

DIARY

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(3rd War Loan Drive)

July 21, 1943  
8:53 a.m.

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HMJr: ....by Crider on page 16....

Herbert Gaston: Yeah.

HMJr: ....of today's New York Times.

G: Yeah.

HMJr: I have just dictated to Mrs. McHugh a very rough letter to the President.

G: Yes.

HMJr: As soon as she has it she will bring it in to you.

G: Yes.

HMJr: And I'd like you and Paul and Kades and Fred Smith....

G: Yeah.

HMJr: ....to be a committee to work on this thing this morning.

G: Yes.

HMJr: See?

G: Yes.

HMJr: And I'd lay great stress on it....

G: Yes.

HMJr: ....and just as soon as you people are satisfied - why, I'll talk with you.

G: Yes.

HMJr: Now, that would be you and Paul, Kades and Smith - Fred Smith and you are chairman of the committee and as soon as Mrs. McHugh - it will take fifteen or twenty minutes - she'll rough it off....

G: Uh huh.

HMJr: ....but I just can't work in this atmosphere - you see - of doubt - I mean....

G: Yes.

HMJr: ....and the other thing you might do after you read it - Chic Schwarz might find out where Crider got the story.

G: Uh huh. Yeah. I'll talk to Chic about it - see?

HMJr: Yes. It's on page 16.

G: Yes.

HMJr: Will you do this for me, please?

G: Yes, indeed.

HMJr: Yeah - I mean - it's constantly keeping me upset - I can't work - I can't work in....

G: I know - it's just hell.

HMJr: I think I put in a very clever sentence - it's "infiltration from the rear".

G: (Laughs)

HMJr: Isn't that good?

G: Yeah. Paratroopers.

HMJr: What?

G: Paratroopers.

HMJr: Well, they're not paratroopers; they are moles.

G: Yeah.

HMJr: They burrow underneath the ground and come up behind you.

G: Yeah.

HMJr: At least the paratroopers come from the sky.

G: Yeah.

HMJr: Okay.

G: All right, sir.

HMJr: Thank you.



7/21/43

Mr. Randolph Paul, Mr. Fred Smith and Mrs. Klotz.  
The Secretary.

Please read the story by John H. Grider on page 16 of the  
New York Times this morning. I want to discuss it with you  
later,

July 21, 1943  
9:00 a.m.

## FINANCING

Present: Mr. Bell  
Mr. Haas  
Mr. Murphy  
Mr. Lindow  
Mr. Tickton  
Mr. Smith  
Mr. Burgess  
Mr. Rouse  
Mr. Viner  
Mr. Kilby  
Mr. Gamble  
Mrs. Klotz

H.M.JR: Have you had a dress rehearsal on this?

MR. BURGESS: Yes, kind of.

MR. BELL: I talked to Randolph last night, told him of this meeting and what we had tentatively agreed upon.

I also talked to Marriner about it, and Marriner just thinks we are going to run into another situation like the one and a half's, tremendous oversubscriptions and be criticized for it. He thinks we ought to confine it to the banks, as he said over here the other day, and he thinks we ought to do something to give the smaller banks a break - that we will be criticized by them again.

H.M.JR: I read this memorandum of the ABA very carefully. They say, "Leave it open to everybody."

MR. BELL: That is right. They don't want to be singled out at this time.

H.M.JR: I don't think, personally, we got such bad publicity on that last one.

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MR. BURGESS: I have had a pile of letters from people saying it was dreadful.

H.M.JR: You have had a pile of letters?

MR. BURGESS: Yes.

H.M.JR: You think it was pretty bad?

MR. BURGESS: Yes.

MR. ROUSE: Yes.

MR. BURGESS: It was simply speculators piling all over each other to make five hundred dollars.

H.M.JR: Well, they can't do it this time.

How would you do it differently, Randolph?

MR. BURGESS: I hesitate to make a recommendation different from the Bankers Association. I wasn't able to come to that meeting.

H.M.JR: Weren't you here?

MR. BURGESS: No, I wasn't here.

H.M.JR: The purpose of this thing is to have another look at it, that is all.

MR. BURGESS: I think there is a good deal of advantage in confining it to banks, except for the exchanges this time, because you are opening up the big drive issue to all others and keeping the banks out of that.

The main thing, I think, is that you want to avoid a terrific piling over the threshold the way it was last time. Those great big oversubscriptions, I think, are very damaging for the drive because people say, "What is the use of my putting in my two cents; they have all this money available."



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Then you have to go and argue about the kind of money; and your arguments about helping to win the war and helping the boys, and so on, all fall flat. The nearer we get to the drive the more I hate to see it - a great big oversubscription.

(Mr. Viner entered the conference.)

H.M.JR: Haas, take Viner outside. You can give him a minute or two. I would like very much to get Viner's advice on this.

(Mr. Haas and Mr. Viner left the conference.)

H.M.JR: This is the way I feel, and I would like to get Fred Smith's advice - would you be afraid at this time - you know about the War Finance Third Loan - there are three ways to do this thing. The way the thing was set as of last night was on the billion six which is coming due on August 2, was to give the holders of that a chance to refund, and they can buy another billion six of the same kind of merchandise.

Then we were going to offer a billion dollars of new certificates to the public, open to anybody.

Modification to this could be this: We could pay off the billion six in cash and then get out an entirely new offering, either to the public or exclusively to the banks; or we can give the billion six a chance to refund and just say that a billion of new money will be for banks only. Is that right? Are those alternatives?

MR. ROUSE: Yes. And the third one is that the public could come into the billion dollars as well as the banks.

H.M.JR: I said that, the billion would be open to everybody.

Now, this is the way I feel after kind of thinking this thing over - sleeping with it: I have a certain amount of sympathy for the Federal Reserve because of the fact that they have had to buy all of these ninety-day bills.

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MR. ROUSE: We don't want any sympathy. I think that was overemphasized here the other day.

H.M.JR: All right, but also at the saturation point--

MR. ROUSE: Currently, yes, in relation to current deposits.

MR. BELL: We got a billion and a half bids this week which helped a little.

H.M.JR: Let me say this: How would you react - supposing I said to you, Rouse, "All right, the Fed has put up such a holler about the saturation and all the rest of that that we will pay these billion six off in cash and we will offer three billion dollars of certificates only to the banks?"

MR. ROUSE: That would suit me all right.

H.M.JR: Well, would it make them buy less bills? If they got three billion dollars' worth of certificates, wouldn't they say, "Well, we would rather have those - more earning power?" Wouldn't it make it even more difficult for you on the bills?

MR. ROUSE: No, I don't think so, because you would be creating that many more deposits.

H.M.JR: Which way?

MR. BURGESS: My offhand reaction is that you are right about that, that it might.

H.M.JR: I am right which way, if you dump three billion--

MR. ROUSE: It might be to the extent of reserves - required reserves - after the money is spent.

MR. BELL: They can take for their own account for the first step.



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MR. BURGESS: That is right. It wouldn't pinch until later.

MR. ROUSE: To the extent of three hundred million dollars it might affect it.

H.M.JR: It might?

MR. ROUSE: It might result in our buying that many more bills.

H.M.JR: Three hundred million?

MR. ROUSE: A week.

MR. BURGESS: Which would provide the reserves.

H.M.JR: The other way turn a billion six over, let the present holders subscribe, then the billion dollars - confine that to the banks.

Now if you let the banks come in on the billion dollars, everybody would subscribe a hundred thousand and there would be nothing left for the public.

MR. ROUSE: I didn't quite follow you on that.

H.M.JR: I don't mean the public. If you offered a billion dollars for the banks and said that any bank could take a hundred thousand in subscriptions, then there would be no allotment. You would have to pare down the hundred thousand. I mean, you couldn't give everybody a hundred thousand because there would be so many banks that want a hundred thousand there wouldn't be enough to go around.

MR. ROUSE: That is right.

MR. BELL: As I recall, Kilby, the last time we had an allotment of that kind for just the banks, about three hundred and sixty five million--

MR. KILBY: No, it was more than that, Dan, the last time. It was about - something over five hundred.



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MR. BELL: Just to the banks?

MR. KILBY: Yes.

H.M.JR: Supposing we cut it to fifty thousand?

(Mr. Haas and Mr. Viner entered the conference.)

H.M.JR: That for the moment doesn't bother me so much. The only thing that really bothers me, Jake, is should we confine this to the banks?

Now, Eccles wants us to confine this to the banks. What I said here - it will just take me a second to repeat the thing - we could say, "All right, we will offer the whole three billion to the banks, or we can offer the whole three billion to the public and pay off the billion six." Now if we do it the way we did it last night - the billion six refunded - it leaves a billion dollars for the public. Should we go to the banks or wholly to the public? What Eccles would like us to do is go to the banks. But here is this formal memorandum from the ABA saying, "Let it go to the public."

I am not particularly afraid, personally, to have it for the banks as far as criticism is concerned. That doesn't bother me so much if that is the right thing to do. If we put the three billion dollars wholly to the banks they will buy it. Then they won't take so many bills and there will be more bills to back up on the Fed.

MR. VINER: What is the argument for confining it to the banks?

H.M.JR: Rouse, do you mind giving it? You have listened to Eccles more than I have this week.

MR. VINER: I can think of reasons for not confining it.

H.M.JR: What are Eccles' reasons, Bob?

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MR. ROUSE: The reasons that he gave us here yesterday afternoon, I think, primarily were these: On the basis of the sixteen-billion quota, or at least a very large quota, the Chairman seems to favor the inclusion of a certificate. He would favor it even though he would be opposed to it on the lower quota. They will have plenty of opportunity - the public will have plenty of opportunity to subscribe at that time, and it should be postponed and appetites whetted and so on, pending that.

He said that the partial feeding of the appetites of banks at this time with certificates would help keep them from attempting to buy securities during the drive that were offered in the drive. I don't think that is a serious problem, but that was one of his principal arguments.

I think those two things covered it as far as the current argument is concerned. Do you recall another, George?

MR. HAAS: Did you mention about how the banks would be forced to buy them and pay premiums for them?

MR. ROUSE: Yes, they would naturally flow to the banks, and the banks would fill out their holdings and would have to pay the public a premium for them. I think he had more concern about that than some of the others.

MR. VINER: What strikes me about it is that in general you are arguing - you are trying to borrow as much outside the banks as possible; then you make special issues open only to the banks, and it would be hard to explain to the general public how that fits in with the general program.

I say in general, sell everything you can to the non-banks; and if the argument is that if you sell to the banks now you will keep them out of the campaign - and you want to do that - it seems to me it doesn't make any difference whether they do their buying in August or in September from your point of view.



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H.M.JR: Well, from the standpoint - I think the best argument in my own mind is that after the Third War Loan has been a great success we then can go after that and take care of the banks with what they need. I mean, we have got what we want, all right; then the banks need a two-percent bond or something like that and we get one out in October if necessary. But this thing - I am not afraid of the public criticism as long as I am doing something which is technically correct. I want to be on good, sound technical grounds; then I can explain it and the people who work with me can explain it. Is that right?

MR. BURGESS: That is right.

H.M.JR: I have this thing, which seems to me - I would like to offer this on the table. I can see where if we only offer a billion dollars to the public there would be this terrific scramble. Why not offer - let's pay these notes off and offer three billion dollars of new notes to the public, open to everybody.

MR. BURGESS: If you are going to open it to the public, I think you ought to do it that way.

H.M.JR: Then there is a three billion dollar issue instead of a one billion.

MR. BURGESS: Then you will have a bigger allotment. If you were going to open it to the banks alone, I think you ought to have it limited to the cash offering of a billion over beyond the exchanges. I think if you have only a billion dollars of cash available after the exchanges and then you open that to the public you will have about a ten percent allotment with great big oversubscriptions, and it makes our task of convincing the ordinary fellow that we need his money more difficult.

H.M.JR: How about if we offer three billion to the public?

MR. BURGESS: I think that is better. I think it does interfere a little with the drive, because it partially



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satisfies the appetite of corporations and others who are potential buyers in the drive.

MR. LINDOW: Mr. Burgess, don't you think a lot of corporations will stay out of this just because they can get publicity out of going into the drive?

MR. BURGESS: If they have got the cash they would rather employ it at once.

H.M.JR: We could make it two and a half.

MR. BURGESS: I think if you are offering to the public, that two and a half is a good figure.

H.M.JR: Two and a half billion?

MR. BURGESS: It doesn't use up so much buying power.

MR. BELL: You say, if you are offering it to the public?

MR. BURGESS: If it is open to everybody.

MR. BELL: Then two and a half?

MR. BURGESS: Two and a half billion, yes, which is only a billion additional. Then you don't use up buying power quite so much.

H.M.JR: I am sympathetic with that.

MR. BELL: If you want to eliminate buying power, then the thing to do is to confine it to the banks.

MR. BURGESS: Yes.

H.M.JR: Fred, how much are you worried if we make this issue, no matter how we did it, just as long as it is banks only - how much would that bother you?

MR. SMITH: It wouldn't bother me at all. All I am interested in is the confusion that it will cause in the

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great American public, not in strictly financial circles. If you make it strictly to the banks, it is going to be purely a financial argument no matter which way you do it. There will be some for you and some "agin" you, just as there are here now.

H.M.JR: But if we made it strictly banks?

MR. SMITH: I think you could get it up and get it over with quickly and nobody would pay any attention to it.

If you opened it to the public - still, it is sufficiently a technical matter that it wouldn't cause a great deal of confusion. But what would worry me is that it just strikes me - not knowing very much about it - that you are going to pull a lot of money out that you might need during the drive to bring your money up.

H.M.JR: If we confine it to the banks?

MR. SMITH: No, if we - if you don't confine it to the banks.

MR. TICKTON: It can't be a lot, though, Fred, because the banking proportion of this is so large that if the banks subscribe, let's say, to the limit proposed by this limitation, which is eight billion - say they subscribed only six or seven billions all together - corporations can't pad in proportion to the banking opportunities here. In the April drive all they purchased was two billion five for corporations. Let's say they subscribed to every nickel they subscribed for in April; then your total subscription would be ten billion instead of, let us say, seven or eight billion. Your allotments then are going to have to be twenty or twenty-five percent. And your proportions are such that if they subscribe to, say, two billion seven, and they got twenty percent allotment, it would be five hundred million. That is, I will admit, five hundred million, but it is still a small fraction of a fifteen-hundred-billion-dollar drive.

MR. SMITH: All I am saying is, if it is going to drain three-quarters of a billion or a billion dollars



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off the market or anything like that, I think it would - I mean, that is going to look awful bad if you got a fifteen-billion-dollar goal and only made fourteen or fourteen, five. And if this is going to make the difference, then it is a consideration.

MR. BURGESS: You are correct.

MR. TICKTON: I don't see how it could drain that much.

MR. BURGESS: It could.

MR. BELL: Would a twenty-percent allotment look very good on this issue of a billion?

MR. BURGESS: I don't think that is bad.

(Mrs. Klotz left the conference.)

MR. BELL: If you confine it to the banks you ought to get approximately seven billion dollars in subscriptions. Is that about right, Murphy?

(The Secretary left the conference temporarily.)

MR. MURPHY: Potentially it would be between seven and eight. They won't all subscribe to the potential.

MR. BELL: Say you got seven - take off a billion six of exchanges - that would leave you five, four to allot on a billion dollars; that would give you a twenty-percent allotment.

MR. BURGESS: That is all right.

MR. BELL: That might be even thirty.

(Mr. Gamble entered the conference.)

(The meeting was adjourned to Mr. Bell's office.)



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(Discussion off the record.)

(The Secretary reentered the conference.)

MR. BELL: I was trying to get this down to a vote, two and a half to banks for cash only with exchanges to holders, and I have got three in favor of that, with Smith and Gamble favoring it from a publicity angle.

H.M.JR: Smith and Gamble favoring it for what reason?

MR. BELL: From the standpoint of publicity.

H.M.JR: Which way do they want it?

MR. BELL: Two and a half to banks only for cash, with exchanges to all holders.

H.M.JR: That doesn't make sense.

MR. MURPHY: Cash plus exchanges.

H.M.JR: You can't have two and a half--

MR. BELL: Two and a half billion dollars all-told, like we said last night, with the extra cash going to banks only, and any of the holders of the maturing certificates can exchange them whether they are banks or the public. There will be some public in them.

H.M.JR: You mean a billion six is a turn-over - a billion six with rights to subscribe - leaving nine hundred million dollars for the banks?

MR. BELL: Leaving a billion. The banks could subscribe for cash - a billion dollars - and only the banks in that picture.

MR. BURGESS: You had four votes, Rouse and I, and--

MR. BELL: I was counting the votes of the people definitely for it - you and Rouse and myself. And Smith and Gamble said that they didn't know anything about the

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technical aspects of it, but from the publicity angle and its effect on the drive, they leaned towards this proposition.

H.M.JR: Have you got two other leaners?

MR. BURGESS: Yes, Rouse and Dan and myself - with Smith and Ted as leaners.

H.M.JR: You put it in such a peculiar manner.  
(Laughter)

What you are suggesting is that the billion six, if I understand it right, the billion six which is coming due, the present holders have a right to subscribe to another billion six.

MR. BELL: Exchange it.

H.M.JR: Irrespective of what their business is? Is that right?

MR. BELL: To that extent it is open to the public.

H.M.JR: Then on top of that you are going to offer nine hundred million or a billion?

MR. BELL: A billion dollars.

H.M.JR: To the banks?

MR. BELL: Banks only.

Now, I want to know who is in favor of the two billion six to the public with exchanges, just as we had it last night? (Haas, Kilby, Tickton, and Lindow voted affirmatively.)

MR. MURPHY: I think I will go the other way.

MR. BELL: You mean--



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MR. MURPHY: My only objection to confining it to banks is based on my analysis of the psychological result, and I don't feel like arguing with Smith and Gamble on that.

Technically, it is O.K. So I would like to be included in the vote with you and Burgess and Rouse and Smith and Gamble.

MR. VINER: Technically, what is O.K.?

MR. MURPHY: Technically, it is perfectly O.K. to have a billion cash confined to banks and exchanges on the remaining billion six. The reason that I voted the other way and believed that it should be done the other way, was because I thought the popular reaction to an all-bank offering at a time when our general emphasis was on taking securities out of banks, would be unfortunate. But I don't feel like arguing that issue, which is essentially an issue of public relations, with the public relations experts. If they feel that way about it, as far as my field is concerned, it is O.K. So I will go along with you.

MR. SMITH: What we say - you are saying "popular." Now, if you confine it to banks, as I said before, you are going to get some criticism in some financial columns. You have to expect that. But who the hell reads the financial columns?

On the other hand, if you do open it to the public you have got a good chance of people out through the country who haven't any knowledge of financing, any more than I have, wondering - hearing it says "public" they get into it and they aid and abet popular confusion, which Ted, incidentally, Mr. Secretary, said happened in this other one. That is the big discussion we had in your office, you remember.

So anything you can do, as far as the press is concerned, to keep it a little intramural, after all, is all to the good.



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MR. BELL: On the two and a half to the public - two six to the public - there was Haas, Lindow, and Tickton - three - and Kilby, four--

H.M.JR: What is that one?

MR. BELL: This is the same as we had last night - two and a half to the public with exchange rights.

H.M.JR: Who is in that vote?

MR. BELL: That is Haas, Lindow, Tickton, and Kilby. Jake hasn't voted.

MR. VINER: I have been shaken by this. Two things have been said that I hadn't first thought of. One of them was that the Treasury people themselves - the people outside who are not in the Treasury will boom this up if you issue to the public and thus get in the way of the campaign. They did it in June and will do it again.

