: Yes.

HMJr: Now what I want is you fellows to concentrate on this thing.

G: Yes.

HMJr: I'm convinced I should write the letter to the President....

G: Yes.

HMJr: ....and I haven't had time to discuss it with Bell....

G: Uh huh.

HMJr: ....but there ought to be enough brains in the Treasury to take this letter....

G: Yes.

HMJr: ....as I say, I'm - I'm quite confident I'm all right up to the point where I say - where I go in on the four months on the Ruml.

G: Yes.

HMJr: I'm not sure of that, whether I want to say that.

G: Yes.

HMJr: But I do want to say just what I did.

G: Yes.

HMJr: You know.

G: Yes.

- 5 -

HMJr: Now talk it over and I'll - I got to go up-  
stairs, and I'd like to have you talk with Bell  
a minute, see?

G: Yes, yes.

HMJr: And then when I come down he can give me his  
reaction.

G: Yes.

HMJr: And then I have Miss Duncan here, who is  
Maloney's private secretary in Secret Service....

G: Yes.

HMJr: ....and she is available to take down any  
corrections or versions of - of what you want  
me to say.

G: I see, yes.

HMJr: Do you see?

G: Yes.

HMJr: But I think I've got to say something, and  
fortunately the Tribune says the meeting is  
taking place on the 15th.

G: Uh huh.

HMJr: Hello?

G: Yes.

HMJr: So I'll never have a better time to get the  
President to say, does he want us to go on  
or doesn't he want us to go on?

G: Yes, yes. Well, we're to call back and....

HMJr: Wait a minute. I'll let you talk with Bell....

G: Yeah.

HMJr: ....and then he'll be here in this room, and  
the young lady will....

- 6 -

G: Yes.

HMJr: .....do the best she can....

G: Yes.

HMJr: ....and type it so we have a copy, and she'll be available if you want to make corrections, see?

G: Yes. All right.

HMJr: Just a moment.

G: Yes. (Yes, yes. Could you hear that, John? Could you - should not be? You - you heard what he said about the....)

Daniel Bell: Hello.

G: Yes, hello, Dan.

B: All right. You got it, didn't you?

G: Well, I - yes.

B: Is the loud-speaker working?

G: I got - what's that?

B: Is the loud-speaker working?

G: The loud-speaker is - is working faintly but they're getting it.

B: I see. Who - is Paul back?

G: Paul is not back. John....

B: You don't know how that conference....

G: Hello?

B: You don't know how that conference....

G: I do not know how that conference went on - went on. I could - one of us could call Paul's office and see whether they've heard from him. Harry....

- 7 -

- B: Well, he's supposed to be in there, and if he isn't back, why - I mean if he isn't there, he....
- G: Harry - Harry is going to call his office and find out whether he's back. He's going - he's having Fitz call and see whether he's back, yeah.
- B: I think one of the questions we've got to decide first is whether the Secretary should send that letter. It's another threat to resign....
- G: It's....
- B: ....and....
- G: Well, it's....
- B: ....I don't blame him much. Having read all the articles this morning, it certainly plays up the Byrnes side of this picture very favorably from his standpoint and....
- G: Well, it's....
- B: ....slaps the Secretary pretty much in the face.
- G: Yes, it....
- B: Not only this one, but in forced savings thing a couple of days ago - was just a forerunner.
- G: Yes, yes. It's - it's not exactly what you called it. It isn't exactly a threat to resign, but it's marching up the hill....
- B: Yeah....
- G: ....where you - you either have to jump off or march back again.
- B: That's right.
- G: Yeah.
- B: Well, now what he wants, of course, is to get something in writing from the Sec. - from the President....
- G: Yes.

- 8 -

B: ....so that....

G: Yes. Well....

B: ....he can show that to the group next Tuesday.

G: Yes. Paul - Paul is not back - Paul is not back, and nobody's heard from him. He has a date for lunch with - with Vinson, and I - he may go directly from that conference. He's told me that - he told me that he would - he told John that he would try to call him before lunch, and he told me that he would call me if he could get an opportunity before lunch, but we have not heard from him.

B: Send him word that I thought that he ought to call the Secretary and tell him the results of the conference.

G: Yes, I think he should.

B: I think he ought to come back and go over that letter before he goes to lunch - with you all.

G: Yes, I - we should try to get him.

B: I think so.

G: Yeah. Well, now where are you, Dan?

B: We're in the hospital.

G: Uh huh.

B: And the operator there knows how to get this room....

G: Yes.

B: ....and I'm going to stay here, and at least - I'm going to stay here for lunch.

G: Uh huh.

B: And then we go up to Dr. Burgess' office, which is Dick Patterson's former office....

G: Uh huh.

- 9 -

- B: ....about two o'clock or a little after.
- G: Uh huh, uh huh.
- B: The girl's gone downstairs now to write what the Secretary dictated.
- G: Yes.
- B: And we'll go over it here, and I - he'll be back in about a half hour. He's going up to stay with Mrs. Morgenthau while the nurse goes to lunch.
- G: I see.
- B: And he'll be back probably around half-past twelve.
- G: Uh huh. Well, we'll get this thing written out and discuss it, and we'll try to get Randolph and have him get a look at it, and - and then we'll - and then we'll get you back as soon as we can. We'll - that'll - it may be - it may be a half hour or it may be an hour.
- B: Well, I think that the Secretary is rather anxious to find out what went on at the conference.
- G: Yes.
- B: And as soon as Paul comes back, you might put in a call and let me have that....
- G: Yes.
- B: ....whether the Secretary's back or not.
- G: Yes, yes.
- B: All right.
- G: Right, Dan.
- B: I'll hear from....

- 10 -

- G: Wait a minute. John has something he wants to say.
- B: All right.
- G: (Talks aside) John reminds me of his - of his conference with Byrnes this morning. He talked - asked Byrnes for his advice on whether he should go on the air tonight with that broadcast explaining the collection at the source.....
- B: Yeah.
- G: ....and Byrnes said, "No." He said, "Nothing has been decided. We're - the thing hasn't been thrashed out. We're going to - we're going to thresh it out at this meeting this morning, and I wouldn't do anything. I wouldn't put out anything, and I wouldn't decide to go on the air until - until you know something more." And he asked him if he couldn't put off the broadcast until some other day.
- B: There's no indication that the bill might be signed today?
- G: No.
- B: Well, then I think John is in a hole.
- G: Yes....
- B: John - he can't go on the air, and certainly - and I wouldn't take anybody's word for it.
- G: John says Byrnes said that the bill positively would not be signed today.
- B: Oh, would not?
- G: Uh huh.
- B: Well, then I wouldn't get the Treasury out on that limb....
- G: No.
- B: ....because the President might change his mind on this thing, even though he said he's going to sign it.

- 11 -

- G: Yes, he might.
- B: I wouldn't take that chance.
- G: Yes, yeah. Well, I didn't have the chance to talk to the Secretary. I haven't yet talked to Steve Early. I was planning to go over and talk to him about that forced savings thing, but I don't think I'll do that without checking with the Secretary again.
- B: Well, I'm going to - I've got Fred Smith's and Chic Schwarz' suggested answer and - or question and answer....
- G: Yes, I have it.
- B: ....and I wanted to go over that with the Secretary, and then I thought I'd give you a ring.
- G: Well, I was planning to take that over and discuss the matter with Steve, but I'll wait until I hear from you, Dan.
- B: I think so.
- G: Yeah, yeah.
- B: And I thought I'd like to discuss it with the Secretary. In view of what's happened, maybe he'll want to let that go and the whole thing ought to be cleaned up....
- G: It may....
- B: ....all done at once.
- G: ....it may be so. Now John has got a word he wants to say to you.
- B: All right.
- John Sullivan: I didn't want you to misunderstand, Dan. I told him that I had taken the position that we would release no forms and make no statements until it was signed....
- B: Uh huh.

- 12 -

- S: ...and he said, "That's absolutely right." Then I said, "Well, I'd better cancel this broadcast unless there's some chance it will be signed today." He said, "You go ahead and cancel it."
- B: Yeah.
- S: Ah....
- B: Well, I agree with that.
- S: He didn't say that it positively would not be signed, but he said he was....
- B: He said it positively would not be signed today?
- S: No, he did not say that. He said that - the answer to the - my inquiry as to whether it would be signed would be, "No, because it hadn't been thrashed out."
- B: How long - how long before the broadcast could you cancel it.
- S: I talked with the studio right after I talked with - with Byrnes and told them the situation, and they said, "Well, we're desperately hoping that something will change, and we'll hang onto this until twelve o'clock or sometime a little later than that...."
- B: Uh huh.
- S: "....and if you hear of any change, call us."
- B: I see.
- S: But unless the President makes some statement or signs it, I do not want to make a broadcast.
- B: That's right. I wouldn't do that.
- S: Right. Just a minute.
- B: Or if you can hold onto it later and then if something comes out, why, go ahead and make it.
- S: Oh, yeah. That's right. Wait a minute.

- 13 -

B: All right.

S: Here's Herb.

B: All right.

Herbert  
Gaston:

Dan, the Secretary asked me to give out an item this morning - to have Schwarz' office give out an item, and it's - this is the version on Dow-Jones ticker. You might want to mention it to the Secretary: "Washington - Dow-Jones - Randolph Paul, Treasury tax authority, will substitute for Secretary Morgenthau at the meeting called today by War Mobilization Director Byrnes to consider pay-as-you-go tax program. Meanwhile, Secretary Morgenthau will confer in New York with Under Secretary Bell on the forthcoming financing program of the Treasury. Secretary Morgenthau had given his pay-as-you-go views to the President about a week ago, and for that reason is not attending the Byrnes session today. Others to confer with Byrnes are Budget Director Smith and Economic Stabilization Director Vinson. Treasury officials do not anticipate any announcement out of the New York conference today on the 2½ billion financing program." That's - that's what he asked me to get out this morning, and it's out.

B: (Laughs) I wonder how that will set?

G: I don't know.

B: That he's given his views to the President on it.

G: Yeah.

B: (Laughs) All right.

G: It ought to be - yeah.

B: Thanks a lot, Herbert, and I'll be in touch with you later.

G: Yeah, well, all right.

B: Fine. Goodbye.

NEW YORK  
**Herald Tribune**  
 JUN 10 1943

## Byrnes to Take Leading Hand In Tax Policy

Says New Levies Will Aim to Fight Inflation and Not Just Raise Revenue

By Samuel W. Bell

WASHINGTON, June 9.—James F. Byrnes, director of the new Office of War Mobilization, disclosed today that he will take an active hand in the formulation of Federal tax policy, indicating that it is to become an important part of a broad anti-inflation program of the O. W. M. rather than a mere revenue-raising problem of the kind heretofore threshed out by Congress and the Treasury.

Mr. Byrnes's decision to take part in all future discussions of taxes was made known at a press conference at which he announced that he had called a meeting tomorrow of Henry Morgenthau jr., Secretary of the Treasury; Fred M. Vinson, newly appointed director of the Office of Economic Stabilization, and Harold D. Smith, Director of the Budget. Their discussions, Mr. Byrnes indicated, will turn on an impending statement by President Roosevelt to accompany his signature of the compromise pay-as-you-go income-tax collection bill.

"One might discuss what the President will say in connection with the signing of that bill," said Mr. Byrnes. "I am interested in discussing where we are to go from here."

The emergence of the O. W. M. as a controlling agency in the determination of future tax policy was made as Congress, through its spokesmen on taxes, reacted unfavorably, in the main, to President Roosevelt's announcement that he still intends to submit his recommendations for \$16,000,000,000 in additional taxes and that he will submit them before the members of Congress have begun a proposed summer recess.

### George Cautions on Increase

Although Mr. Byrnes declined to offer any details on his ideas about new taxes, or those which may have been suggested by director Vinson, who is a former chairman of the House Ways and Means tax subcommittee, Senator Walter P. George, Democrat, of Georgia, chairman of the Senate Finance Committee, was quick to point out the difficulties of imposing steeper levies on individual income now.

Mr. Roosevelt, in indicating that the pay-as-you-go tax collection bill will be inadequate to close the "inflationary gap," appeared to intimate that the pressure of events had virtually forced new tax legislation even if the project ran athwart of the desire of Congressional leaders to take a two months' vacation starting about July 15.

Senator George, whose compromise on pay-as-you-go tax legislation—providing for a carry-over tax on 25 per cent of income earned in 1942 or 1943 (whichever is the smaller) into 1944 and 1945—prevailed in Congress, holds that this doubling-up should operate to "freeze" personal income-tax rates for the next two years.

He said today that it seemed "out of the question" for Congress to consider imposing higher income taxes, at least until next year, although Congress should be willing to consider increases in excise taxes as suggested by Mr. Roosevelt yesterday, without offering support for general sales taxes.

### Congressmen Astonished

If Mr. Roosevelt's forthcoming tax recommendations follow the line projected by his discussion of the subject at yesterday's press conference, he will propose increases on liquor and tobacco, which he recalled the British had imposed without cutting down consumption.

Members of Congress familiar with the situation were slightly astonished today at Mr. Roosevelt's comment. In the first place, they pointed out, increased excise taxes on cigarettes, tobacco, liquor or any other luxury would not begin to fill out the \$16,000,000,000. In the second place, they recalled that Britain had a stiff sales tax, or, as it is known there, a "purchase" tax, which is the sales tax in reverse.

To show the severe nature of this British system of taxation, tax experts at the Capitol estimated that it adds 12 per cent to the price of clothing and almost all necessities with the exception of food and fuel; that it adds 24 per cent to the cost of intermediate goods, such as furniture and china, and 50 per cent to luxuries, such as cameras, furs and jewelry.

Including the social-security taxes, Senator George estimated today that the Federal tax bill will be approximately \$38,000,000,000 for the fiscal year beginning July 1. He estimated that local and state taxes will aggregate \$11,000,000,000, and asserted that the total tax bill of the people of the United States would be as great if not greater than that borne by the British or the Canadians.

Senator George said that he and Representative Robert L. Doughton, Democrat, of North Carolina, chairman of the Ways and Means Committee, discussed the possibilities of a new tax bill with Secretary Morgenthau recently and came to no conclusion. Another conference has been arranged for June 15, when Representative Doughton returns from North Carolina, he said.

In the absence of Chairman Doughton today, several members of the Ways and Means Committee, where tax legislation originates, were loud in their opposition to holding committee hearings while Congress is in a recess.

"If Congress takes a recess, the tax committees will take a recess, too," said Representative Roy O. Woodruff, Republican, of Michigan.

"I don't know when we will take up a general tax bill, but Chairman Doughton's inclinations are to put it off until fall," said Representative A. Willis Robertson, Democrat, of Virginia.

"I expect to get away from Washington about June 20, and I don't expect to return until September," said Representative Harold Knutson, of Minnesota, ranking Republican member of the Ways and Means Committee.

# The New York Times.

JUN 10 1943

## BYRNES ASSUMES CHARGE OF FRAMING NEW TAX POLICY

**Calls Morgenthau, Smith and Vinson for Session Today on Anti-Inflation Moves**

**LEVY BILL TO BE STUDIED**

**Views of President on Measure to Be Guide—Excess Money Is a Major Problem**

By JOHN H. CRIDER  
Special to THE NEW YORK TIMES.

WASHINGTON, June 9.—The Executive department stepped squarely into the current tax picture today when James F. Byrnes, Director of War Mobilization, said that he would take a hand "in the shaping of future tax policy."

As his first step he said that he had called Henry Morgenthau Jr., Secretary of the Treasury; Harold D. Smith, Director of the Budget; and Fred M. Vinson, Director of Economic Stabilization, to meet with him tomorrow on a tax program.

That he had the shaping of an anti-inflationary tax program in mind he made clear by stating at a special press conference, the first he has held since becoming War Mobilization Director, that the officials meeting with him might discuss "what the President will say" in signing the pay-as-you-go tax bill. This indicated the President's intention of issuing a statement of sending a message to Congress when he signs the tax bill.

President Roosevelt stated yesterday that Congress would hear from him on taxes before its proposed Summer recess, but Congressional leaders were unanimous today in declaring that they were confident that the President had no intention of keeping Congress in the Capital all Summer.

### President's Attitude Cited

Speaker Sam Rayburn of the House said that the President raised no objection when he was apprised of Congressional intention to recess and that he was confident that any tax matters which had to be taken care of this Summer could be handled by the Ways and Means Committee, which, in any event, must give initial consideration to new tax legislation.

Following so closely upon the President's press conference statement yesterday in favor of compulsory savings, which was construed as a repudiation of Secretary Morgenthau's insistence upon voluntary savings, the announcement that Mr. Byrnes was going to take a hand in the shaping of future tax policies led observers to the conclusion that Mr. Morgenthau will no longer be the Administration's tax policy maker.

The entrance of Mr. Vinson into the tax picture was regarded as significant in this connection, in view of the President's known regard for him as a tax expert. For seven years, until his appointment to the Federal Court of Appeals here, Mr. Vinson was chairman of the tax subcommittee of the House Ways and Means Committee.

Mr. Byrnes said that he would look over the new tax bill and do the "spadework," which the President usually does for himself before signing a bill. He will also have a look at "the over-all picture." He said that he called in Mr. Vinson because "excess purchasing power is very definitely involved."

He left no doubt that it was the current crisis in inflation control

which most concerned him, since the question of excess purchasing power of individuals is another way of referring to "the inflationary gap" to which President Roosevelt referred yesterday at his press conference.

The gap is the difference between what consumers have to spend and the amount of goods and services available for their purchase. Latest figures place the gap for the current year at around \$42,000,000,000, based upon estimates of \$142,000,000,000 of income payments to individuals, less \$15,000,000,000 for taxes at all government levels paid by consumers, less \$85,000,000,000, representing the amount of goods and services available for purchase.

The gap is partially closed by war bond purchases, other voluntary savings, payments on debts and insurance and the like. Last year, according to the Securities and Exchange Commission, individuals saved \$29,600,000,000, not including payments for purchase of homes and other durable goods.

To leaders of the anti-inflation fight, the danger lies in not having enough savings of a non-liquid type. For example, about \$5,000,000,000 in savings of individuals in banks and currency in the first quarter of this year is potential purchasing power, just as nearly \$2,800,000,000 of war bonds bought in that quarter are regarded as potentially inflationary because of their ready convertibility into cash.

Compulsory savings, which is the favored method of "turning the key" on savings so that they cannot be spent until after the war, has been favored by leading fiscal officers of the government, with the exception of Secretary Morgenthau, for at least a year.

Mr. Byrnes's statement that he was getting into the tax picture because "a number of agencies are involved" was construed as the first official recognition that inter-agency feuds delayed the attack on inflation from the fiscal side, just as it delayed it on the administrative side until Mr. Byrnes was called in as Director of Economic Stabilization to stop cross-purpose bickering of many agencies involved in rationing and price control.

My dear Mr. Cress

On June -

I wrote you a letter copy attached advising you of a meeting that took place in my office <sup>to discuss tax policy</sup> <sup>may of out and to you</sup> <sup>that you attended</sup> <sup>in advance</sup> <sup>of this meeting</sup> I also reported in the meeting at Cabinet at which Mr. Byrnes was present.

It was decided that at the meeting that the Congressional members present would think the matter over and they asked to come back again on June 15.

The enclosed clipping from N. Y. Tribune announces that the matter will take place.

In view of Mr. Byrnes announcement of his interest in future tax policies as typically reported by Cycles in N. Y. Times and the general interpretation by the press that "Following as closely as tax policy makes"

I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15, and I would like to feel free to show your communication to the conferees and better yet make it public. Because I want to continue to what you before Congress on tax policy this is a good time to discuss the conferees on

FOR THE PRESS

IMMEDIATE RELEASE

JUNE 8, 1945

STATEMENT BY THE PRESIDENT

From time to time since the present war began there have been reports that one or more of the Axis powers were seriously contemplating use of poisonous or noxious gases or other inhumane devices of warfare.

I have been loathe to believe that any nation, even our present enemies, could or would be willing to loose upon mankind such terrible and inhumane weapons. However, evidence that the Axis powers are making significant preparations indicative of such an intention is being reported with increasing frequency from a variety of sources.

Use of such weapons has been outlawed by the general opinion of civilized mankind. This country has not used them, and I hope that we never will be compelled to use them. I state categorically that we shall under no circumstances resort to the use of such weapons unless they are first used by our enemies.

As President of the United States and as Commander-in-Chief of the American Armed Forces, I want to make clear beyond all doubt to any of our enemies contemplating a resort to such desperate and barbarous methods that acts of this nature committed against any one of the United Nations will be regarded as having been committed against the United States itself and will be treated accordingly. We promise to any perpetrators of such crimes full and swift retaliation in kind and I feel obliged now to warn the Axis armies and the Axis peoples, in Europe and in Asia, that the terrible consequences of any use of these inhumane methods on their part will be brought down swiftly and surely upon their own heads. Any use of gas by any Axis power, therefore, will immediately be followed by the fullest possible retaliation upon munition centers, seaports and other military objectives throughout the whole extent of the territory of such Axis country.

*My country adds to fight for those numbers against the German  
also and with your general command since beat for Hitler can  
be active 3 times. He is not afraid I exceeded in being in  
together. I believe a credit victory in being in  
inf.*

*was no by the  
the administration  
you have been a  
before the have  
German and other  
Green across at  
for good news  
if you want  
pay also news  
President*

7

6/10/43

Secretary's draft #1 as dictated  
over phone

My dear Mr. President:

On June I wrote you a letter a copy attached, advising you of a meeting that took place in my office to discuss the tax policy. May I point out to you that you approved of this meeting in advance.

I also reported on the meeting at Cabinet at which Mr. Byrnes was present.

It was decided at the meeting that the Congressional members present would think the matter over and they asked to come back on June 15th.

The enclosed clipping from the New York Tribune announces that the meeting will take place. (page 12 at the end of column 6, starting "Senator George said"; the end of that article).

In view of Mr. Byrnes' announcement of his interest in future tax policies as typically reported by Mr. Crider in the New York Times today and the general interpretation by the press that (and now I go to Crider's article on the front page of the Times) "Following so closely upon the President's press conference" and it ends "Mr. Morgenthau will no longer be the Administration's tax policy maker," I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15th

-2-

and I would like to feel free to show your communication to the conferees and, better yet, make it public, because if I am to continue to represent you before Congress on tax matters this is as good a time as any to clear up the confusion due to the statements made by Mr. Byrnes yesterday. I can assure you presenting the Administration's tax program before Congress for the last 9 $\frac{1}{2}$  years has been a thankless task and one of extreme difficulty and if you would prefer to have someone else do it, please say so now. The Treasury led the fight for four months against the Ruml plan and with your generous assistance beat the Republican machine three times. During that period I succeeded in bringing together in my office John McCormack, and Bob Doughton and having them bury the hatchet. After what I had every reason to believe was a complete victory for the Administration in the House, just as soon as the bill went to conference Mr. Byrnes stepped in and proceeded to represent the Administration, leaving us out in the cold and in ignorance of what was going on. It would only be natural for the Democratic members of the conferees to feel that this was a repudiation of the Treasury by you. Mr. Doughton informed me that he invited Mr. Byrnes to sit down with the conferees and give them the benefit of

-3-

his advice, which he refused to do. As the bill finally came out of the conference, you did not get anything you asked for as presented to Senator George and Congressman Doughton by Mr. Byrnes.