The second thing is that it will get in the way of the campaign. Now, on technical grounds I don't like the idea of confining any issue to the banks now. I just think it goes against the logic of what you are after. It will be hard to explain if anybody catches that inconsistency. But they may not catch it; nobody may notice it.

MR. LINDOW: I think any criticisms which develop in the financial columns may very easily be picked up and spread, and I just can't reconcile myself to taking that chance until after we have had the Third War Loan. I think that the dangers on the other side - the dangers of drawing a lot of money in from the drive - are very small. I just can't conceive of corporations taking a great big block of this thing.

MR. VINER: I would take care of that by making it a twenty percent cash subscription.

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MR. SMITH: But you have the confusion that these people out through the country aren't as conversant with all these things as you are, and a Treasury financing that is open to the public is a close relative to the War Bond operation, and you have to bear in mind that as far as the public is concerned, the Treasury is selling War Bonds, and as far as a few financial people are concerned - a comparatively few financial people - they are doing a lot of other financing. The minute you open this to the public and it becomes knocked around that way, these people that don't know anything about it get all confused and even though they don't sell anything, it gets them in a terrible state of mind.

MR. TICKTON: But you can advise the people.

MR. SMITH: But you can't advise a million people.

MR. TICKTON: But the fellows who are selling - you can advise the salesmen, which are the ones you are talking about.

H.M.JR: I would like to ask two questions. Of the billion six which are now outstanding, what proportion are held by the banks and by the public?

MR. HAAS: One billion three in the banks; only three hundred million outside.

H.M.JR: That means, then, that of this amount the public will have a chance to come in if they converted a hundred percent to three hundred million dollars.

MR. BELL: Or by rights in the market they come in more.

MR. ROUSE: One contribution I would like to make. Going back to the Secretary's press statement in connection with the conversion from reserve banks to State organizations, as far as the general public is concerned, regardless of the interpretation placed on that, was that the bank financing would be separate. I think as far as financial writers - that type of writer is concerned - you will get no criticism.



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MR. HAAS: Here is one thing: All this urge - I think we have to go back. We forget how the thought pattern originated. All this urge about separating the banks came because Congressional leaders and others were saying if you sell to banks it is inflationary. It wasn't just the fact that there is something wrong to have the two of them associated together. We separate them and what is the next step? Then we sell directly to banks.

MR. VINER: Exclusively.

MR. HAAS: Exclusively. I don't think that adds up. The other point is on the psychology of a man buying bonds. You don't get any help if you need help. "The Government is hard up; it can hardly sell the bonds." I think a lot of these people are worried. In terms of their own incomes, they are buying large amounts.

Several men said they are worried about how the Government is going to redeem these. If they think the Government is on a high financial plane, the banking fraternities buy in large quantity. It would be less, I think, if they thought the Government was hard up. It is a human psychological trait.

MR. BURGESS: I don't think you are visualizing that correctly. It isn't a sound analysis of the public reaction. I think public reaction to the one we had in June was very bad. They said, "This Treasury thing is a mess. The thing is confused and difficult and there is a tremendous volume of money offered." I think it made our job of selling bonds much more difficult.

MR. HAAS: I think you are too close to the banks. The banks didn't like it.

H.M.JR: If we go back to the other proposal and pay everything off in cash - I am just thinking out loud - then ask for, say, two and a half or three billion - that will be from the banks - I mean, that will look as though we are asking for a lot.



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This way we are talking about a conversion and very few people will know - out of the billion six, a billion three is the banks' anyway. My thought is, if we are going to lean this way, I would make it nine hundred million instead of a billion.

MR. BELL: You get your billion, anyhow.

H.M.JR: That is right. I would make it nine hundred million, and the conversion. Then take ten percent over; we get the billion anyway.

MR. BURGESS: I think, Mr. Secretary, that you can avoid the difficulty - I admit it is a real one that Lindow states - by pointing out that you deliberately adopted a policy in anticipation of the September drive of separating the bank from the public financing, that the next drive, for the first time - it is a change of policy - you are going to have a drive which the banks will not participate in. They are separated out, and it is thoroughly consistent with that to have a separate financing for the banks.

H.M.JR: Now, if this is going to be the banks, we don't have to announce it today. We can announce it tomorrow morning. We only have to leave it open one day, anyway.

MR. VINER: No, we will - there is the conversion.

H.M.JR: That is all right; I am not worrying about that. Is there any chance that we can also, tomorrow, announce the basket?

MR. GAMBLE: These people will be ready.

H.M.JR: Then if we could do that--

MR. BELL: That would be very helpful.

H.M.JR: If we could do the basket and the quota and this thing - do the whole thing for tomorrow--



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MR. BELL: You can say in your statement, "This is for the banks and the other" - say that the other will be out of the banks and bank securities will be open for the banks after the drive.

MR. VINER: Make it two separate statements.

MR. BELL: They would be.

H.M.JR: I think that is the way to do it, gentlemen. Have it for tomorrow morning's paper - the whole works - and then this thing will be nine hundred million for the banks.

MR. BELL: This won't get a play if you have the basket tomorrow morning; it won't get a play at all.

MR. VINER: If in the release you can separate it so that there are two releases and not one--

MR. BELL: There would be two.

H.M.JR: Are you satisfied?

MR. GAMBLE: Yes. I had stated my position before.

H.M.JR: We were going to announce this at ten o'clock; I would kill that and just hold it over until tomorrow morning.

What do you think?

MR. ROUSE: It suits me.

MR. BURGESS: Yes.

MR. BELL: It sounds all right to me.

H.M.JR: Why not let's let it go that way?



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MR. BELL: All right.

H.M. JR: I think, as a matter of courtesy, we should call up Mr. Eccles.

MR. BELL: Yes.

July 21, 1943  
11:00 a.m.

TAXES

Present: Mr. Smith  
Mr. Schwarz

H.M.JR: I have two things. Have you been able to find out about that story? (Referring to article by John Crider appearing in the July 21, 1943, New York Times.)

MR. SCHWARZ: I told Mr. Gaston this morning that Crider saw Vinson. He told me yesterday he had seen him before he came over here.

H.M.JR: He did see Vinson?

MR. SCHWARZ: He is covering the White House now, and there was nothing doing there. He came over here.

H.M.JR: This thing the President asked me about at Cabinet - I wish you would put somebody - Mager or somebody - on it. I want to get out a white paper on the various plans we presented to Congress during the last ten years.

MR. SMITH: On inflation?

H.M.JR: Just tax plans. We have to do something. Don't let it go.

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# The New York Times.

JUL 21 1943

## VINSON SEEKS UNITY FOR TAX PROGRAM

Consults With Executive and  
Legislative Experts in Drive  
to Draft Wartime Bill

### SAVINGS PLAN IS PUSHED

Compulsory Measure on Lines  
of Victory Measure Is Favored  
by Some Congress Groups

By JOHN H. CRIDER

Special to THE NEW YORK TIMES.

WASHINGTON, July 20—Fred M. Vinson, Economic Stabilization Director, is moving to bring together all the fiscal agencies of the executive department on a single tax program for presentation to Congress in September when it returns to prepare the country's largest wartime revenue bill.

Mr. Vinson was pictured as meeting frequently with a group from the Capitol, a group from the Treasury, and then meeting them together.

At the same time he is attempting to sound the view of members of Congress in advance of any tax presentation.

He does this as an expert, having served seven times in the House as chairman of the sub-Committee on Taxation of Ways and Means Committee. Whether Mr. Vinson, instead of the Treasury, will present the Administration's tax program to Congress has not yet been decided, it was learned.

With only a little more than a month to get together an acceptable tax program to raise as much as possible of the \$12,000,000,000 additional asked by Henry Morgenthau Jr., Secretary of the Treasury, activity on the tax front has been intensified this week at Mr. Vinson's office, the Treasury and the Joint Committee on Internal Revenue Taxation of Congress.

Unless Mr. Vinson is successful in his efforts to shape an Administration program with which Congress can agree in principle, it is possible that the joint committee and the agencies of the Executive Department will develop conflicting programs. Activity centers in the group of experts around Colin F. Stam, staff chief of the joint committee, and around Randolph Paul, general counsel of the Treasury.

The joint committee will have a larger part than usual in the program for two reasons. Mr. Vinson has worked with Mr. Stam and has confidence in his judgment, and Mr. Stam's committee is exercising for the first time the powers granted to it under the 1942 revenue act to call upon any department of the Government for information.

The tax committees placed in that act powers which, in effect, set up the joint committee as the central agency for collecting tax data, with subpoena power, and gave it statutory authority to put to work other agencies, including the Treasury.

The most important implication of the Vinson program for a united tax front, according to experts outside the Treasury, will be to force Secretary Morgenthau to accept compulsory savings. Sentiment on Capitol Hill is represented as strong for compulsory savings as the only means of taking considerably larger segments of spending power from individuals in the fight against inflation.

As early as the Spring of 1942 the Federal Reserve Board's chairman, Marriner Eccles, Leon Henderson, then the head of the Office of Price Administration, and the Bureau of the Budget agreed on the urgency of adopting compulsory savings but could not persuade Mr. Morgenthau to adopt it.

It was learned today that it was only after Mr. Vinson received jurisdiction over taxes that Mr. Morgenthau attended inter-departmental conferences on this subject.

In a report privately circulated among members of the Ways and Means Committee and the Senate Finance Committee, the staff of the Joint Committee on Internal Revenue Taxation has suggested that the victory tax, which it defends as a valuable part of the wartime tax structure, might form the nucleus for compulsory savings. The committee staff said:

"The victory tax affords the best model for a simple compulsory savings plan, except that in the case of compulsory savings, there would be no limit on the credit for the amount of bonds purchased."

"Moreover," the staff report continued, "the principle of allowing deductions for insurance, debts and other expenditures of a non-inflationary character should be adopted under any compulsory savings scheme. If we adopt a compulsory savings plan, there is merit in using for that purpose a tax which is familiar to all and in good working order, rather than experimenting with an untried and probably more complicated method."

July 21, 1943  
11:10 a.m.

THIRD WAR LOAN DRIVE

Present: Mr. Bell  
Mr. Gamble  
Mr. Smith  
Mr. Haas  
Mr. Lindow  
Mr. Murphy  
Mr. Tickton  
Mr. Coyne  
Mr. Warren  
Mr. Woodward  
Mr. Shields  
Mr. Burgess  
Mr. Moore  
Mr. Trownstine  
Mr. Pulliam  
Mr. Head  
Mr. Isbey  
Mr. Roberts  
Mr. Collins  
Mr. James  
Mr. Mayer  
Mr. Kelley  
Mr. Potter  
Mr. Gilbreth  
Mr. D'Olier

H.M.JR: Now, where are we?

MR. GAMBLE: These gentlemen are all ready to make a report. We have just gone over it. They have studied this whole problem and got a very good picture from Mr. Haas and his people. I think they have a report that shows they have a complete understanding of this problem and are ready to meet it head on.

Mr. Burgess is their spokesman; he will give you their report.



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MR. BURGESS: May I say a preliminary word, Mr. Secretary. This wasn't a part of our report, but I know from conversations with all of us who are here, that we were very much gratified at the meeting yesterday, and were full of appreciation for the presentation that was brought before us by your staff, which I know appealed to all of us as a fine job of analysis of the whole problem. I couldn't help thinking how far ahead of anything we had had before that analysis of the market was. It was a beautiful job and I heard a great many individual comments on that last night.

H.M.JR: May I say that that is a good compliment for the civil servants of this Government, and I think that in the Treasury, under Mr. Bell, that we have the best type. That is the kind of service which I don't think the citizens of this country appreciate.

MR. BURGESS: I quite agree with you.

Now, first as for the quota, I have got five or six points here that we considered.. This doesn't cover the whole field, but these are the principal points that were considered at the meeting yesterday.

First as to the quota: We think a figure of fifteen billion dollars is the right figure. We think that will give us all we can do to reach - that we won't have the experience of reaching in the first half day. At the same time, we think it is a figure we have a reasonable chance of making. We don't believe that we can go ahead confidently with a figure larger than that. We think that a figure larger than that would be very discouraging to our new organization, which, frankly, we are having a good deal of difficulty putting together in the summer months with the shortage of manpower, and what not.

We are all completely in agreement with the presentation of facts to us, that the emphasis must be on increasing the sales to individuals. We agree that the money is there. We think, also, there is quite a substantial difference between the money being there and our getting it in.



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H.M.JR: Excuse me - where is Doctor Viner?

MR. COYNE: He had to go home, sir.

MR. BURGESS: This statement - we broke it down by individual categories; we didn't simply take a broad figure, we went through it and broke it down to see what we thought was reasonably possible.

We put down a figure of five billion for individuals rather than seven billion. That is the hardest figure to reach. To visualize that, it involves our selling one hundred dollars each to seventeen million additional buyers.

H.M.JR: Say that again.

MR. BURGESS: A hundred dollars each to seventeen million additional buyers.

H.M.JR: New?

MR. BURGESS: New buyers, beyond people who bought them in April. That is, either that or increasing other buyers.

H.M.JR: That is a hundred dollars worth of bonds or a hundred-dollar bond?

MR. BURGESS: A hundred dollars cash from seventeen million new buyers, or else increasing proportionately those who have bought before. That is a big job.

Now, the big increase must come on the E Bonds. The F and G Bonds we have skimmed the cream on. That represents, to a large extent, purchases for trust funds - purchases by wealthier people. I know that the trust departments of banks have been through those accounts twice now, more than twice, and have combed them out so that the amounts available hereafter are going to be harder to get.

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So we thought that the billion-dollar figure that was estimated on that was much too high; that if we get half of that we are doing pretty well.

For all the others we put down a billion and a half, totalling it up to five. Admittedly, there is a little leeway in the F and G and the other individuals.

H.M.JR: Just one second - I wrote down here what the Fed has and what we have. I had down three billion for E.

MR. BURGESS: That is right.

H.M.JR: One billion four for F and G.

MR. BURGESS: No, that is much too high.

H.M.JR: Do you want to give me that figure?

MR. BURGESS: Half a billion.

H.M.JR: That makes three and a half.

MR. BURGESS: Other individuals, a billion and a half.

H.M.JR: That totals five. You stick to the three billion E Bonds?

MR. BURGESS: Yes. We think it is hard and high, but we think there is a little leeway in the figure we put down for F and G and all others. We would rather put down the three for E as an objective. That is what we have to work on. We would rather strain ourselves on that. In our announcements we had - we would rather deal with the total individual figure. For our own figure, we believe we ought to place that high figure for Series E in our hat and work for it.

H.M.JR: You mean for the public, five billion from individuals?



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MR. BURGESS: Yes.

MR. BELL: And you wouldn't break it down by classes of securities for the public?

MR. BURGESS: I will come to that in a minute. I have corporations down for six billion four; insurance companies and savings banks, three billion. That is a little larger than what is on the suggested tally sheet. It is five hundred million larger. We think there is a little more in the savings banks than is on the suggested sheet.

We are also suggesting that the insurance companies and savings banks be allowed to make a deferred purchase, payable any time prior to November 1. The insurance companies and savings banks have been in a very difficult position here with the period in between drives. Their money has piled up. At present interest rates their position depends very much on being able to put their money to work promptly. Now, this would partly meet that situation, to give them an extra month where they could use their income and put it into this drive. They can make the pledge now - make the commitment - and pay for it over a period of a month.

H.M.JR: Whoever thought that one up was ingenious.

MR. BURGESS: It is one of the things that has been discussed. I think it is a good way of meeting that situation.

H.M.JR: You let them pay for it up and through to when?

MR. BURGESS: To November first. Now, that could be - we didn't want to carry it too far, so it wouldn't interfere with the other drive, but we didn't want to cut down the period when they had to carry unemployed money. We thought it a fair way to do it. Dealers and brokers, six hundred million; now, in the suggested figure we have before us, that was not included at all. We think that ought to be included as part of the drive. They are legitimate citizens.



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H.M.JR: You believe like the OPA, you should quote the black market. (Laughter)

MR. BURGESS: That is right.

That brings us out to fifteen billion.

Now, as to announcements, we believe that the national announcement should be simply--

H.M.JR: Before you leave that, Dan, have you had a chance to go over this?

MR. BELL: This is the first time I have heard it.

H.M.JR: You and Haas - I think after we hear it we ought to have another meeting. Don't you think so?

MR. BURGESS: I have dictated it and the girl is typing it now, so it will be available on paper.

Now, as to the national announcements, we would favor a national announcement simply of the grand total of fifteen billion without breaking it down. We think the situation in our States is different, so that we can probably announce from the States the break-down quotas more effectively.

We would like to be provided, if the statisticians of the Treasury are willing, a complete break-down by issues and counties on this general basis. It would be very helpful to us.

I think our feeling was that in our States and counties we would probably use two figures, a total figure and a figure for individuals. But we think that is better done by a State and county basis than by the national basis.

H.M.JR: Can you do that, George?

MR. HAAS: Yes, sir.

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MR. BELL: Doc, do you mean to give each administrator the entire country or just the State?

MR. BURGESS: Just his State.

I think that covers those points.

Now, the market basket: E, F, and G just the same; two percent bond of '64 - '69--

MR. GAMBLE: Two and a half percent?

MR. BURGESS: Yes, we think that is long enough. That is conforming exactly to the previous policy of shoving it along.

MR. BELL: That is December 15?

MR. BURGESS: Yes. A seven-eighths percent one-year certificate open to everybody.

H.M.JR: Not the banks?

MR. BURGESS: No, no, not the banks - of course, not the banks. (Laughter)

H.M.JR: Well, they are somebody, aren't they? (Laughter)

MR. BURGESS: Well, sometimes I have wondered. (Laughter)

Treasury Savings Notes, Series C, a two-percent bond of '51-'53, of June. That will bring it just inside the eight-ten year period. That is all. That makes it practically the same as the April basket, which worked very well.

On the subject of partial payments, we believe it would be difficult to devise a national plan for partial payments on E Bonds at this time for this drive. The banks are tied up with the rationing and with handling the withholding tax. It involves a terrific mechanical



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problem. We don't think that ought to be attempted on a national scale. We do think, however, that there should be no objection to different States or localities working out experiments in partial payments.

I have in mind particularly some plan for farmers that was discussed, because their crop money comes in over a period and it should be possible for them to, in some instances, work out plans by which they could do what we talked about with the insurance companies, possibly.

But we think getting the mechanics of that going on a national basis would be difficult. It is better to work it out on a State basis and then on the basis of that experience, we may be able to do something more another time.

I think also there is the feeling that with the Payroll Savings a plan of staggering the payments over a period of four pay days, such as we have devised for our Payroll Savings, may be possible in certain States. It does involve some mechanical difficulties. It is difficult to do it on a national basis.

MR. BELL: You mean in addition to the regular payroll deduction?

MR. BURGESS: Yes, for the extra bonds.

And then the deferred payment plan for insurance companies and savings banks I have already referred to.

H.M.JR: What about the farmers?

MR. BURGESS: We think that can be worked out on a State basis better than for a national plan. If anybody has got a national plan, all right.

H.M.JR: What about this plan of selling a farmer a five-hundred-dollar or a thousand-dollar bond and giving him a couple of months to pay for it?



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MR. BELL: That is what he means. It could be worked out in some areas rather than on a national basis.

H.M.JR: Did Myers make his--

MR. PULLIAM: We have that plan worked out. We have the plan practically completed because of our hog money in Indiana, and we are not giving him two months, but we are giving him until the first of November. It is an order on the bank to charge his account on a given date. They fix the date when they make the pledge. We think it will result in the sale of many millions of dollars.

MR. BURGESS: It would be useful if the Treasury circulated that plan of yours to all of us.

H.M.JR: That stuff we have sent you, now. I think we have sent you three bulletins altogether, now. If something like that could come back and we could re-circulate it - you have that set up?

MR. GAMBLE: Mr. Myers went completely through the farm picture.

H.M.JR: I mean, if this--

MR. BELL: You mean exchange of ideas and information.

H.M.JR: What I would like - is that all, Randolph?

MR. BURGESS: I have two or three more minor points.

As to the timing of the drive, there was the suggestion that some of the buyers might be delayed until later. We think all the securities ought to be open for all of the buyers during the entire drive; no attempt to delay the insurance companies, for example, should be made. It would create a difficult problem for our salesmen, who, when they go out, want to sell the whole kit to all the people they see. They just haven't got time to go back and forth and make second visits at places to pick up

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some additional security or some additional buyer in the same locality.

It would make a problem for the insurance companies and savings banks, for example, that have idle cash which they want to employ. They shouldn't have to wait until the end of September to do it.

So our suggestion is that the thing be opened for everybody, just as it was in April.

With respect to free riders, we suggest that the banks in the separate districts, through the Federal Reserve banks, probably, be requested not to make loans on these securities without adequate margin. That has been done somewhat informally and it could be carried further.

MR. BELL: That is your dealers?

MR. BURGESS: Primarily. We didn't want to point the finger at them, but it is primarily for dealers, but for anybody speculatively inclined and just going in for the ride. I don't think it is going to be a very big problem, but we ought to be in a position to deal with it.

The second point of that is that the reserve banks and the committees have power to look into subscriptions that seem speculative or unreasonable. And with respect to dealers and brokers, for example, keep them in some reasonable proportion to their capital funds. I think that can be done informally, but without any serious difficulty. I talked it over with Bob House this morning and he thought that could be done in New York.

In order to reduce, also, the incentive for speculative purchases, we suggest that early in the game it be announced that there will be a sale to banks at the conclusion of the drive, so that the banks will know they have something coming and you reduce the incentive for dealers to buy up a lot with the hope of selling to the banks afterwards.



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H.M.JR: How soon after the drive would you?

MR. BELL: How soon after the drive?

MR. BURGESS: The suggestion was immediately after the drive.

MR. BELL: October 15?

MR. GAMBLE: October 1 to 5, so that in the final total sale that the Treasury is able to say at some time after the reports are all in that the October sale, non-banking and banking, equalled twenty-one billion, or whatever it is, because the public is going to sometime compare it with the Second War Loan figure. This is not to be tied in with our non-banking drive at all. We think there is value to the Treasury in giving out that total at some time.

MR. BURGESS: The only other point I have is allocations.

MR. BELL: May I ask you one question before you leave the banks? Did you discuss as to whether we should ask the banks not to trade in these securities until after the books will be opened and closed for them?

MR. BURGESS: Yes. I didn't state that. We had that in mind as one of the things that would be included in the program. The only other point that we have is the question of allocations.

That is a problem that is becoming steadily worse, and the pressure on buyers of securities to allocate their purchases all over the country is very great. We can see a threat that we become allocators of securities instead of salesmen of securities.

We considered methods of reducing that, following the suggestions that were made to us. We suggest, first, there be an understanding that transfers of funds for purposes of subscription be strictly limited. The policy should be against that.



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Second, insurance company subscriptions be entered as of their home offices.

Third, that allocations be made only over fifty thousand dollars, to keep down the volume.

H.M.JR: Why don't we do this - this is new to Bell - I mean this proposal they are bringing in now - isn't this the first time you have heard it?

MR. BELL: The first time I have heard it from them; not the first time we have discussed it.

H.M.JR: Why don't I leave you in this room so you don't have to move around so much, and then I would like Bell and Haas and his group and the other people that we have in here working with us, to sort of thrash this out. Then I would like to meet with my own people around two o'clock - just straight Treasury people. Give me an hour with you people, then I could meet with you people (the entire group) at three. Then the Fed is coming in at four. So by that time - by five o'clock - the thing ought to be settled.

MR. BURGESS: Some of us have five o'clock trains.

H.M.JR: You don't have to wait to get the answer from the Fed. But if you continue with Bell and the Treasury people now, then I can meet with Bell at two o'clock, and then meet with this group again at three. How is that?

MR. BELL: That is fine. You (Burgess) are through, aren't you, with your report?

H.M.JR: I want Haas and his people and these other gentlemen--

MR. BURGESS: Just one additional word. We recognize we haven't the answer to this problem and hope that your people and the Federal will keep grinding at it.

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MR. BELL: That has been a headache in every drive. We haven't found the answer.

H.M.JR: Don't you (Haas) want to discuss the basket?

MR. HAAS: I would like very much to. There is one other question about plant quotas.

Did you consider that at all?

MR. BURGESS: I think there would be, but that would be on a State basis. That is a problem for the State people to work out, and for the local people, particularly.

H.M.JR: I am very much interested, myself, that you do have plant quotas. I think you have to have them.

MR. GAMBLE: Everybody has agreed to that, Mr. Secretary.

H.M.JR: I think if you people could go in there now and take as much time as you want; then, Bell, I will be available at two. I would like to just meet with the Treasury people and have a frank discussion, then we could meet again with you gentlemen at three.

MR. BELL: That is all right. I just wondered if the Treasury people shouldn't get together and discuss these proposals as compared with what we have in our memorandum.

H.M.JR: And then see them?

MR. BELL: Yes.

H.M.JR: You would rather have them meet in your room first?

MR. BELL: We ought to have an hour.

MR. ISBEY: We have some things to discuss which we could be doing.

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H.M.JR: Anyway, from two o'clock on there are no appointments as far as I am concerned except War Finance. When I come up from lunch at two o'clock, let me know what you want me to do.

MR. BELL: I think we ought to meet at two with the Treasury people, then this group at three o'clock.

H.M.JR: I want to say this, that I am very much pleased with the report. I think it is a swell report. I am delighted that you fixed the figure at fifteen billion. I take it that you didn't arrive at that lightly.

I think this is a nice way to work. After all, it is one thing to propose and another thing to carry it out; but you fellows are doing the proposing and the carrying out. This is the way I hoped, if we had a State organization, that it would work. I think it is much better to have you people on a State basis with State responsibilities. It is a big country, and you can't write a ticket from Washington for forty-eight States; you just can't do it. Maybe somebody else can, but at least I can't do it.

I am very much pleased.

As I say, I will meet with the Treasury people at two and we will get this thing so we can get it in the papers tomorrow morning. I get it in the papers and my job is done. (Laughter)



*Revised submitted*  
*7/21/12*

SUGGESTIONS BY GROUP OF WAR FINANCE  
COMMITTEE OFFICERS WITH RESPECT TO  
THE THIRD WAR LOAN

1. Quota.

We suggest that a total national quota of \$15,000,000,000 be fixed and that any announcement from Washington be confined to that total.

For the guidance of the States in fixing quotas for counties and other units, we should appreciate it if Washington would furnish us with the breakdown of our State quotas by types of securities and by counties which we can use in accordance with the requirements of our different localities.

In arriving at the figure of \$15,000,000,000, we believe the following amounts are appropriate for each category:

E bonds . . . . .	\$3,000,000,000	
F and G bonds . . . . .	500,000,000	
Other individual . . . . .	1,500,000,000	
Total individual . . . . .		\$5,000,000,000

Corporations, including		
State and local governments . . . . .	\$6,400,000,000	
Insurance companies and savings banks . . . . .	3,000,000,000	
Dealers and brokers . . . . .	600,000,000	10,000,000,000
Total . . . . .		15,000,000,000

This E bond total, we recognize as still high and difficult to achieve and we probably would not use it separately in our States but would rather use the total for sales to individuals, which has a little more leeway.

The slightly increased figure for insurance companies and savings banks is on the assumption that these institutions will be allowed to place orders for deferred delivery and payment with accrued interest for any period up to November first in addition to their cash subscriptions.

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We suggest the foregoing figures as ones which will stimulate great effort and will be hard to achieve but are nevertheless possible of achievement.

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The following should be included:

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than this) of the same type as the 2-1/2%  
bonds offered in April  
7/8% one-year certificate  
Treasury Savings Notes, Series C  
2% bond of June 1951-53

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We believe that it is too late and too difficult to devise a general national plan for partial payments on E bonds since it would involve working out arrangements with the banks at a time when they are fully occupied with ration banking and methods of handling the withholding tax, and also at a time of vacations.

There is no objection, however, to individual States arranging partial payment plans especially for such groups as farmers or payroll savings. As indicated before, we suggest a plan for deferred payment for insurance companies and savings banks.

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We suggest that all securities in the drive be opened to all non-bank buyers from the opening to the conclusion of the drive. Any other plan would be confusing to the public, would be difficult for salesmen to handle, and would be regarded as unfair by insurance companies, savings banks and other corporations having idle funds which they want to employ.



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5. Free riders.

It will be noted that the suggestions for quotas include in the drive dealers and brokers. In order to avoid excessive speculation, it is believed that banks should be requested by their local Federal Reserve Banks not to make loans on the new issues without adequate margin and also that the Reserve Banks should be given the right to examine all subscriptions and cut down amounts which appear unreasonable or speculative.

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July 21, 1943



Comparison of Original Treasury Goals for Third War Loan  
and Goals Proposed by War Finance Group

(In billions of dollars)

	: Original : Treasury : goals	: War : Finance : Group
Individuals:		
E bonds .....	4.0	3.0
F and G bonds .....	.8	.5
Other securities .....	<u>2.2</u>	<u>1.5</u>
Total .....	7.0	5.0
Insurance companies and mutual savings banks .....	2.5	3.0
Corporations (including State and local governments) .....	6.7	6.4
Dealers and brokers .....	<u>-</u>	<u>.6</u>
Total .....	<u>16.2</u>	<u>15.0</u>

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

July 21, 1943.

July 21, 1943  
2:20 p.m.

THIRD WAR LOAN DRIVE

Present: Mr. Bell  
Mr. Haas  
Mr. Murphy  
Mr. Lindow  
Mr. Tickton  
Mr. Viner  
Mr. Shields  
Mr. Woodward  
Mr. Warren  
Mr. Rouse  
Mrs. Klotz

H.M.JR: They shot this stuff at me pretty fast. I think the easiest thing, gentlemen, would be for you to tell me where you differ.

MR. BELL: We don't differ very much. On the goal of fifteen billion, we think that is all right, but you ought to know what they have done to arrive at that fifteen billion. They have taken a billion two off of the sixteen billion two that Lindow had in his figures. Then they have added five hundred million for deferred - for subscriptions on which deferment would be made by insurance companies and savings banks.

H.M.JR: It brings it down to fourteen and a half.

MR. BELL: Yes.

Then they have added six hundred million for dealers and brokers which were not in Lindow's figures, so they have really fudged a total of two billion three hundred million.

H.M.JR: But they left the personal at five instead of seven.

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MR. LINDOW: Of the two billion three, two billion comes off of personal, and three hundred million off of corporations.

H.M.JR: Of course, the thing that pleases me - and the rest isn't terribly important - is that they left E bonds at three, which is a courageous thing to do.

MR. BELL: Murray thinks it ought to be higher.

MR. SHIELDS: I wish it could be.

H.M.JR: Doesn't three mean that forty million people have to buy - put up seventy-five dollars?

MR. LINDOW: Yes, sir. We would like to have it higher, but it is a new organization, and you can't--

H.M.JR: Well, after all, this question of fifteen and how we divide it up is a sort of a family affair, isn't it?

MR. TICKTON: It has been family up to now.

H.M.JR: I mean, what do we tell the public?

MR. TICKTON: Their suggestion is just to tell them the fifteen.

MR. BELL: Just fifteen only.

MR. LINDOW: Of course, in the end you will probably want to release the goals at some point along the way, so it is not likely to be a family affair for very long.

MR. BELL: But they recommended here (indicating paper entitled Suggestions by Group of War Finance Committee Officers with Respect to the Third War Loan, copy attached) that you announce only the fifteen-billion-dollar goal and no other.



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H.M.JR: That is all right.

Well, gentlemen, in anybody's language it is a lot of money.

MR. BELL: And how! We recommend that you accept the fifteen billion.

H.M.JR: All right.

What else?

MR. BELL: On number two, which is the basket--

H.M.JR: Please feel free to talk up. You are all very decorative, but I didn't invite you in here for your decorative qualities. (Laughter)

MR. BELL: The basket is all right, except the two-percent bond of June '51-'53.

H.M.JR: Have you got something typed on that for me?

MR. BELL: Didn't they give you the original?

H.M.JR: ~~Yes~~ I haven't received any.

MR. BELL: Number one, we have passed; that is the fifteen-billion-dollar goal.

Number two on page two is the basket.

H.M.JR: I can't remember these things. What is the last two-and-a-half we sold? What was that?

MR. TICKTON: June '64-'69.

H.M.JR: And this takes it--

MR. TICKTON ... six months longer.

H.M.JR: What was the one ahead of that?

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MR. TICKTON: The one before that was December '63-'68. We moved them up six months each time.

H.M.JR: Beginning with '62-'67 they have been going forward six months?

MR. MURPHY: Yes.

H.M.JR: Do you people think that is a good pattern?

MR. BELL: Yes. December '64-'69 is all right. Mr. Haas had in his recommendation March '65-'70, but it is only three months there.

H.M.JR: I mean, can we keep this up for a while, another year?

MR. WOODWARD: Sure.

H.M.JR: Have any doubts? I mean, could we do this at this time and, say, three times more?

MR. TICKTON: Sure.

MR. WOODWARD: Mr. Secretary, there is nothing else we can do with our money. That is the reason I answer with some confidence that you can continue it, seriously.

H.M.JR: After all, my job is to - I mean, fortunately, I think for everybody, I said last night that I wouldn't agree to the thing. I said I wanted a fresh look at it. I think what we did this morning is an improvement over last night. I wanted to find holes in it. I wondered if we were sitting here a year from now we could still be selling a '65-'70.

MR. WOODWARD: I see no reason why you couldn't.

MR. BELL: But some place along the line you might have to put out a security that is the same term, that is, in number of years, identical with what you put out previously.

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MR. WOODWARD: But what does a few years - twenty-five years out - mean?

MR. BELL: It doesn't mean anything.

H.M.JR: Then is everybody in agreement on this?

MR. HAAS: Yes.

H.M.JR: Now, what about the two-percent?

MR. BELL: They have the two-percent down as June. We told them we thought it ought to be September, and they agreed with it.

H.M.JR: What did we do the last time?

MR. MURPHY: A year shorter, Mr. Secretary.

H.M.JR: What about this thing that you gentlemen were worried about, announcing it so far in advance that the market might get out of line?

MR. HAAS: That is a little rich.

H.M.JR: I suppose we have to do it.

MR. BELL: I think so. I think the deadline has been reached on our manuals and literature.

MR. TICKTON: Mr. Gamble argued that even Tuesday would be late as compared with day after tomorrow.

H.M.JR: Are you fellows - it will get too rich; that is the worst that would happen? It won't get too poor?

MR. HAAS: If it got too poor the Fed could fix it up. You would be worse off than having something get too rich. It is not a disastrous sort of thing. We might tell the Secretary about that alternative we had.

MR. BELL: We discussed the question of adding another security to the basket and eliminating the two, or adding two



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other securities to the basket and eliminate the two; it would be a two-and-a-quarter percent bond, not available to the banks, but adding a one-and-three-quarter percent bond that would be available later to the banks. But Bob Rouse said that he didn't think that would help the market in the two-percent area. We are not particularly anxious to get out a two-percent bond.

H.M.JR: Where is Rouse?

MR. BELL: He is in my room. So we think maybe you had better stick to the two-percent bond for that reason.

H.M.JR: I can't remember all of these things. How close does this stick to what that ABA group recommended?

MR. BELL: This is identical.

MR. TICKTON: The main point of difference so far is that everybody, except the Federal Reserve, recommends certificates.

H.M.JR: I think we have crossed that bridge.

MR. TICKTON: That is the only argument.

(Mr. Rouse entered the conference.)

H.M.JR: Have you seen this (indicating group suggestion)? Do you differ in any way?

MR. ROUSE: I am in substantial agreement with it.

H.M.JR: Substantial - I mean, do you concur, or is it--

MR. ROUSE: I agree with the basket.

MR. TICKTON: I might mention that the answers to the telegrams that we sent out to the corporations asking whether they wanted certificates or notes - we sent - of two hundred and twenty-five corporations--

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H.M.JR: Now, how did you pick those? You didn't tell me the other day.

MR. TICKTON: We wired the Federal Reserve and asked for the subscriptions of more than a million dollars to our certificates in the last drive. That would eliminate any corporation that didn't have funds. We sent out telegrams to all of them; and we got, as of last night, a hundred and seventy-four replies, of which a hundred thirty some said they wanted a certificate, and nineteen said they didn't want a certificate. Twelve said that they wanted both. Most of them gave no reasons; a few of them said that they wanted short-term funds in case the war ended.

One or two State governments to whom we sent the telegrams said they were prevented from subscribing to securities of more than fifteen months maturity.

Most of them said they preferred the certificate.

H.M.JR: I can't see Eccles' argument. As I understand it, he has weakened on that.

MR. BELL: I think when he sees the fifteen-billion-dollar goal he will see that you have to have the certificate to make that. He said that if you had sixteen billion you certainly would need the certificate in order to make it.

H.M.JR: Now, what about this other thing that somebody mentioned this morning, that we should announce also what we are going to give the banks at the conclusion of the drive?

MR. BELL: We should announce now that you are going to open the two-percent and the seven-eighths-percent securities in the basket after the drive to the banks - to the commercial banks.

H.M.JR: That would be in it?

MR. BELL: That would be in the press announcement tomorrow morning.

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Now, I have put in the draft of the offering those securities, an aggregate amount of not less than three and a half billion dollars. I think there is a question of whether we want to announce the amount.

H.M.JR: We will have to have a press conference this afternoon?

MR. BELL: You say you will?

H.M.JR: I am asking you.

MR. BELL: It will be awfully late. You have your four o'clock with the Federal.

H.M.JR: Are you going to do it tomorrow morning at ten-thirty?

MR. BELL: I was going to announce it for tomorrow morning's papers.

H.M.JR: How are you going to do that?

MR. BELL: Have Chick Schwarz tell the boys to stay around.

H.M.JR: Not have a press conference?

MR. BELL: I wouldn't think so, unless you wanted to stay around here until five o'clock or after. It will be after five o'clock.

H.M.JR: Let's talk about it.

MR. ROUSE: There is a regular press conference in the morning, is there not?

H.M.JR: At ten-thirty.

MR. BELL: I understood you to say that you would like to have this come out at the same time as the August financing.



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MR. ROUSE: May I ask on the series C savings notes whether you plan to do away with the thirty-day clause?

MR. BELL: We haven't contemplated it.

H.M.JR: That is the thirty-day notice at the end of six months?

MR. ROUSE: Yes.

MR. BELL: We hadn't contemplated it. Do you think it is important?

MR. ROUSE: From the company treasurers I have talked to - a limited number, to be sure - it is the clumsiest provision in the setup from their standpoint. I know they would like to see it done. In practice I think we have waived it wherever there was any emergency.

MR. HAAS: If you are going to have that right along without a certificate, I think it is more important. If you have a certificate in there, I don't think it makes very much difference.

H.M.JR: I don't see that it is very important to have it in, personally. They can't sell it until they hold it for six months.

MR. ROUSE: That is right.

H.M.JR: It makes it a more versatile - a better instrument.

MR. BELL: It is a demand only after six months.

MR. HAAS: Of course, it makes it better for the buyers. It was put in there for the Treasury's protection.