This part about the 4 months fight, that is sort of extraneous. I don't know whether we want to put it in, but up to that point and the fact that we got a meeting on June 15th, I want to know before we go into this meeting in writing from the President does he want us to represent him on the Hill.

6/10/43

HM, Jr's draft of letter which he composed in New York, dictated to a stenographer and then phoned to the Treasury group.

New York, N. Y.  
June 10, 1943

The President of the United States  
Washington, D. C.

My dear Mr. President:

On June I wrote you a letter, a copy attached, advising you of a meeting that took place in my office to discuss future tax policy. May I point out to you that you approved of my holding this meeting in advance.

I also reported on the meeting at Cabinet, at which Mr. Byrnes was present. It was decided at the meeting that the congressional members present would think the matter over and they asked to come back again on June 15. The enclosed clipping from the June tenth New York Tribune announces that the meeting will take place in my office on June 15.

In view of Mr. Byrnes' announcement of his interest in future tax policies, as typically reported by John H. ~~Keyser~~ *Grider* in the June tenth New York Times and the general interpretation by the press that:

"Following so closely upon the President's press conference yesterday in favor of compulsory savings, which was constituted as a repudiation of Secretary Morgenthau's insistence upon voluntary savings; announcement that Mr. Byrnes was going to take a ~~hand~~ <sup>part</sup> in shaping future tax policies led observers to the conclusion that Mr. Morgenthau will no longer be the Administration's tax policy maker."

I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15, and I would like to feel free to show your communication to the conferees, and, better yet, make it public, because if I am to continue to represent you before Congress on tax matters, this is as good a time as any to clear up the confusion due to the statement made by Mr. Byrnes yesterday.

I can assure you, presenting the Administration's tax program before Congress for the last nine and one-half years has been a thankless task and one of extreme difficulty, and if you would prefer to have someone else do it, please say so now. The Treasury led the fight for four months against the Rural Plan, and with your generous assistance beat the Republican machine three times. Through that period, I succeeded in bringing together in my office John McCormack and Bob Doughton and having them bury the hatchet, after what I had every reason to believe was a complete victory for the Administration in the House.

Just as the President wants to confer, Mr. Byrnes steps in and proceeds to represent the Administration, leaving us out in the cold and in ignorance of what is going on. It would only be natural for Congressional Members or conferees to feel that this was a repudiation of the Treasury policy. Mr. Doughton informed me that he invited Mr. Byrnes to sit down with conferees to give them the benefit of his advice, which he refused to do.

As the Bill came out of Congress, you did not get anything you asked for, as presented to Senator George and Congressman Doughton by Mr. Byrnes.

June 10, 1943  
12:42 p.m.

Operator: Go ahead.

Herbert  
Gaston: Hello.

Operator: Go ahead.

G: Yes.

HMJr: Herbert?

G: Yes.

HMJr: Henry speaking.

G: Yes.

HMJr: What do you know?

G: We have been discussing the proposed letter....

HMJr: Yes.

G: We think that - we're - we're prepared to suggest some minor changes in the fore part of the letter....

HMJr: Yes.

G: ....and we all feel that it would be better not to include the latter part which you were in doubt about, involving the past history.

HMJr: Okay.

G: I'm - I am just now engaged in redictating the letter to Miss Chauncey, which is the substance of what you said in the first page and the first half a dozen lines of the second page.

HMJr: But you're not ready yet.

G: We're not quite finished, and Randolph is still tied up in that conference over there.

- 2 -

HMJr: I see.

G: They have agreed to call us as soon as the conference breaks up.

HMJr: I see. He's still over there?

G: He's still over there, yes.

HMJr: Good heavens!

G: Did I - did - did Dan tell you about the Dow-Jones announcement carrying out our conversation of last night?

HMJr: No.

G: Well, this is the item from the Dow-Jones ticker: "10:36 - Randolph Paul, Treasury tax authority, will substitute for Secretary Morgenthau at the meeting called today by War Mobilization Director Byrnes to consider pay-as-you-go tax program. Meanwhile, Secretary Morgenthau will confer in New York with Under Secretary Bell on the forthcoming financing program of the Treasury."

HMJr: Good.

G: "Secretary Morgenthau had given his pay-as-you-go views to the President about a week ago, and for that reason is not attending the Byrnes session today. Others to confer with Byrnes are Budget Director Smith and Economic Stabilization Director Vinson."

HMJr: Yeah. Well, that story is perfect.

G: Well, that's - they - they put it out just as we gave it to them.

HMJr: That's perfect.

G: Uh huh.

HMJr: Well, now I'll tell you what I think we'll do so we'll know all around....

G: Yeah.

- 3 -

HMJr: ....I think Bell and I will go have a little food....

G: Yes.

HMJr: ....and we'll call you back, say, around two?

G: Around two, yes.

HMJr: How will that be?

G: Yes.

HMJr: Maybe by that time Miss Chauncey will have....

G: Will have - she'll have by that time a draft of our revision.

HMJr: Well, I wonder if she couldn't dictate it to Miss Duncan. I wonder - how long will Chauncey take?

G: She can redictate it to Miss Duncan almost immediately. I can finish dictating to her. She could - she could read right now. She could read right now the - the thing, and she has all of the changes right now.

HMJr: She has?

G: Yeah.

HMJr: Well, then why don't I leave Miss Duncan here in this room and she could take it....

G: Yes.

HMJr: ....and then retype it for me, and then she can have her lunch.

G: Yes.

HMJr: Just a moment.

G: Yes.

HMJr: Or could she call back in - say, call you back in five minutes?

- 4 -

G: Call back in five minutes would be all right, yes.

HMJr: Oh. Well, why not - let's leave it this way.

G: Uh huh.

HMJr: Hello?

G: Yes.

HMJr: When Miss Chauncey is ready....

G: Yes.

HMJr: ....she can go back to her room....

G: Yes.

HMJr: ...and call Miss Duncan over the Fed.

G: Yes.

HMJr: And call her on Regent 4-3441.

G: Yes, yes.

HMJr: Carre knows where she is. Miss Duncan will sit here until Miss Chauncey....

G: Yes, and she....

HMJr: ....calls her back.

G: Miss Chauncey will call her on Regent 4-3441.

HMJr: Yeah, and then Miss Duncan can type it....

G: Yes.

HMJr: ....and by the time I'm through my lunch she can have it.

G: Right.

HMJr: Okay?

G: Okay.

HMJr: And then - hello?

- 5 -

G: And if we get a hold of Randolph, why, we'll try and get him to call you at....

HMJr: Well, there's no - don't have him bother calling me now until two.

G: Not - not before two. You won't leave the hospital until about two?

HMJr: Well, I'm not going to leave then, but Bell - Bell came up to talk to me and I want to give him a chance.

G: Yes, yes.

HMJr: He looks very hungry.

G: Yeah, well, he talked about your going over to see Randolph Burgess at two, but you....

HMJr: Well, I'm not - we may have that man come over here.

G: I see, yes. All right.

HMJr: But I - I - you feel I should send the letter?

G: Well, I'm - I - I feel that way, yes. As - as we have it, I think it's - I think it's perfectly proper for you to send it.

HMJr: Okay.

G: Right.

HMJr: Hello.

June 10, 1943  
2:22 P. M.

169 ✓

HMJr: Who is this?

Herbert  
Gaston: This is Herbert.

HMJr: Herbert.

G: Yeah.

HMJr: Bell and I thought that you'd improved the letter greatly, and we just made a few little changes.

G: Yes.

HMJr: The principal one being: "To be responsible to you for the development of tax policies and...." Did you see that one?

G: Yes.

HMJr: What?

G: "If I continue to be responsible for you for the development of tax policies" -- do you want to cut out the rest of that?

HMJr: No, no. I gave it all to Chauncey. Hasn't she given it to you? -

G: No, she hasn't. (Talks aside) Oh, oh, oh, oh, yes, she has.

HMJr: I gave the whole thing to her.

G: Yes, she has, they tell me. Yes. "If - if I'm to continue to be responsible to you for the development of tax policies and to represent you before Congress on tax matters...."

HMJr: Yes.

G: "....it seems to me that this is the time to clear up the confusion created by the statement by Mr. Byrnes yesterday." Yes. .

HMJr: That was Bell's addition.

- 2 -

G: Oh, yes.

HMJr: Because he said, and very shrewdly....

G: Yeah.

HMJr: ....the President's sure to let Byrnes decide the tax policies and you go up on the Hill and try to sell them.

G: Yes. Yes. I think that may be the answer we'll get anyway.

HMJr: Well, at least then we know where we are.

G: That's right. That's right.

HMJr: But I thought it was a very shrewd addition.

G: Yes, I think so.

HMJr: Yeah.

G: Yes. Randolph is now here. He - he could tell you something about the morning conference as well as his reaction on this letter, if you want to talk to him.

HMJr: Yes, I do. I'm sorry Bell can't listen. I'll have to repeat it to Bell.

G: All right. I - I - I'll give you Randolph right now.

HMJr: Are we making a record?

G: We - you are making a record, yes.

HMJr: All right.

G: Yeah.

Randolph Paul: Hello.

HMJr: Hello, Randolph.

P: The meeting lasted from 10:30 to one....

HMJr: Yeah.

- 3 -

P: ....first, I'll tell you who was there: Byrnes, Vinson....

HMJr: Yeah.

P: ....Ben Cohen....

HMJr: Yeah.

P: ....Harold Smith, Wayne Coy, Gerhar.. - Gerhard Colm and myself.

HMJr: Yeah.

P: The meeting....

HMJr: Wait a minute. I'll repeat that....

P: All right.

HMJr: ....and see how many people were at the meeting.

P: All right.

HMJr: Jimmy Byrnes, Vinson, Harold Smith - okay.

P: Yeah.

HMJr: He said the whole gang.

P: (Laughs) Yeah.

HMJr: What - what....

P: That's right.

HMJr: ....volunteer plan had with that gang.

P: Well, now here, wait a minute. There was presented to the meeting a draft message.....

HMJr: Yeah.

P: ....rather, first, Byrnes stated that the President didn't want to limit himself when he signed this bill to a mere statement about the Pay-as-you-go Bill....

HMJr: Yeah.

P: ....but that he wanted to issue a general message on the inflation situation.

HMJr: Yeah.

- 4 -

P: ....that is all - do it all together.

HMJr: Yeah.

P: The theory being that he could get more attention, if he used this occasion for doing that.

HMJr: Yeah.

P: There was then presented to the meeting a - a ten page - a nine-and-a-half page draft....

HMJr: Yeah.

P: ....of message called, "A Tax and Subsidy Message...."

HMJr: Yeah.

P: ....that had been - apparently had been prepared by Ben Cohen.....

HMJr: Yeah.

P: ...Other people seemed to have some familiarity with it, but I had never seen it before. I'm not sure, but I think there's been some private exchange of the thing.

HMJr: What's that?

P: I think there had been some private work done on it among some of the group before this morning, but I'm not sure of that.

HMJr: Now what's this thing called?

P: "Tax and Subsidy Message."

HMJr: Wait a minute. I want - I want to repeat it as I go....

P: All right.

HMJr: (Talks aside: Dan, Dan, there was a nine-and-a-half page memorandum called "A Tax and Subsidy Message" which was prepared by Ben Cohen, and the President said that Byrnes or the President ought to say something on inflation at this time and get more attention if he added that to this message.) Paul.

(5)

P: (Talks aside: He's telling Bell)

HMJr: Hello.

P: Yeah. We don't know - I didn't concern myself with the last six - the last five or six pages of this, all of which was on the in - subsidy situation.

HMJr: I'll repeat, the last six pages were on the subsidy thing. Okay.

P: And it was said by Byrnes that he was going to take that up with Joe and several other people....

HMJr: Yeah.

P: ....this afternoon.

HMJr: Yeah.

P: But we did go over the whole thing.

HMJr: Yeah.

P: Now the first four or five pages are on tax....

HMJr: Yeah. On what?

P: ....on tax.

HMJr: On taxes.

P: Yeah.

HMJr: By - by Ben Cohen.

P: Yeah.

HMJr: Wonderful.

P: (Laughs) Well, there - there are a lot of mistakes in it.

HMJr: Yeah.

P: (Laughs) Now let me say, first - let me divide it into - the first part of it is expressing some dissatisfaction with the Pay-as-you-go Bill, but saying  
(Cont'd.)

(6)

P: (Cont'd.) that he's going to sign it anyway.

HMJr: Now wait a minute. (Talks aside) Okay.

P: Then he - the rest of it.....

HMJr: I feel like you're making a speech in German and I'm translating it.

P: Yeah. It is something like that. (Laughs)  
Well, the rest of the tax part....

HMJr: Yeah.

P: ....is devoted to the need of increased revenue to combat inflation.

HMJr: (Talks aside: The rest of it is increased - increased revenue to combat inflation)

P: And also to raise revenue too.

HMJr: Yeah.

P: Now they go back to the \$16,000,000,000 in the budget.....

HMJr: Yeah.

P: ....and they come out very plainly....

HMJr: Yes.

P: ....for compulsory saving.

HMJr: Yeah.

P: So I told - I really didn't have to tell, but I did repeat your objection to that.

HMJr: Yes.

P: And I said I wanted it understood that was our position and I was discussing the thing X - that phase of it.

HMJr: Well, now let me understand a minute. They were- they were talking about sixteen - you said sixteen billion dollars in revenue.

(6)

P: (Cont'd.) that he's going to sign it anyway.

HMJr: Now wait a minute. (Talks aside) Okay.

P: Then he - the rest of it.....

HMJr: I feel like you're making a speech in German and I'm translating it.

P: Yeah. It is something like that. (Laughs)  
Well, the rest of the tax part....

HMJr: Yeah.

P: ....is devoted to the need of increased revenue to combat inflation.

HMJr: (Talks aside: The rest of it is increased - increased revenue to combat inflation)

P: And also to raise revenue too.

HMJr: Yeah.

P: Now they go back to the \$16,000,000,000 in the budget.....

HMJr: Yeah.

~~P:~~ ....and they come out very plainly....

HMJr: Yes.

P: ....for compulsory saving.

HMJr: Yeah.

P: So I told - I really didn't have to tell, but I did repeat your objection to that.

HMJr: Yes.

P: And I said I wanted it understood that was our position and I was discussing the thing X - that phase of it.

HMJr: Well, now let me understand a minute. They were - they were talking about sixteen - you said sixteen billion dollars in revenue.

(6)

P: (Cont'd.) that he's going to sign it anyway.

HMJr: Now wait a minute. (Talks aside) Okay.

P: Then he - the rest of it.....

HMJr: I feel like you're making a speech in German and I'm translating it.

P: Yeah. It is something like that. (Laughs)  
Well, the rest of the tax part....

HMJr: Yeah.

P: ....is devoted to the need of increased revenue to combat inflation.

HMJr: (Talks aside: The rest of it is increased - increased revenue to combat inflation)

P: And also to raise revenue too.

HMJr: Yeah.

P: Now they go back to the \$16,000,000,000 in the budget.....

HMJr: Yeah.

P: ....and they come out very plainly....

HMJr: Yes.

P: ....for compulsory saving.

HMJr: Yeah.

P: So I told - I really didn't have to tell, but I did repeat your objection to that.

HMJr: Yes.

P: And I said I wanted it understood that was our position and I was discussing the thing X - that phase of it.

HMJr: Well, now let me understand a minute. They were- they were talking about sixteen - you said sixteen billion dollars in revenue.

(7)

P: Well, they - no, it isn't revenue, it's sixteen...

HMJr: But - but you said revenue.

P: Well, maybe I read - if I said revenue I didn't mean revenue in that sense.

HMJr: Yeah.

P: Sixteen billion dollars - they're talking about raising this sixteen billion dollars mentioned in the budget.....

HMJr: Yeah.

P: ....and their means of raising it are principally taxes and compulsory saving.

HMJr: Yeah. Now wait a minute. (Talks aside: Taxes and compulsory saving)

P: Yeah.

HMJr: Yeah.

P: To give you the est..- to give you that - sixteen billion dollars.....

HMJr: Yeah.

P: ....if we had been prompt about - if the Congress had promptly enacted the revenue, would have meant an annual rate of \$20,000,000,000 additional taxes.

HMJr: Yeah.

P: Now I have the budget figures on that.

HMJr: Yeah.

P: And their idea is \$4,000,000,000 of additional individual income tax.....

HMJr: Yeah.

P: ....\$3,000,000,000 purchaser's sales tax ....

HMJr: Yeah.

P: ....\$1,000,000,000 corporation taxes....

HMJr: Yeah.

(8)

P: ....and \$11,000,000,000 compulsory saving.

HMJr: Now let me - wait a minute. Let me repeat this to Bell. Give it again.

P: Well, I'm talking - I'm talking on an annual basis.

HMJr: All right. On an annual basis.

P: The principal items are \$4,000,000,000 additional individual income taxes.

HMJr: (Repeats: \$4,000,000,000 additional individual income)

P: \$1,000,000,000 additional corporation.

HMJr: (Repeats: \$1,000,000,000 additional corporation)

P: \$3,000,000,000 purchaser's sales tax.

HMJr: (Repeats: \$3,000,000,000 purchaser's sales tax)

P: \$11,000,000,000 compulsory savings.

HMJr: (Repeats: \$11,000,000,000 compulsory savings)

P: Now those are the principal items. There are a couple of other small items.

HMJr: Yeah.

P: Those aren't - this message doesn't contain any of those details.

HMJr: Yeah.

P: But - but it does make it very plain, that the \$16,000,000,000 consists of compulsory savings as well as taxes.

HMJr: Yeah.

P: And Byrnes expressed himself as very much in favor, at the meeting, of compulsory savings....

HMJr: Yeah.

P: ....so did Vinson. Now Vinson, however, is against the sales tax.

HMJr: Yeah. Wait a minute. (Talks aside: Byrnes) Wait a s minute. (Talks aside: Byrnes and Vincent are

(Cont'd.)

- 9 -

HMJr: (Cont'd.) for compulsory savings -- yeah.) Yeah.

P: The - the message has one thing in it which they decided to take out of it.

HMJr: Yeah.

P: That is a reference to a war income tax on incomes above \$25,000.

HMJr: Yeah.

P: And Byrnes thought it was better to take that out.

HMJr: Yeah. Go ahead.

P: They speak about - in other words they - they - to the principal difference it all comes down between you and them....

HMJr: Yeah.

P: ....aside from technical details - it comes down to this -- let me read you this sentence.

HMJr: Yeah.

P: "But we should aim at meeting about half of the cost of the war through taxation and compulsory savings."

HMJr: Yeah.

P: They have it in this draft - they have taxation alone, but they don't mean that....

HMJr: Yeah.

P: ....because I - I called that to their attention and they said they meant taxation and compulsory savings.

HMJr: Why did you bring it to their attention?

P: Well, because the whole - the rest of it is - is all - speaks of that and it's simply inconsistent within itself.

HMJr: Yeah.

- 10 -

- P: Now that's about what it comes to as far as what's in this thing is concerned. There are a number of details that I don't think I need to bother you with....
- HMJr: Yeah.
- P: ....but at the end of the meeting, of course, there were a lit.. - during the meeting a number of criticisms were made, some by me - inaccuracies.
- HMJr: Yeah.
- P: Mr. Cohen is not a - yet a completely shining light on taxation.
- HMJr: Yeah.
- P: They thereupon said that they wanted to have another draft prepared....
- HMJr: Yeah.
- P: ....by Ben Cohen and - and Gerhard Colm and myself....
- HMJr: Yeah.
- P: ....and I said, well, I didn't think I should serve in that group....
- HMJr: Yeah.
- P: ....because of your position on compulsory savings.
- HMJr: That's right.
- P: And they said, "Well, you - the President has made his position on compulsory saving perfectly clear and the Secretary should - will certainly have another opportunity before any message is delivered to talk with him...."
- HMJr: Yeah.
- P: "....and we think you ought to work on it with that understanding." I said, "Well, I'll have to get instructions from you on that."
- HMJr: Well, I can only - did you tell them my conversation with the President?

- 11 -

P: No, I did not. I didn't think it was well to bring any of that out. You mean the conversation....

HMJr: Yeah. Where the President disowned what he said on compulsory.

P: Yeah. Well, I didn't - I didn't think I ought to go into that. I didn't - it's perfectly clear in my mind, Mr. Morgenthau, that they're absolutely convinced that this was no slip of the President, that they - they're all for compulsory saving and they think the President - they think the President means what he says and Pritchard's theory was perhaps correct. It was just a surmise, but they had a meeting of the War Power of the War Group - the President had a meeting with this Byrnes group....

HMJr: Yeah.

P: ....just before his press conference....

HMJr: Yeah.

P: ....and he - Pritchard said they talked about that there....

HMJr: Yeah.

P: ....and the probability is, that the President just said what was most recently in his mind.

HMJr: Yeah. Well, that may or may not be so.

P: No. I don't know, but....

HMJr: He was certainly very emphatic with me. I can't go to anybody else but the President. I can't take Pritchard or anybody else.

P: That's right. Well, I'm - I'm just giving you that for what it's worth, but - but I would like to have your instructions on what you want.

HMJr: Let me talk to Gaston a minute. May I?

P: Sure. Maybe I'll think of something else that happened, while you're talking with him.

(12)

Herbert  
Gaston: Yes.

HMJr: Hello. Just hold on one minute, will you?

G: Yes.

HMJr: (Talks aside) Just hold on.

G: Yes, I'm holding on.

HMJr: (Talks aside) Let me talk to Gaston a minute.

G: Yes.

HMJr: Herbert?

G: Yes.

HMJr: In the first place, let's settle one thing before we decide whether Paul should go along.

G: Yes.

HMJr: In view of what Paul has said, what - how do you feel about my letter going?

G: I think it's still - I - I still feel that it ought to go.

HMJr: Well, I do too, because this thing happens at regular intervals.

G: Yes.

HMJr: They've got this fellow, Gerhard Colm, and Ben Cohen, and it used to be Jerome Frank -- they've always been doing this thing to me.

G: Yes.

HMJr: And then I go to the President and say, "Do you still want us to do tax policy or don't you?" And he always tells me that he does.

G: Yeah. Yeah.

HMJr: Now if the President says we're going to do tax policy .....

G: Yeah.

(13)

HMJr: .....then with this magnificent showing of the American people.....

G: Yeah.

HMJr: ....I'm not going to slap them in the face with compulsory savings....

G: Yeah.

HMJr: ....and from the - what I've read in the press today, I think the President is making a big mistake.

G: Yes. Yes.

HMJr: And....

G: Yes.

HMJr: .....I - I hear - I personally think the letter should go. Wait a minute. (Talks aside: Don't you think so Dan?) Dan thinks so too.

G: Yes.

HMJr: Dan says, "More so than ever."

G: Yes. Well, I think so. I don't think this has changed the situation in favor of.....

HMJr: I mean - I.....

G: ....the situation is as we knew it before - when the letter was written.....

HMJr: Yeah.

G: .....The situation hasn't changed. We're only dealing now with the text of recommendations....

HMJr: Yeah.

G: ....and which are about what we expected them to be.

HMJr: Yeah.

G: Some of the language in this memorandum is - is this: "As I stated in my budget message, we must raise in addition to our present taxes, at least

(Cont'd.)

- 14 -

G: \$16 billion more, either wholly by taxes or  
(Cont'd.) partly by taxes and partly by enforced savings."

HMJr: Yeah.

G: And - and - so that it - it leaves open the - the  
opportunity to do it wholly by taxes if they want  
to do it.

HMJr: Well, I - I'll come to that - let's decide - I  
don't know - has Paul expressed his opinion about  
this letter of mine?

G: Well, the - so far as he's expressed it to me,  
he's in doubt about whether the letter ought to go.  
Would you like to talk to him again on that point?

HMJr: Well, let's just settle that first.

G: Yeah.

Rendolph  
Paul: Hello.

HMJr: Well, wha.. - how - what - what....

P: Well, I - I find it a little difficult to - this  
letter -- I didn't see it until I got back here,  
you see, and I - I just picked it up and read it  
and a wave of doubt went through me. Now I don't  
know whether I can completely articulate my doubt,  
but I have the feeling that - that - I don't know  
how to say it, that - that you're in this sort  
of a dilemma, either one of two things will happen....

HMJr: Yeah.

P: ....in the first place if - one thing that may  
happen, may be that the President will say, "You're  
in charge of tax policy...."

HMJr: Yeah.

P: ....in other words, you'll be victorious on the  
record.

HMJr: Yeah.

- 15 -

P: Then you'll have a - then you'll be holding the bag and all these other people will refuse to cooperate with you.

HMJr: That's all right.

P: Well, that - that....

HMJr: I don't think it's any of their God damn business.

P: Well, all right. Now the other thing that'll - I don't....

HMJr: Wait a minute. (Talks aside) Hello?

P: Yeah.

HMJr: I'd be perfectly willing - I mean for us to have a meeting in which you invite everybody present to express their ideas, which I think we should continue to do.

P: Yeah.

HMJr: But we're up against this fight of Smith and Gerhard Colm and we've been having it ever since Harold Smith's been here.

P: Oh, I agree with you about Harold Smith.

HMJr: And Harold Smith feels that the Budget should settle the tax policy, and it comes up at Budget time regularly. Now it comes up again, and as far as I'm concerned I want the thing settled. And if the President says I'm responsible, I'll carry the responsibility the way I have.... Hello?

P: Yeah.

HMJr: ....and with your help. If - if I'm not responsible, then I'm not going to represent us - him on the Hill, or have you represent his - him on the Hill, or have you represent me.

P: Yeah. Well, I think it is a very difficult - I - I'm not saying....

HMJr: I don't think - let me just ask you this....

P: Yeah.

HMJr: ....Do you want to gon on the Hill - representing Harold Smith and Gerhard Colm and Benjamin Cohen?

(16)

P: (Laughs) No, I don't.

HMJr: What?

P: No, of course, I don't.

HMJr: Well, I don't want you to.

P: In fact, I think it is a grave mistake to get Ben Cohen mixed up with tax policy, because his name is "Mud" on the Hill.

HMJr: Well, and - and - and - Byrnes - it's - it's none of Byrnes' business. I - I can sit down with Vinson, but I - I don't see where it's any of Byrnes' business. Now what this thing boils down to - let's call a spade a spade. Bernie Baruch and that whole crowd feel that if you can get compulsory savings, you don't have to increase taxes, and it's just a camouflage not to get increased taxes, and you pile up the post-war debt.

P: Yeah. I think there's much in that.

HMJr: If the people in this last Second War Loan, hadn't done such a magnificent drive, I'd say, "Okay." But to slap this in their face, is going to be one of the worst political mistakes the President's made.

P: Well, that's - that may be true. I....

HMJr: Well, that's the way I.....

P: .....I'm just - I'm just trying to think about this, having just.....

HMJr: Well, look.....

P: ....just.....

HMJr: .....while you think, who else is there besides you?

P: ....Fred Smith is here and John Sullivan.

HMJr: Well, let me talk to John a minute.

P: All right.

HMJr: Where's Harry White?

P: Well, I don't know. He isn't here. Do you want me to try to get him?

HMJr: Yeah.

P: All right.

John Sullivan: Yes, Mr. Secretary. Hello?

HMJr: John?

S: Yes, Mr. Secretary.

HMJr: Have you had time to think about this?

S: I have, sir.

HMJr: Well, let's have your answer.

S: I think that this is the most convenient opportunity you're going to have to clarify the situation.

HMJr: Yeah.

S: If the Congress recesses on July 1st and this thing isn't cleaned up, you're going to spend a very uncomfortable summer, wondering whether or not this is your job.

HMJr: That's right.

S: I think that if the decision has been made to let somebody else carry the ball.....

HMJr: Yeah.

S: ....the greatest service the President can do you is to tell you you're out.....

HMJr: That's right.

S: .....of that - of that particular phase.

HMJr: That's right.

S: Now after all, this is one of many important functions of the Treasury.

HMJr: Right.

- 18 -

S: We've always considered it one of the most important....

HMJr: Yeah.

S: ....but it isn't the only one....

HMJr: That's right.

S: ....and if the President decides that somebody else should do that....

HMJr: Yeah.

S: ....I would attach no more importance to it than if he decided he wanted the Bureau of Procurement to be transferred to Lend Lease or W.P.B.

HMJr: That's right.

S: I - I - I think that nothing could be more unsatisfactory than the doubt that exists in our minds today, and after the articles in the newspaper this morning....

HMJr: Yeah.

S: ....by Sunday that doubt will be shared by most of the thinking people in the country.

HMJr: That's right.

S: And it's got to be settled one way or the other.

HMJr: Yeah.

S: The - the - the present situation, I think is intolerable.

HMJr: Well, and - you - we'll never have a better chance than this June 15th meeting, when these senators and congressmen are coming down.

S: Well, you certainly won't have another - another chance until next September.

HMJr: That's right. I mean - this meeting brings the thing to a head.

S: It's the best hook you've got to hang it on.

(19)

- HMJr: I personally think it's - from my standpoint it's the only intelligent thing to do.
- S: Well, I - I - I haven't had any doubt about that.
- HMJr: Well, I don't either. Just a minute. Let me tell Bell. (Talks aside) Bell as - as usual puts his finger on it. Hello?
- S: Yes.
- HMJr: He said, "If we don't write the letter, we've lost out anyway."
- S: Oh, yes.
- HMJr: See?
- S: Yeah.
- HMJr: Because with these fellows sitting in the White House, all of them, we've lost out anyway.
- S: Randolph says he agrees with you and with Dan on that statement.
- HMJr: And - I'm - I'm not going to cry my eyes out if there's somebody else wants to do the tax policy and goes up on the Hill.
- S: No, I don't think you should.
- HMJr: I - I'm not going to cry - and - and - and if they decide they don't want any more increased taxes and they want to escape it by doing compulsory saving, I think the President is making one of the greatest mistakes he's made, on the fiscal front.
- S: Well, there isn't any doubt about that in my mind.
- HMJr: And I think a le... - another letter should be prepared opening his eyes on this thing - that this compulsory savings is just a camouflage not to increase taxes.
- S: That's quite true.
- HMJr: And I think an intelligent letter should be drawn up on that and sent over to him.

S: All right. Do you want us to go to work on it?

HMJr: Yeah.

S: All right. Now Harry's here and Fred Smith is here.

HMJr: Well, let me talk to Fred. Has Harry ever seen my letter?

S: He's reading it right this minute.

HMJr: All right.

S: I'll bring him up to date.

HMJr: Hello.

Fred Smith: Hello.

HMJr: Fred?

S: Yeah.

HMJr: Do you want to express an opinion on whether the letter should or shouldn't go to the President.

S: Well, I think it should go to the President, but I'm worried about still something else, and that is, that in this speech that you're going to make....

HMJr: Talk - talk - talk a little louder.

S: ....I say I think it should go....

HMJr: Yeah.

S: ....and then I think you ought to know before you make this speech in which you're going to tell the people what a big job of buying War Bonds is ahead, whereupon two days later, this message comes out and says compulsory savings. See?

HMJr: Yeah.

S: So you're going to - I think you ought to send the letter and then I think that - why, I don't know whether to see the bull or not, but I think you ought to get hold of the President, maybe tomorrow, after he's had chance to read the thing and tell him you're making this speech

(Cont'd.)

(21)

S:  
(Cont'd.) and so on and it's on - it's on a network, and all, and you've got to know - you've got to know about this - if you're go.. - in charge of the policy, then you may be able to stop the compulsory savings and you can go ahead with your speech. If you're not, why, they're going to come out for compulsory savings and it's going to put you in a funny light.

HMJr: Well, of course, we could talk about the beautiful Hudson Valley.

S: Well, you could, and the apples.

HMJr: And the Catskill Mountains.

S: That's right.

HMJr: And, oh, the - what's the fellow who went to sleep in the Catskills?

S: (Laughs) Rip Van Winkle.

HMJr: Rip VanWinkle.

S: If you're going to talk on - on - on the Court House steps, you could talk about freedom of speech.....

HMJr: Sure.

S: ....and freedom of the press. (Laughs)

HMJr: Is - is Miss Chauncey in the room?

S: No.

HMJr: What?

S: No.

HMJr: Just disconnect that recording machine a minute.

S: It's off.

6/10/43

190<sup>v</sup>

*read in phone  
to stenographer  
in my office*

DRAFT #2

My dear Mr. President:

*(Received by Mr. Ganton  
no pencils in desk  
no sheet)*

With your advance approval, I held a meeting on tax policy in my office on June 3. Those present were Senator ~~Walter~~ George, Senator ~~Harry~~ Byrd, Congressman Robert Doughton, Congressman Jerry Cooper, Judge Fred Vinson, ~~Walter~~ Randolph Paul and myself. You will recall that on June 4 I wrote you a letter, a copy of which is attached, telling of the results of this meeting and I also reported orally on it at the Cabinet meeting the same day at which Mr. Byrnes was present.

At the June 3 meeting the Congressional members present said they would think things over and they asked that another similar meeting be held on June 15. This second meeting has been noticed in the press and yesterday Senator George confirmed publicly the understanding that such a meeting would be held on that date.

The press reports that yesterday Mr. Byrnes announced at a press conference his interest in future tax policies. A typical interpretation of his announcement is contained

-2-

in the following quotation from an article by Mr. Crider in the New York Times of today:

"Following so closely upon the President's press conference statement yesterday in favor of compulsory savings, which was construed as a repudiation of Secretary Morgenthau's insistence upon voluntary savings, the announcement that Mr. Byrnes was going to take a hand in the shaping of future tax policies led observers to the conclusion that Mr. Morgenthau will no longer be the Administration's tax policy maker."

In view of this situation, I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15. I should like to feel free to show your communication to the conferees and, better yet, to make it public. If I am to continue to represent you before Congress on tax matters, it seems to me that this is the time to clear up the confusion created by the statements made by Mr. Byrnes yesterday.

Yours sincerely,

6/10/43

Draft as revised by Treasury group,  
phoned to stenographer in New York who  
typed up this copy and on which appear  
HM, Jr's pencilled corrections.

New York, N. Y.  
June 10, 1943

The President of the United States  
Washington, D. C.

My dear Mr. President:

*after consultation with you*  
~~With your advance approval,~~ I held a meeting on tax policy in my office on June 3. Those present were: Senator George, Senator Byrd, Congressman Doughton, Congressman Cooper, Judge Vinson, Mr. Paul and myself. You will recall that on June 4 I wrote you a letter, a copy of which is attached, telling of the results of this meeting, and I also reported orally on it at the Cabinet Meeting the same day at which Mr. Byrnes was present.

At the June 3 meeting the congressional members present said they would think things over and they asked that another similar meeting be held on June 15. This <sup>second</sup> meeting has been noticed in the <sup>press</sup>, and yesterday Senator George confirmed publicly the understanding that such a meeting would be held on that date.

*newspapers*  
The ~~press~~ report that yesterday Mr. Byrnes announced at a press conference his interest in future tax policies. A typical interpretation of his announcement is contained in the following quotation from an article by Mr. Crider in the New York Times of today:

"Following so closely upon the President's press conference statement yesterday in favor of compulsory savings, which was construed as a repudiation of Secretary Morgenthau's insistence upon voluntary savings, the announcement that Mr. Byrnes was going to take a hand in the shaping of future tax policies led observers to the conclusion that Mr. Morgenthau will no longer be the Administration's tax policy maker."

In view of this situation, I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15. I should like to feel free to show your communication to the conferees and, better yet, to make it public. If I am to continue to represent you before Congress on tax matters it seems to me that this is the time to clear up the confusion created by the statements made by Mr. Byrnes yesterday.

Yours sincerely,

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY

*related*  
*to be referred to you for the development of tax policies and*

June 10, 1943  
2:49 p.m.

Randolph Paul: Hello. This is Randolph.

HMJr: Yeah.

P: What is your judgment about whether I should participate in this thing any more?

HMJr: Well, now let's just settle the letter business first.

P: Yeah.

HMJr: Will you?

P: Yeah, and pardon me - pardon me. Then do you want to talk to somebody....

HMJr: Well, there's a fellow by the name of White. He....

P: Oh, yeah. He's been reading it. Here he is.

Harry White: Hello.

HMJr: Hello, Harry.

W: Good afternoon, sir.

HMJr: Good afternoon.

W: I'm - there's no question but the letter is fine up to -- if you have a copy before you....

HMJr: Yes, I have.

W: ....up to the - the last sentence, and....

HMJr: What's the last sentence?

W: "If I am to continue to be responsible...."

HMJr: Yes.

W: I remain uncertain. I don't know whether I'd change my mind if I thought more over it, but I remain uncertain about the wisdom of this

(Cont'd.)

- 2 -

- W: because I'm trying to ask myself: What will the President answer....
- HMJr: Yes.
- W: ....to it? He'll appreciate fully that - what's behind it and implications, and yet I - I think - I'm inclined to think that he'll ignore it.
- HMJr: No.
- W: I'm in... - hmm?
- HMJr: No.
- W: He'll tell you something orally. I'm inclined to think that he'll say "You attend the meeting and show - you can show my letter," and he'll draft the kind of a letter that either you can make public or you can't, but I don't know that - I get the feeling that I - I'm not sure what position you're in after - after he gets it.
- HMJr: Well, look at the position I'm in now.
- W: Yes, I appreciate that and I'm wondering whether there aren't two courses, and I -- in a sense I'm shooting from the hip because I haven't....
- HMJr: Well, I told them to have you in this morning.
- W: Yes, I did but I didn't see the letter. I didn't get the full significance of it. I mean I've been thinking it over since then, in part. It seems to me that either you go along by saying, "Well, you want it this way; you put this fellow to be your assistant; I'll play along. But I've got to know just what to do."
- HMJr: No, that isn't....
- W: Now that's what you make clear up to - up to....
- HMJr: No, that's out because I don't know that he did tell him. I don't know that Jimmy Byrnes just hasn't run with the ball.

- 3 -

- W: Oh, I see. You don't know that.
- HMJr: I don't know. Do you know that I talked to the President yesterday and asked him about his statement on compulsory savings and he completely disowned it?
- W: I see. Well, if there's some doubt in your mind as to the validity of the press reports which you referred to and of Byrnes' position....
- HMJr: Yes, there is.
- W: ....why, then I - I would change my mind with respect to this....
- HMJr: Well, the President yesterday when I went to him completely disowned his statement on compulsory savings.
- W: Well, I think that puts a somewhat different face on it, because, in other words, this paragraph is really an attempt to find out what the facts are then?
- HMJr: That's right.
- W: I see. I thought you already knew the facts and were merely....
- HMJr: No, no. He - yesterday....
- W: ....getting a public statement.
- HMJr: ....when I called him, he said, "I never said so; I never said anything about it; and I'll talk to Steve Early and have him correct it." He said, "The matter is entirely in the hands of Congress."
- W: I see.
- HMJr: Now you mustn't forget that on this Budget thing -- and Bell can bear me out if I'm wrong or right -- they did that same thing with it. Paul, I guess knows - told us that when they gave us the Budget the last time that the President had agreed to it. Harold Smith said it. Then I sent that over -- you remember I was over at the hospital....
- W: Yes.

- 4 -

HMJr: ...at the Navy hospital - the President said he'd never seen it.

W: Yes. Well....

HMJr: Do you remember that incident?

W: I do, now that you recall it.

HMJr: And he said he'd never seen it.

W: Well, I think it's clear that if there is doubt in your mind that this is the way to clear that up. If - I had a different impression. I thought that you were - knew that was the situation and were merely calling for a public statement so as to push his hand, and in which case this still may be good, but I - personally, I'd want to give it a little more thought.

HMJr: No.

W: But in the light of your additional information on it, I think it places a different face on it and I think you have a right to know what the President thinks.

HMJr: Look, Harry, I have a meeting Tuesday. It brings this thing to a head. I've got to meet these people, and they're going to say to me, "What does the President think?" And I can't say, "Well, I don't know." I either say I am representing him or I am not, and I want it cleared up between now and Tuesday, and I won't have another chance like that until after Labor Day.

W: Well, I think that you're quite right; that if in your mind there really is doubt and you don't know that that's his position, there's doubt enough - well, this can clarify that and bring the matter to an issue. If....

HMJr: I've got a 50-50 chance or better that the President will say we're still responsible for tax policy and we're still to represent him on the Hill....

W: Yes.

- 5 -

HMJr: ....and Bell said to me -- he's sitting here -- "Well, supposing," he said, "Byrnes should come to that meeting Tuesday." I said, "Swell."

W: You mean in place of you?

HMJr: No, no.

W: Oh! And - and come.

HMJr: No, no, no. I'm having a meeting Tuesday....

W: Yes.

HMJr: ....morning at nine o'clock.

W: It's in your office.

HMJr: Yes.

W: Yes.

HMJr: And supposing the President did say to Vinson, I want Byrnes there.

W: That's perfectly all right.

HMJr: Okay.

W: That's different. ~~But~~ that - this will unquestionably get - but if there's doubt in your mind, this last sentence will force the President to make clear to you what he has in mind, and for that purpose it's perfectly all right. If, however, what he has in mind is already clear to you, then I think this needs some more careful....

HMJr: No, it isn't.

W: It isn't? Well, then I'd - I would say....

HMJr: In view of....

W: ....that this is all right.

HMJr: In view of past history with Harold Smith and with Gerhard Colm and Ben Cohen and Jerome Frank and what happened on this last Budget message and in view of my conversation yesterday when

- 6 -

HMJr: the President completely disowned compulsory  
(Cont'd.) savings, I'd like to send this.

W: Okay.

HMJr: Yeah.

W: All right. Is there someone else you want -  
Randolph wants to....

HMJr: Oh.

W: Excuse me.

HMJr: Hello.

Herbert  
Gaston: Yeah. This is Herbert again.

HMJr: Herbert, I tell you I'm not going to - I've got  
to make up my own mind....

G: Yeah.

HMJr: ....and I - I don't know - unless Randolph says  
to me, "I'm absolutely opposed to this...."

G: No, he will not say that, he says.

HMJr: All right. Well, then I - I want to send it  
this way. Have you got a pencil?

G: I have a pencil right here.

HMJr: Yeah, something along this - I'd like you to  
write a letter to Miss Grace Tully as Acting  
Secretary of the Treasury - you.

G: Yes.

HMJr: "Mr. Morgenthau...."

G: Yes.

HMJr: "....or the Secretary...."

G: Yes.

- 7 -

HMJr: "....dictated this letter over the telephone...."

G: Yes, yes.

HMJr: "....and has asked me to transmit it to the President...."

G: Yes.

HMJr: "....through you...."

G: Yeah, yes.

HMJr: "....and we would - I would - and the Secretary would appreciate it if you could get it into the President's hands as soon as possible."

G: Yes, yes.

HMJr: And then send it over and tell Grace it's coming.

G: Yes.

HMJr: See?

G: Yes, yes, yes.

HMJr: See?

G: Yes.

HMJr: And I'd get it over just as soon as possible.

G: Yes, yes.

HMJr: Now Dan's sitting here, and - wait a minute. (Talks aside) I've got to know where I stand. I can't be on pins and needles all the time, and doing this stuff and going out and have this ground cut under by this little cliché over there. It happens all the time.

G: Yes. Well, they've put....

HMJr: And why Byrnes, who suddenly is put into this other field, who has made a complete flop of prices - I listened to - at the first meeting I went with Vinson where Phil Murray made the most vicious attack on Byrnes, the way he didn't cooperate and so forth and so on....

- 8 -

G: Uh huh.

HMJr: ....and how they've been left - he said not even as a symbol, that he was ready to get out. That happened last week.

G: Uh huh.

HMJr: Why this man should suddenly take it upon himself - to superimpose himself over me. I'm just not going to take it.

G: Well, the situation is just this. You've had no notice from the President that he's taking over these functions....

HMJr: That's right.

G: ....but there's a public announcement in the newspapers as a result of questions asked in a press conference....

HMJr: That's right.

G: ....which indicates that he's taking over direction of tax policy. Now that - since that was a public press conference and it's printed in all the papers with the most extreme interpretations put on it, you're certainly fully entitled and you'd be derelict if you didn't ask the President: "Is this official? What is it? And what do you expect me to do from here on out?"

HMJr: Yeah.

G: But there's - there's one other thing too. I think this thing about having a letter on this subject of - of compulsory taxation, I think we ought to - compulsory lending - I think we ought to get busy on that right away, because....

HMJr: I think that we should get a letter out to him just as soon as we can pointing out to him what compulsory savings mean, what \$11 billion dollars of compulsory savings - what we've been getting in the way of volunteer, you see?

- 9 -

G: Yes. That's what....

HMJr: Excuse me just a moment.

G: Yes.

HMJr: And that this compulsory savings is simply a camouflage....

G: Yes, uh huh.

HMJr: ....in lieu of additional revenue.

G: Yes, it will prevent us from getting additional revenue, and, further, that we will still have the problem of raising an immense amount of additional funds through - through voluntary subscription. It won't relieve us of that problem, and it's questionable what it will add, if anything, to the - to the amount of direct popular subscriptions.

HMJr: And the other thing, I would get to him the number of people who subscribed in this last 2nd War Loan as compared to the first one.

G: Uh huh, yes.

HMJr: And get to him in this way how popular this is.

G: Yes, yes.

HMJr: You see?

G: Yes.

HMJr: And then it's the one thing that management and labor are really happy about.

G: Yes. Well, now what - what should we do about the mechanics of this letter?

HMJr: Which one?