MR. MURPHY: The Treasury has good banking connections, doesn't it, Bob? (Laughter)

H.M.JR: I would be inclined to waive it.

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MR. BELL: You mean eliminate it altogether?

H.M.JR: Eliminate it, that is, the thirty-day clause. I think we have to give ourselves all the breaks. That is the way I feel.

MR. VINER: What good is the thirty-day clause to the Treasury, assuming it has good banking connections?

MR. ROUSE: I think as it has developed now it is not necessary.

MR. BELL: It gives us a chance to turn around in case we get a large demand.

MR. VINER: Yes, but you wouldn't even if - you wouldn't all come in as of a certain day.

MR. ROUSE: It is akin to the sixty-day clause in the savings banks. On this you started using it right from the start, but there have been waivers; and if you get hard boiled about it, the demand would pile up and you do something about it.

H.M.JR: They have been waived?

MR. BELL: Yes, we have had instances where companies couldn't pay their interest. They had some money coming from the War Department; they couldn't get their checks and they had to meet some bills, so we waived that thirty-day clause and gave them their money on the Treasury savings notes.

MR. VINER: These aren't usable as collateral?

MR. BELL: No.

MR. MURPHY: The new ones are.

MR. VINER: Why couldn't they use them as collateral?

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MR. ROUSE: That is again a clumsy thing, because it is a registered obligation. They repeatedly have to bring in lawyers, and resistance increases.

H.M.JR: What do you think, Jake?

MR. VINER: I don't put much stock in the thirty-day clause. I can conceive of circumstances ten or fifteen years from now - some bad news comes up on a particular day, but I think the thirty days doesn't help you, except to turn around, and I assume that now we have good enough banking connections to--

MR. ROUSE: Banking connections and the means of taking care of those emergencies.

MR. BELL: We have a bigger obligation on series E savings bonds. (Laughter)

MR. VINER: These are demand obligations, and we ought to face it for what they are.

MR. ROUSE: Even on the basis of the present setup it has worked out very well. As of June 30, there are just under seven and a half billion outstanding.

MR. VINER: If I understand it right, it also eliminates a little bit of routine for the Treasury, a little bit of expense - the elimination of the thirty-day notice. Isn't that an extra operation?

MR. BELL: I suppose in handling the correspondence. Eliminate it?

H.M.JR: Yes. I think the best kind of credit is to have no restrictions, just hold up your head and say that you can take on all that comes.

MR. BELL: Don will appreciate that, being in the insurance business. That is what they do. (Laughter)

H.M.JR: That is true. Just as soon as you begin to get worried and show your worry, then you have a line forming at the cashier's desk.



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Is insurance increasing?

MR. WOODWARD: Not very much. It is holding just about the same.

H.M.JR: I mean, new policies?

MR. WOODWARD: That is what I mean.

MR. VINER: Of course you have eight or ten million potential insurees taken out of your market.

H.M.JR: Is there anything else, gentlemen?

MR. BELL: No, I think that we have pretty well agreed on everything else.

H.M.JR: I mean, I could use twenty minutes very nicely. We meet again at three?

MR. BELL: Yes. On that three, partial payment, that is all right. We would like to get some experience on that.

H.M.JR: That is on insurance companies?

MR. BELL: There are others there, too.

On the E bond it is suggested that we try to work out some plan in a few States to get some experience. The timing there - announcing the results - we think that is all right if they will control themselves - the announcement on insurance company subscriptions and the announcement coming from the insurance companies. That is only in one place - three places, rather - Boston, New York, and Philadelphia.

MR. WOODWARD: There should be no problem whatever.

MR. BELL: "Free riders" is all right. We would add there that the banks are not to buy during the period of

- 13 -

the drive or before the books are opened and closed on the securities to be open for the banks, and they agreed with that. The regulation is O.K.

The allocations - there is a question put, and they want us to announce in our press release that there will be no transfer of funds. They would prefer that there be no transfer of funds around the country to pay for subscriptions and that the subscriptions be entered at the head office. We will work out something.

There is one other thing we didn't discuss with this group, and I think it ought to be in the announcement; that is the call bonds of a billion and a half for October 15. I think it ought to be in this announcement. I didn't discuss it with you this morning.

MR. HAAS: Yes, and how it is going to be handled.

MR. BELL: The exchange of those bonds for the two and a half's and the two's for individuals and the two percent for the banks.

H.M.JR: I don't know what you are talking about.

MR. BELL: A billion four hundred million dollars in three and a quarter percent bonds called for payment October 15, half owned by banks and half by others than banks. We think that that part owned by others than banks ought to be allowed to be exchanged for two's and two and a half's in the drive, and that the bank part ought to be exchanged for two's.

MR. VINER: With deferred payment, you mean?

MR. BELL: They can exchange them as of October 15 with an adjustment.

H.M.JR: Do you want to announce that now?

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MR. BELL: I would like to put that in the press statement.

H.M.JR: O.K.



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July 21, 1943.



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3:20 p.m.

THIRD WAR LOAN DRIVE

Present: Mr. Bell  
Mr. Gamble  
Mr. Smith  
Mr. Haas  
Mr. Lindow  
Mr. Murphy  
Mr. Tickton  
Mr. Doob  
Mr. Viner  
Mr. McNamara  
Mr. Coyne  
Mr. Warren  
Mr. Woodward  
Mr. Shields  
Mr. Burgess  
Mr. Moore  
Mr. Trownstine  
Mr. Pulliam  
Mr. Head  
Mr. Isbey  
Mr. Roberts  
Mr. Collins  
Mr. James  
Mr. Mayer  
Mr. Kelley  
Mr. Potter  
Mr. Gilbreth  
Mr. D'Olier

H.M.JR: Gentlemen, unless something has happened in the last half hour it looks as though I take your ticket. We couldn't find anything the matter with it. It looked very good.

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MR. BURGESS: That leaves the responsibility right in our laps, doesn't it? (Laughter)

H.M.JR: I thought you might get that. (Laughter)

MR. BURGESS: We can see that all right. (Laughter)

H.M.JR: But we will keep pitching. I am very glad you fixed it at fifteen. I don't mind the little adjustments inside. It gives you a little elbow room. I am particularly glad you kept the E bonds at three billion, because that is the battle. The battle is to get the three billion of E bonds.

We are getting out quite an announcement for tomorrow. We do the billion six refunding for August. We announce that with another billion dollars in cash. We are going to include also the announcement for the Third War Loan and the October refunding.

You might add it up, what it amounts to all together. That doesn't include the bank financing.

MR. BELL: About eighteen billion.

H.M.JR: About eighteen billion we are announcing for tomorrow.

MR. BELL: We didn't cover in your conference the three-and-a-quarter percent bonds maturing October 15. We thought there ought to be in this announcement for tomorrow a statement that the individual holders of those bonds would be allowed to exchange them for the two's or two and a half's offered during the drive, and that the banks holding those securities would be allowed to exchange them for the two-percent bonds. Is that agreeable?

MR. BURGESS: Very good.

MR. BELL: There is one other thing in writing the press release we came across, and that is announcing that the insurance companies and savings banks will be permitted

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to defer payment up to November 1. We think that maybe this press release for tomorrow morning is not the place for that announcement, but maybe around September 1 or 9. Announcing it now you might get an avalanche of requests from over the country.

MR. MOORE: Should we treat that as confidential in the meantime?

MR. BELL: I think you might. It will be out in due course. It may be in the Treasury circular.

H.M.JR: I would just like to say this - you most likely all have it in mind - my own feeling is that I don't think you can get as many salesmen or as good salesmen as you can get - I don't know, there may be five steel plants in the State of New York. I am sure they have somebody who would represent the five steel plants, and each steel plant can be told that they have to get so much money from so many employees. Then management and labor can get together and do a job on themselves. I don't believe we can begin to do as good a job from the outside as they can do from the inside. And I think we have to let each plant know that we expect so much money from them, and from each industry. I think if we didn't approach it in that way - we just haven't got the time or the manpower to do it, but they can do it.

I do hope you are going to do it - every factory, every plant, every employer and employee will know that so much is expected of him.

Now, Gamble, have you introduced our new advertising manager to these people?

MR. GAMBLE: I have, yes, sir. He had lunch with us.

H.M.JR: He doesn't look exhausted. (Laughter)

MR. DOOB: It is the first time.

H.M.JR: I welcome you to the Treasury. We have moved fairly fast. I saw Mr. Doob night before last and he said



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he would love to come but he was sure that Mr. Nicholas Schenck would turn him down. I assured him I didn't think he would. Well, he asked in so many words what I had on Mr. Nicholas Schenck. (Laughter) All I had on him was that I knew he was a good citizen and I knew he would be glad to help. So I talked to him yesterday morning, and he wanted to know how long it would be before I wanted an answer. I think they must have had a board of directors meeting.

I think we are very fortunate in having him here. He came this morning. He knows all avenues of publicity. We have got to pull all the stops on the organ and let her go.

One of the first things I want you to do is to fix me up a kind of plan that I can show the President so we can get him to open this thing. The last time he complained very bitterly when we had all these girls on the front steps of the Treasury. He wanted to know why we didn't bring them over there, and I propose to bring them over there. But he would like to pick them, so you make up the list, and we will let him add or delete. He has his own ideas on that as well. (Laughter) So will you fix me up something please.

What else, Ted?

MR. GAMBLE: These gentlemen have just seen the preview of some of the material we propose to use in the Third War Loan - newspaper ads. They had several good suggestions. They have also seen the posters and have selected the four posters they want of the group that we have.

H.M.JR: Could I see them some time? (Laughter)

MR. GAMBLE: Yes, sir. Now it is safe to show them around. I have twenty people behind them now; I can show them around. I didn't tell them you hadn't approved them; they probably all thought you had. I can show them to you now and tell you they approved them. (Laughter)

H.M.JR: Are they all up?

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MR. GAMBLE: Yes.

H.M.JR: What else?

MR. GAMBLE: That is all.

I might say that these men understood this problem about the plants, and they agree with you completely about the need for canvassing, not only every worker in the plant, but workers everywhere. I am sure these States are contemplating a very thorough job in September.

H.M.JR: Mr. Bell reminds me of one important thing. I spoke to you yesterday about the kind of money and where we wanted to get it.

The other thing I would like to impress on you as emphatically as I can is that we have to do this, working with labor. We can't go through the front door and go down. I mean, we have got to work with them at the level of shop stewards, shop foremen, and so on.

Now, we have the finest kind of relationship with labor. This war bond effort is one of the things that labor is most proud of. We have got beautiful relations with them, and they will do anything within reason to help us.

From my own personal experience I have found that in the plants where there are good management-labor relationships and they have got the war spirit, they will buy war bonds.

Now, the relationship between the Treasury and labor is excellent, and some of you people who are new I hope not only will keep that on that basis, but let's improve it if it is possible. You won't find any labor leader anywhere but who will just drop everything for this effort and help us.

And one of the reasons I am so for it is that where we do have good understanding with them the production



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goes up, and that is what we are after. We have to give these men - our job is to help pay for it, but also we have to supply the - if besides everything else we can make these fellows happy and make them turn out just a few more guns, that is our contribution towards helping to win the war.

That is, after all, what all of you are in this thing for with me. You are not all dropping your businesses to do this job other than to help win it, so let's get it over with.

So as a last note I would like to bring to your attention the existing good relationship with labor, and let's keep it that way. And if you find you have any trouble anywhere, we do have under Mr. Houghteling some very good people - he can help you. I don't think you will find it necessary.

Maybe you would like to ask me something.

MR. GAMBLE: They are not any of them backward.  
(Laughter)

H.M.JR: Well, they shouldn't be. We have asked them to do a man-sized job, which is the biggest selling job in the world. If they don't ask for something and don't complain when they don't get it, they will have nobody to blame but themselves. As far as I am concerned, with everybody in the Treasury this thing is first, that is all. Anything we have is yours; so if you don't ask, it will be your own fault. But you look like a group that knows how to take care of themselves.

MR. FLEEK: One of our great problems, Mr. Secretary, will be getting quick action through the so-called red tape, particularly the Civil Service Commission.

H.M.JR: Well, we have very good contacts over there. You let us know promptly what your troubles are, and I am confident we can take it up and they will bend the law for us.



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MR. GAMBLE: We have been discussing during the afternoon some of our administrative problems, but above that Mr. Norman Thompson has appeared before the Civil Service Commission in the last two weeks to ask them to help us break this log jam.

H.M.JR: If there is anything, let me know and I will be glad to call on them. Give it all the time you can. Don't wait until the 8th; give us all the time. The red tape is there; it serves its purpose, you know. It serves its purpose; it keeps these three million Federal employees honest. (Laughter)

MR. FLEEK: Our trouble is, sometimes we get in a hurry and we think we can overcome the restrictions. Then we find that we are up against them.

H.M.JR: We have a good setup - we think we have a good setup; if we haven't, let me know. If it is Civil Service or printing - whatever it is we will turn the town upside down to get you what you want. So far nobody has turned us down, have they, Ted?

MR. GAMBLE: No, they have not.

H.M.JR: But things like that - just telephone or telegraph and we will send the flowers. They won't be lillies. (Laughter) All right?

Thank you all for coming down. The best of luck. I will be seeing you soon.

July 21, 1943  
4:10 p.m.

### THIRD WAR LOAN DRIVE

Present: Mr. Bell  
Mr. Haas  
Mr. Smith  
Mr. Murphy  
Mr. Tickton  
Mr. Lindow  
Mr. Rouse  
Mr. Viner  
Mr. Eccles  
Mr. Ransom  
Mr. Young  
Mr. Evans  
Mr. Goldenweiser  
Mr. Piser

H.M.JR: Gentlemen, we have had, from our standpoint, a fairly fruitful meeting. All day we have had these people in from ten States and have had the benefit of Mr. Rouse's advice all day long.

I think the easiest way would be for Mr. Bell to start in with the August 1 and just run through the whole thing. I think he has kept you posted, hasn't he, Mr. Eccles, as we have gone along?

MR. BELL: On the August 1, I have.

H.M.JR: Supposing we go through the whole thing from August through to October.

MR. ECCLES: We talked last night about the certificate, and then again this morning after you had your meeting.

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MR. BELL: We are announcing for tomorrow morning a seven-eighths percent certificate, one year, to pick up and exchange the billion six hundred million maturing certificates in August. In addition, we are offering nine hundred million dollars for cash from the banks only.

We eliminated any preferred allotment such as the hundred thousand. Of course, there wouldn't be any down payment in this because it all comes from the banks and they have never put any cash payment on the line for their subscriptions.

MR. ECCLES: Using the formula, though?

MR. BELL: Yes, using the formula of one hundred percent of capital surplus and undivided profits, or five percent of the total deposits, whichever is greatest, for the bank subscription.

MR. PISER: At the maximum that would get you about six billion of subscriptions - between five and six.

MR. BELL: Potentially, I think about seven.

MR. MURPHY: Seven to eight. It includes undivided profits, and the figure is about seven including undivided profits. It is a little under six without. The other basis is five billion, but since each bank has the choice, the total will be between seven and eight.

Of course, you won't realize nearly all of your potential.

MR. ECCLES: You will realize close to it.

MR. MURPHY: The more the better.

MR. ECCLES: Except that it gives the effect of padding. Of course, it really isn't padding because it is a formula.



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MR. BELL: Well, it will--

MR. ECCLES: If you get five or six times the amount you want, as I said, it might give an impression it is too easy to get the money. Of course, you won't need to give publicity to it. So it possibly will be passed over if it is just the banks.

MR. BELL: It is a small amount, nine hundred million, and it will probably be over-shadowed by this Third War Loan story.

MR. ECCLES: That is right. It isn't going to make much difference. You could use that same formula if you were getting two and a half billion of new money.

MR. MURPHY: There is scarcely a bank that couldn't use all the securities allowed under the formula if the subscriptions were allotted in full.

MR. BELL: The books for the cash subscription, Marriner, will be opened one day and the exchanges will be open two days.

MR. ECCLES: The cash subscription will be open the second day?

MR. BELL: No, one day - the first day.

MR. ECCLES: That will be Thursday? That is tomorrow?

MR. BELL: That is right. We are going to wire all the banks that the mail will not get to.

MR. ECCLES: The Federal will get it out in the mail early today, because they have had this information and it will be out early, won't it?

MR. BELL: But we have instructed them to be rather liberal with their wires in the cases where they are in doubt as to whether the mail will get there.

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MR. ECCLES: I think that was a good decision, personally. I told Dan last night that I thought if you went through with the program you had, I thought it would be bad from every standpoint; that the banks would get a lot of complaint, unnecessarily, when you want the support. I am glad you made it, personally. It is a good chance to try it out, anyway. You have a small amount and you are doing it just before the drive. If you are going to separate it, this is the best time in the world to try it.

MR. BELL: Now, on the Third War Loan Drive we have agreed on a total of fifteen billion dollars, and that is broken down but not for publication at this time. E Bonds, three billion; F and G Bonds, five hundred million; other individuals, a billion five hundred million.

MR. ECCLES: E Bonds, how much?

MR. BELL: Three billion - F and G Bonds, five hundred million, and other individuals, a billion five hundred million; corporations, including State and local Governments, six billion four; insurance companies and savings banks, three billion; dealers and brokers, six hundred million, making a total of ten billion, and a total for the goal of fifteen billion dollars.

Insurance companies have been increased from two and a half, their original figure, to three billion dollars, but we are providing, or making provision, so that they can subscribe and defer payment up to November 1.

MR. ECCLES: That is a partial instalment, isn't it?

MR. BELL: That is right.

MR. ECCLES: But that is limited to the insurance companies and savings banks?

MR. BELL: That is right.

H.M.JR: The idea is, it takes this complaint that they have that they accumulate a lot of funds and can't get any interest on them - it takes care of that.



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MR. ECCLES: We had recommended the instalment to apply to the two and a half percent bonds. This goes part way; I mean, it applies the instalment to this particular group.

MR. BELL: That is right.

MR. ECCLES: These are the ones that were complaining mostly about the accumulation of funds and they didn't want to carry those funds idle until another drive.

MR. BELL: That is right. Now, as to the basket--

MR. ECCLES: You have got dealers and brokers; now, what do you mean by dealers and brokers? That isn't just Government bond dealers?

H.M.JR: Do you know what I told them? I said their putting in the dealers and brokers reminded me of OPA quoting the black market. I got quite a kick out of it. (Laughter)

MR. ECCLES: That is just exactly it. Why don't you let the banks in directly for six hundred million instead of paying the dealers and brokers a commission for selling to the banks?

H.M.JR: We want to keep them in business. (Laughter)

MR. ECCLES: Say, listen, the Fed does that. We ought to get together on this. There is no need of both of us trying to keep them in business. (Laughter)

MR. BELL: You have to admit there is a little fudging there.

MR. ECCLES: Is this just the Government bond dealers?

MR. BELL: I think you will have to include other brokers. It is too much for just Government dealers.

H.M.JR: Mind you, this is the recommendation of the ten chairmen of ten States that control seventy-five percent of the wealth of the country.



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MR. ECCLES: That helps them get the quota.

H.M.JR: I know.

MR. ECCLES: That doesn't include investment bankers that will buy to sell, too, does it? Does this include all the group that will really buy for resale?

MR. ROUSE: I understood that was their idea.

MR. ECCLES: That is, that includes all of the professional groups that are in the business of buying to resell rather than buying to hold?

MR. BELL: That is right.

H.M.JR: It is a hedge for us.

MR. BELL: And for the salesmen.

The basket - E, F, and G Bonds; a two and a half percent bond of December '64-'69; seven-eighths percent, one-year certificate; Treasury savings notes of Series C and a two percent bond of September '51-'53 - that is an eight-ten year bond. We thought September was rich enough without going back to June.

Any questions on the basket?

MR. GOLDENWEISER: Did you leave out the C notes?

MR. BELL: No.

H.M.JR: We have cut out the thirty-day clause which Mr. Eccles asked for.

MR. ECCLES: Well, I think, if the salesmen will really make an effort, they possibly can sell some of those in lieu of the certificate, which would be all to the good if they will.

H.M.JR: That is what you have asked for; it makes it more attractive.

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MR. ECCLES: Yes, I figure that that will help sell it. Of course, it has competition with the certificate, but you can't get the fifteen billion without the certificate.

MR. BELL: In announcing this tomorrow morning, we wanted to say that the seven-eighths percent certificate and the two percent bond - a two percent bond and a seven-eighths, one-year certificate will be open after the drive to the banks. We didn't say when. We said shortly after the drive.

H.M.JR: Say that again.

MR. BELL: We said a two percent bond and a seven-eighths percent certificate. We didn't confine ourselves to the securities in the basket. We said they will be open shortly after the drive to the commercial banks only. And we are also saying here that the banks should not buy - the market should not trade in the securities in the basket until after the securities have been - the books have been closed to the banks.

MR. ECCLES: You won't permit trading, of course, will you, in the securities?

MR. BELL: We put that in the circular.

MR. ECCLES: That they shouldn't trade indirectly, you mean?

MR. BELL: We can't police it, but we are assuming that we will get ninety-five or ninety-eight percent compliance.

MR. ECCLES: The fact that you are telling that you will make the other two issues available to them after the drive will go a long way towards accomplishing that result.

MR. BELL: I should think that that would cut down the dealers' and brokers' subscriptions, too, in the drive.

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MR. ECCLES: That is right.

MR. YOUNG: You will get your fifteen billion dollars, all right. You will probably sell more F and G Bonds in that, though.

MR. BELL: We also asked the banks not to make loans on these new issues without adequate margin. I don't know just how far that will carry us, but that is also a slap at the dealers, indirectly.

On the three and a quarter's, due October 15, we will permit exchanges by individuals into the two's and the two and a half's in the drive, and the banks can exchange them for the two percent bonds.

MR. MURPHY: On individuals, you mean all non-banks, don't you?

MR. ECCLES: All non-banks, yes.

MR. BELL: Yes.

MR. PISER: The exchange would be made during the drive?

MR. BELL: Be made during the drive, but as of October 15 we will give them an adjustment of interest.

MR. ROUSE: The interest at three and a quarter percent up to October 15, and the new interest rate beginning at that date.

MR. ECCLES: When is that maturity - the 15th of October?

MR. BELL: Yes.

MR. YOUNG: And the banks into the two percent and the others the two and a half?



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MR. LINDOW: Either two or two and a half.

MR. ECCLES: That is all right; that is what we suggested. We suggested that offering.

H.M.JR: Do you think this will go in the Middle West?

MR. YOUNG: Oh, yes.

MR. BELL: I think that about covers it.

Anybody remember any points I have missed?

H.M.JR: How much do you gentlemen think we will need from the banks in October? We will have to figure that.

MR. BELL: We left any figure out of here. Now I have got in mind financing two and a half billion dollars; but I have also got in there a billion dollars from the banks on Treasury bills during the drive in order to pick up some of the excess reserves.

H.M.JR: But that is out.

MR. BELL: If we don't do that, then we ought to add a billion dollars at least to the three and a half billion dollars.

MR. ECCLES: I would certainly leave that out. I wouldn't put those bills in. You didn't say anything about that here.

MR. BELL: No, we didn't say anything about it. That is still open. But I think maybe it is better not to say - we say here that none of these securities - this is the basket - none of these securities will be available for subscription by commercial banks for their own account during the period of the drive. However, shortly after the drive terminates, a two percent and a seven-eighths percent certificate of indebtedness will be offered commercial banks for their own account. We don't give any amount. It is open.

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MR. ECCLES: There is no reason at all to sell them bills to absorb the reserves during the drive because the Fed will have on the option account at least five billions of bills that they can buy to meet the temporary excess reserve that they will have. So there is no need of offering them any new bills to absorb that excess.

MR. BELL: Well, we can take a look at the picture on September 1 and decide then.

MR. ECCLES: If you make - the amount of the offering to the banks, of course, would have to - you determine that by the amount of money that you need until the next financing.

I was saying that, what if you get, instead of fifteen billion - what if you get, say, seventeen billion in the drive; how much would you need from banks before the next financing? You would need very little, if any.

MR. BELL: We could still take two billion dollars. We could increase our balance a little.

MR. ECCLES: You can always do that - carry that much more in the balance - and you could delay the next drive just a week or two longer. You could meet it that way.

H.M.JR: It would be pleasant. (Laughter)

MR. ECCLES: But if you get seventeen and let the banks in for two billion you delay it - you couldn't have much less than two billion in a bank drive.

MR. BELL: That is right. We have in this picture four billion dollars from banks after September.

MR. ECCLES: Is that right? Was it four?

MR. BELL: It was two and a half in the financing for bonds and notes, and a billion dollars in Treasury bills, and a half billion increase in the November 1 certificate. So you have at least four billion dollars and you have a rather low balance going out of January.



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MR. ECCLES: If you got just the fifteen billion and you didn't put the bills - didn't sell the bills during September, you would need three billion from the banks to meet your requirements.

MR. BELL: Four billion.

MR. ECCLES: No, you would need--

MR. BELL: Two and a half already there, a billion from bills, and a half billion from certificates.

MR. ECCLES: You would need three and a half if you didn't issue the bills, plus the increase in the certificates. You would need to make the separate offering of three and a half billion.

To the extent you got sixteen instead of fifteen you could cut that to two and a half billion. Is that right?

MR. BELL: Yes.

MR. ECCLES: Dan, you say "shortly after the drive." Why would you borrow ~~FROM~~ the banks, too, soon after the drive? You don't need the money.

MR. BELL: Only to more or less make it a part of the same financing picture, and I don't think we could avoid trading in these securities if we keep the banks out of it too long.

MR. ECCLES: Got to keep them out thirty days.

MR. BELL: If you do keep them out and permit trading - and you are going to have the securities offered in the drive going into the banks - they are going to go out after them--

MR. ECCLES: Can't you - of course, you can't stop trading in the certificates at any time, but it seems to me that in the two percent bonds you could not permit



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trading for thirty days after the drive - that the amount of what we may term a black market would be pretty small when the banks know that within a few - within thirty days after, they are going to be able to buy directly. They are not going to go into the market and pay much of a premium. There would be very little trading, anyway, would there?

MR. BELL: This group here suggested that we have the bank financing immediately after - about October 5.

MR. ECCLES: I wouldn't do that.

MR. BELL: I think it would be better around October 15.

H.M.JR: Let's wait and see.

But may I ask you gentlemen, leaving that out, does this seem all right to you all?

MR. ECCLES: I will say, as far as I am concerned, if you are going to get fifteen billion it is all right. I made my suggestion yesterday, of course, that you get less and leave the certificate out. But, of course, you have decided that you want fifteen billion, and if you do you have got to have the certificate in. I agree with that.

I would have preferred to have seen less with the certificate out, so that when the next drive comes you could increase it from - it is thirteen billion, now, with the certificate out - you might increase it to fourteen next time with the certificate out.

It is difficult for me to see - when you go into the next drive you will have to ask for as much or more than you asked for this time. You don't want to go back and ask for less. That means you will have to have the certificate, likely, in the next drive. So you are piling up your volume of certificates, or your very short-term debt, which gives you the refunding problem as that increasing volume begins to mature.

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That is looking ahead. I was thinking of getting too many certificates out. And then again, the certificates always raise the serious question that we raised in our memorandum of the spread between the three-eighths and the seven-eighths that we have got. You have got too big a spread that the banks and others don't differentiate now as they did between a ninety-day piece of paper and a twelve-months piece of paper.

It makes it impossible to maintain a pattern between the three-eighths and the seven-eighths without paying a substantial premium on the seven-eighths, which means that they can get, if they hold the certificate, we will say, for three months, and then sell it; they have got seven-eighths for three months, plus the premium which figures one and a quarter, that you really, in effect, give them for ninety-day paper, whereas, you have established a three-eighths. That is the market problem that it creates.

That is why we suggested the one piece of paper to avoid playing that pattern and that speculation that it creates. That is why we suggested the other.

Now, I know the banks - the dealers - they had just as soon have that operation, but it creates a real problem for the Fed.

MR. BELL: If you are going to have fifteen billion dollars you have to have--

MR. ECCLES: You have to have the certificate in, but it still leaves this problem between the three-eighths rate and the seven-eighths rate for the year. And time has now gotten the banks out of the bills. They want the certificates, so we get the bills. Unless they will sell--

MR. BELL: They are still in the bills pretty heavily.

MR. ECCLES: But as you get more certificates out, the tendency would tend to be the opposite unless we would pay them the premium on the certificate. Then they would play that pattern and find the way of getting one and



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a quarter percent for three-months paper, or if they held them for six months it figures a little over one percent. If they hold them for six months that is what they would get, which, of course, makes it pretty inconsistent with the three-eighths established buying rate. That is the problem that is raised here.

I was thinking this - I hesitate to bring it up, and yet it has developed into a very important factor - if the bill rate - as long as you are going to put this volume of certificates out, if you are going to keep the bills in the market form, if you raised that rate on the ninety-day paper to a half, that would be helpful in closing that spread and would reduce the playing of that pattern.

We favored, of course, the one piece of paper at three-quarters, and you wouldn't have - you would have one piece of market paper that we would have established the buying rate on, and nobody could have played that pattern then.

If you put a bill rate at a half, we could still keep the certificate rate for a ninety-day certificate at considerably above the half because the bill has a little advantage over the certificate. It has this advantage, that the Fed has a buying rate on bills; it doesn't have on certificates. A bank can sell them - the bills - today to meet the reserve requirements, and next week can buy them back. They don't have to go through the dealers and pay the commissions both ways, you see. So the bill does have a considerable advantage but it doesn't have enough advantage to interest them at three-eighths as against a certificate.

That is why I say that a half rate on bills would make the bills much more of a competitive instrument in this. I think that is something - it doesn't have to do with this immediate basket, but it does have - it is a factor on the market operation.



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H.M.JR: Well, I appreciate it.

Bell has a terrific job yet to do. If this is all right with you people, I would like to free him so he can go and get this thing out.

MR. BELL: I wonder if the System would like to have a representative or two in this conference on this press release.

H.M.JR: You mean work it out?

MR. BELL: We have got a draft. I would like to have somebody look at it. If Marriner would like to have somebody take a look at it--

H.M.JR: Can't Rouse stay?

MR. BELL: Rouse has been working with us and he will stay until six o'clock.

MR. ECCLES: I will be--

MR. BELL: Would you like to take a look at it, Marriner?

MR. ECCLES: If you want. I will be glad to stay, or I will be glad to have somebody else stay.

H.M.JR: Will you designate somebody?

MR. ECCLES: What about Piser?

MR. PISER: Surely.

H.M.JR: Piser and Rouse.

MR. BELL: Sure.

<u>Treas.</u>		<u>Fed. 7/41.</u>	
September		83	
Unive			
$\frac{7}{8}$ certificate	3 bil		
		note $1\frac{1}{2}\%$ / $4\frac{1}{2}$ yrs	
		2 bil	
2% Bonds 8-10 yrs	2 $\frac{1}{2}$ bil	2% Bond 10-11	2 $\frac{1}{2}$ bil
2 $\frac{1}{2}\%$ Bond 22-27	4 bil	2 $\frac{1}{2}\%$ Bond 22-27	4 bil
E Bonds	3 bil	E Bonds	3 bil
718 "	1.4 bil	719 Bonds	1.4 bil
Savings notes	2.3 bil	Savings notes	2.3 bil
total	16.2	total	15.2

July 21, 1943

Mr. Paul

Secretary Morgenthau

Would you please write a letter for my signature to Robert Doughton, asking him whether they can postpone the meeting of September 8th on taxes as this would come the day before our War Loan Drive. Please think this over as it is very important that we do not get any adverse publicity.

*Letter in for  
sig. 7/22/43 -*



7/21/43

Mr. Fred Smith.  
The Secretary.

I promised the news boys something by July 15th on what effect the 20% withholding tax had on the sale of bonds. I wish you would have something for me for my 10:30 Press Conference on Thursday.

*This was mentioned in  
press conference this  
morning (7-22-43)  
Nothing could be given  
out - too early -  
Short paper was prepared  
but not used.*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

July 21, 1943

TO Secretary Morgenthau  
FROM Randolph Paul

In an earlier memorandum I advised you of the request for information received a few days ago from Mr. Stam pursuant to Section 5012 of the Internal Revenue Code. Yesterday you signed a reply which transmitted a certain amount of information to Mr. Stam in response to one of these requests. A further letter will be due in a day or so transmitting further detailed information.

It came to my attention yesterday afternoon through a collateral source that Stam had requested certain information of Dick Gilbert's office. I therefore telephoned Gilbert, who confirmed my suspicion that he also had received a request pursuant to Section 5012. I have not seen this request but Gilbert said that it called for suggestions from him as to raising revenue and combatting inflation, also for some income distribution figures. Gilbert said he proposed to make no suggestions on the ground of lack of time and to transmit merely official figures prepared by the Department of Commerce.

I also telephoned Marriner Eccles yesterday afternoon in the belief that he had received a like request for suggestions and information. He had. His request was for "Any alternative suggestions of your staff for raising additional revenue or for combatting inflation." Eccles proposed to respond to Stam's questions and to give him whatever information he asked. I protested on the ground that Stam might thus use Marriner's information later against the Treasury and that the Administration should have a united front. Marriner protested against our stand on the pay-as-you-go bill because we had not submitted any specific suggestions. This criticism undoubtedly goes back to the Budget views at the beginning of 1943. I pointed out to Marriner that this was a pay-as-you-go bill and not a regular revenue bill and we proposed to have suggestions for

- 2 -

the next bill and hoped to consolidate the Administration viewpoint. Marriner agreed not to respond to Stam's request until he had communicated with me saying that he would invite me over to lunch next week.

I am quite sure that Mr. Smith has received a similar request. Mr. Colm is away on vacation and I was unable to get Mr. Smith on the telephone. I left a message for him to call but so far he has not done so.

In his story in this morning's paper, Crider states:

"The joint committee will have a larger part than usual in the (tax) program for two reasons. Mr. Vinson has worked with Mr. Stam and has confidence in his judgment, and Mr. Stam's committee is exercising for the first time the powers granted to it under the 1942 revenue act to call upon any department of the Government for information.

"The tax committees placed in that act powers which, in effect, set up the joint committee as the central agency for collecting tax data, with subpoena power, and gave it statutory authority to put to work other agencies, including the Treasury."

Although he called on me yesterday afternoon, I told Mr. Crider nothing about Stam's recent request and Crider must have gotten this information from either Stam or Vinson. It seems to me that this course of action by Mr. Stam may well have a connection with the rest of Crider's story which suggests that Vinson will present the Administration tax program to Congress.

*BJT*



July 21, 1943

Mr. White

Secretary Morgenthau

In the future, would you please send anything that comes in on rationing to Captain Kades.

July 21, 1948

Mr. Thompson

Secretary Morgenthau

I am going to hold you responsible to see that the orders outlined in the attached letter from the President dated July 15th are carried out.

OFFICE OF WAR INFORMATION  
WASHINGTON

July 17, 1943

OFFICE OF THE DIRECTOR

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

Dear Mr. Secretary:

The President has sent you, as an attachment of his letter of July 15, 1943, a copy of his letter of August 21, 1942 addressed to the heads of all Departments and agencies. As you are aware, by the terms of the letter of August 21 and by Executive Order 9182, the Office of War Information provides the mechanism for the clearance of public statements by the heads and principal officials of all Departments and agencies.

In the exercise of its authority to coordinate the war informational activities of all Federal Departments and agencies, the Office of War Information will, in accordance with the President's letter of July 15, withhold clearance of any public statement where disagreements between agencies as to fact or policy are not settled by agreement of the agencies concerned. In such circumstances, this Office will refer the disagreement to the President or to the Director of War Mobilization for solution.

Very truly,



Elmer Davis  
Director



THE WHITE HOUSE  
WASHINGTON

July 15, 1943

Dear Sir:

On August 21, 1942, I sent to the head of each department and agency of the federal government a letter, copy of which is attached.

I call your attention to the statement contained in that letter that "disagreements either as to fact or policy should not be publicly aired, but are to be submitted to me by the appropriate heads of the conflicting agencies." Notwithstanding these positive instructions, disagreements between agencies have been publicly aired on several occasions.

I realize the nervous strain under which government officials are working in war time but I cannot overlook any further violations of my instructions. By this letter I do not place any restriction upon your furnishing statements in response to Congressional inquiries. But if when you have a disagreement with another agency as to fact or policy, instead of submitting it to me or submitting it to the Director of War Mobilization for settlement under the terms of the Order creating that office, you feel you should submit it to the press, I ask that when you release the statement for publication, you send to me a letter of resignation.

If any subordinate of yours violates my instructions in this regard, I shall expect you to ask for his immediate resignation.

I am sending identical letters to the heads of every department and agency of the government.

Sincerely yours,



The Honorable  
The Secretary of the Treasury,  
Washington, D. C.

The President has sent identical letters, reading as follows, to the head of each department and agency of the Federal Government:

In dealing with the many complex war problems which we face today, it is unavoidable that there be wide differences of opinion between agencies of the Federal Government -- opinions sincerely and honestly held. However, too often in recent months, responsible officials of the Government have made public criticism of other agencies of the Government; and have made public statements based either on inadequate information or on failure to appreciate all the aspects of a complex subject which is only partially within their jurisdiction.

This is inadvisable at any time. But in times of war it is particularly contrary to public policy. It contributes only to the confusion of the public, which naturally does not know what to believe on an involved issue when it gets different stories on successive days from officials of equal standing, though not necessarily of equal understanding.

Such divergencies, especially when coupled, as they often are, with express or implied criticisms of other officials are a direct and serious handicap to the prosecution of the war. Officials divert to quarrels with each other the time and energy they ought to be devoting to fighting the enemy. The people, confused by these contradictory voices, are apt to obtain the false impression that the Government as a whole is uncertain as to its objectives and general method and that it does not know its job.

This feeling is of course pounced upon, exploited, and intensified by opponents of our war effort. Our enemies use this raw material of discord provided for them by men who ought to be making trouble for the enemy and not for one another.

One of the duties prescribed for the Office of War Information is the coordination of war informational activities of all Federal departments and agencies, for the purpose of assuring an accurate and consistent flow of war information to the public and the world at large and for the added purpose of eliminating conflict and confusion among the departments and agencies of the Government in the matter of their public relations. Elmer Davis, Director of this Office, tells me that so far as written statements from departments and agencies are concerned, very satisfactory progress toward this objective is being made. But, he points out that the attainment of the objective is being gravely hampered by verbal statements dealing with matters touching more than one department or agency made by high officials in press conferences and elsewhere, - statements which do not contribute either to the accuracy or the consistency of public information.

In a recent report to me on this situation, Mr. Davis makes a statement which should be emphasized: "The enemy is constantly at work trying to undermine public confidence in the government; why should members of that government help him along by undermining it themselves?"

Where honest differences of opinion exist no one would propose to suppress them. Nor would anyone attempt to interfere with the free use by every public official of the normal processes of information to the public and press. But it is no solution to a controverted question to argue it out in public. If the agencies would refrain from resorting to public debate of this kind they would have a good deal more time to attend to their business, and the nation would have a good deal more assurance that that business was being done right.