G: This - this second letter. This will all....

HMJr: As soon as it's ready I'm here at the hospital and I expect to be here at least until 6:30.

- 10 -

G: Yes, yes.

HMJr: I should think you could turn out that letter by then.

G: Uh huh. All right. Well, we'll go - we'll go to work on it right away.

HMJr: There ought to be enough people there. You don't want too many people.

G: Yeah, yeah.

HMJr: What?

G: Yeah. We - we'll have to go to work on it right away and see what we can turn out and get you there and call you back at the hospital.

HMJr: Right. Now....

G: Now....

HMJr: Wait a minute. Let me just check with Bell. (Talks aside.) Bell said he thinks it's a good idea if you can do it that quickly.

G: Yes. Well, we'll - we'll try and see what we....

HMJr: The letter on compulsory savings versus volunteer.

G: Well, it's really - it's really, as I see it, compulsory savings versus taxes.

HMJr: Compulsory savings versus the taxes.

G: Yeah.

HMJr: Right. Does Randolph think we have to get that over tonight?

G: Well, I should - (talks aside: What do you think, Randolph? Should we get it over tonight?) Well he thinks - he thinks they're going to continue to wrangle for a couple of days about this message. Now from that point of view maybe it would be a good idea for Randolph to sit in with this committee on the structure of this message, all the time saying that we're against compulsory savings in order - help prolong the argument until we get - until we get our letter in.

- 11 -

HMJR: Well, my hunch is - I haven't asked Bell....

G: Yeah.

HMJR: ....my hunch is, knowing the President so well....

G: Yeah.

HMJR: ....that it would be a mistake for Randolph to withdraw.

G: Uh huh. Of course, we're - we're in danger of what happened the last time when - when we were very careful - Roy Blough was very careful to say that - that he was merely sitting in as a technician. Yet they went and told the President that the Treasury participated in drafting this thing.

HMJR: Well, this letter which is going to go over will take care of that.

G: Yes, yes, that's right, that's right.

HMJR: This letter will take care of that.

G: Yes.

HMJR: Well, if - my hunch is - let me ask Bell.  
(Talks aside.) Bell says -- to which I agree....

G: Yes.

HMJR: ....that he should give them all the technical assistance he can....

G: Yes.

HMJR: ....but keep reiterating that the Secretary of the Treasury and the Under Secretary of the Treasury and anybody else who wants to join me are for additional taxes as against compulsory savings.

G: And that - and that we do not believe that compulsory - he ought to advocate compulsory savings at this time.

HMJR: At this time?

- 12 -

G: Yeah.

HMJr: No. Now if Randolph is willing to do that, that's what I'd like to have him do.

G: He says, sure, he'll do it. Do you want to talk to him?

HMJr: I'm always glad to talk to him.

Randolph Paul:  
Paul: Hello.

HMJr: Randolph?

P: Yeah.

HMJr: Knowing the President so well, if I had you withdraw he would say, "Well, in the first place, Henry's sulking."

P: Yeah, Achilles in his tent.

HMJr: What?

P: Achilles in his tent.

HMJr: I'm sulking - and in the second place he'd say, "Well, if you'd have had Randolph Paul there he could have told them what you - I didn't know what you wanted." So any way you look at it, I think it's a mistake. I think you should be there.

P: All right.

HMJr: If you're willing.

P: Well, I'm perfectly willing to take that position that you just outlined with - with - you know that I'm stating - I'm stating a Treasury position - your position, and I stated it this morning very emphatically.

HMJr: Randolph?

P: Yeah.

HMJr: Bernie Baruch - (laughs). Jimmy Byrnes is completely under his thumb.

- 13 -

P: Yeah.

HMJr: It's always been understood. And - and this is representative of the rich people of America. I - I - I'm perfectly willing to nail my flag to the mast and go down. Now I....

P: Well....

HMJr: ....if they should....

P: Well, I - I don't fully agree, personally, with your compulsory saving position, but I consider that irrelevant. I'm merely stating the Treasury position....

HMJr: Well, I have....

P: ....on the point.

HMJr: ....sufficient confidence in you, because I say this is the way I feel, that you will give me the best representation you can.

P: Well, thanks, I - I certainly - certainly will make that perfectly clear and then - and certainly they need some guidance on some other points or they're going to have a mess of a message.

HMJr: I - I - I don't want to be accused of having a - of sulking.

P: Yeah.

HMJr: And I - I - I think that my - my - I'm playing on my instinct which has been pretty good....

P: Yeah.

HMJr: ....that - that you should not withdraw.

P: Okay.

HMJr: But I do think that you fellows ought to get together and try to get me out now the best letter we can.

P: Well, I think in that letter you should have Senator George's comment.

- 14 -

HMJr: And Doughton's.

P: Yeah. Well, I'm - I'm not so clear in my recollection of Doughton's, but I know that - What Senator George feels.

HMJr: Well, you could call up Doughton on the 'phone and tell him that you're doing it at my request; that I'd like to know whether he's changed; where does he stand?

P: Well, I can if he's in town, but I know he's - was going down. I could call him, of course, long distance.

HMJr: Well, I'd do that.

P: All right.

HMJr: And you can say that's the way - and believe me, that'll influence the President.

P: Yeah. Well, I'll call Doughton then.

HMJr: And I - if I'm not mistaken Sam Rayburn was for the volunteer.

P: I'm not sure about him.

HMJr: Yeah. Well George and Doughton will be enough.

P: Yeah. Well, if I can't get George, we can certainly put in Doughton and some of the other fellows.

HMJr: Vice versa.

P: I mean - yeah - I mean, George. I know to - about George.

HMJr: Yeah.

P: He's been very emphatic.

HMJr: Yeah. Well, so has Doughton to me, but I'd get it first hand.

P: Okay.

HMJr: Now this letter - this fir... - letter number one will go at once.

- 15 -

P: Yeah.

HMJr: Right.

P: Right.

HMJr: And....

P: It'll go in about ten minutes. It has to be re-written.

HMJr: Yes, and they'd better send me to Fishkill, New York, a correct copy, then I'll have one up there.

P: Yeah. All right. A copy'll go to you at Fishkill.

HMJr: Right.

P: Two copies.

HMJr: Two copies, for - one for me to sign?

P: Well, I don't know what your arrangement was.

HMJr: Gaston - knows.

P: But I thought Herb was sending this over as your letter.

HMJr: That's right. He is, but I just want a carbon copy.

P: Well, you - just one or two? Well, we'll send you two.

HMJr: That's all right.

P: There's no law against that.

HMJr: I - I - look - I've been - I - when I was so sick on the first of January, I was up against exactly the same thing. Now I'm not sick.

P: (Laughs) Yeah.

HMJr: And we're right up against it again.

P: Yeah.

HMJr: And to - to spend all summer not knowing where we're at would make me sick.

- 16 -

P: Well, of course, now that this is out in the press, it must be said that Congress won't - won't pay any attention to what I say or you say, unless a certain clarification is had. I'm certainly ready to go along with that idea.

HMJr: I wish we could have put that sentence in.

P: Well, we can put some sentence to that effect in it, if you want, and Harry has another sentence that has some other criticism.....

HMJr: Just a minute. (Talks aside) Bell says that's very good.

P: Well, we've.....

HMJr: Hello?

P: Yeah.

HMJr: Tell Gaston - you put in something like that - until - unless this matter is cleared up, the - the - the - Bell says it - we'll carry no weight or Congress will pay no attention to either me or - or Treasury representatives.

P: Yeah. Okay.

HMJr: Yeah. I - I'd put that in.

P: All right. Now Harry White has one little question - one question on one angle of the letter.....

HMJr: Yeah.

P: .....I think I'd better put him on.

HMJr: All right.

P: Get it direct.

Harry White: Hello?

HMJr: Yes.

P: I've been reading this paragraph over several times and there's just one question I want to put to you, which you needn't answer, but I want to make certain that you

(Cont'd)

- 17 -

W:  
(Cont'd) have thought of that, which I presume you have.

HMSJr: What's that.

W: Supposing the possibility is that the President comes back to this letter, either orally or in any other way, and indicates to you that he supports the position as appeared in the press, that Byrnes is to have charge of these tax matters. Now, I presume that you've thought where you would go from there and what you would do.

HMSJr: Oh, yes.

W: Okay. Well, that's.....

HMSJr: Well, I mean, the answer is very simple. Then I - I - I won't - I won't - I'll - I won't have anything to do with it.

W: Yeah. All right.

HMSJr: I agree with Sullivan - I mean - it isn't the only thing in the Treasury.

W: Yeah. Yeah.

HMSJr: As a matter of fact, the way I feel, that if the President want Byrnes or anybody else or to - Harold Smith to handle taxes and go on the Hill, I'd say three cheers and hoopla.

W: Yeah. Well, okay. I just wanted to make certain that you thought of that possibility. I'm inclined to agree with you that he won't - that in the light of his past record and your relations, that he'll do as you think - so - but I merely want to point out that there is a possibility in the other direction.

HMSJr: Oh, I - I've weighed that and if he comes back and says, "All right, Byrnes is to handle this." Supposing he says, "Byrnes is to correlate the policy at this end and you're to represent on the Hill."

W: Yeah.

HMSJr: Well, I'll say, "I can't do it."

W: Yeah.

HMJr: See?

W: But your Research Organization, etc., and what-not are always at their disposal. Is that what you....

HMJr: Yes, but they could be transferred, if necessary.

W: I see.

HMJr: He can transfer them by executive order.

W: Yeah. Yeah.

HMJr: But, I mean - he's got to do one of - of - of two or three things. Either he's got to say I'm still in charge of the whole works....

W: Yes.

HMJr: ....or he can say that Byrnes is going to handle the tax policies and you people represent on the Hill.

W: Yes.

HMJr: And I say, "No, I can't go along....."

W: Yeah.

HMJr: That he can do the whole work.

W: Well, I agree unquestionably that the only way for you to work, is when you feel that the responsibility is clear cut and you've got the confidence and if you've met that question and answered it, why, okay.

HMJr: And - and as I say - I - if - if they can work in that sentence which Paul said, that unless this thing is clarified after this public statement - I mean - our position on the Hill is untenable.

W: All right. That's an additional sentence.

HMJr: Yeah.

W: Yes. Yes. I think something like that might well be included.

- 19 -

HMJr: And I just wondered if we can't say that our relationship this year with the Hill is - with - with the committees, has been better than it's ever been.

W: I'm a little reluctant. Then you're almost pleading your case, and your case has to stand on it's merits.

HMJr: All right.

W: Yeah.

HMJr: Oh, they - tell Gaston that he needn't call me back, see?

W: Yeah.

HMJr: You - you fellows put in that sentence.

W: Well, had you told it to somebody else? He's got - he's got it if you wanted to listen.

HMJr: What is it?

W: Here it is.

HMJr: Hello?

Herbert Gaston: It's - it would be a final sentence there, and saying, "Until this matter is cleared up, it seems unlikely that Congressional leaders will pay serious attention to any suggestions I, or representatives of the Treasury may make."

HMJr: Just a minute. (Talks aside: Repeats.) Bell says, "Okay."

G: All right. It'll be gotten over right promptly in that form.

HMJr: Okay-doke.

G: Okay-doke.

HMJr: And I'm not - I - I did my worrying yesterday and I - I think that this thing is - is the way to do it.

G: Yeah.

HMJr: And I got some pretty good advice this morning.....

- 20 -

G: Yeah.

HMJr: ....from somebody that's pretty close to the President.

G: Good. Good.

HMJr: Who happened to be here in town.

G: Uh huh. Uh huh. Uh huh. That's fine.

HMJr: What?

G: That's fine.

HMJr: And she said by all means have the matter cleared up.

G: Yes.

HMJr: And you haven't got the faintest idea who I mean?

G: No, I have no idea.

HMJr: What?

G: No, I have no idea.

HMJr: Wouldn't - you couldn't guess?

G: No, I couldn't guess.

HMJr: And her advice has been pretty good in the past.

G: Yes. Yes.

HMJr: You understand me?

G: Yes. Yes.

HMJr: Okay-doke.

G: Okay-doke. 'Bye.

HMJr: 'Bye.

June 10, 1948

Dear Miss Tully:

Secretary Morgenthau dictated the attached letter over the telephone and has asked me to transmit it to the President through you.

He will greatly appreciate it if you will get it to the President as soon as possible.

Yours very truly,

(Signed) Herbert E. Gaston

Herbert E. Gaston  
Acting Secretary of the Treasury

Miss Grace Tully,  
Secretary to The President,  
The White House.

June 10, 1943

My dear Mr. President:

After consultation with you, I held a meeting on tax policy in my office on June 3. Those present were Senator George, Senator Byrd, Congressman Doughton, Congressman Cooper, Judge Vinson, Mr. Paul and myself. You will recall that on June 4 I wrote you a letter, a copy of which is attached, telling of the results of this meeting and I also reported orally on it at the Cabinet meeting the same day at which Mr. Byrnes was present.

At the June 3 meeting, the Congressional members present said they would think things over and they asked that another similar meeting be held on June 15. This proposed second meeting has been reported in today's press and yesterday Senator George confirmed publicly the understanding that such a meeting would be held on that date.

Newspapers reported that yesterday Mr. Byrnes announced at a press conference his interest in future tax policies. A typical interpretation of his announcement is contained in the following quotation from an article by Mr. Crider in the New York Times of today:

"Following so closely upon the President's press conference statement yesterday in favor of compulsory savings, which was construed as a repudiation of Secretary Morgenthau's insistence upon voluntary savings, the announcement that Mr. Byrnes was going to take a hand in the shaping of future tax policies led observers to the conclusion that Mr. Morgenthau will no longer be the Administration's tax policy maker."

-2-

In view of this situation, I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15. I should like to feel free to show your communication to the conferees and, better yet, to make it public. If I am to continue to be responsible to you for the development of tax policies and to represent you before Congress on tax matters, it seems to me that this is the time to clear up the confusion created by the statements made by Mr. Byrnes yesterday. Until this matter is cleared up, it seems unlikely that Congressional leaders will pay serious attention to any suggestions I or representatives of the Treasury may make.

Yours sincerely,

(Signed) Henry Morgenthau, Jr.

(by H.E.G.)

The President,  
The White House.

June 10, 1943

Draft #3 as revised by the Secretary

My dear Mr. President:

After consultation with you, I held a meeting on tax policy in my office on June 3. Those present were Senator George, Senator Byrd, Congressman Doughton, Congressman Cooper, Judge Vinson, Mr. Paul and myself. You will recall that on June 4 I wrote you a letter, a copy of which is attached, telling of the results of this meeting and I also reported orally on it at the Cabinet meeting the same day at which Mr. Byrnes was present.

At the June 3 meeting, the Congressional members present said they would think things over and they asked that another similar meeting be held on June 15. This proposed second meeting has been reported in today's press and yesterday Senator George confirmed publicly the understanding that such a meeting would be held on that date.

Newspapers reported that yesterday Mr. Byrnes announced at a press conference his interest in future tax policies. A typical interpretation of his announcement is contained in the following quotation

-2-

from an article by Mr. Crider in the New York Times of today:

"Following so closely upon the President's press conference statement yesterday in favor of compulsory savings, which was construed as a repudiation of Secretary Morgenthau's insistence upon voluntary savings, the announcement that Mr. Byrnes was going to take a hand in the shaping of future tax policies led observers to the conclusion that Mr. Morgenthau will no longer be the Administration's tax policy maker."

In view of this situation, I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15. I should like to feel free to show your communication to the conferees and, better yet, to make it public. If I am to continue to be responsible to you for the development of tax policies and to represent you before Congress on tax matters, it seems to me that this is the time to clear up the confusion created by the statements made by Mr. Byrnes yesterday.

Yours sincerely,

June 10, 1943  
5:10 p.m.

Herbert  
Gaston: Sullivan is here.

HMJr: Let me talk to him.

G: Yes. And we have the ticker statement of the President signing the bill.

HMJr: You have?

G: Yes.

HMJr: What did he say?

G: Here is - here is the - here is the United Press:  
"President Roosevelt signed the Pay-as-you-go income tax bill providing for twenty per cent withholding tax to start July 1, forgiving from seventy-five to one hundred per cent of the year's tax liability for all persons. Mr. Roosevelt signed the bill after War Mobilization Director Byrnes had, in behalf of the President, discussed the new system of tax collection and future tax policies with Treasury General Counsel, Randolph Paul, O. E. S. Director, Vinson, and Budget Director Smith. Byrnes indicated yesterday that Mr. Roosevelt would accompany the bill with a statement, but none was forthcoming from the White House now; only the bare announcement of the signature was made." And Dow-Jones says, "The ....

HMJr: Wait a minute. I'm now going to laugh like a horse.

G: (Laughs)

HMJr: Is Harry White around?

G: Yeah. He's here.

HMJr: Tell him the old - the old elbow's still working.

G: Uh - huh, uh - huh. Ah - well, I'm - I'm mystified. I can only assume now that the - that Byrnes is going to try to sell a statement to the President as a trailer or a follow. Ah - Randolph has some views on the subject he'd like to give you.

HMJr: Now listen. Before I get anybody's views ....

G: Yes.

-2-

WMAJr: .... I have Fred Smith's question and answer to the President ....

G: Yes.

WMAJr: .... which I think is swell.

G: Uh - huh.

WMAJr: Now the sooner you, Herbert Gaston, can go across the street, if Steve Early is there and hand that to him ....

G: Yeah.

WMAJr: .... the better.

G: Yeah. All right.

WMAJr: See?

G: Yeah.

WMAJr: Now I - I mean if you wait too late, Steve gets crotchety ....

G: Yeah.

WMAJr: .... but I would call up Steve Early and ask him - tell him "Did you know about my conversation with the President?" ....

G: Yes.

WMAJr: .... and that the President gave me the impression distinctly he wanted it corrected ....

G: Yes.

WMAJr: .... and here would be a way to do it.

G: Yes. Yes.

WMAJr: See?

G: Yes. Yes.

WMAJr: I wouldn't lose any time on that.

G: All right. All right. I'll - I'll do that.

- 3 -

HMJr: See?

G: Yeah.

HMJr: And a - a - I'll - why don't you, while I'm talking to Paul, just step in my outer office and see whether Steve will see you.

G: Yes, I'll do that.

HMJr: You - well, you can use my White House phone.

G: Yes.

HMJr: Just pick that up.

G: I'll do that.

HMJr: Just pick up my White House phone.

G: I'll do that. I'll talk - I'll talk to him right away.

HMJr: Have you got a copy of it?

G: Yeah. I got a copy on my desk.

HMJr: Well, it's wonderful. I - I'd ask Steve if you could come over and see him.

G: Yes. That's what I had planned to do before this other thing came along.

HMJr: Well, I'd do it right now.

G: Well, all right.

HMJr: I'll - I'll talk to Paul a minute.

G: Right.

Randolph  
Paul: Hello.

HMJr: What do you think happened?

P: I don't know, but all I wanted to say there when you came to that point was this, that - that Smith in this morning's meeting had advocated - brought out a short statement to be - to be - to accompany the signing of this bill and had in mind a longer

- 4 -

P: (cont'd) statement - inflation message. In other words, he had in mind two statements. Byrnes argues that there shouldn't be, or said the President wanted only one statement or combine the two, you see. So Cohen is in my of - Cohen and Colme are in my office now ....

HMJr: Yes.

P: .... with a re-draft of the message, and of course they - they didn't know - even the re-draft is on the basis that he hasn't yet signed the bill, so they have to change the words "I am signing ....

HMJr: Before anybody tells me anything else, I've got to - I've got to enjoy this for five minutes and turn it over on my tongue. And I think my statement I gave out this morning saying that I had let the President know a week ago what I wanted - I didn't say why - hello?

P: Yeah.

HMJr: I think for the moment, just for the second, we're sitting very pretty. We've made an ass out of Byrnes.

P: Yeah. Well, I - I don't - Ben is now working on the theory that - that this is a separate statement, you see.

HMJr: Oh, sure. They can supply the rounds.

P: (Laughs)

HMJr: Let me talk to Harry White a minute.

P: All right.

Harry White: Hello.

HMJr: Round 1 for us. What?

W: (Laughs) Yes. I - it seems to be Round one, two, and three, but - did the letter get there?

HMJr: Oh, yes. I'm sure it did.

W: Uh - huh.

HMJr: The letter may have had something to do with it.

W: Yeah. I don't get the full - quite the full signifi-

W:  
(Cont'd) cance of the absence of any statement, but maybe the boys will explain to me, but....

HMJr: Well....

W: ....anyway you feel that it's - it's all right.

HMJr: Well, I think - my guess is - this is just my guess - is that Byrnes did just what Baruch did - ah - nine years ago....

W: Uh - huh.

HMJr: .... called a press conference....

W: Uh - huh.

HMJr: .... He - he was called "Acting President"....

W: Yeah.

HMJr: .... and he just over-shot his mark.

W: Uh-huh. Would - do you think that you would hear by 'phone or next time you were in Washington or what?

HMJr: You mean answers to my letter?

W: Yeah.

HMJr: The chances are that the President will have Grace Tully call me.

W: I see. I see. Well, I hope that's all, because....

HMJr: Well, it certainly - my not going to the meeting - my saying that I had let the President know, Byrnes saying he was going to work out a statement for the President, makes a monkey out of him.

W: And the fact - unless there's one to be followed. Oh, you mean - I see .... yeah - yeah - you mean that the public would expect it to come out.

HMJr: Well, look what Byrnes said yesterday....

W: Yeah - yeah, that's true. That's true, and - well why do you - it - I suppose he didn't, because he was instructed not to, because if it were left with him, he certainly would have.

- 6 -

HMJr: Who?

W: Byrnes. I mean after having made the statement, I suppose he would have prepared - in the morning press - yesterday rather - he would have prepared a statement to accompany the President's decision.

HMJr: Uh - no - huh. What I think he did was, he was just - exceeded his authority. That's what I told you, didn't I?

W: Yeah, but I mean how - how did he know that he shouldn't prepare an additional statement?

HMJr: Well, I don't know.

W: Yeah.

HMJr: I'm enjoying it.

W: Yeah. Well, I think so much for the good. Herbert has just talked to Steve and he's got something to say to you.

HMJr: For five minutes anyway.

W: Right.

HMJr: John?

Herbert  
Gaston: Hello, this is Herbert again. I just talked to Steve Early. He said he can't possibly see me tonight - he's got an engagement in fifteen minutes, and he's got to clear up his desk and get away.

HMJr: Yes.

G: He will, however, see me tomorrow morning. I told him that I had - was dated to go to Philadelphia and would he see somebody else - representing the Treasury tomorrow morning ....

HMJr: Yes.

G: .... and he said he would. See him at ten o'clock he - before he goes to - that's after he's seen the

- 7 -

- G: (cont'd) President, but I said, "Well, you won't have another chance to see the President before the conference", and he said, "Oh, yes, I will, I'll see him - I see him every day ten minutes before the conference."
- HEJr: Well, let John go.
- G: Yeah, all right. That's fine. And now - and now then I - he also told me - I told him what the matter was, and he said, "Well, he didn't say anything to me about it at all, and I think it's very unlikely that he'll open up the subject at tomorrow's conference."
- HEJr: Well, let John go anyway.
- G: Yeah. I think - I think that's right, and also I do think that this high-power letter that is in process of gestation ought to go to him, but you'll - you can make up your mind after you see it tonight.
- HEJr: Well, if you can't get it on the teletype, have the boys left to come up?
- G: Yes, they have. Yeah, uh - huh.
- HEJr: Well, they can put it on the teletype, and if I - if they miss me here, the fellow can drive the letter up to the farm.
- G: All right. I'll tell them to do that. If they miss you at the hospital, take it on up to the farm.
- HEJr: And - will John be willing to take this over tomorrow to ....
- G: He says, "Yes". He nods very emphatically.
- HEJr: Good.
- G: Yes.
- HEJr: Well, let me talk to John.
- G: Here you are. He wants to talk to you. All right.
- John Sullivan: Yes, Mr. Secretary.
- HEJr: We can have a horse laugh for five minutes anyway.

- 8 -

- S: Well, make it fifteen.
- HMJr: We've made a perfect ass out of Byrnes.
- S: Well, now I don't know whether you've got the chronology of these calls ....
- HMJr: No.
- S: ... right after our - you remember we talked from two to three - ah - you and this group here ....
- HMJr: Yeah. A little louder.
- S: You - we talked from two to three. Then I got back to my office and very soon after I got back, I got a call from Steve. I talked with him a couple of days before, and asked him to let me know when anything broke on this. So he called up, and said, "The President is about to announce that he has signed the bill".
- HMJr: Yeah.
- S: And I said, "Well, I thought they were going to wait for Mr. Byrnes' statement". And he said, "Well, we don't know anything about any statement" ....
- HMJr: Yeah.
- S: .... he said, "The bill has been signed."
- HMJr: Yeah.
- S: Then he called me back about ten or fifteen minutes later ....
- HMJr: Yeah.
- S: .... and he said, "It's all right. Let it go" he says, "we've just released the statement" ....
- HMJr: Yeah.
- S: .... and he said, "Between you and me, it was signed at seven o'clock last night".
- HMJr: (Laughs) I'll be damned.
- S: And then I said, "Well, how about the statement?" and he said, "Well, just between you and me, I don't

- 9 -

S: (cont'd) know whether there's going to be any statement or not, but there'll be none made this afternoon."

HMJr: Well, being in the left wing of the White House has no advantages over being in the Treasury.

S: Not a bit.

HMJr: (Laughs) I feel good. I'm going up to see my wife now.

S: Give her my very best. I'm glad to hear she's better.

HMJr: Yeah. Well, I think it's very amusing. I think my old elbow still is okay.

S: Well, anyway, Steve was calling me so I'd reinstate this broadcast that I'd cancelled this noon time.

HMJr: Oh, for heaven's sake.

S: Well, you'll be - we've got a hook-up of a 121 stations on the Columbia System.

HMJr: Good for you.

S: I'm going to ....

HMJr: You see him tomorrow morning, and - and see what you can do to get him to get the President to use this.

S: Yes, I will.

HMJr: It's a good statement.

S: Okay. We're on at ten - from ten-thirty to quarter of eleven.

HMJr: Ten what?

S: Ten-thirty to quarter of eleven tonight.

HMJr: What station?

S: Ah - well, it's the Columbia System.

HMJr: I'll be listenin'.

S: I've got a - a panel with a - a - some actors portraying war workers and women munition workers and so on and

- 10 -

G: (cont'd) so forth, asking me questions.

MEMJr: I'll be listenin'.

G: Okay, sir. Dan will be back in the morning?

MEMJr: What's that?

G: Dan be here in the morning?

MEMJr: Dan left on the four-thirty.

G: I see. All right, sir.

MEMJr: And - I'll be waiting for this letter - this high-powered letter.

G: All right. Just a minute. Herb has something.

Herbert Gaston: The other letter was delivered over at the White House.

MEMJr: It was?

G: Yes. I - Miss Tully was with the President, but I talked to Mrs. Brady and she said "Okay", and it was sent over by a Secret Service man.

MEMJr: Well, she's very competent - Mrs. Brady.

G: Yes - yes.

MEMJr: I feel good for the moment.

G: Well, I think for the moment, it's - it does look good.

MEMJr: Yeah. And I think our statement that we gave out this morning - ah - is good.

G: (Laughs) Yeah, I think that's all - that's fine.

MEMJr: Now if the President will do the right thing by me - everything will be lovely....

G: Yeah - yeah - yeah.

MEMJr: .... until those boys do something else.

G: Yeah - yeah. But I want to - I want to see- I

- 11 -

G: (cont'd) want him to have this argument about enforced savings.

HMJr: I want him to have it.

G: Yeah.

HMJr: Okey-doke.

G: Okey-doke.

Draft of letter to The President for Secretary's signature.

238

C-10-47

Dear Mr. President:

Mr. Paul attended today as my representative a meeting called by Mr. Justice Byrnes as War Mobilization Director at which those present, in addition to Justice Byrnes included the Director of the Budget and members of his staff and Judge Fred Vinson, Director of Economic Stabilization. The subject of discussion at the meeting was a proposed statement to be issued by you in connection with or following announcement of your approval of the pay-as-you-go tax bill. In the proposed statement reference is made to your budget message, in which you recommended legislation to raise additional funds in the form of taxes or savings, or both, to the amount of 16 billion dollars. The statement as drafted definitely

- 4 -

be of short duration and in relatively inconsequential amount.

But I have very serious doubts that if such an announcement as proposed were issued we would stand much chance of getting even an additional five billions in taxes. Statements have already been made to the effect that the deferment of 25 per cent of the 1942 tax liabilities implies that we will not ask for additional income taxation at present or over the next two years. The Treasury, I should add, has not been a party to any such statements, but I believe a recommendation for the adoption of enforced lending at this time would be accepted in Congress as an abandonment of any effort to get additional income taxes, either individual or corporation. The pressure for enforced lending is in my opinion coming almost ex-

- 5 -

clusively from those who expect the adoption of forced savings intended mainly to hit the low income groups to save them from the necessity of paying additional taxes.

Our economy is well able to stand additional taxation, including additional income taxation, at this time. Our estimates indicate that National income payments, after payment of individual taxes, in the calendar year 1942 amounted to 109 billion dollars, whereas income payments, after individual taxes, for the calendar year 1943 will amount to \$125 billions. Here is an increased capacity to pay of 16 billions, against which we have up to date levied only about an additional three billions on an annual basis for the next two years through the pay-as-you-go tax plan.

The effect of the enactment at this time of enforced

- 6 -

lending would certainly be to interfere very seriously with our payroll savings plan, our other regular purchases of war bonds and our future drives for funds in large amounts. It would not relieve us of the necessity of continuing this steady solicitation and these periodic drives. Even if coupled with 5 billion dollars of additional taxes, an 11 billion dollar enforced lending plan would still leave more than 50 billion dollars annually, on the basis of the present budget, to be raised by borrowing and that money would have to be raised through intensifying our regular purchase campaigns and carrying on periodic drives as we are doing now.

The difficulties of carrying on these two forms of campaign would be immeasurably increased by a savings levy which would create in the mind of the average wage-

- 7 -

earner the strong impression that he had done his full duty with respect to the purchase of Government securities through the enforced deduction from his pay. It would, I think, go a long way toward killing the enthusiasm and the high morale among workers to which we have been able to contribute through our voluntary payroll savings plan for the purchase of war bonds. I think the same effect would be observed with respect to other regular purchasers who are not on the payroll deduction plan.

It is pertinent here to note that the participation by individuals in the voluntary purchase of Government securities has been increasing substantially. From January to June, 1942, the net purchases of Government securities by individuals (redemptions deducted) were

- 8 -

4.4 billions. The purchases from July to December, 1942, were 5.8 billions. Individual net purchases from January to May, 1943, inclusive, were 6.3 billions and with the minimum figure estimated for June of .7 billions added, the total for January to June, 1943, will amount to not less than 7 billions.

Without any increased selling efforts and without anticipating a continuance of the upward curve shown here, we could confidently rely on individual sales for the calendar year 1943 of not less than 14 billions. As a matter of fact, however, we are wholly confident that the voluntary sales to individuals will far exceed that sum. We have set a goal for the remainder of the year of 18 billion dollars in voluntary war bond purchases by individuals, which if achieved would give us a total for 1943 of approximately 25 billions.

- 9 -

There are at this moment 27 million persons employed in industry, by the Government and in the armed forces who are participating in the regular payroll deduction plan of investment in war savings bonds. The average deduction from the salaries and wages of all these private and public employees is in excess of 9 per cent of their total pay. Payroll deduction alone, not including other forms of regular and occasional voluntary investment, accounts for 425 million dollars a month.

We put this payroll savings plan into effect early last year and in the first six months of 1942 we raised 537 millions by this method. In the last six months of the year subscriptions through payroll savings amounted to 1,697 million dollars. From January to May, 1943, 1945 millions were raised and if 425 millions are added

- 10 -

as an estimate for the month of June, the total for the first six months of 1943 will be 2,370 millions by the payroll deduction plan alone.

I know that it will be entirely apparent to you that the levying of 11 billion dollars in the form of an enforced loan or refundable tax would not constitute an addition to available funds of anything like that amount. A large portion of it would certainly come out of the present volume of voluntary purchases. We would face a risk that the major portion, perhaps as much as 7 or 8 billions, would constitute a net deduction from the purchases that are now being made on the voluntary basis. This would leave us in the position of having gained perhaps 3 or 4 billions of additional loans (not revenue) against which we would have to measure the incalculable

- 11 -

effect upon our voluntary savings campaign which would result through the adoption of compulsory lending and the consequent narrowing of our field and great increase in sales resistance.

There are still other considerations which I think you should take into account. Enforced lending would be levied through the tax mechanism and of necessity would be subject to exactly the same limitations as apply in the case of income taxes. This means that the amount of enforced levies which we could apply in any income group would be limited by the capacity to pay of those in that group who are least able to pay. They would thus not be effective in mopping up the excess income which exists at all income levels except the lowest. It is only common sense, it seems to me, to deduce that we ought to use the

- 12 -

tax mechanism to the fullest possible extent under these limitations to obtain additional revenue rather than to borrow through that mechanism. Borrowing will not have the same deterrent effect on spending that taxation would have. Those that were forced to lend to the Government will count those loans as assets available in the future and will thus be less inclined to put aside other savings for a rainy day.

To summarize, my strong objection to any announcement at this time that a forced lending measure is contemplated is based on these considerations:

(1) It will defeat our attempt to get the additional taxes we need.

(2) It will seriously interfere with borrowing programs which will have to be carried on in any event.

- 13 -

(3) The net gain at best will be very small and it is highly doubtful that there will be any net gain in available funds; on the contrary there may be a loss.

Consequently, I hope very strongly that you will adhere to your determination not to experiment with forced lending, at least until you have an opportunity to observe the results of the voluntary savings plan up to and including the Third War Loan Drive, which we plan to put on in September.

Sincerely yours,

June 10, 1942  
6:15 PM

YYB  
SECRET SERVICE NY TORINA  
SECRET SERVICE WA WILSON

THE FOLLOWING MESSAGE TO BE DELIVERED TO SECRETARY IN ACCORDANCE WITH NY TELEPHONE INSTRUCTIONS

OK SHALL WE START  
OK GA

TO SECRETARY MORGENTHAU-

HEREWITH DRAFT OF LETTER FOR YOUR SIGNATURE AS DICTATED BY ME, FIGURES CHECKED BY TICKTON. OTHERS WILL READ TONIGHT. GASTON

DEAR MR. PRESIDENT-

MR. PAUL ATTENDED TODAY AS MY REPRESENTATIVE A MEETING CALLED BY MR. JUSTICE BYRNES AS WAR MOBILIZATION DIRECTOR AT WHICH THOSE PRESENT, IN ADDITION TO JUSTICE BYRNES INCLUDED THE DIRECTOR OF THE BUDGET AND MEMBERS OF HIS STAFF AND JUDGE FRED VINSON, DIRECTOR OF ECONOMIC STABILIZATION. THE SUBJECT OF DISCUSSION AT THE MEETING WAS A PROPOSED STATEMENT TO BE ISSUED BY YOU IN CONNECTION WITH OR FOLLOWING ANNOUNCEMENT OF YOUR APPROVAL OF THE PAY-AS-YOU-GO TAX BILL. IN THE PROPOSED STATEMENT REFERENCE IS MADE TO YOUR BUDGET MESSAGE, IN WHICH YOU RECOMMENDED LEGISLATION TO RAISE ADDITIONAL FUNDS IN THE FORM OF TAXES OR SAVINGS, OR BOTH, TO THE AMOUNT OF 16 BILLION DOLLARS. THE STATEMENT AS DRAFTED DEFINITELY SUGGESTS THAT A CONSIDERABLE PART OF THIS AMOUNT BE RAISED THROUGH ENFORCED LENDING TO THE GOVERNMENT AND MR. PAUL WAS INFORMED THAT A TENTATIVE SCHEDULE HAD BEEN DRAFTED BY THE BUREAU OF THE BUDGET WHICH CALLED FOR 11 BILLION DOLLARS ENFORCED LENDING AND ONLY 5 BILLIONS IN NEW TAXES.

I WANT TO PRESENT TO YOU AS STRONGLY AS I CAN MY CONVICTION THAT SUCH A STATEMENT AT THIS TIME WOULD BE A MOST SERIOUS AND EVEN TRAGIC MISTAKE. IN MY TELEPHONE CONVERSATION WITH YOU YESTERDAY ABOUT THE CONSTRUCTION PUT BY THE NEWSPAPERS ON YOUR REFERENCE TO COMPULSORY SAVINGS IN YOUR PRESS CONFERENCE OF THE DAY BEFORE I TOLD YOU THAT I THOUGHT SOME CORRECTION OUGHT TO BE MADE OF WHAT SEEMED TO BE A PRESS MISUNDERSTANDING OF THE EFFECT OF YOUR REMARKS, SINCE I BELIEVED THAT IF NOT CORRECTED THE IMPRESSION THAT WE PLAN TO RESORT SOON TO ENFORCED SAVINGS WYKD PUXXX WOULD PUT A SERIOUS DAMPER ON OUR EFFORTS TO INCREASE VOLUNTARY SUBSCRITXXX SUBSCRIPTIONS TO GOVERNMENT LOANS. THE PURPOSE OF THIS LETTER IS AMPLIFY WHAT I SAID TO YOU THEN.

to

THERE IS ANOTHER ASPECT OF THE MATTER THAT I REGARD AS EVEN MORE SERIOUS AND THAT IS THE EFFECT THAT AN ANNOUNCEMENT NOW OF A COMPULSORY SAVINGS PLAN WILL HAVE ON OUR EFFORTS TO GET THE SUBSTANTIAL ADDITIONAL TAXATION WE NEED. OUR PRESENT TAX YIELD ON AN ANNUAL BASIS IS JUST ABOUT ONE-THIRD OF OUR ANNUAL BUDGET. THE ADDITION OF ANOTHER 5 BILLIONS WOULD NOT GO VERY FAR TO CHANGE THIS RELATION. IT WOULD LEAVE THE PROPORTION BELOW 40 PER CENT. ENFORCED LENDING IS NOT REVENUE AND CANNOT BE CLASSED AS A REVENUE MEASURE. IT ADDS TO THE NATIONAL DEBT WHICH MUST BE PAID OR REFUNDED AT THE CLOSE OF THE WAR AND, IF ANY INTEREST SHOULD BE SAVED, THE SAVING WOULD BE OF SHORT DURATION AND IN RELATIVELY INCONSEQUENTIAL AMOUNT.

BUT I HAVE VERY SERIOUS DOUBTS THAT IF SUCH AN ANNOUNCEMENT AS PROPOSED WERE ISSUED WE WOULD STAND MUCH CHANCE OF GETTING EVEN AN ADDITIONAL FIVE BILLIONS IN TAXES. STATEMENTS

HAVE ALREADY BEEN MADE TO THE EFFECT THAT THE DEFERMENT OF 25 PER CENT OF THE 1942 TAX LIABILITIES IMPLIES THAT WE WILL NOT ASK FOR ADDITIONAL INCOME TAXATION AT PRESENT OR OVER THE NEXT TWO YEARS. THE TREASURY, I SHOULD ADD, HAS NOT BEEN A PARTY TO ANY SUCH STATEMENTS, BUT I BELIEVE A RECOMMENDATION FOR THE ADOPTION OF ENFORCED LENDING AT THIS TIME WOULD BE ACCEPTED IN CONGRESS AS AN ABANDONMENT OF ANY EFFORT TO GET ADDITIONAL INCOME TAXES, EITHER INDIVIDUAL OR CORPORATION. THE PRESSURE FOR ENFORCED LENDING IS IN MY OPINION COMING ALMOST EXCLUSIVELY FROM THOSE WHO EXPECTATION OF

~~FOR SAVINGS INTENDED MAINLY TO~~  
~~THEM FROM THE NECESSITY OF PAYING ADDITIONAL TAXES~~  
Regraded Unclassified

OUR ECONOMY IS WELL ABLE TO STAND ADDITIONAL TAXATION, INCLUDING ADDITIONAL INCOME TAXATION, AT THIS TIME. OUR ESTIMATES INDICATE THAT NATIONAL INCOME PAYMENTS, AFTER PAYMENT OF INDIVIDUAL TAXES, IN THE CALENDAR YEAR 1942 AMOUNTED TO 109 BILLION DOLLARS, WHEREAS INCOME PAYMENTS, AFTER INDIVIDUAL TAXES, FOR THE CALENDAR YEAR 1943 WILL AMOUNT TO \$125 BILLIONS. HERE IS AN INCREASED CAPACITY TO

PAY OF 16 BILLIONS, AGAINST WHICH WE HAVE UP TO DATE LEVIED ONLY ABOUT AN ADDITIONAL THREE BILLIONS ON AN ANNUAL BASIS FOR THE NEXT TWO YEARS.

THE EFFECT OF THE ENACTMENT AT THIS TIME OF ENFORCED LENDING WOULD CERTAINLY BE TO INTERFERE VERY SERIOUSLY WITH OUR PAYROLL SAVINGS PLAN, OUR OTHER REGULAR PURCHASES OF WAR BONDS AND OUR FUTURE DRIVES FOR FUNDS IN LARGE AMOUNTS. IT WOULD NOT RELIEVE US OF THE NECESSITY OF CONTINUING THIS STEADY SOLICITATION AND THESE PERIODIC DRIVES. EVEN

IF COUPLED WITH 5 BILLION DOLLARS OF ADDITIONAL TAXES, AN 11 BILLION DOLLAR ENFORCED LENDING PLAN WOULD STILL LEAVE MORE THAN 50 BILLION DOLLARS ANNUALLY, ON THE BASIS OF THE PRESENT BUDGET, TO BE RAISED BY BORROWING AND THAT MONEY WOULD HAVE TO BE RAISED THROUGH INTENSIFYING OUR REGULAR PURCHASE CAMPAIGNS AND CARRYING ON PERIODIC DRIVES AS WE ARE DOING NOW.

THE DIFFICULTIES OF CARRYING ON THESE TWO FORMS OF CAMPAIGN WOULD BE IMMEASURABLY INCREASED BY A SAVINGS LEVY WHICH WOULD CREATE IN THE MIND OF THE AVERAGE WAGE-EARNER THE STRONG IMPRESSION THAT HE HAD DONE HIS FULL DUTY WITH RESPECT TO THE PURCHASE OF GOVERNMENT SECURITIES THROUGH THE ENFORCED DEDUCTION FROM HIS PAY. IT WOULD, I THINK, GO A LONG WAY TOWARD KILLING THE ENTHUSIASM AND THE HIGH MORALE AMONG WORKERS TO WHICH WE HAVE BEEN ABLE TO CONTRIBUTE THROUGH OUR VOLUNTARY PAYROLL SAVINGS PLAN FOR THE PURCHASE OF WAR BONDS. I THINK THE SAME EFFECT WOULD BE OBSERVED WITH RESPECT TO OTHER REGULAR PURCHASERS WHO ARE NOT ON THE PAYROLL DEDUCTION PLAN.

IT IS PERTINENT HERE TO NOTE THAT THE PARTICIPATION BY INDIVIDUALS IN THE VOLUNTARY PURCHASE OF GOVERNMENT SECURITIES HAS BEEN INCREASING SUBSTANTIALLY. FROM JANUARY TO JUNE, 1942, THE NET PURCHASES OF GOVERNMENT SECURITIES BY INDIVIDUALS -REDEMPTIONS DEDUCTED- WERE 4.4 BILLIONS. THE PURCHASES FROM JULY TO DECEMBER, 1942, WERE 5.8 BILLIONS. INDIVIDUAL NET PURCHASES FROM JANUARY TO MAY, 1943, INCLUSIVE, WERE 6.3 BILLIONS AND WITH THE MINIMUM FIGURE ESTIMATED FOR JUNE OF .7 BILLIONS ADDED, THE TOTAL FOR JANUARY TO JUNE, 1943, WILL AMOUNT TO NOT LESS THAN 7 BILLIONS.

WITHOUT ANY INCREASED SELLING EFFORTS AND WITHOUT ANTICIPATING A CONTINUANCE OF THE UPWARD CURVE SHOWN HERE, WE COULD CONFIDENTLY RELY ON INDIVIDUAL SALES FOR THE CALENDAR YEAR 1943 OF NOT LESS THAN 14 BILLIONS. AS A MATTER OF FACT, HOWEVER, WE ARE WHOLLY CONFIDENT THAT THE VOLUNTARY SALES TO INDIVIDUALS WILL FAR EXCEED THAT SUM. WE HAVE SET A GOAL FOR THE REMAINDER OF THE YEAR OF 18 BILLION DOLLARS IN VOLUNTARY WAR BOND PURCHASES BY INDIVIDUALS, WHICH IF ACHIEVED WOULD GIVE US A TOTAL FOR 1943 OF APPROXIMATELY 32 BILLIONS.

THERE ARE AT THIS MOMENT 27 MILLION PERSONS EMPLOYED IN INDUSTRY, BY THE GOVERNMENT AND IN THE ARMED FORCES WHO ARE PARTICIPATING IN THE REGULAR PAYROLL DEDUCTION PLAN OF INVESTMENT IN WAR SAVINGS BONDS. THE AVERAGE DEDUCTION FROM THE SALARIES AND WAGES OF ALL THESE PRIVATE AND PUBLIC EMPLOYEES IS IN EXCESS OF 9 PER CENT OF THEIR TOTAL PAY. PAYROLL DEDUCTION ALONE, NOT INCLUDING OTHER FORMS OF REGULAR AND OCCASIONAL VOLUNTARY INVESTMENT, ACCOUNTS FOR 425 MILLION DOLLARS A MONTH.