- 2 -

These differences between agencies often deal with matters of fact which can be harmonized by fuller investigation, or questions of policy which should be adjusted by conference between the agencies or by reference to me as the responsible head of the Government. Disagreements either as to fact or policy should not be publicly aired, but are to be submitted to me by the appropriate heads of the conflicting agencies. The policy of the government should be announced by me, as the responsible head thereof. Disagreements as to facts can be resolved, if necessary, by investigations and surveys directed by me.

Will you please see to it that your particular department and its various bureaus and divisions comply with these instructions.

I am sending an identical letter to the responsible head of each department and agency of the Federal Government.

- - - - -



THE SECRETARY OF THE TREASURY  
WASHINGTON

JUL 21 1943

Mr. Randolph E. Paul, General Counsel, is authorized to supervise and direct the policies and activities of the Attorney for the Government and the Committee on Practice, established under Circular No. 230 as revised and supplemented, including among other things the following:

(1) Supervision in the Office of the General Counsel of all cases, complaints and charges placed before the Attorney for the Government and any action taken thereon.

(2) Additions or changes in the personnel of the Committee, exclusive of the Chairman; and additions to the personnel for the work of the Attorney for the Government.

(3) Changes in the policies of the Committee and the Attorney for the Government and their procedure including: (a) the policy on resignation of enrollees against whom charges are made; (b) extent of the application of the rules of common law procedure; (c) submission of legislation or regulations to amplify authority of the Committee so as to provide the power to issue subpoenas, swear witnesses and obtain production of records.

Approved:

*W. M. Winterrowd*  
Secretary of the Treasury

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE JUL 15 1943

TO Secretary Morgenthau  
FROM Randolph E. Paul

Re: Enrollment and disbarment of practitioners before the Treasury.

I have made an inquiry into the operations of the Committee on Practice and the Attorney for the Government who act under Circular No. 230 as revised and supplemented, which originally became effective October 1, 1934. The number of individuals enrolled has increased from approximately 30,000 in 1934 to approximately 70,000 in 1943. In spite of this increase in the number of enrollees, the number of formal complaints actually placed before and determined by the Committee was 24 for the year ending June 30, 1942 and 8 for the year ending June 30, 1943, as compared to 35 for the year ending June 30, 1935. The Committee on Practice has carefully refrained from participating in any inquiries as to whether complaints should be filed and has maintained its judicial functions separately from the prosecutive functions of the Attorney for the Government so that it is not in a position to determine which cases should be placed before it. From 300 to 400 cases are submitted to the Attorney for the Government annually, principally from the Intelligence Unit of the Internal Revenue Bureau but only the small number indicated result in actual proceedings before the Committee. The Attorney for the Government has, under the established procedure, alone made the determination as to which of these cases should be placed before the Committee for adjudication.

In view of the vastly increased number of taxpayers and the greater temptations towards evasion of taxes, it would appear that the methods and policies which have been in effect with respect to disbarment of practitioners before the Treasury are still comparatively in the "horse and buggy" stage and have not kept pace with the drastic changes in conditions which have taken place. The enforcement of proper

- 2 -

standards among practitioners is of considerable importance in effecting tax collections. I would like, therefore, to take steps to activate the methods and policies of the Committee and the Attorney for the Government along the following lines:

(1) Supervision in the Office of the General Counsel of all cases, complaints and charges placed before the Attorney for the Government and any action taken thereon; additions to the personnel for the work of the Attorney for the Government as may appear to be required.

(2) Additions to or changes in the personnel of the Committee, exclusive of the Chairman, so that a lawyer experienced in tax matters may be appointed; at present the two members of the Committee, outside of the Chairman, are law professors.

(3) Changes in the policies of the Committee and the Attorney for the Government and their procedure including: (a) change in the rule presently in effect that the common law rules of evidence govern hearings before the Committee; (b) the present policy of permitting resignations at any stage of the proceedings to be modified; (c) submission of legislation expanding the authority of the Committee to provide power to issue subpoenas, swear witnesses and obtain production of records which powers it does not now have.

There is annexed for your signature an authorization to carry out this program, if you approve of it.

A handwritten signature in dark ink, appearing to be 'R. H. H.', is written over the text of the authorization.



25

July 21, 1943.

My dear Senator:

I am not sure that the wire I sent you yesterday caught you before you left Kansas City for Denver. In case it did not, I telegraphed you that I was sorry I had not had your views earlier in regard to the location of the War Finance headquarters for Missouri.

I also said that considerations of economy and efficiency had dictated the move to St. Louis, and that since this was now under way, the question could not be reopened without adversely affecting the organization which is now taking place.

With cordial personal regards,

Sincerely,

(signed) H. Morgenthau, Jr.

Mailed to 411 William St.  
Denver, Colo.

Copy of ltr. and telegram  
in Diary.  
File copies to Thompson.

Honorable Harry S. Truman,  
United States Senate,  
Washington, D. C.

GKF/aba

## EXPENSES OF LOANS

July 20, 1943

SENATOR HARRY S. TRUMAN  
PRESIDENT HOTEL  
KANSAS CITY, MISSOURI

AM SORRY I DID NOT HAVE YOUR VIEWS BEFORE TODAY CONCERNING LOCATION OF  
THE WAR FINANCE HEADQUARTERS. I FIND THAT CONSIDERATIONS OF ECONOMY  
AND EFFICIENCY HAD DICTATED THE MOVE TO ST. LOUIS WHICH IS NOW UNDERWAY  
AND WHICH COULD NOT BE RECONSIDERED WITHOUT SETBACK TO THE ORGANIZATION  
WHICH IS IN ADVANCED STATE OF FORMATION. KINDEST REGARDS

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY

JUL 21 1943

My dear Mr. Nelson:

Receipt is acknowledged of your letter of July 20, 1943 in which you recommend, in the interest of the war effort, that in connection with sales of silver made by the Treasury Department pursuant to Public No. 137, 76th Congress, approved July 12, 1943, this Department should agree to repurchase the silver sold, or any part thereof, at the same price at which sold, less usual charges, and subject to such conditions as this Department deems advisable for the safeguarding of the interests of the United States.

It is my understanding that the War Production Board will not permit the use of any foreign silver for non-essential purposes. Accordingly, in the interest of the war program, the Treasury Department will follow your recommendation with respect to the repurchase of silver sold under Public No. 137.

Representatives of this Department will consult with representatives of the War Production Board as soon as a form of repurchase contract has been prepared.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Donald M. Nelson,  
Chairman,  
War Production Board,  
Washington, D. C.

Sent by Messenger  
Simmons 5:30 p.m.  
File ret. to Paul's office  
Photo of incoming and copy  
of reply in Diary.

Date 7/21/43



WAR PRODUCTION BOARD

WASHINGTON, D. C.

July 20, 1943

TO  
MR. NELSON  
FROM

Dear Mr. Secretary:

On July 17, 1943, I sent you my recommendation pursuant to Public No. 137, 78th Congress, approved July 12, 1943, that 2,000,000 ounces of Treasury silver be sold to two named silver distributors. This action was necessary in order to relieve an acute shortage of silver for industrial uses, even though the final procedure for the sale and distribution of Treasury silver under this Act had not been worked out. I am now advised that this procedure has been agreed upon and is ready to be placed in operation.

Accordingly, pursuant to the provisions of Public No. 137, 78th Congress, approved July 12, 1943, I hereby recommend that silver held or owned by the United States, which may be sold under such Act, be sold to such persons as will from time to time be specified in written authorizations issued by the War Production Board. These authorizations will authorize the persons to whom they are issued to purchase specified amounts of such silver and to use it for specified purposes; and they will be issued by the War Production Board from time to time in accordance with the need for silver in the war program.

In this connection, I desire to make an additional recommendation:

As you know, this Treasury silver is urgently needed in the war program to supplement the supplies of imported silver. It will sell at a higher price, however, than the imported silver; and the problem of determining the most equitable, feasible method for distributing among essential industries this higher-priced silver along with the lower-priced silver has been a difficult one. The less essential industries for some time have been permitted to use only higher-priced domestic silver. After many discussions with industry and other interested Government agencies, including the Office of Price Administration, we have finally decided to require certain essential industries which we shall designate to use only this higher-priced silver. This will then permit all other essential industries to continue using the lower-cost silver.

This plan of selecting certain industries to use higher-priced silver would be subject to strong criticism, even though it is an action made necessary by increased war use of silver, unless we accompanied it

measures designed to alleviate the burdens on the selected industries. These burdens are chiefly two: higher material costs, with resultant price considerations, and higher-priced inventories, and resultant risk of loss on termination of the war. We have arranged with the Office of Price Administration to permit the passing along of the higher material cost. That leaves only the problem of risk of loss on silver in inventory.

I now recommend, in the interest of the war effort, that in connection with all sales of silver made by you pursuant to Public No. 137 you agree to repurchase the silver sold, or any part thereof, at the same price at which sold, less usual charges, and subject to such conditions as you may deem to be advisable for the safeguarding of the interests of the United States.

I have asked members of my staff to assist you in any way they can in connection with any of these matters.

I shall appreciate your cooperation in thus making available supplies of Treasury silver for use in the war effort.

Sincerely,

  
Donald M. Nelson

The Honorable  
The Secretary of Treasury  
Washington, D. C.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

JUL 21 1943

TO Secretary Morgenthau

FROM Randolph Paul

At yesterday's staff meeting you asked me to look into the proposal that the Treasury repurchase, at 71.11 cents per ounce, unused stocks of silver it sells to essential industries at that price. While I was out-of-town, Mr. O'Connell approved the plan and I have discussed it with him and with Messrs. Luxford, Aarons, and Brenner of my office. I find the situation to be as follows.

Under the recently enacted Green Act, you are authorized to sell silver, upon the recommendation of the Chairman of the War Production Board, and upon such terms as you deem advisable, at a price of 71.11 cents per ounce. Foreign silver sells at 45 cents per ounce but there is not enough foreign silver to supply all the essential industries. Consequently, the two types of silver at different prices will have to be used by essential industries.

The War Production Board first proposed that each essential user be required to buy a portion of his needs from the Treasury at 71.11 cents per ounce and a portion from the foreign market at 45 cents per ounce. This plan was discarded by the War Production Board when it was learned that the Office of Price Administration would not be able to allow all of the various essential manufacturers who use silver to increase their prices proportionately, except after many months of difficult investigation.

I am attaching a letter, which Mr. Donald Nelson has written to you at our request, containing a new proposal. In substance, it calls for the singling out of four essential industries (manufacturers of engine bearings, brazing alloys, solders and official military insignia) which will be required to use only Treasury silver. Other essential industries will continue to use only foreign silver. Non-essential industries (jewelry, silverware, etc.) will be permitted to use only newly-mined domestic silver at a cost of 71.11 cents per ounce.




The arbitrary selection of four essential industries as outlets for the Treasury silver is the only plan which the War Production Board has found practical. But this type of discrimination can be supported only if two concessions are made to the industries so selected. First, they must be assured that they will be able to reflect their increased costs in the prices of the products. The Office of Price Administration has agreed to arrange for this. Second, they should have such assurance as is possible against inventory losses where their contracts are cancelled. Donald Nelson has recommended in the interest of the war effort that Treasury grant that assurance by agreeing to repurchase unused stocks at 71.11 cents per ounce. We feel that Nelson's position is well taken. If we do not go along with his recommendation, we will be forcing the War Production Board and the Office of Price Administration into enormous administrative difficulties and will be risking the charge of seriously prejudicing the production program.

We have drafted a form of contract which I believe should meet Mr. Nelson's recommendation. The interests of the United States are safeguarded by a number of provisions, of which the following are the most important:

- (1) The Treasury will repurchase only silver sold during the last few months of the period during which war demands require the use of high-priced silver;
- (2) The Treasury will not repurchase the silver inventory of a manufacturer who has been permitted to sell his original inventory of foreign silver at the higher price;
- (3) A certification procedure will be used which will enable the Treasury to determine whether eligible silver is being offered for repurchase;
- (4) All users offering silver for repurchase will be required to execute affidavits setting forth all the material facts; and
- (5) The contract is cancellable at any time by the Treasury Department; and furthermore, it continues to be operative only so long as the present statutory authority continues in effect.

Although this plan may seem somewhat unusual, I feel certain that it is warranted by the exigencies of the present situation. I am also satisfied that you have legal authority to follow Mr. Nelson's recommendation.



July 9, 1943

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The War Production Board has been working on plans for the distribution of Treasury silver under the Green Mill (S. 35), which has been passed by Congress and is expected to be signed by the President. The plan which will probably be followed calls for the use of Treasury silver by three or four industries which consume a total quantity of silver approximately equal to the existing deficit of foreign silver available on the market. The War Production Board prefers this procedure because it will simplify distribution and the passing on of increased costs to the purchasers of manufactured articles.

The plan will result in unequal treatment of industrial consumers who have identical priority ratings, since some of them will be permitted to use foreign silver at a cost of 45 cents per ounce and others will be required to use Treasury silver at 72.11 cents per ounce. The War Production Board has proposed that the Treasury make agreements with the purchasers of Treasury silver to repurchase unused Treasury silver and thus reduce the risks which the manufacturers and suppliers would otherwise have to bear.

It is believed that the proposal is basically sound, and that the Treasury can afford substantial protection of the type requested without assuming a heavy administrative burden. This might be accomplished by entering into contracts, the essential provisions of which would be as follows:

1. Silver will be sold outright to suppliers.
2. The Treasury will repurchase, at the same price, silver which the suppliers still hold when the war production program terminates; provided, that such silver was purchased from the Treasury within a period estimated to cover the movement of silver from the Treasury, through the suppliers, to the manufacturers, and into the manufacturing process.
3. The Treasury will also repurchase silver sold by the suppliers to manufacturers which the manufacturers have resold to the suppliers at the same price provided, that it was purchased from the Treasury within the same period.
4. The Treasury will be protected against fraud by means of a series of certificates executed and delivered in connection with transfers of Treasury silver, and by means of affidavits executed when silver is resold to the Treasury.

It should be noted that this proposal does not envisage a new contract with each sale of silver. Instead there will be relatively few contracts, 1-6, one contract for each purchaser no matter how many transactions may take place under the contract.

If you approve our taking steps to work out such repurchase arrangements, will you please indicate your approval below.

APPROVED:

OK/ALL NAW 990.C.R.  
7-7-43

RE: 7/9/43 NTK

RHS LCA A.F.L. 44 34 B



## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: July 21, 1943

NO.: 933

TO ADLER FROM THE SECRETARY OF THE TREASURY.

1. A number of reports have been received to the effect that Japanese have gone in for large scale counterfeiting of Chinese currency.

2. If the reports are true, have there been, as yet, any observable consequences and what measures have been taken by the Chinese Government to cope with the problem?

3. The Treasury would appreciate receiving any information and views you may have regarding this matter.

HULL  
(FL)

eh:copy  
7-26-43

Distributed to: Secretary (Mr. Friedman); Mr. D.W. Bell (Mr. Dietrich); Mr. Paul; Mr. White (Mr. Friedman-Orig.); Mr. Luxford; Mr. Friedman; Mr. E.M. Bernstein; Mr. Taylor.

From E. Hynes - Rm. 225



OFFICE  
SECRETARY OF TREASURY

1943 JUL 22 PM 12 30  
NOT TO BE RE-TRANSMITTED  
TREASURY DEPARTMENT

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 239.

Information received up to 7 a.m., 21st July, 1943.

1. NAVAL

One of H.M. Submarines patrolling in the AEGEAN sank a Tug and 15 Caiques and shelled 3 small places in GREEK ISLANDS. Another of H.M. Submarines sank a 500 ton schooner Northeast of COTRONE on 14th. One of H.M. Destroyers was slightly damaged during an air raid on MALTA on 19th/20th.

2. AIR OPERATIONS.

ITALY AND SICILY. 18th/19th. Wellingtons dropped leaflets on ROME and light and medium bombers dropped 45 tons of bombs on CATANIA. 19th. Aircraft despatched to Military objectives at ROME: 156 Fortresses and 112 Liberators - LORENZO Marshalling Yards, 145 Mitchells with 82 Lightnings escort and 105 Marauders with 118 Lightnings escort - Chiampino Airfields. 774 tons were dropped. Photographs after attack show very heavy damage to San Lorenzo and Littorio Railway Centres. Several Industrial Buildings hit including a steel works and a large chemical plant. Photographs show no damage to religious buildings. 3 Airfields were also considerably damaged, one being rendered completely unserviceable. At least 33 enemy aircraft were destroyed or seriously damaged on the ground and 6 more were shot down. 5 Allied bombers missing.

48 Mustangs attacked mechanical transport and trains in Western SICILY. Spitfires destroyed 6 out of 10 enemy aircraft which attacked shipping off AUGUSTA and shot down 2 more over CATANIA. 2 Spitfires missing.

GREECE. 18 Beaufighters attacked REVEZA sea plane base on the West Coast, destroying 3 enemy aircraft and damaging 4 others. Hits were also made on slipways and barracks.

July 22, 1943  
9:10 a.m.

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HMJr: Good morning. If you think well of it, I wish you would get hold of what's-his-name - Delano....

Dan  
Bell: Preston Delano?

HMJr: Yeah. And let him by telephone and telegraph check some of these banks out in the middle west and far west and see whether they have gotten this notice on today's note. See?

B: All right.

HMJr: Uh - because I don't want to close it tonight unless some of these far western banks have already been notified.

B: All right. Country banks would be better I guess.

HMJr: Yeah. Tell him to do it by telephone so as we can have the answer in here by four o'clock.

B: All right.

HMJr: Let him take ten states and check a couple of banks - states from the Mississippi Valley, west.

B: Yeah. He might call his man....

HMJr: That's right.

B: ....out in these districts and let them telephone around....

HMJr: And then call back.

B: ....and then call back.

HMJr: Yeah.

B: All right. I'll do it right away.

HMJr: All right.

B: I'd like to see you - well - before your Press Conference.

HMJr: I want to see you well before my Press Conference.

B: All right, thanks.

- 2 -

HMJr: It's mutual.

B: Thanks.



July 22, 1943  
9:40 a.m.

TAXES

Present: Mr. Bell  
Mr. Gaston  
Mr. Paul  
Mr. Smith  
Mrs. Klotz  
Captain Kades

H.M.JR: Have you got my earlier correspondence with the President?

MR. GASTON: I have it here.

(Letter to the President dated June 10, 1943, and reply dated June 12, 1943, handed to the Secretary, copies attached.)

H.M.JR: What I am going to ask you gentlemen to do is - this discussion that is going to take place here, I am going to ask you on your word of honor that you don't discuss it, not only now but at any subsequent time that you may be out of the Treasury, because I have to discuss my relationship with the President. So whether you are here or out of the Treasury, I am going to ask you please not to discuss it.

On June 10 I wrote the President this. (Letter read)

That is still a good letter.

This is from the President to me. (Letter read)

Of course the thing he avoided answering was whether we should have the preparation of it.

- 2 -

MR. GASTON: Yes, who is to take the lead, that is the question. Nobody is left with any definite responsibility by that memorandum.

Now, there is an essay. (Draft of letter to the President handed to the Secretary, copy attached.)

MR. BELL: He did send word to you by telephone that you should have your meeting with the Congressional leaders.

H.M.JR: He sent me word I should go ahead with the Congressional leaders, and he also sent me word that nothing was changed.