WE PUT THIS PAYROLL SAVINGS PLAN INTO EFFECT EARLY LAST YEAR AND IN THE FIRST SIX MONTHS OF 1942 WE RAISED 537 MILLIONS BY THIS METHOD. IN THE LAST SIX MONTHS OF THE YEAR SUBSCRIPTIONS THROUGH PAYROLL SAVINGS AMOUNTED TO 1597 MILLION DOLLARS. FROM JANUARY TO MAY, 1943, 1945 MILLIONS WERE RAISED AND IF 425 MILLIONS ARE ADDED AS AN ESTIMATE FOR THE MONTH OF JUNE, THE TOTAL FOR THE FIRST SIX MONTHS OF 1943 WILL BE 2570 MILLION DOLLARS BY THE PAYROLL DEDUCTION PLAN ALONE.

I KNOW THAT IT WILL BE ENTIRELY APPARENT TO YOU THAT THE LEVYING OF 11 BILLIONS DOLLARS IN THE FORM OF AN ENFORCED LOAN OR REFUNDABLE TAX WOULD NOT CONSTITUTE AN ADDITION TO AVAILABLE FUNDS OF ANYTHING LIKE THAT AMOUNT. A LARGE PORTION OF IT WOULD CERTAINLY COME OUT OF THE PRESENT VOLUME OF VOLUNTARY PURCHASES. WE WOULD FACE

A RISK THAT THE MAJOR PORTION, PERHAPS AS MUCH AS 7 OR 8 BILLIONS, WOULD CONSTITUTE A NET DEDUCTION FROM THE PURCHASES THAT ARE NOW BEING MADE ON THE VOLUNTARY BASIS. THIS WOULD LEAVE US IN THE POSITION OF HAVING GAINED PERHAPS 3 OR 4 BILLIONS OF ADDITIONAL LOANS - NOT REVENUE - AGAINST WHICH WE WOULD HAVE TO MEASURE THE INCALCULABLE EFFECT UPON OUR VOLUNTARY SAVINGS CAMPAIGN WHICH WOULD RESULT THROUGH THE ADOPTION OF COMPULSORY LENDING AND THE CONSEQUENT NARROWING OF OUR FIELD AND GREAT INCREASE IN SALES RESISTANCE.

THERE ARE STILL OTHER CONSIDERATIONS WHICH I THINK YOU SHOULD TAKE INTO ACCOUNT. ENFORCED LENDING WOULD BE LEVIED THROUGH THE TAX MECHANISM AND OF NECESSITY WOULD BE SUBJECT TO EXACTLY THE SAME LIMITATIONS AS APPLY IN THE CASE OF INCOME TAXES. THIS MEANS THAT THE AMOUNT OF ENFORCED LEVIES WHICH WE COULD APPLY IN ANY INCOME GROUP WOULD BE LIMITED BY THE CAPACITY TO PAY OF THOSE IN THAT GROUP WHO ARE LEAST ABLE TO PAY. THEY WOULD NOT BE EFFECTIVE IN MOPPING UP THE EXCESS INCOME WHICH EXISTS AT ALL INCOME LEVELS EXCEPT THE LOWEST. IT IS ONLY COMMON SENSE, IT SEEMS TO ME, TO DEDUCE THAT WE OUGHT TO USE THE TAX MECHANISM TO THE FULLEST POSSIBLE EXTENT UNDER THESE LIMITATIONS TO OBTAIN ADDITIONAL REVENUE RATHER THAN TO BORROW THROUGH THAT MECHANISM. BORROWING WILL NOT HAVE THE SAME DETERRENT EFFECT ON SPENDING THAT TAXATION WOULD HAVE. THOSE THAT WERE FORCED TO LEND TO THE GOVERNMENT WILL COUNT THOSE LOANS AS ASSETS AVAILABLE IN THE FUTURE AND WILL BE LESS INCLINED TO PUT ASIDE OTHER SAVINGS FOR A RAINY DAY.

TO SUMMARIZE, MY STRONG OBJECTION TO ANY ANNOUNCEMENT AT THIS TIME THAT A FORCED LENDING MEASURE IS CONTEMPLATED IS BASED ON THESE CONSIDERATIONS-

- 1- IT WILL DEFEAT OUR ATTEMPT TO GET THE ADDITIONAL TAXES WE NEED
- 2- IT WILL SERIOUSLY INTERFERE WITH BORROWING PROGRAMS WHICH WILL HAVE TO BE CARRIED ON IN ANY EVENT.
- 3- THE NET GAIN AT BEST WILL BE VERY SMALL AND IT IS HIGHLY DOUBTFUL THAT THERE WILL BE ANY NET GAIN IN AVAILABLE FUNDS, ON THE CONTRARY THERE MAY BE A LOSS.

CONSEQUENTLY, I HOPE VERY STRONGLY THAT YOU WILL ADHERE TO YOUR DETERMINATION NOT TO EXPERIMENT WITH FORCED LENDING, AT LEAST UNTIL YOU HAVE AN OPPORTUNITY TO OBSERVE THE RESULTS OF THE VOLUNTARY SAVINGS PLAN UP TO AND INCLUDING THE THIRD WAR LOAN DRIVE, WHICH WE PLAN TO PUT ON IN SEPTEMBER.

SINCERELY YOURS,

Regraded Unclassified

WE WILL PROOF THIS BACK AND THEN CALL YOU BACK ON THE TT SO PLEASE  
STAND BY WE WILL SIGN OFF UNLESS YOU HAVE SOME QUESTIONS

WILSON END OR GA  
NO QUESTIONS TORINA END

T  
SECRET SERVICE NY TORINA  
SECRET SERVICE WA WILSON

JUST A FEW MINOR CORRECTIONS

PARAGRAPH THREE LAST LINE AFTER WORD LETTER IS "TO" SHOULD BE INSERTED

SORRY THAT IS PARAGRAPH TWO

PARAGRAPH FIVE THE WORD AMOUNT IN THE FOURTH LINE SHOULD BE "AMOUNTED"

PARAGRAPH SIX IN SIXTH LINE AFTER WORD TAXES SHOULD BE A COMMA AND  
SN SHOULD BE "AN"

IN PARAGRAPH SEVEN LINE FIVE AFTER WOULD SHOULD BE COMMAN

PARAGRAPH NINE THE AMOUNT IN LAST LINE SHOULD BE 25 BILLIONS

BELIEVE THAT IS ALL MOM PLS

ARE THERE ANY QUESTIONS WILSON END OR GA

NO QUESTIONS WILL MAKE CORRECTIONS AND DELIVER MESSAGE AT ONCE  
TORINA END  
THANK YOU WILSON END

(over)

1942 people \$      2 months  
1943 "              "              "

Why not say George + Broughton  
are for volunteer plan.

I must announce 3rd War Loan  
want this matter settled.

Labour management enthusiastic  
about plan.

Good volunteer plan great  
moral builder.

Step in face of American people after  
success of 2nd war loan to  
give up volunteer plan now

We have the most enthusiastic  
volunteer organizations co-operating  
with gov. They should be encouraged

and not destroyed.

41113  
June 16, 1943

MEMORANDUM FOR THE SECRETARY'S FILES:

Last Thursday, June 10, 1943, there met in the office of Justice Byrnes, the following:

Justice Byrnes,  
Benjamin V. Cohen,

Harold Smith, Budget  
Wayne Coy, Budget  
Gerhard Colm, Budget

Judge Vinson, OES.  
Randolph Paul

The meeting proceeded to read and discuss from sentence to sentence a draft combination tax and subsidy message which had apparently been prepared by Ben Cohen. A number of corrections were indicated throughout the reading of the manuscript -- some by Wayne Coy, some by myself and some by Gerhard Colm. It was finally agreed that a committee should be appointed to redraft the proposed message to Congress in accordance with the discussion of the meeting. For this purpose, Mr. Smith suggested a committee of Ben Cohen, Gerhard Colm, and Randolph Paul.

Although I had previously restated the Treasury attitude on the subject of compulsory saving, at this point I went into the point more thoroughly, stating that I would not be able to serve on the committee because the message took the position strongly in favor of compulsory saving, and the Treasury was strongly opposed to such saving. It was definitely stated by Byrnes that the Treasury position in this respect was understood and that I would be serving on the committee without prejudice to the Treasury views on this subject. After consultation with the Secretary later in the afternoon, I served on the committee.

The work of the committee of drafting and redrafting proceeded throughout Thursday afternoon when Cohen and Colm came to this office. The next day, Friday, June 11th, Mr. Colm came to this office for a further redrafting -- Mr. Cohen having turned his energies to the subsidy part of the message.

- 2 -

The latter part of the message was turned over on Friday to Mr. White, and later on the Secretary's suggestion to Mr. D. W. Bell. On Friday afternoon I cleared the situation with the understanding with Mr. Bell that he would be responsible on continuing work on this part of the message.

A handwritten signature in dark ink, appearing to be 'M. J. Bell', is centered below the typed text.

RICHARD C. PATTERSON, JR.  
1270 SIXTH AVENUE  
NEW YORK

June  
10th  
1943

Dear Henry:

That was a fine telegram you sent me  
on June ninth, and you may be sure that  
I am yours to command at any time.

Faithfully,

*Dick.*

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

JUN 11 1943  
RECEIVED IN THE  
OFFICE

## EXPENSES OF LOANS

June 18, 1943

MR. WALTER E. HEAD  
GENERAL AMERICAN INSURANCE CO  
ST. LOUIS, MISSOURI

AS RECENTLY ANNOUNCED THE TREASURY DEPARTMENT IS MERGING THE WAR SAVINGS STAFF AND VICTORY FUND COMMITTEE, BOTH OF WHICH HAVE ENGAGED IN ENCOURAGING PARTICIPATION BY ALL THE PEOPLE IN FINANCING THE WAR THROUGH THE PURCHASE OF WAR SAVINGS BONDS AND STAMPS AND GENERAL TREASURY SECURITIES. THE NEW COMMITTEE WILL BE KNOWN AS THE TREASURY WAR FINANCE COMMITTEE FOR THE STATE OF MISSOURI. I AM AWARE OF THE SPLENDID JOB THAT YOU DID IN HEADING UP THE APRIL DRIVE AND WILL BE MUCH GRATIFIED IF YOU WILL ACCEPT THE CHAIRMANSHIP OF THIS NEW COMMITTEE. MR. GAMBLE AND MR. GASTON WILL COME TO MISSOURI SOON TO DISCUSS DETAILS OF THE MEMOR WITH YOU.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY

770:000

248 ✓

*6/19/75*

**Financing Requirements  
and Sources of Funds**

*Volume 1*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE JUN 10 1943

TO Secretary Morgenthau  
 FROM Mr. Haas  
 Subject: Financing Requirements and Sources of Funds for  
 This Summer and the Third War Loan

I. Amount of Funds Required

In the financing period of 5 months running from the end of the Second War Loan through the Third War Loan, the Treasury will need to borrow a gross amount of about \$32 billions to cover requirements as follows:

1. Deficit ..... \$27 billions
2. Maturities and redemptions ..... 5 billions
3. Total ..... \$32 billions

This allows for estimated redemptions of savings bonds and tax notes; and assumes that all maturities will be paid off in cash except the August certificates. The working balance at the close of the Third War Loan would be about \$15 billions under this schedule of borrowing or the same as at the close of the Second War Loan.

The financing of this \$32 billions will fall into two periods as follows:

1. Interim financing (End of Second War Loan to beginning of Third War Loan).
2. Third War Loan.

Financing in the interim period will be provided partly through continuing sales of savings bonds and tax notes, and partly through financing operations in marketable securities including weekly increases in bills.

Whatever is not provided through interim financing will have to be raised in the Third War Loan. Separate memoranda

Secretary Morgenthau - 2

have been prepared on the interim financing and on the Third War Loan describing programs which would raise the \$32 billions as follows:

1. Interim financing:

- |  |              |
|--|--------------|
| a. Already arranged: continuing sales of savings bonds and tax notes, special issues to Government agencies and trust funds, and increases in bills in May ..... | \$5 billions |
| b. Proposed market financing for June-August (See memorandum entitled "A Suggested Program for Market Financing Prior to the September Drive").....              | \$7 billions |

2. September financing:

- |   |                    |
|---|--------------------|
| a. Third War Loan (See memorandum entitled "The Third War Loan").....                   | \$16 billions      |
| b. Financing outside of drive: increases in bills and sales to Federal trust funds..... | <u>\$1 billion</u> |
| 3. Total financing program.....   | \$32 billions      |

II. Sources of Funds

If the Federal deficit for the period May through September is \$27 billions, then it will be matched by savings and accumulations on the part of the civilian economy to a corresponding total of about \$27 billions during the period. Present estimates of the composition of these savings are as follows:

	(Billions of dollars)
Savings of individuals.....	17.5
Corporate accumulations.....	8.0
Accumulations in governmental accounts (Federal, State and local).....	<u>2.1</u>
Total.....	27.6

Secretary Morgenthau - 3

Table I shows preliminary revised schedules for tapping these savings as sources of funds for Federal borrowing during the calendar year 1943. The figures have been brought up to date in accordance with the latest information but are based on the same pattern as was followed in the case of the tentative schedule for sources of funds which was released to the press in April in connection with the Second War Loan. The second financing period has been extended to carry through September instead of stopping in August and the last period of the year has been shortened to three months. It will be desirable to plan for a drive in December in order to absorb individuals' savings in the last part of the year and reach the goal of \$25 billions sales to individuals this year.

The sources of funds data by classes of investors are discussed in Section IV of this memorandum.

- 4 -

Table I

Sources of Funds for New Federal Borrowing  
During the Calendar Year 1943  
(In billions of dollars)

Source of funds and class of investor	January-April			May-September			October-December			Total for year		
	Savings received	Securities absorbed	Percent	Savings received	Securities absorbed	Percent	Savings received	Securities absorbed	Percent	Savings received	Securities absorbed	Percent
<b>A. Nonbanking sources:</b>												
1. Personal savings:												
a. Insurance companies..	1.0	1.9		1.3	1.7		.7	.9		3.0	4.5	
b. Mutual savings banks.	.2	.8		.2	.4		.2	.3		.6	1.5	
c. Recipients of debt repayment.....	1.0	-		1.0	-		.5	-		2.5	-	
d. Individuals <sup>1/</sup> .....	<u>9.6</u>	<u>5.8</u>	60%	<u>15.0</u>	<u>9.8</u>	65%	<u>11.9</u>	<u>8.9</u>	75%	<u>36.5</u>	<u>24.5</u>	67%
e. Total.....	<u>11.8</u>	<u>8.5</u>		<u>17.5</u>	<u>11.9</u>		<u>13.3</u>	<u>10.1</u>		<u>42.6</u>	<u>30.5</u>	
2. Corporate accumulations:												
a. Recipients of debt repayment.....	.3	-		1.5	-		1.0	-		2.8	-	
b. Corporations <sup>2/</sup> .....	<u>5.7</u>	<u>5.4</u>	95%	<u>6.5</u>	<u>6.2</u>	95%	<u>3.8</u>	<u>3.6</u>	95%	<u>16.0</u>	<u>15.2</u>	95%
c. Total.....	<u>6.0</u>	<u>5.4</u>		<u>8.0</u>	<u>6.2</u>		<u>4.8</u>	<u>3.6</u>		<u>18.8</u>	<u>15.2</u>	
3. Accumulations in Govern- mental accounts:												
a. Federal.....	.8	1.3		1.5	1.8		.8	1.0		3.1	4.1	
b. State and local.....	<u>.7</u>	<u>.5</u>		<u>.6</u>	<u>.4</u>		<u>.4</u>	<u>.2</u>		<u>1.7</u>	<u>1.1</u>	
c. Total.....	<u>1.5</u>	<u>1.8</u>		<u>2.1</u>	<u>2.2</u>		<u>1.2</u>	<u>1.2</u>		<u>4.8</u>	<u>5.2</u>	
4. Total for nonbanking sources.....	<u>19.3</u>	<u>15.7</u>		<u>27.6</u>	<u>20.3</u>		<u>19.3</u>	<u>14.9</u>		<u>66.2</u>	<u>50.9</u>	
B. Banking sources.....		<u>9.5</u>			<u>6.7</u>			<u>4.5</u>			<u>20.7</u>	
C. Total borrowing.....		<u>25.2</u>			<u>27.0</u> <sup>3/</sup>			<u>19.4</u> <sup>3/</sup>			<u>71.6</u>	

June 9, 1943.

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

- <sup>1/</sup> Individuals, partnerships and personal trust accounts.  
<sup>2/</sup> Corporations and associations other than banks and insurance companies.  
<sup>3/</sup> Estimated net deficit.

Secretary Morgenthau - 5

### III. Goals by Classes of Investors

The data in Table I on sources of funds relate to net increases in holdings of Federal securities by the various classes of investors. Goals for sales of securities to these investors will have to take into account not only such net increases in holdings, but also sales to provide replacements for maturities and redemptions within the period and replacements for sales made in the market. Table II presents the sales scheduled for the various classes of investors for each of these purposes and arrives at the total amount of gross sales scheduled. This total is \$32 billions, the same, of course, as the total financing requirements for the period.

Table II

Sales of Securities Scheduled for May-September  
Financing Period, By Classes of Investors  
(In billions of dollars)

Class of investor	Net increase in holdings (Table I)	Replacements		Total gross sales sched- uled
		Due to : maturi- ties : and : redemp- tions :	Due to market sales	
1. Insurance companies.....	1.7	-	.3	2.0
2. Mutual savings banks.....	.4	-	.1	.5
3. Individuals, partner- ships, and personal trust accounts.....	9.8	.5	-	10.3
4. Corporations.....	6.2	3.3	.1	9.6
5. Governmental accounts:				1.8
a. Federal.....	1.8	-	-	.4
b. State and local.....	.4	-	-	
6. Banking sources.....	<u>6.7</u>	<u>1.2</u>	<u>- .5</u> <sup>1/</sup>	<u>7.4</u>
7. Total.....	<u>27.0</u>	<u>5.0</u>	<u>-</u>	<u>32.0</u>

<sup>1/</sup> Represents net market purchases.

Secretary Morgenthau - 6

Total gross sales scheduled represent, of course, the goals for the sales of securities to the various classes of investors during the entire period. Table III classifies these goals as between interim financing in May through August and September financing, with further distribution between goals for the Third War Loan itself and goals for sales outside of the drive in September.

Table III  
Goals for Classes of Investors in May-September  
Financing Period Divided Between Interim  
Financing and September Program

(In billions of dollars)

Class of investor	Interim		September		Total
	Already arranged 1/	Proposed market financing 2/	Third War Loan 3/	Outside of drive	
1. Insurance companies .....	-	-	2.0	-	2.0
2. Mutual savings banks .....	-	-	.5	-	.5
3. Individuals, partnerships, and personal trust accounts .....	3.3	-	7.0	-	10.3
4. Corporations ....	2.3	1.0	6.3	-	9.6
5. Governmental accounts:					
a. Federal ....	1.4	-	-	.4	1.8
b. State and local .....	-	-	.4	-	.4
6. Banking sources .	.8	6.1	-	.5	7.4
7. Total .....	<u>7.8</u>	<u>7.1</u>	<u>16.2</u>	<u>.9</u>	<u>32.0</u>

- 1/ Continuing sales of savings bonds and tax notes, special issues to Government agencies and trust funds, and increases in bills in May.
- 2/ See memorandum entitled "A Suggested Program for Market Financing Prior to the September Drive".
- 3/ See memorandum entitled "The Third War Loan".

Secretary Morgenthau - 7

It is proposed in our memorandum on the Third War Loan that the drive include only nonbanking investors and that sales to commercial banks and Federal agencies and trust funds should be handled outside of the drive.

The most important goal for the Third War Loan is that of \$7 billions for sales to individuals, partnerships, and personal trust accounts. It is estimated that over \$4 billions of E bonds will have to be sold to realize this goal.

#### IV. Details on sources of funds, by investor classes

This section presents a discussion of the sources of funds data for each of the principal classes of investors.

##### Individuals

It is estimated that total savings of individuals will amount to about \$17.5 billions in the financing period May through September. They will invest about \$2.5 billions of their new savings in life insurance, mutual savings bank deposits, and debt repayment, leaving \$15.0 billions as the reservoir available for the purchase of Federal securities. This compares with a total of \$9.6 billions so available in the first 4 months of this year.

Sales of securities in the Second War Loan and in the preceding three months absorbed \$5.8 billions of the available total or 60 percent, as compared to the goal of 55 percent. The tentative schedule of sources of funds for Federal borrowing released in April calls for a step-up of this percentage in the second financing period this year to 65 percent. Applying this percentage to the \$15.0 billions estimated to be available provides a goal of \$9.8 billions of sales of securities to individuals in the present five months' financing period. The interim financing program would take care of a net amount of \$2.8 billions of this total leaving \$7.0 billions to be raised in the Third War Loan. The figures are summarized in the following table:

Secretary Morgenthau - 8

	(In billions of dollars)	
	Jan.-April	May-Sept.
Total personal savings.....	11.8	17.5
Less: Savings invested in insurance, mutual savings bank deposits, and debt repayment.....	<u>2.2</u>	<u>2.5</u>
Remainder available for Federal securities.....	9.6	15.0
Percent invested in Federal securities <u>1/</u> .....	60%	65%
Net purchases of Federal securities.....	5.8	9.8
Less: Purchases in interim period.....	<u>2.5</u>	<u>2.8</u>
Purchases during drive.....	<u>3.3</u>	<u>7.0</u>

#### Corporations other than Banks and Insurance Companies

In the case of corporations, expected accumulations of \$8 billions in the present five months' period have been assumed to be divided between \$1.5 billions withheld for debt repayment and \$6.5 billions residual available for Federal securities. In the January-April period, 95 percent of corporate accumulations, after an allowance for debt repayment, was invested in Federal securities, as against a goal of 75 percent. It is assumed that this 95 percent proportion will be continued in the present five months' financing period, although the April tentative schedule of sources of funds called for 80 percent for this period. The 95 percent figure provides a total of \$6.2 billions for net sales of securities to corporations in this period.

Sales to corporations during the interim financing are expected to be about \$100 millions less than the amount of funds paid out to them through maturities and redemptions. Accordingly, the goal for the Third War Loan drive for corporations has been set at \$6.3 billions to provide \$100 millions for replacements and a net increase in holdings of \$6.2 billions. The figures are summarized below:

1/ Most of the portion not invested in Federal securities is accounted for by increases in currency and checking accounts.

## Secretary Morgenthau - 9

	(In billions of dollars)	
	<u>Jan.-April</u>	<u>May-Sept.</u>
Total corporate accumulations.	6.0	8.0
Less: Allowance for debt repayment.....	<u>.3</u>	<u>1.5</u>
Remainder available for Federal securities.....	5.7	6.5
Percent invested in Federal securities.....	95%	95%
Net purchases of Federal securities.....	5.4	6.2
Less: Purchases in interim period.....	<u>1.0</u>	<u>-.1</u>
Purchases during drive....	<u>4.4</u> <sup>1/</sup>	<u>6.3</u>

Other investors

Sales of securities to insurance companies and mutual savings banks in the Third War Loan drive have been set at a goal of \$2.5 billions based on new personal savings received by these organizations and funds made available to them by the liquidation of other assets and market sales of some of their short-term Federal securities. The goal for State and local governmental accounts in the Third War Loan is \$400 millions based on the estimate of the surplus of these agencies during the period.

These goals provide a total of \$16.2 billions for the Third War Loan drive without any sales to commercial banks. It is estimated that banking sources will need to be relied upon for \$6.7 billions of new funds during the present financing period but most of this money will be raised through the interim financing program. It is thus necessary to raise only \$500 millions from commercial banks in September and it has been assumed that all of this will be provided by increases in the amount of bills outstanding. The precise amount of bill increases at that time need not be determined until early in September. The level of weekly bill offerings will reach \$1.2 billions on September 16 -- if weekly increases of \$200 millions are continued in the

<sup>1/</sup> Gross purchases of \$5.2 billions less market sales of \$.8 billions.

Secretary Morgenthau - 10

interim period as proposed in the memorandum on market financing prior to the September drive.

Finally, \$400 millions would also be raised outside of the drive in September by sales to Federal agencies and trust funds.

Interim Financing

*B*

[Redacted]

[Redacted]

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE JUN 10 1943

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: A Suggested Program for Market Financing Prior to the September Drive

## INTRODUCTION AND SUMMARY

This memorandum outlines a suggested program for raising \$7 billions by market financing during the months of June, July and August. Raising this amount of money by market financing would, it is estimated, provide a working balance of about \$4 billions on September 1, which balance would run down (excluding any possible proceeds of the September drive) to about \$1-1/2 billions on September 15. This working balance, or the portion of it in the Federal Reserve Banks, could be supplemented by the sale of special one-day certificates (i.e., "overdrafts") to the Federal Reserve Banks, thereby carrying the Treasury, with some margin to spare, until the proceeds of the September drive become available.

The suggested program is as follows:

- (1) The weekly offering of Treasury bills be increased to \$1 billion on June 16 and \$1.1 billions on July 21, thus continuing the margin of \$200 millions between new and maturing issues;
- (2) \$2-1/2 billions of 1-1/2 percent Treasury notes due on September 15, 1947, be offered on the last three days of June for subscription by all classes of investors; and
- (3) \$2 billions of new money be raised in connection with the refunding of the August 1 certificate issue.

Secretary Morgenthau - 2

It will be noted that this program does not provide for reopening the 2-1/2's or for refunding the 3-1/4 percent bonds called for payment on October 15 prior to the drive. The reasons why these operations are not suggested and a suggested alternative method for handling the 3-1/4 percent bonds are outlined in sections IV and V of the memorandum.

### I. Treasury Bills

It is suggested that the present margin of \$200 millions each week between the new and maturing bill issues be continued, at least until the September drive. This would mean an increase in the weekly issue from the present amount of \$900 millions to \$1.0 billion on June 16, and to \$1.1 billions on July 21. This program would raise \$2.6 billions of new money during the months of June, July and August, and \$400 millions during the first half of September.

The reasons for this suggestion are as follows:

- (1) Bill money is the cheapest money which the Treasury obtains by some margin, and the bill holdings of commercial banks contribute more to the stability of the banking system than commercial bank holdings of any other Government security. It would seem premature to level off the amount of the weekly bill offering, therefore, as long as commercial bank absorption continues good. That this is now the case is shown by the fact that commercial banks have absorbed about 64 percent of the increase in the outstanding amount of bills during the first five months of this year. Banks in New York City absorbed 18 percent of the increase while banks outside New York City absorbed 46 percent -- a shift toward greater absorption by the outside banks. The Federal Reserve Banks have absorbed only 34 percent, and other investors 2 percent. Federal's holdings of Treasury bills showed practically no net change during the month of May, despite an increase of \$800 millions in the total outstanding amount.

Secretary Morgenthau - 3

- (2) A continuation of the increase in the weekly Treasury bill offering would give the Federal Reserve Banks an opportunity to purchase a substantial volume of Government securities during the next few months without bidding up the prices of outstanding issues. Such purchases will be required if excess reserves are not to decline rapidly from their present level (\$1.6 billions), which is not far from the low since the beginning of the war (see attached chart).

Since the first of the year the Government security holdings of the Federal Reserve Banks have increased by only \$28 millions while excess reserves have fallen by only \$354 millions. This was made possible, notwithstanding an increase of \$1.8 billions in money in circulation and a substantial increase in demand deposits by legislation exempting war loan deposits from reserve requirements. The full effect of this legislation on excess reserves has now been felt, however; and as the war loan deposits resulting from the Second War Loan drive are paid out, a sharp decline in excess reserves is certain to take place unless it is offset by substantial purchases of Government securities by the Federal Reserve Banks.

Secretary Morgenthau - 4

## II. Suggested New Money Financing in June

It is suggested that a Treasury note might be offered for \$2-1/2 billions late in June. Five questions appear to be involved here: (1) timing; (2) amount; (3) choice of issue; (4) preferential allotments; and (5) basis of bank subscriptions.

(1) Timing. It is well that this operation should be postponed until some time after the April drive in order to give the market a rest and allow the war loan account to be drawn down somewhat. On the other hand, books probably will be open during the week ended July 24, for subscriptions to a new certificate to refund the August 1 maturity, and it is suggested in the next section of this memorandum that \$2 billions of new money be raised at that time. In order to allow a suitable interval to elapse before the certificate refunding, the last week in June -- say, Monday, Tuesday, and Wednesday, June 28, 29, and 30 -- would seem a good time for the operation now under consideration.

(2) Amount. \$2-1/2 billions seems the minimum amount which would provide the necessary funds to carry the Treasury until the September drive. It is somewhat high in relation to present and prospective excess reserves, but this is offset partly by the high ratio of bank subscriptions to excess reserves shown in the April drive and partly by the fact that not all of the \$2-1/2 billions would be taken by banking subscribers.

(3) Choice of issue. On the basis of the present market a 1-1/2 percent note due on September 15, 1947 would be definitely attractive.

There are only about \$1.5 billions of Government securities maturing or first callable during the year 1947, and there appears to be a substantial demand in the market for a security maturing in that year.

There has been some discussion of the possibility of offering a 2 percent bond for an interim financing. On the basis of the present market such a bond would be a June 15, 1951-53. It seems to us, however, that the suggested note would be at least equally popular and would be more advantageous to the Treasury.

Secretary Morgenthau - 5

Any security used for the interim financing will be largely absorbed by commercial banks, and 1-1/2 percent seems a high enough rate for a bank security at the present time. The greater inconvenience of the shorter maturity to the Treasury would be more than offset by the greater stability which it would give to the banking system. A 2 percent bond, available for bank subscription, was offered in April, and with the present satisfactory rate of bank earnings (national banks earned 6.5 percent on their capital funds in 1942), it would seem that such offerings should be relatively infrequent.

The principal argument offered in favor of the 2 percent bond seems to be that the market is too strong in this area and must be held down. As a matter of fact, there is not a great deal to choose between the 1-1/2 percent and the 2 percent areas of the market in this respect. The outstanding taxable 2 percent bonds rose on the average 14/32 in price and declined 7 basis points in yield between May 3 (the date on which the 2's offered in the April drive were first traded) and June 5. In the same period, the outstanding 1-1/2 percent taxable note rose 8/32 in price and declined 7 basis points in yield.

(4) Preferential allotments. Two types of preferential allotments have been customary in the recent past (a) to all subscribers, irrespective of type, to amounts up to \$100,000, and (b) to all subscribers other than banks, irrespective of amounts. It is suggested that, in the case of this issue, all subscriptions up to \$100,000 should be allotted in full, but that subscriptions above that amount should be allotted on a flat percentage basis to banking and nonbanking subscribers alike.

Preferential allotment for subscriptions up to \$100,000 would appear to serve a useful purpose in connection with this issue. In particular it would help small banks -- whose earnings as compared with those of larger institutions have been under pressure -- to solve their earnings problem.

Preferential allotment to nonbanking subscribers generally would seem less desirable, however. If the issue were "sweet", it would result in a small prospective percentage allotment to large subscribers. This, in turn, would create a problem of padding on the part of banking subscribers and of free

Secretary Morgenthau - 6

riding on the part of nonbanking subscribers, both of which problems would be very hard to control. It does not appear to be necessary to create these problems in order to encourage nonbanking subscriptions, inasmuch as such subscriptions are expressly solicited in periodic drives and, in addition, Series C tax notes are always open for unlimited nonbanking subscriptions.

(5) Basis for bank subscriptions. The large over-subscription to the issues offered to commercial banks in the April drive has caused some resumption of the demand that a "basis for subscription" be established for commercial banks and the issues "policed" in accordance with such basis, as was the case with bank subscriptions up until about a year ago. While it may be necessary to do this eventually, it is suggested that it should not be done in connection with the present issue for two reasons: (a) the issue will be larger in relation to excess reserves than any since last October, and (b) under present conditions any suggested "basis" for bank subscriptions could readily become the entering wedge for "quotas" for bank subscriptions accompanied by a general tightening of the money market.

Secretary Morgenthau - 7

III. Refunding of the August 1 Certificate

It is suggested that \$2.0 billions of new money be raised in connection with the refunding of the August certificate. This, at present, appears necessary, unless it is decided to have an additional interim financing during August.

It is assumed that the present pattern of rates will be maintained and that the new certificate will be for one year at 7/8 of 1 percent. If \$2.0 billions of new money is raised in connection with the refunding, the certificates outstanding on August 1 (including the new issue) will be as follows:

	: Billions of : dollars
7/8 percent, due November 1, 1943	2.0
7/8 percent, due December 1, 1943	3.8
7/8 percent, due February 1, 1944	2.2
7/8 percent, due April 1, 1944	5.3
7/8 percent, due May 1, 1944	1.7
7/8 percent, due August 1, 1944	<u>3.6</u>
	18.6

It is suggested that the full amount of the proposed new certificate issue above the \$100,000 preferential allotments be open for subscription to all classes of subscribers on an equal percentage allotment basis. The reasons for this suggestion are substantially the same as those discussed in the previous section in connection with the interim new-money financing, except that in the present case there is

Secretary Morgenthau - 3

the additional possibility of offering rights to the holders of the maturing certificates. It is suggested that this should not be done for two principal reasons:

- (1) If the full \$3.6 billions of the new issue are offered for cash subscriptions, allotments will be larger, and there will be less opportunity for a "pyramided" over-subscription of the cash portion with a consequent greater incentive for padding and an increased demand for policing.
- (2) It would seem desirable, all other things being equal, to refrain from offering rights on some certificate maturities, in order to prevent the creation of a vested interest in rights such as once existed.

It should finally be noted that if the entire new issue of certificates is offered for cash subscription, payable at the option of the subscribers in war loan account, it will be necessary to withdraw about \$1.5 billions from existing war loan accounts in a single operation, as a piecemeal withdrawal would affect excess reserves very adversely. While a single withdrawal from war loan of the magnitude suggested would be unprecedented, we see no difficulty in it and believe it would be desirable to accustom the market to operations of this size.

Secretary Morgenthau - 9

IV. Proposal to Reopen the 2-1/2's

It has been suggested that the 2-1/2's of 1964-69 which were offered during the April drive should be reopened late in June and allowed to remain open for some time, perhaps until the September drive. The principal reason given for this suggestion is that it is necessary to keep the market down.

We feel that a reopening of the 2-1/2's before the September drive would be unwise for the following reasons:

- (1) There would probably be little demand for the issue and sales would consequently be small. The Treasury telegram of June 3 requesting the opinions of the Presidents of the Federal Reserve Banks on the proposal to reopen this issue said that the reopening would be "primarily for insurance company funds". The total cash holdings of the 36 large life insurance companies reporting to the Treasury Department was only \$394 millions on April 30. This compares with \$1,370 millions on March 31 and was the smallest at any month-end since 1933. If the reopening resulted in only small sales of the 2-1/2's it would probably be termed a "flop" and would have a bad effect on the September drive.
- (2) The proposed reopening would have its principal effect upon the prices of the long-term issues. The following table compares the prices of the four longest-term Treasury issues on December 31, 1942, and June 5, 1943:

Secretary Morgenthau - 10

	December 31, 1942	June 5, 1943	Change
2-1/2's 1962-67	100- 6/32	100-30/32	+24/32
2-1/2's 1963-68	100-15/32	100-21/32	+6/32
2-1/2's 1964-69	--*	100-15/32	--
2-1/2's 1967-72	100-24/32	101- 1/32	+9/32

\* Issued in the April drive.

The extraordinary rise in the 1962-67's since the first of the year is due principally to the fact that this issue was not available in coupon form at the year-end. The rise in the 1963-68's and 1967-72's is more representative of the general movement of the market. The 1967-72's at their present price are still 14/32 below their 1942 high.

- (3) It is always easier to sell new securities on a firm or slightly rising market. The best advertisement for each successive drive is that the securities sold in the preceding drives are selling at premiums.
- (4) A 2-1/2 percent bond will probably be the only new security offered in the drive for individuals. If it has just been reopened, even this security will not be new. It would seem advisable that the drive period should open with the addition of at least one new security to the basket.

Secretary Morgenthau - 11

- (5) Finally, it should be noted that a moderate rise in the long end of the market would have no effect on the "pattern of rates" other than to cause a slight extension of maturity in the next issue of 2-1/2's.

Secretary Morgenthau - 12

V. Treatment of the 3-1/4 Percent Bonds Called  
for Payment on October 15

It is suggested that nonbanking holders of the 3-1/4 percent bonds called for payment on October 15 be offered the privilege of exchanging their bonds for the 2-1/2 percent issue to be offered during the September drive and that the bonds not so exchanged be paid off in cash at maturity. In order to make this exchange offer attractive it would be desirable to allow the holders of the 3-1/4's their full interest to maturity. Accrued interest up to October 15 could then be charged on the 2-1/2's offered in exchange.

The following considerations seem to favor the suggested treatment of the 3-1/4's:

- (1) The estimated distribution of ownership of the 3-1/4's as of April 30 was as follows:

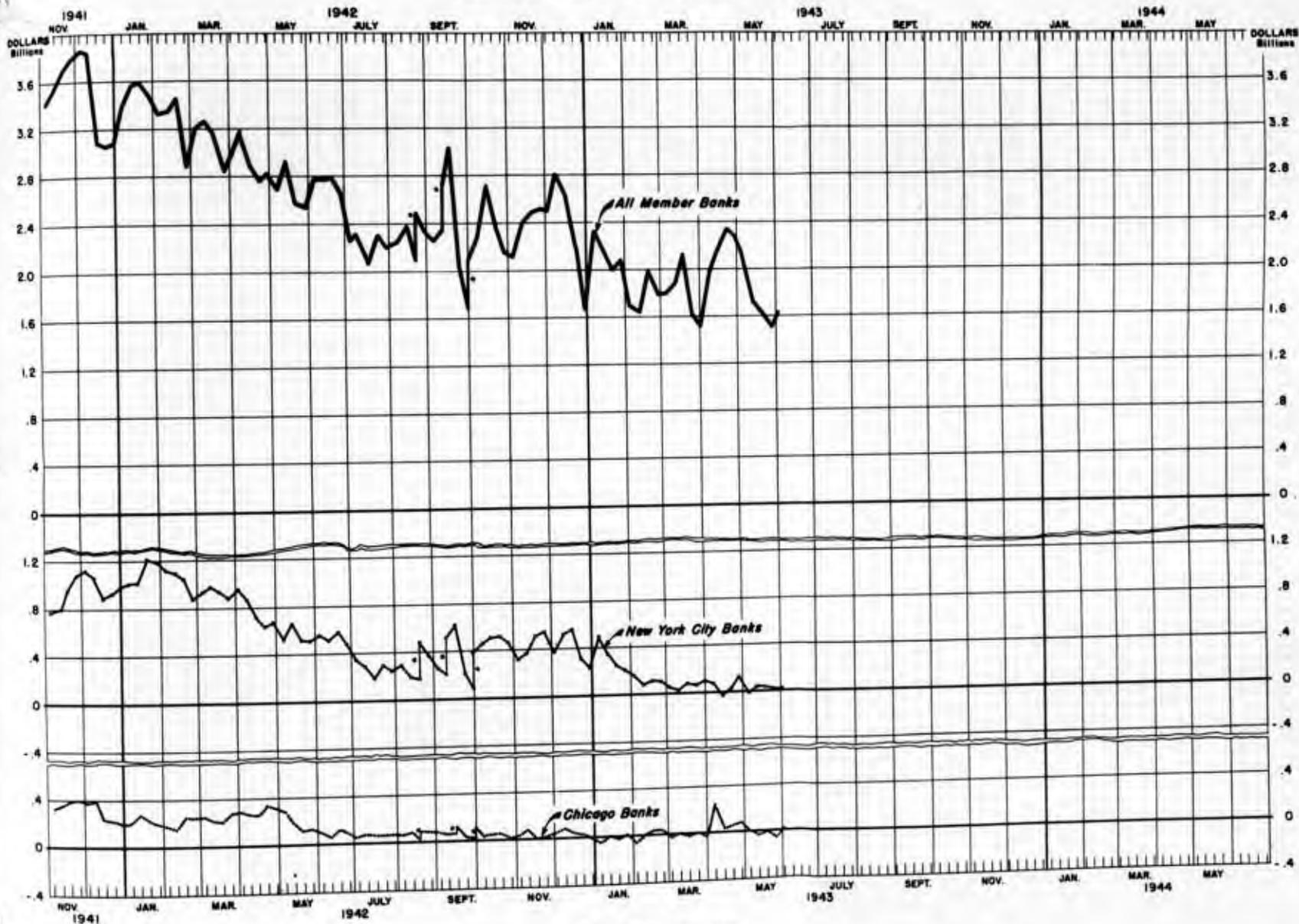
	:	Millions of dollars
<u>Banking holders:</u>		
Commercial banks	642	
Federal Reserve Banks	<u>179</u>	
Total banking holders		821
<u>Nonbanking holders:</u>		
Mutual savings banks	46	
Insurance companies	91	
Government agencies	--	
Other investors	<u>443</u>	
Total nonbanking holders		<u>580</u>
Total amount outstanding		1,401

Secretary Morgenthau - 13

As appears from the above table, about 59 percent of the 3-1/4's are held by banking holders and about 41 percent by nonbanking holders. It would be extremely difficult to make any one exchange offer which would satisfy both classes of holders. Between the two, it is, of course, much more important to perpetuate ownership on the part of the nonbanking holders. This would be difficult to accomplish by any exchange offer made before the September drive. In order to insure the success of such an offer, a "banking" security would probably be offered in exchange and a large portion of the nonbanking holdings frozen out. An offer made in connection with the September drive would have a much better chance of conserving a large proportion of nonbanking ownership.

- (2) An exchange offer made prior to the September drive would probably create a substantial "rights value" in the 3-1/4's. This rights value would raise important problems not raised by a certificate-for-certificate exchange such as that made during the time of the April drive. One purpose of this exchange, it will be remembered, was to conserve as far as possible the old ownership of the certificates. In the present case, however, the rights value would be a powerful influence in pulling bonds from the hands of nonbanking to banking holders.
- (3) Finally, it should be noted that paying off in cash on October 15 the remaining 3-1/4's not exchanged during the September drive would present no problem, as the Treasury balance will be high on that date. While such a pay-off would add somewhat to the volume of bank financing in the interim after the September drive, it probably would reduce the total volume of bank financing for the entire year.

### MEMBER BANK EXCESS RESERVES



\* Change in reserve requirements

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE JUN 10 1943

TO Secretary Morgenthau  
FROM Mr. Haze  
Subject: The Third War Loan

Summary

1. The first section of this memorandum outlines a suggested financing program designed to yield \$16.2 billions in a nonbanking drive conducted between September 7 and October 2, of which \$7 billions would come from individuals. This financing program plus the interim financing program set forth in our memorandum entitled "A Suggested Program for Market Financing Prior to the September Drive" would provide a volume of funds sufficient to carry the Treasury until December. They would acquire for investment in Government securities a volume of funds from individuals which would represent 65 percent of the amount of their new savings accumulating between May 1 and September 30 (in place of the 60 percent which was so invested between January 1 and April 30), as set forth in our memorandum entitled "Financing Requirements and Sources of Funds for This Summer and the Third War Loan".

2. A number of technical and policy matters which require some attention during your consideration of the September financing program are discussed in the second section of this memorandum.

- 2 -

### I. General Outline of the Program

The financing program set forth below is designed to raise \$16.2 billions of new money between September 7 and October 2. These funds plus (1) the amounts of new money provided according to our memorandum entitled "A Suggested Program for Market Financing Prior to the September Drive", and (2) the amounts derived from savings bonds and tax notes sold after the September drive should be sufficient -- if bill and certificate maturities are rolled over -- to provide the Treasury with a comfortable working balance until December.

#### Financing Program - Third War Loan Drive

Period and Offering	Amount (In billions of dollars)
A. September 7 to October 2	
1. <u>INDIVIDUALS:</u>	
(a) E bonds* .....	4.3
(b) F and G bonds* .....	1.0
(c) Tax notes, Series C* .....	.6
(d) 2-1/2 percent bonds .....	<u>1.1</u>
(e) Subtotal .....	7.0
B. September 27 to October 2	
1. Insurance companies and mutual savings banks:	
(a) 7/8 percent certificates ....	.3
(b) 2-1/2 percent bonds .....	<u>2.2</u>
(c) Subtotal .....	2.5
2. "Other" corporations:	
(a) Tax notes, Series C* .....	2.4
(b) F and G bonds* .....	.4
(c) 7/8 percent certificates ....	3.2
(d) 2-1/2 percent bonds .....	<u>.7</u>
(e) Subtotal .....	<u>6.7</u>
C. Total program - Third War Loan .....	<u>16.2</u>

\* It is proposed to count all receipts from tax notes and savings bonds deposited with the Treasury between September 1 and October 9 as part of the drive.

In the financing program set forth above it is suggested that the entire \$16.2 billions of new money raised by the Third War Loan come from a nonbanking drive, and that about \$7 billions of this amount be obtained directly from individuals. E bonds at \$4.3 billions would provide the major share of the individual money. Bank borrowing would be divorced entirely from the drive.

In order to accomplish a war loan drive of the foregoing magnitude and composition it will be necessary, it appears at this time, to change the mechanics of the operation from those employed heretofore so as to place the entire emphasis of the loan squarely on "individual money". It is suggested in this connection that the individual part of the loan be set off by itself to be handled as separately from the other parts of the loan as possible -- separately as to (a) the type of approach, (b) the timing, and (c) the particular securities offered.

(a) The type of approach.