MR. SMITH: Doesn't it sound as though he called in Byrnes or somebody and said, "Look, what is this?" And Byrnes said, "This guy is just talking through his hat. All it is is just this little message." So he said, "Cooperate on this", which might be the message, and he thought that there was nothing further beyond that.

MR. GASTON: It is quite a tricky memorandum, and it was written by someone in Byrnes' shop, not by the President.

H.M.JR: Well, the reason I asked you people on your word of honor not to discuss this now that you are in the Treasury or if you leave the Treasury - you see, we have to do this thing a little bit in retrospect, and those people that have been with me the longest understand it.

I am not interested in staying here as Secretary of the Treasury. I am only interested if I can do something to help win the war. But if you go back and look back over a period of years, I don't think it would be an accident. The Secretary of the Treasury used to be the chief fiscal officer. Now the President is doing everything - any time anybody gets excited he gets out another statement.

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He has talked so often about Mr. Hull being in charge of foreign affairs that you begin to wonder what he is. He keeps going back, how everything has to be under the policy of the State Department, which means Mr. Hull.

Well, the same thing should apply to the fiscal policy. But first he brings in these people from Chicago, and they take the Budget Bureau out. Then they take this out and take that out. Well, the next thing, they take the tax policy out and then they take Foreign Funds out. About all they leave me to do is--

MR. PAUL: Customs and Narcotics.

MR. GASTON: As I told Randolph when he made that remark to me, little more than that, general accounting and the collection of the funds.

H.M.JR: The raising of some money.

MR. PAUL: You would be the bookkeeper.

H.M.JR: The big job is to raise the money.

MR. ~~GASTON~~ GASTON: Yes, that is the big job that is left to you.

H.M.JR: And as he takes each thing away, there is less excuse for him to have a Secretary of the Treasury.

You see, the things you pick up that Vinson is doing, he is doing it in just the way that Jesse Jones did it.

MR. PAUL: Did you read my memorandum about that conference?

H.M.JR: No, I didn't. But he is doing it through infiltration, all the indirect, sneaky methods.

MR. GASTON: The point that I attempted to develop in this letter is that he is not merely undermining



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your authority, but he is whittling away the whole authority of the Administration to speak clearly on matters of tax policy.

H.M.JR: I will read it.

"My dear Mr. President: I am enclosing a copy of a story by John H. Crider in Wednesday's New York Times which clearly convinces me that I must have further enlightenment and guidance from you on a vital matter if I am to function effectively as your Secretary of the Treasury.

"You will recall that on June 10, not long after Mr. Byrnes had been made Director of War Mobilization, a similar story was published, containing the statement that '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 present story goes somewhat beyond that. Besides substituting Judge Vinson for Mr. Justice Byrnes it indicates that Mr. Vinson is not only engaged in formulating a tax program for presentation to Congress but may even be entrusted with the task of presenting it.

"On the same day (June 10) that the story appeared naming Mr. Byrnes as the Administration's new 'tax policy maker' I wrote to you suggesting that if you wished me to continue to be responsible to you for the development of tax policies and their presentation to Congress it would be appropriate for you to clear up the confusion on this matter created by statements made by Mr. Byrnes and their interpretation by the press."

Just make a note, Herbert, that in this letter which he gave out as between Wallace and Jones he said that before there was any public scrap they should come to him.

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Now, I could say, "I am taking you literally in your letter. I don't want anything public. But this thing is being planted by Vinson, and I don't follow those tactics of planting stories. I could learn how to do it, but I don't plant stories. Vinson is doing it. I am convinced he is doing it. But to carry out both the spirit and the letter of your latest instructions I am writing you this letter."

I think that is a much better way to start than start out with Crider and quote right from his letter.

MR. BELL: I don't like bringing out the Crider thing twice because I think we had a very definite reaction to Byrnes coming over here and using Nick Gregory's article as his bible. I shouldn't think you would want to let them think you are using Crider as your bible.

H.M.JR: What do you think of that?

MR. BELL: I think that is good, what you suggested, getting away from the Crider article as far as we can.

H.M.JR: And driving home that I am running into this all over town. Vinson is spreading this all over town. Rather than having a public fight, I am doing what he said, I am coming to him.

(Continuing reading) "While you were good enough to reply by memorandum on June 12 stating that you would expect me to present to Congress a tax program having your approval you did not clearly indicate whether you wished me to retain primary responsibility for developing such a program to present to you. You suggested that the Mobilization Director and I should 'get together and arrange to cooperate in this matter.' I have conferred with Mr. Byrnes and with Mr. Vinson both on tax and general fiscal matters, but I have not received any indication from either of them of the basis on which they expect or are expected to cooperate



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on the extremely vital matter of formulation of a tax program for presentation to you.

"You asked me in your memorandum of June 12 not to let the newspapers disturb me; but, lacking any clear directive or information as to what I am to do and what others are to do, I am compelled to pay a great deal of attention to what I read in the daily press."

Again what I might say is - I will use the vernacular, "Lacking the White House slapping down these stories, I have no other recourse but to listen."

MR. PAUL: Add, "Not only the daily press but what I hear through other channels."

MR. BELL: Say, "Lacking a denial from"--

H.M.JR: "... from you or Mr. Early."

MR. PAUL: You don't have to say "lacking a denial" - say "lacking clear sailing orders."

MR. GASTON: That is what the sentence says.

MRS. KLOTZ: This is clear here.

MR. PAUL: Yes, I think that is right.

H.M.JR: "Besides, it is not solely or chiefly a matter of my being disturbed. Our ability in the Treasury to reap the benefit of the knowledge and opinion of other administrative officers of the Government, which we have been conscientiously attempting to do, our ability to deal with members of the committees of Congress and the staff of the Joint Committee, our ability even to formulate our own ideas relating to taxes are all prejudiced by the widespread impression that has been circulated through many channels of dissemination that, except for gathering data for the authorized agents of the Administration to utilize, the Treasury is 'out of the tax picture.'"



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Again, I am going to say I would like to get in here that all of these stories come from people who are attached to the White House.

MR. BELL: Do we know that?

H.M.JR: Yes.

MR. BELL: Say that it is indicated.

MR. GASTON: I would rather stay on perfectly safe grounds of things we know.

H.M.JR: All right.

"I am sure that you will realize that this situation is not merely personally humiliating to me--a relatively unimportant matter--" - I don't like that.

MR. SMITH: Why don't you go right to the next thing and leave that out?

H.M.JR: "I am sure that you will realize that this situation is rapidly putting you and your entire Administration into a position where your tax proposals, no matter how carefully formulated, are quite unlikely to get the attention they deserve from the committees of Congress when they meet to consider a tax bill." Yes, that is all right.

"The picture being presented to them is one of indecision and confusion, even on so primary a matter as the question of who is charged by you with responsibility for formulating and coordinating Administration tax research and advice. The effectiveness of the Treasury Department in that field is being dissipated without any designation of a substitute to take over the Treasury's traditional functions and responsibilities."

That is good.

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"How far this state of confusion has advanced is indicated by the statement in Mr. Crider's story that the staff of the Joint Committee is preparing, after gathering data by subpoena from various executive departments and agencies under powers expressed in the 1942 Tax Act, to present its own entire program of tax legislation to the committees and to Congress. This decision forecasts scant attention to any Administration program you may recommend.

"In my opinion it would be deplorable if events should take that course. This is especially true in the light of what we have been able to learn of the views of the chief of staff of the Joint Committee and those of various members of the two committees. As far as we have been able to ascertain they have not been impressed--in spite of all we know about the huge increase in national product and national income, the great pressure of excess income on prices and the relatively poor showing we are making on the revenue front as compared to Canada and Great Britain--with the need of any substantial additions to revenue."

That sentence is a little long. I think it could be pointed up a little bit.

"They are talking of leaving the income tax structure, including all its present discriminations, substantially untouched, and raising revenue in relatively trivial amount--and that through a sales tax, which will probably add to rather than lessen the inflationary pressure. In addition they are suggesting as the easy way to escape the necessity of higher taxes the inauguration of some half-hearted plan of forced lending which would act as a bar to the higher rates of taxation we ought to get and might only substitute for a part of the funds we are now getting through voluntary lending.

"I hope you will forgive me for saying, Mr. President, that the situation is not merely disturbing; it is alarming."



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I wouldn't ask him for forgiveness.

"If ever the Administration needed to speak with a clear voice on any subject it is now, and on the subject of taxation. A chorus of voices, each one speaking on the basis of some rumored authority, can not be a clear voice; it can not be reassuring; it can not do otherwise than create an impression of indecision and confusion--and that is the precise impression that is being created every day both by word of mouth and by printed assertion and innuendo.

"I read today in another newspaper the statement that the Treasury has no fiscal program, and the implication was conveyed that on that account the whole war effort is being endangered and that financial ruin stares us in the face. This is certainly not helpful publicity as we prepare for another financing drive in which we will call for far the largest individual subscriptions to a war loan in our history.

"The statement is not true. The Treasury has a program, in large and in particular. We have had a program for war financing since long before Pearl Harbor. When we inaugurated the War Savings plan in May of 1941 it was as a part of an integrated plan of taxation and borrowing intended not only to finance the war, but also to throw up the most secure defenses possible against inflation. We are prepared now, on not much more than a moment's notice, to give you a complete set of recommendations for new taxation at any time you may deem it appropriate to call for it."

I would leave out "on not much more than a moment's notice." You can't say we have a program and then say you need some notice.

"But how can the Treasury be considered by the public to have a program if it continues to be advertised, as it is being advertised, that it makes no difference what kind of ideas or plans the Treasury may have, since what the Treasury has to say is not with authority and isn't going to count in the end?



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"Will you not say, and say publicly, that you are looking to me as Secretary of the Treasury to continue to carry the traditional responsibilities of a Secretary of the Treasury and to formulate for you, in consultation with all agencies of the Government which have a proper interest, a tax program which you expect me to present to Congress? Or if you do not wish to do that, will you not then designate someone else to whom you wish to transfer this burden?

"What I most fervently deplore is this whittling away that is now going on of the authority" - what does that mean?

MR. GASTON: It means there is now going on a whittling away of the authority.

MR. BELL: Strike out "that is now going on."

H.M.JR: Yes. "What I most fervently deplore is this whittling away of the authority and the ability of your Administration to discharge adequately its duty and responsibility to the Nation on the fiscal front."

I think it is a good letter. There are some little things I want to change.

Before we get on that, I want to ask Bell - I want to be more assertive, more affirmative. How do you feel about sending it?

MR. BELL: I hate to send it. I don't know just what you are up against in all these meetings with your people and just how the ball is being taken away, but I think that if it could be worked out without going to the President, it would be much better.

After all, the man is loaded with - if you feel strongly that there is this attempt underneath to take this authority--

H.M.JR: No question about it.

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MR. PAUL: That was my first impression. All through yesterday morning I was at that point of thought. I have completely switched to the idea that we should send a letter and that we should send a letter of this general character; that we should get the matter cleared, and we are in a hopeless mess if we don't. I don't care what the consequences are so far as I am concerned.

H.M.JR: You are not mentioned in the letter.

MR. PAUL: I know. I had a suggestion there, but that is another matter.

I am firmly of the opinion that you will get nowhere if you go to Vinson. He will evade the issue. He will postpone the thing.

He will say, "Well, we will pass this one off, and we will slip along a little further."

H.M.JR: Yes.

MR. PAUL: So I have no moral doubt about it any more.

MR. BELL: Are you sure that there is this attempt on the part of Vinson to do this thing?

MR. GASTON: Dan, there just isn't any doubt about it. Doughton asked Randolph to get together with Stam on the tax negotiations. Thereafter Vinson asked Doughton if he couldn't get in on those discussions. Doughton communicated that to Randolph, and so Randolph then notified Vinson that he was going to meet with Stam here on a certain day and invited Vinson to attend. Vinson--

MR. PAUL: I wasn't inviting--

MR. GASTON: Well, you asked him to meet with you here.

MR. PAUL: That was later. What I actually did

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was call him up, at Doughton's suggestion, saying I wanted to arrange a meeting.

He said, "Don't arrange it yet. I want to have a talk with Stam privately."

H.M.JR: Who said that?

MR. PAUL: Vinson, first. I was home then.

He said, "I will speak to Stam about when, and I will call you up."

So the conference was fixed. I wasn't here, and just before the conference you got in touch with me. We had some other possibilities in mind that day.

I called up Vinson and asked him to come over here instead.

He said, "Well, it is all fixed at my office."

MR. GASTON: The wind-up was that Vinson himself called a meeting in his office asking Randolph to come over, asking Stam to come in, and bringing in some advisors of his own.

So he put himself in command of the conferences between Randolph and the Treasury group and Stam's group and arranged the meeting in his office, with personal advisors of his brought in whom he selected.

And he objected very strongly when Randolph suggested, "If we are going to have a general meeting you had better bring in some others" - he said, "I don't want a town meeting. I want just these people."

MR. PAUL: Furthermore, he has told friends of Fred Smith's that he is going to be--

MR. SMITH: On inflation.



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MR. PAUL: John Crider came to my office at three fifty-five on the day before this story, and he asked me whether we were going to be in charge. He didn't tell me he had just seen Vinson. He asked me if we were going to be in charge of the program.

I said, "I don't know what you are talking about. What do you mean?" He was obviously fresh from there.

MR. GASTON: Previously he had talked to Chick Schwarz and told him he was on the White House run and that he had just come from a talk with Vinson.

MR. PAUL: He did not tell me that.

H.M.JR: Well, look, Dan, I can't work in this kind of an atmosphere.

MR. BELL: I realize it is difficult.

H.M.JR: I work too hard, and the President can settle this thing in two minutes. I am not going to get into a Wallace-Jones public fight, and as long as I am serving him I am not going to go to the public. I never have and never will. He knows that. He knows that he has to straighten this thing out and that I cannot and will not work - I am going to put that in the letter, that I will not present or ask Paul to present somebody else's tax program.

In other words, I am not just going to have Vinson do the thing, then have us sort of be the front, then his running all around us.

MR. PAUL: Verbal messenger boy.

MRS. KLOTZ: Supposing that is the way the President wants it?

H.M.JR: Well, I am prepared.

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MR. GASTON: My own thought on that was not to hold any gun to the President's head in the first letter but make it a request on the grounds of general public policy; and then if he comes back with the wrong answer, that is the time, it seems to me, to say, "I can't accept this."

MR. BELL: You made it clear in the next to the last paragraph. You want him to either give it to the Treasury or designate someone else to handle it.

H.M.JR: Yes. "Will you not say, and say publicly" - I don't like it that way.

MR. BELL: But that paragraph has a - it gives him a choice.

MR. PAUL: I don't like the last sentence of that paragraph.

H.M.JR: Where is the letter I dictated? Where is my letter?

(Draft of letter handed to the Secretary by Mr. Gaston, copy attached.)

I dictated ~~this~~ myself, Dan. I didn't have any of this stuff before me. I was just doing it from memory.

(Letter read by the Secretary.)

H.M.JR: I think we have to get some strong language in this thing.

MR. BELL: That is pretty strong language.

H.M.JR: I think it calls for it, Dan.

Now, look here, the President reads the papers. I have been there in the morning. He sees what is

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going on. I have heard him discuss others with Steve Early. I have heard him say to Steve, "When you see the press, you can tell them this."

Now, I can't work; I cannot do this inspirational stuff that the War Bond people need. I have got the spirit of the thing on the promotion end - I have got to do it.

Look what we went through yesterday. Just before that I walk in here and I see this stuff. I can't have that kind of stuff going on. It shouldn't. It is inexcusable, and it is nobody's fault but the President's.

I mean, here is the story on the Wallace-Jones business. The President of the United States gave him a clean-cut directive telling him to go ahead and do this. Now, from that minute on Jones started fifth column tactics on Wallace. Wallace did everything that any human being could to stop it.

Jones wouldn't carry out his orders, wouldn't do anything.

Jones went up on the Hill and testified - rather, Will Clayton - trying to get a bill through to transfer the authority to Jones which the President by Executive order had given to Wallace.

Right?

MR. BELL: I think he went that far. But he put it in pretty strong language.

H.M.JR: And then when Wallace couldn't stand it any longer, he blew up after a year and a half.

MR. PAUL: After offering to resign, according to this morning's "PM."



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H.M.JR: I didn't see it.

Now, for one year and a half the President let this thing go along. Now, I am not going to go through with it. I haven't asked Paul how he feels. After all, everybody that works for me is independent.

MR. PAUL: I feel the same way as you do.

H.M.JR: But I mean--

MR. PAUL: I feel, of course, personally I have been identified with the presentation of the tax bill for two years; and if Vinson presents it, I want to resign. I don't want to go up there to carry his brief case.

H.M.JR: And I think, Herbert, the President is busy - so am I - I am busy, too - and I haven't got time to write the President two letters. If the President says he hasn't time to go into this, I shouldn't be spending time on this now. I am busy, too. And the President can, at the snap of a finger, stop this thing.

MR. GASTON: Yes, he can stop it if he wants to. I very much fear that he promoted it; that he brought Vinson over there for this purpose.

What Vinson is undertaking to do now, as I told these gentlemen yesterday, is to occupy the seat of the Secretary of the Treasury so far as the preparation of a tax bill is concerned. He is undertaking to rally the different statistical forces, to use the data and the research of the Treasury and put together the recommendations for a tax bill.

At the same time he is working hand in glove with Stam, who is subpoenaing information independently from here and from all other sources to put together his recommendations.

H.M.JR: Well, the President at Cabinet encouraged Vinson with a question of, "How is the tax bill going?" - he brushes me aside and appeals to Vinson.

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He pointed to Byrnes, and Byrnes wouldn't answer. He pointed to Vinson. He has done it a couple of times.

MR. GASTON: So that is a pretty clear indication - although he hasn't done you the courtesy of telling you that that is the arrangement, that is a pretty clear indication of what he is doing.

Of course, that puts us face to face with the prospect - I am all for writing a letter, and I argued strongly in favor of that yesterday, but we have to consider that it puts us in the situation that the reply may be, "I have already picked Judge Vinson to formulate the tax bill." We have to face that situation. What do we do then?

H.M.JR: That is simple. But I want a public announcement to that effect.

MR. PAUL: Then I want to get out.

H.M.JR: Well, you are still my General Counsel.

MR. PAUL: Well, that is a different matter. But I don't want to go up on the Hill on the tax bill.

H.M.JR: No, I won't, either. I wrote that in my letter. I said we wouldn't. I don't want to tone this thing down.

MR. GASTON: There is another phase of it; what is cooking is a tax bill that is no good. It seems to me that in view of what you know and your opinions on this thing, that you ought to get that into the letter, that "We need heavy, substantial, additional taxes, and with this present line-up you are just destroying your authority to ask for them and you are not going to get them."

H.M.JR: A story broke in Time magazine along about March, in which it said that Rosenman, Byrnes, Hopkins, and Baruch were going to be the War Cabinet, and the



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conversation I had subsequently with Rosenman indicated that that was correct. Then the thing broke and the White House denied there was anything. It had a bad effect on the Hill.

What the President has done, without having the courtesy to tell us, is that he has brought between himself and his Cabinet another group that he looks to to run it.

He is not going to do it to me, and I am not going to take it. He can do it to somebody else, but I am not going to take it because I work too hard. I am just not going to take it.

Now, Mr. Hull told me here last week that he absolutely is not responsible for the foreign policy. He doesn't make it, he doesn't carry it out, and he doesn't know beforehand what is going to happen. He may want to take it.

I am willing to take this unjust criticism in the papers, but if the President is stupid enough to let me be undermined - and one of the things I want to get in here is that through the tax bill we have spearheaded reform legislation for him for ten years, and I have taken this thing on the chin for ten years.