(1) The individual part of the Third War Loan will, it appears, have to involve an intensified selling campaign that will dwarf all previous efforts to sell Government securities to individuals. The amount that will have to be raised is huge when considered from the point of view of subscriptions by the average man, but the figures are disarming in their simplicity. The difficulty of the accomplishment of the job is illustrated by the following example:

Assume that all persons who buy any of the issues other than E bonds have taken their share of the loan -- \$2.7 billions as shown in the table above. Then every one of the 60 million remaining Americans who will earn an income during the month of September (including the members of the armed forces) will, on the average, have to put up about \$70 cash during that month for E bonds if the goal is to be reached. If the market cannot be expanded to beyond, say 40 million persons because of the impossibility of obtaining extended amounts from most of the persons with incomes of \$1,000 a year or

less (including most of the members of the armed forces), then the average requirement for each of the 40 million persons will be about \$105 cash during the period of the drive.

A drive that will reach tens of millions of persons and will obtain from them funds in the magnitudes set forth above will have to be a drive that is really big. It will have to be a campaign which will involve house-to-house canvasses in every one of the nation's counties; bench-to-bench canvasses in every one of the nation's factories; and desk-to-desk canvasses at every one of the nation's offices. Many people will have to be canvassed three or four times and urged to subscribe three or four times.

It is likely that a drive such as this will have to involve sales pressure such as has not been used heretofore in a war bond campaign. Security sales to individuals in volumes as large as those contemplated can be accomplished only on the basis of a series of dramatic appeals to patriotism. Accordingly, every person must be urged to subscribe until it really hurts his spending power -- a level of subscription which would be far above the level a person would ordinarily consider as being representative of his ability to buy war bonds.

A drive such as has been described will, in all likelihood, require public approval by the Treasury and the Federal Reserve of local activities encouraging individuals to withdraw large portions of their bank accounts for investment in E bonds. The need for a policy approving bank deposit withdrawals has become more and more evident as the war financing program has progressed, and it should be formulated completely before the start of the Third War Loan, inasmuch as the success of the drive may well depend upon it.

Some bankers question whether they can afford the drain on their deposits which will result from a vigorous program of sales of Government securities to their depositors, but their leaders, as represented by the members of the Economic Policy Commission of the American Bankers Association, are in favor of a deposit-withdrawal-for-Government-security-investment policy. In the Commission's report on the "\$100 Billions Budget, and The Banks",

a copy of which was sent you some months ago by Mr. Randolph Burgess, bankers were advised to look upon such deposit withdrawals with complacency. The report explained, you will recall, that "as the deposits go out through customer subscriptions for bonds or through Government withdrawals, there is reasonable certainty that over a period they will return, though usually under different ownership".

(2) The corporation part of the Third War Loan will involve a different type of approach from the foregoing and might well be handled as a custom-made "Special names" job. The patriotic appeal might be used, but the investment approach would probably be adequate. It is important, however, that every corporation that might be a candidate for a subscription to the Third War Loan be listed before the campaign starts and be assigned by name to a particular "drive solicitor". This would eliminate duplicate solicitation, and would provide an economy of effort. These representatives should, moreover, be matched to the corporations in a manner which would achieve the most effective use of sales personnel.

The job of preparing lists of corporations and distributing the names among salesmen is considerable, but it sounds larger than it really is. There are, it is likely, less than 100,000 corporations whose names would appear on lists of likely candidates for subscriptions to the issues offered in the Third War Loan, and a considerable proportion of the names could be obtained from past records of subscriptions and from other sources.

(b) Timing.

The Third War Loan will involve some new angles with respect to timing if the operation is divided as set forth above, because the two parts of the operation will not be similar to each other. The corporation part will be one that can be accomplished within a relatively short period of time -- a week would probably be sufficient -- for there should be no obstacle to obtaining corporation subscriptions promptly. The situation was well illustrated in April when 60 percent of the money obtained from nonbanking corporations was received during the first week of the drive, notwithstanding the fact that there was an interest advantage to postponing the purchase of tax notes to the month end.

The individual part of the Third War Loan will, on the other hand, require three or four weeks to complete if the extensive canvasses that are suggested are to be accomplished. With this in mind, it is suggested that the individual drive start on Tuesday, September 7, and extend to Saturday, October 2, with accounting permitted until Saturday, October 9, to take in all the savings bonds sold during the drive. Books for the corporation offering might be opened on Monday, September 27, it is suggested, and close on Saturday, October 2. Advertising could be coordinated so that it would introduce the corporation part of the drive at the same time that it served to spur the wind-up of the drive for individual subscriptions.

Timing in the foregoing manner would make it possible to conduct the individual campaign unclouded for three weeks by a coincident appeal to corporation investors. The public would thereby be spared the confusion that results when large figures are announced in a combined campaign as early subscriptions from insurance companies and other corporations roll in.

(c) The particular securities offered.

In a campaign directed toward extensive purchases of Government securities by individual investors it would be desirable to offer as few securities as possible and still cover the market. The large number of securities in the basket in April handicapped and confused the salesmen, many of whom were new to the Government securities business. In the Third War Loan drive it is suggested that individuals be offered:

1. E, F, and G savings bonds for the smaller purchasers;
2. Series C tax notes for the large investor who wishes a short-term security, and
3. A 2-1/2 percent bond for the individual investor who desires a long-term instrument.

These issues would satisfy the requirements of most individual investors and would result in a more compact basket for the salesmen. Two of them -- the E bonds and 2-1/2 percent issue -- accounted for 60 percent of the individual money in April.

The basket of securities offered to corporations should also be smaller than the basket offered in April. Corporations would be adequately provided for by an offer of:

1. 7/8 percent certificates,
2. Series C tax notes,
3. F and G bonds, and
4. 2-1/2 percent bonds.

No intermediate bond similar to the 2 percent bond offered in the Second War Loan or the 1-3/4 percent bond offered in the First War Loan is suggested for inclusion in the basket. A discussion of our reasons for the elimination of this issue appears in the second section of this memorandum. Bills are also removed from the basket, and, if used at all, would be considered outside of the drive.

## II. Technical and Policy Matters Which Will Require Some Attention

There are a number of important technical and policy matters which will require some attention during your consideration of the September financing. They are discussed briefly in the following paragraphs.

(1) Eliminate intermediate bond from the basket. The suggestion that the basket for the Third War Loan drive contain no intermediate bond is prompted by the desire to (a) simplify the technical problems involved when banking and nonbanking financing are separated and an issue available to all subscribers is offered, and (b) reduce the volume of switching operations by insurance companies and mutual savings banks that throw outstanding issues into banking portfolios. Both of these problems have been intensified by the strength of the intermediate bond sector of the market as a result of substantial commercial bank demands in that area.

With respect to technical problems, it is likely that a 2 percent bond offered in September would be desired greatly by commercial banks. If the offering were restricted to nonbanking investors only, however, banks might proceed to acquire a substantial amount of the issue by entering

- 8 -

subscriptions through dealers and brokers or through industrial and mercantile corporations. The policing of such subscriptions would be difficult and a much larger volume of securities would flow to the banking system than the Treasury intended.

The strong market also allows a considerable volume of market switching. Immediately before and during the April drive, commercial banks acquired more than half a billion dollars of intermediate and long-term bonds from mutual savings banks and insurance companies, who disposed of these securities in order to obtain on net balance a like amount of the 2 percent bonds. The Treasury in reality borrowed half a billion dollars more from banks than the program intended as a result of these operations. No real purpose seems to be served by tempting mutual savings banks and insurance companies to proceed with a wholesale transfer to banks of securities now in their portfolios in order to make large subscriptions to new issues.

The removal of the 2 percent bond from the basket would solve the foregoing problems.

(2) Leakage to commercial banks of the 7/8 percent certificate. Eliminating commercial banks from a participation in the Third War Loan will give rise to a technical problem with respect to the issue of certificates -- how to prevent commercial banks from setting out to acquire the issue by entering subscriptions indirectly through dealers and brokers. This matter could be controlled, it is suggested, by eliminating dealers and brokers from the drive as far as the certificate issue is concerned -- they could, however, enter subscriptions for the 2-1/2 percent bonds. This would work no important hardship on dealers and brokers, inasmuch as in April they earmarked for nonbanking investors only \$65 millions of their certificate subscriptions. With respect to other investors who might act as intermediaries for banks, it is suggested that the matter be controlled wherever possible by Federal Reserve policing, operating under a public announcement by the Secretary that the certificates issued during the drive were intended only for nonbanking investors.

(3) Details of the 2-1/2 percent bond. The 2-1/2 percent bond suggested for inclusion in the basket might be a 1965-70 or even a 1960-70, depending upon the state of the market in August. The issue should bear the same conditions, including restrictions as to ownership, as the 2-1/2 percent bond issued in April, it is suggested, and should be dated September 15 so that interest calculations during the first week of the drive might be eliminated. The September 15 dating would, of course, mean that subscriptions for all 2-1/2's sold during the corporation part of the drive would have to be tendered at par and accrued interest. Some corporations might, of course, prefer that the issue be dated September 30 and offered for subscription at par, but it is expected that no considerable objection to the suggested dating is likely to arise on this account. The September 15 dating would permit sales of this issue to individuals to be definitely tied down during the early part of the drive.

(4) 2-1/2's to refund the 1943-5 bonds. The 2-1/2 percent bond offered in the drive would be made available to refund such portion of the 3-1/4 percent bonds of 1943-5 called for payment on October 15, 1943, as were tendered for exchange as discussed in our memorandum on "A Suggested Program for Market Financing Prior to the September Drive". The amount of 2-1/2 percent bonds for which subscriptions were so entered would, of course, be excluded from the figures on the drive.

(5) Free ride on the 2-1/2 percent bonds. The separate timing of the individual part and the corporation part of the Third War Loan so that corporation subscriptions will be held off for about three weeks may give rise to a minor "free ride" problem. Some individuals and dealers and brokers might buy the 2-1/2 percent bond for the purpose of transferring the securities obtained immediately at a slight profit to insurance companies and other corporations whose investment funds would be waiting in the market. A deferment-in-trading-while-the-books-are-open request may serve to reduce the volume of such transactions. With respect to large subscriptions, moreover, the Treasury could further control the problem by delaying delivery on subscriptions specifying large denomination pieces -- say, pieces of \$100,000 or over -- until the books of the corporation portion of the Third War Loan had been opened.

- 10 -

(6) E bond ownership. It is suggested that consideration be given again to opening E bonds to all investors other than commercial banks as of September 1, 1943. No change in the limitation on the amount available for purchase from the present \$3,750 issue price would be made. This proposal is in line with the objective of making the E bond the "poor man's" security, and of selling only E bonds to investors of this class until the limit of purchases has been reached. Many clubs, associations, unions, church organizations, women's groups, political organizations, benefit societies, and fraternal, foreign and racial groups, as well as many corporations which are the personal businesses of small merchants, salesmen, and vendors have funds which can well be placed in E bonds. Many of the social and political groups are actively promoting E bonds, and their efforts are likely to be enlisted in the September drive. The availability of E bonds for purchase by their own organizations may do much to gain enthusiasm among salesmen taken from these groups.

(7) E bond promotion. The amount set forth as the E bond goal in September -- \$4.3 billions -- is about three times the amount of such bonds sold during the Second War Loan. This proposed volume of sales can be accomplished only by concentrating the selling effort on \$100 bonds for the average man in place of \$25 bonds. It would be poor sales psychology and an obvious lack of economy in sales promotion and advertising effort to build a campaign that needs to raise \$4.3 billions around a denomination bringing as little as \$18.75 from each piece sold.

(8) E bond delivery. Assuming that substantial progress is made in raising the number of \$100 and higher denomination E bonds sold, the Third War Loan may still involve the issuance of as many as twice the number of pieces sold during the April drive. Accordingly, the Treasury should be prepared for the issuance of more than 60 million separate bonds in the 3 or 4 weeks of the drive. This is no small order and it will be made no easier by the fact that door-to-door campaigns depend for their success on rapid delivery of bonds -- certainly delivery no later than 48 hours after the application has been made. It is likely that the operation will have to be still further decentralized, and in large cities may have to be carried down as far as to local neighborhoods. This extension of the issuing operation may involve some liberalization in the procedures now being followed.

- 11 -

(9) F and G bonds. We are withdrawing for the moment our recommendation that F and G bonds be discontinued and are, you will have noted, proposing that they be included in the drive. We make this new recommendation because we feel that (1) the proponents of a small-denomination coupon bond would use the withdrawal of F and G bonds as a signal to intensify their demands for such denominations, and (2) it is desirable to simplify the basket as much as possible.

With respect to the first point, there are a great many persons who have \$5,000 to \$10,000 idle cash available, but whose income is less than \$5,000 a year. Storekeepers who have suffered inventory declines or reductions in their accounts receivable are in this class; so are many members of the armed forces who have liquidated their businesses and disposed of their personal property or farms; and many war workers who have moved to new communities and are living in trailers or furnished rooms and hold in the bank the funds derived from the sale of their homes and furniture. These people are not equipped to face the market risk involved in the purchase of negotiable securities. The Third War Loan will, however, make an effort to obtain their funds for investment in Government obligations -- if withdrawal of bank balances is advocated. A security available in small denominations beyond the E bond limit appears to be necessary, therefore, inasmuch as advocates of a low-denomination coupon bond will submit these people as examples of the market that is not covered by a \$500 minimum denomination negotiable bond.

With respect to simplifying the basket, we urge this as a matter of some importance. F and G bonds are already outstanding and are well known and popular among the field forces of the War Savings Staff -- the force around which much of the individual part of the Third War Loan will be built. The inclusion of these issues in the basket would be easily understandable and no extended amount of new education as to the terms and purposes of the bonds would be required. On the other hand, the withdrawal of F and G bonds would make the inclusion of a medium-term bond in the basket more or less

mandatory. Some issues would have to cover the maturity area between the certificate and the 2-1/2 percent bond. The Treasury would seem to give itself a little more leeway by continuing F and G bonds for this purpose during the drive instead of eliminating them and substituting a 2 percent bond.

(10) The tax note. From time to time there have been comments to the effect that the name "tax note" detracts considerably from the sales appeal of the security. The issue is more than a "tax" note as it is now constituted, and the name could probably be dropped with advantage to the Treasury. It is suggested, therefore, that consideration be given to change the name of the issue, possibly to Treasury Savings Notes. Stock on hand could, of course, be issued until it was exhausted -- just as E bonds captioned "Defense Bonds" were advertised and issued as "War Bonds" -- and the stock in process of completion could be over-printed with the new name.

If the change is made during the next few weeks, the new name will have been fully accepted in the market by the time the Third War Loan drive begins. An opportunity to change the name will become available when the President signs the pay-as-you-go tax bill. There will also be an opportunity at that time to announce the discontinuance of the Series A tax note -- an instrument which is likely to have no extended market with the advent of the collection of taxes on a current basis.

(11) New money outside of drive. Our memorandum entitled "A Suggested Program for Market Financing Prior to the September Drive" suggests that the weekly offerings of Treasury bills of \$1.1 billions be continued through September 9. On September 16, it would, therefore, be necessary to make a new determination of the level of the weekly issues of Treasury bills. This determination would have no effect on the goals for the Third War Loan drive inasmuch as the program does not include in the totals any funds derived from issues of Treasury bills in excess of maturities.

(12) Federal agencies and trust funds. The program for the Third War Loan drive, set forth in this memorandum, excludes any amounts that might be obtained in September from subscriptions by Federal agencies and trust funds.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 10, 1943, 11 a.m.

NO.: 891

This is a message from Adler (his TF 130) to the Secretary of the Treasury only.

On June 8 the final meeting of monetary experts for the purpose of discussing the instructions drafted for the Chinese delegation to the preliminary discussions at Washington on international monetary cooperation was held. The meeting was informed by Dr. Kung that the Chinese delegation to the preliminary discussions will comprise Dr. P. W. Kuo Hsi Te Mou, D. C. Lee and T. L. Soong (all of these are known as "Kung" men). Agreement was reached on a Chinese plan for international monetary cooperation, which is soon to be submitted to the United States Treasury, and on the instructions to the Chinese delegation.

One. New features contained in the Chinese plan for international monetary cooperation are: 1) As an essential part of the plan, provision is made for a transitional period for restoration of international monetary stability. 2) No restrictions on abnormal war balances are to be applicable to China's blocked assets abroad. 3) Elements on which the determination of quotas shall depend will be: total value in balance of payments of imports and exports and invisible items, probable developments in the balance of payments after the war having regard to price levels which will then prevail, the amount of money and bank credit in circulation, gold holdings and foreign assets, and importance in world economy. For countries taking advantage of the transitional period, quotas are to be provisional and subject to revision. 4) Limits on the amounts of members quotas and debit balances shall be made to depend on what arrangements are made for relief and economic rehabilitation and for medium and long-term capital investment. 5) There is to be a preparatory committee comprising one member from the United States, one from the United Kingdom, one from Russia, one from China, and three from the other United Nations.

Two. In the following regards there is agreement between the Chinese draft plan and the British and Treasury plans: 1) The objects of the plan, the provision in respect of membership, and the requirements for consulting with and supplying information to the organization. 2) Gold --

an international unit having gold value, gold value for currencies of members, and provision for a market for gold which will be free and dependable. 3) No change to be made in exchange rates except by accord with the new international organization. 4) Elasticity with respect to debit balances of members. 5) Exchange control to be abolished as soon as this is feasible. 6) Continued control over capital movements is authorized. 7) A monetary organization separate from other international economic organizations.

Three. In the following points the Chinese plan favors the Treasury plan: 1) Name of organization and of governing body. 2) Subscription by members to international fund of gold, currency and securities, but the Chinese propose that  $1/2$  the quota shall be paid in currency and  $1/4$  in securities. 3) Provisions governing operation of funds. 4) Subject to important modifications, the formula for determining quotas. 5) With the modification that  $2/3$  instead of  $3/4$  majority be required on decisions on important matters, the formula for voting.

Four. On the following points the Chinese plan favors the British plan: 1) New unit is not redeemable in gold. 2) Absence of requirements necessitating that monetary standard be bound up with gold policy of particular countries or with the gold mining industry; provision for checking excessive world-wide tendencies towards inflation or deflation. 3) Subject to modification, the formula for the provision of quotas. 4) Subject to modification, the responsibilities of creditor nations with respect to equilibrium in balance of payments. 5) Provisions in respect of form of governing body and provision for general meeting. 6) Provision in respect of holding monetary reserves outside organization.

Five. The most important points in the draft instructions to the Chinese delegation are summarized as follows: 1) Delegation has no authority to commit the Chinese Government. 2) A plan has been drafted by China to provide for matters of particular interest to China and in order to help in reconciling Treasury and British plans. 3) The Chinese Government feels that it is necessary and is of vital importance to China to plan more concretely than either the Treasury or British proposals do for a transitional period of monetary rehabilitation after the war. 4) During the transitional period there will be need for external aid to bridge the gap, although it is too early to say how much will be needed. Measures which the Chinese

Government

-3-

Government has in mind are: (a) Foreign credits to Chinese Government to finance imports, importers when non-government and to pay the Chinese Government the national currency equivalent of imports. (b) Direct sale of foreign exchange.

5) It will be impossible for the Government of China to make commitments on its exchange rate until after adoption and ~~partial~~ execution of a plan for restoring international monetary and fiscal stability. 6) It is the feeling of the Chinese Government that to a considerable extent the restoration of confidence will depend on the adoption of international plans for relief and economic rehabilitation. 7) Great importance is attached by the Chinese Government to arrangements for an international organization to assure economic reconstruction and development. 8) It is strongly hoped by the Chinese Government that much less restriction with respect to debit balances will be provided under point three, item four of the Treasury plan. 9) Without committing itself as to time, the Chinese Government favors the restoration of a free exchange market and wishes to remove exchange restrictions when it becomes feasible to do so. 10) A point to be explored is the possibility of reciprocal undertakings to provide information to facilitate regulation of capital movements. 11) The Chinese Government wishes that in accordance with a procedure to be worked out by the American, British and Chinese Governments, the Chinese blocked assets abroad, which were frozen at the express wish of the Chinese Government, should be promptly unfrozen after the war. 12) Emphasis is laid on the desirability that in determining an adequate quota for China, the additional factors mentioned in paragraph one, item three above should be considered. 13) Chinese Government has no objection to a requirement, if the United States prefers such, that United States "deposits" which were effected in gold should be convertible into gold, although Chinese interests do not so require.

Six. It will be appreciated by the Treasury that there should be no revelation to the Chinese delegation of any prior knowledge of paragraphs one to four or of any knowledge whatsoever of paragraph five hereof.

ATCHESON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: June 10, 1943, noon

NO.: 892

This is message no. TF-129 from Mr. Adler for the Secretary of the Treasury with reference to the Department's no. 697 of May 31, 1943.

1. During the conversation which was reported in my TF-128, Dr. Kung said that clause 2 of the Ministry of Finance's measure which was reported in my TF-126 of May 12, section one, did not mean that the Stabilization Board may not finally be the recipient of the foreign exchange received from diplomatic and consular bodies. Nor was the Board precluded by the other arrangements with respect to missionary organizations and the like from being the ultimate recipient of the foreign exchange. The Board could not be made the immediate recipient since it could not purchase foreign exchange at 30 or 40 when 20 is the official rate. However, note should be taken that Dr. Kung did not commit himself on the question of whether the board would ultimately receive the foreign exchange converted into rai at 40 or 30.

2. As yet the questions raised in your 697 have not been discussed by the Board. As a matter of fact, the chairman is avoiding calling a meeting until there is some crystallization of the whole situation regarding the status of the Board. The Central Bank in the meantime is proceeding on the assumption that the Board's consent to the proposal regarding the missionaries, etc., made by the Ministry of Finance will be automatic.

3. The Board has received official notification from the Ministry of Finance of a proposed arrangement under which foreign journalists and military officers will receive the official rate plus 50% from the Central Bank. The Bank will keep the foreign exchange accruing from these sources in a separate account.

ATCHESON

OFFICE  
SECRETARY OF TREASURY

JUN 11 PM 2 08

TREASURY DEPARTMENT

NOT TO BE RE-TRANSMITTEDCOPY NO. 13~~BRITISH MOST SECRET~~~~SECRET~~OPTEL NO. 189

Information received up to 7 a.m., 10th June, 1943.

1. NAVAL

MEDITERRANEAN. PANTELLERIA. Photographic reconnaissance on 8th showed all the small vessels in harbour sunk except 4 Lighters. In AEGEAN a Greek Submarine has torpedoed a Spanish ship of 1,200 tons, left beached and total wreck.

2. AIR OPERATIONS

PANTELLERIA. 7th/8th. Wellingtons dropped 50 tons. One ship hit and 6 fires started.

SICILY. 7th/8th. Heavy bombers dropped 32 tons MESSINA Ferry Terminus. Large fires started at Central Station.

EASTERN MEDITERRANEAN. 8th. Allied aircraft set fire to 150 ton ship, left another sinking, damaged 4 more as well as 3 Caiques.

CHINA. 6th. Japanese bombers attacked LIANGSHAN airfield (100 miles Northeast of CHUNGKING) destroying 10 Chinese and 1 U.S. aircraft on ground.