Now, I would like to say this; either the last ten years I have done a good job and deserve his full support for having spearheaded this thing, or if I don't, I want him to say so. But I don't want this thing by innuendo - by infiltration.

CAPT. KADES: Undermining.

H.M.JR: By undermining - to have this thing dissipated through my hands. Now, that is just what is happening. Either during the last ten years - I mean, I have broken the health of about four tax lawyers, and what it did to me, myself - and I am just not going to do it, that is all.



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The pattern is perfectly obvious. Those people sit over there in the left wing of the White House and they are going to run the show. If they are going to, let them get the credit publicly, and the blame publicly - and I am not going to be a shirt-front for Vinson. That is why I want to say this thing - to get this thing into this letter - because I thought Paul was going to come in and tell me not to send it - from what he dropped yesterday.

MR. PAUL: I went through a cycle of changing my mind after consideration.

H.M.JR: I am not going to be a shirt-front for all of this thing. I am always willing to take the blame between the President and myself. I am willing to take it. But when it is Vinson and the people that are back of him, and all the other things, and end up with the thing - I am just not going to do it.

Now, all I am saying to the President, Herbert, is this - I just want to go this far. You fellows, when I was sick in the hospital, gave me a letter. Do you remember that letter?

MR. BELL: I do.

MR. PAUL: That was on the budget.

H.M.JR: That was a swell letter. All I want to say to him is this - I am not threatening, I am just telling him - that either the Treasury is in complete charge of the formulation of the tax program and the presentation, or else I don't want anything to do with it. But I want that said publicly. That isn't threatening. I want that very clear-cut, and I think it is good newspaper copy, you see, at the beginning and at the end to drive it home. You get your lead - you get your story in the first paragraph, don't you, in writing a good story?

MR. SMITH: You tell them what you are going to tell them, then you tell them, and then tell them what you told them. (Laughter)

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H.M.JR: That is all I am telling them. Paul can go along just as far as he wants. He can be brought in the letter by name or not.

MR. BELL: In view of what you said, and the background of what has been going on, I feel the letter ought to go now. At first I had some doubt.

H.M.JR: Now how do you feel?

MR. BELL: I feel the letter should go.

H.M.JR: And listen, every time we have written one up to now we have been successful.

MR. SMITH: In this case I think it would be better for you if they did clear it up and take it away than leave it the way it is now, because the obvious answer is that you don't know what you are doing and they are sneaking it away. That is the dose the newspapers are being given.

If the thing were publicly announced, you could go in on the announcement and as a war measure this thing could be switched over and you would be beyond criticism from then on.

MRS. KLOTZ: Even after the public announcement, it is going to certainly seem the President didn't want you to do it.

MR. SMITH: It is, but it isn't going to seem any more so than now.

MR. PAUL: I agree with Mrs. Klotz.

MR. GASTON: The Treasury suffers a terrific black eye.

MR. PAUL: Yes, and a very chiseled, whittled down responsibility. So much so - you just said that I am still your General Counsel; I am still your General Counsel, but what does it mean. There is no work to do that interests me.



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MR. BELL: Publicly you are going to take a whipping if it is taken away from the Treasury.

H.M.JR: O.K., Dan, but look, the alternative is this; it is to sit here and see this thing going on every day. I thought, up to the time that the Crider article appeared, that Vinson was going to subside and give me a little time and I am going to have a heart-to-heart talk with him.

Now, there are two alternatives. You let them whittle this thing, and do this thing through fifth column tactics, or you come out and do this thing to the President like that and have this thing settled.

All right, he takes it away from me, see? Then I have got to kind of sit back - I have got time to decide what I want to do.

MR. GASTON: I have a little doubt about the use of the Wallace-Jones episode to start your letter.

H.M.JR: You don't have to.

MR. GASTON: He has got a sour taste in his mouth about the Wallace-Jones thing, now.

MRS. KLOTZ: But did you see the letter the President sent out?

MR. GASTON: You could say, "--following his instructions not to air things in the press"--

MR. BELL: You are bringing things to his attention.

MRS. KLOTZ: No, he says to send your letter of resignation in if you do.

H.M.JR: No, if you go to the public.

MRS. KLOTZ: To the press.

H.M.JR: "If you have any troubles and can't settle them, come and bring them to me." That is what he said.



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MR. SMITH: I have that on my desk.

(Mr. Smith left the conference temporarily.)

MR. BELL: Do you want to be kind of apologizing - "I am sorry to burden you with this, but it is something that has to be--"?

H.M.JR: No, it is entirely his fault.

MR. BELL: I agree, but after all, he is the President of the United States.

H.M.JR: I don't feel apologetic one little bit.

MR. GASTON: I would feel if you used this last paragraph about whittling away the powers of the Administration, I would slip that above and let it end on the direct note.

H.M.JR: Let's get a good stiff letter. Do you think I could have one by after lunch?

MR. GASTON: Yes. Maybe you would prefer to have Fred Smith take a crack at it to try to shorten it up.

H.M.JR: No.

MR. GASTON: It is perfectly all right with me.

H.M.JR: Who worked on the one in January?

MR. BELL: Herbert and I and Paul.

H.M.JR: No, if you get--

MR. PAUL: Herbert did this one, mostly - almost all of it - and I think that he ought to continue.

H.M.JR: No, you continue, Herbert. Get mad, now!

MR. GASTON: I don't think we want to get too mad.

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The letter doesn't want to be too sharp so as to make certain of an unfavorable reply. If the President sees that he is destroying his own power, it may have some influence on him.

MR. BELL: I wouldn't show it was written in too much heat.

MR. GASTON: He is not so much destroying his power as he is destroying the power of the Administration to have any influence on tax legislation. That is what he is doing.

MR. PAUL: I think we can get up a letter with the suggestions you have made now and our own additions.

H.M.JR: Well, now that you are in sympathy with me on this thing - which I felt you weren't, yesterday - we can move forward.

MR. PAUL: I was honest, yesterday. I was in the same state of mind as Bell.

H.M.JR: I felt that lacking my making a move, this thing is just going to be whittled away.

MR. PAUL: I agree completely.

MR. BELL: I never knew until you said so, that a couple of times at Cabinet the President has asked Vinson and Byrnes how the tax bill is coming along. I think that is terrible before a Cabinet meeting; I really do.

MR. PAUL: I didn't quite realize that the President had done the first asking.

H.M.JR: Well, he said to Vinson, "What have you got to say?" And Vinson goes and gives a report of what happened on the Hill, and so forth and so on. I wasn't going to bring it up; I wouldn't have a row at Cabinet. But the President at Cabinet certainly throws his weight behind Vinson on the tax bill.

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MR. GASTON: I wonder if we ought to have that in the letter.

H.M.JR: No.



June 10, 1943


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. Grider 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."

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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.



THE WHITE HOUSE  
Washington

June 12, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

The Mobilization Director says that all that he has done about the tax matter is to invite you, Vinson and Smith to cooperate in preparing a draft of a message which I told him I wanted in considering whether I would send to the Congress a message on taxes, inflation and subsidies. Each of the Departments named have responsibilities in connection with the subjects.

If I approve a tax program I would, of course, expect you to present it to the Congress as my program. Thereafter there would be no excuse for conflicting views being presented by various officials. This unity of support should help you in presenting the program.

When you return you and the Director should get together and arrange to cooperate in this matter. Do not let the newspapers disturb you.

F.D.R.



THE SECRETARY OF THE TREASURY  
WASHINGTON

*Draft I*

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July 22, 1943

My dear Mr. President:

I am enclosing a copy of a story by John H. Crider in Wednesday's New York Times which clearly convinces me that I must have further enlightenment and guidance from you on a vital matter if I am to function effectively as your Secretary of the Treasury.

You will recall that on June 10, not long after Mr. Byrnes had been made Director of War Mobilization, a similar story was published, containing the statement that "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 present story goes somewhat beyond that. Besides substituting Judge Vinson for Mr. Justice Byrnes it indicates that Mr. Vinson is not only engaged in formulating a tax program for presentation to Congress but may even be entrusted with the task of presenting it.

On the same day (June 10) that the story appeared naming Mr. Byrnes as the Administration's new "tax policy maker" I wrote to you suggesting that if you wished me to continue to be responsible to you for the development of tax policies and their presentation to Congress it would be appropriate for you to clear up the confusion on this matter created by statements made by Mr. Byrnes and their interpretation by the press.

While you were good enough to reply by memorandum on June 12 stating that you would expect me to present to Congress a tax program having your approval you did not clearly indicate whether you wished me to retain primary responsibility for developing such a program to present to you. You suggested that the Mobilization Director and I should "get together and arrange to cooperate in this matter." I have conferred with Mr. Byrnes and with Mr.

FOR DEFENSE



BUY  
UNITED  
STATES  
SAVINGS  
BONDS  
AND STAMPS

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Vinson both on tax and general fiscal matters, but I have not received any indication from either of them of the basis on which they expect or are expected to cooperate on the extremely vital matter of formulation of a tax program for presentation to you.

You asked me in your memorandum of June 12 not to let the newspapers disturb me; but, lacking any clear directive or information as to what I am to do and what others are to do, I am compelled to pay a great deal of attention to what I read in the daily press. Besides, it is not solely or chiefly a matter of my being disturbed. Our ability in the Treasury to reap the benefit of the knowledge and opinion of other administrative officers of the Government, which we have been conscientiously attempting to do, our ability to deal with members of the committees of Congress and the staff of the Joint Committee, our ability even to formulate our own ideas relating to taxes are all prejudiced by the widespread impression that has been circulated through many channels of dissemination that, except for gathering data for the authorized agents of the Administration to utilize, the Treasury is "out of the tax picture."

I am sure that you will realize that this situation is not merely personally humiliating to me--a relatively unimportant matter--but it is rapidly putting you and your entire Administration into a position where your tax proposals, no matter how carefully formulated, are quite unlikely to get the attention they deserve from the committees of Congress when they meet to consider a tax bill. The picture being presented to them is one of indecision and confusion, even on so primary a matter as the question of who is charged by you with responsibility for formulating and coordinating Administration tax research and advice. The effectiveness of the Treasury Department in that field is being dissipated without any designation of a substitute to take over the Treasury's traditional functions and responsibilities.

How far this state of confusion has advanced is indicated by the statement in Mr. Crider's story that the staff



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of the Joint Committee is preparing, after gathering data by subpoena from various executive departments and agencies under powers expressed in the 1942 Tax Act, to present its own entire program of tax legislation to the committees and to Congress. This decision forecasts scant attention to any Administration program you may recommend.

In my opinion it would be deplorable if events should take that course. This is especially true in the light of what we have been able to learn of the views of the chief of staff of the Joint Committee and those of various members of the two committees. As far as we have been able to ascertain they have not been impressed--in spite of all we know about the huge increase in national product and national income, the great pressure of excess income on prices and the relatively poor showing we are making on the revenue front as compared to Canada and Great Britain--with the need of any substantial additions to revenue. They are talking of leaving the income tax structure, including all its present discriminations, substantially untouched, and raising revenue in relatively trivial amount--and that through a sales tax, which will probably add to rather than lessen the inflationary pressure. In addition they are suggesting as the easy way to escape the necessity of higher taxes the inauguration of some half-hearted plan of forced lending which would act as a bar to the higher rates of taxation we ought to get and might only substitute for a part of the funds we are now getting through voluntary lending.

I hope you will forgive me for saying, Mr. President, that the situation is not merely disturbing; it is alarming. If ever the Administration needed to speak with a clear voice on any subject it is now, and on the subject of taxation. A chorus of voices, each one speaking on the basis of some rumored authority, can not be a clear voice; it can not be reassuring; it can not do otherwise than create an impression of indecision and confusion--and that is the precise impression that is being created every day both by word of mouth and by printed assertion and innuendo.

I read today in another newspaper the statement that the Treasury has no fiscal program, and the implication was conveyed that on that account the whole war effort is being endangered and that financial ruin stares us in the face.

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This is certainly not helpful publicity as we prepare for another financing drive in which we will call for far the largest individual subscriptions to a war loan in our history.

The statement is not true. The Treasury has a program, in large and in particular. We have had a program for war financing since long before Pearl Harbor. When we inaugurated the War Savings plan in May of 1941 it was as a part of an integrated plan of taxation and borrowing intended not only to finance the war, but also to throw up the most secure defenses possible against inflation. We are prepared now, on not much more than a moment's notice, to give you a complete set of recommendations for new taxation at any time you may deem it appropriate to call for it.

But how can the Treasury be considered by the public to have a program if it continues to be advertised, as it is being advertised, that it makes no difference what kind of ideas or plans the Treasury may have, since what the Treasury has to say is not with authority and isn't going to count in the end?

Will you not say, and say publicly, that you are looking to me as Secretary of the Treasury to continue to carry the traditional responsibilities of a Secretary of the Treasury and to formulate for you, in consultation with all agencies of the Government which have a proper interest, a tax program which you expect me to present to Congress? Or if you do not wish to do that, will you not then designate someone else to whom you wish to transfer this burden?

What I most fervently deplore is this whittling away ~~that is now going on~~ of the authority and the ability of your Administration to discharge adequately its duty and responsibility to the Nation on the fiscal front.

Sincerely,

Secretary of the Treasury.

The President

The White House



D R A F T

Original draft dictated  
by Secretary 141

7/21/73

My dear Mr. President:

I am enclosing herewith a copy of a story by John H. Crider in today's New York Times, which has all the earmarks of being planted.

On June 10th, <sup>shortly after</sup> a story along similar lines was published <sup>made</sup> at the time that Mr. Byrnes was Director of War Mobilization, <sup>that day,</sup> and I wrote you a letter ~~on June 10th~~, which you answered on June 12th. At that time, you avoided answering my question as to whether we should continue to be in charge of formulating the tax program.

However, after my exchange of letters with you, Mr. Byrnes seemed to be willing to let us continue to handle the tax program.

Mr. Vinson has shown great interest in the preparation of the tax program, and has been pushing us around. Frankly, I cannot serve you best in an atmosphere of doubt, and certainly not where Mr. Vinson seems to be trying to get authority over the tax program through infiltration methods behind the lines.

I am going to have to ask you once more, in view of what has happened during the past few weeks - is the Treasury charged by you with the responsibility ~~of~~ not only <sup>of</sup> preparing the tax program but also <sup>of</sup> presenting it before the appropriate committees? If we are, we are prepared to consult with any



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one in the Executive Department whom you designate. However, if you look to Mr. Vinson or anybody else to prepare a tax program for you, neither Mr. Paul nor I <sup>is</sup> ~~are~~ willing to present a tax program on the Hill that we are not wholly responsible for the preparation of. The sooner you can clear up this seeming misunderstanding, which I believe is in Mr. Vinson's mind, and certainly now is in Mr. Paul's and mine, the more effectively and efficiently we can work.

Sincerely yours,

The President,

The White House.

(I want to work into this letter the fact that our relations with both Congressman Doughton and Walter George are excellent, and that we don't need any intermediary.)

July 22, 1943 143  
10:52 a.m.

Operator: Mr. McCloy.

HMJr: Hello.

Jack  
McCloy: Hello.

HMJr: Jack?

M: Yes, Mr. Secretary.

HMJr: How are you?

M: Fine; how are you?

HMJr: Listen, Jack, I had a weekly Press Conference....

M: Yes.

HMJr: ....and the boys asked me about invasion money....

M: Yes.

HMJr: ....and I said you were sitting on it over there -  
that story....

M: Yes.

HMJr: Are you going to release it?

M: Well, we sent a telegram - Dan called me up yesterday....

HMJr: Yeah.

M: ....and I talked to the people here and they thought  
we ought to check with Eisenhower to time - time it  
so that we will have a simultaneous release there and  
here, because he's been sitting on it there. If we  
release here, he might get into trouble with his  
people.

HMJr: I see.

M: Now, I think the telegram - whether the telegram has  
come back in reply to it or not, I don't know but  
it will be back sometime during the day and the  
minute we get that we will release.

HMJr: You will?

M: Yes. Or let you release it whichever will....

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HMJr: Well....

M: ....be more desirable.

HMJr: Any way, a joint release.

M: Yeah. But I'm just waiting for Eisenhower's reply.

HMJr: Right.

M: Okay.

HMJr: I think a joint release would be nice.

M: Good. Be glad to do it.

HMJr: Thank you.

M: All right.



July 22, 1943  
3:05 p.m.

TAXES

Present: Mr. Bell  
Mr. Paul  
Mr. Gaston  
Mr. Smith  
Mr. White  
Captain Kades  
Mrs. Klotz  
Lieutenant Robert Morgenthau

H.M.JR: I think this is a very good letter.  
(Draft of letter to the President attached.)

MR. PAUL: Did you have a different sentence there at the end?

MR. GASTON: I modified the sentence at the end by eliminating the names of Mr. Byrnes and Mr. Vinson. The sentence now reads, "Neither Mr. Paul nor I wishes to have anything to do with the presentation of any program formulated by anyone outside the Treasury other than yourself."

MR. WHITE: It sounds petulant.

H.M.JR: I don't like that.

MR. PAUL: Say, "Neither Mr. Paul nor myself would like to present"--

H.M.JR: I don't think that is necessary, gentlemen. "We can present such a program cheerfully and with complete and willing energy, but only if we have been chiefly" - I wouldn't say "chiefly" - "chiefly responsible for its formulation and presentation to you."

MR. GASTON: And then cut that out.

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H.M.JR: That still doesn't say what I want.

MR. SMITH: Don't you mean that you have had the chief responsibility for getting it? This reads to me as though you don't want to present it unless you have contributed more to it than anybody else.

H.M.JR: What I think is, in the first page you have number one and number two, and I think I would say, "In conclusion, may I again put two questions to you" - then questions one and two.

Then say, "I would appreciate having a definite answer."

MR. GASTON: This is the thing that you asked for - that you wanted to say - that you didn't want to present something - and that is why I added it.

H.M.JR: Well, all right.

MR. GASTON: Why not say, "We can present such a program...but only if we have been responsible for its formulation and presentation to you"?

H.M.JR: No, if you don't mind, even if I said it I can say I don't like it. I would like to go back to my original suggestion and simply say this: "In conclusion, may I again bring to your attention the two questions which I had at the opening of this letter: (1) Am I, as Secretary of the Treasury, to continue to be in charge of the formulation of tax plans and policies; and (2) do you look to the Treasury, as heretofore, to present the Administration's tax program to Congress?" If he answers those, that is all.

MR. SMITH: I agree with that.

H.M.JR: I wouldn't say that--

MR. GASTON: You would include this last paragraph here: "I can't go ahead under this cloud to do a good

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job with the war financing and a great many other things that are on my hands. I ask you most urgently to give me a clear answer to the two questions" and then say, "These are" - and then repeat the questions.

(Captain Kades entered the conference.)

H.M.JR: My son Robert raises the point in the second paragraph of the President's letter of June 12.

The President says: "If I approve a tax program I would, of course, expect you to present it to the Congress as my program."

MR. GASTON: We quote that in the letter.

H.M.JR: He went along with that. He ducked the question as to who was responsible for preparing it. That is the thing that he ducked, you see, which we very carefully put in there.

MR. GASTON: If it suits you, then, going down to the bottom of page five, after we say, "I ask you most urgently to give me a clear answer" we can repeat the two questions and then pick up the last paragraph: "I hope you will give me definite answers to these questions just as soon as possible so that I and others in the Treasury may know how to direct our energies."

Do you want to leave that last out?

H.M.JR: I think I would strike that out.

The only other thing I didn't like was, "I can't go ahead under this cloud." I didn't like that.

MR. GASTON: Make it "handicap"?

LIEUT. MORGENTHAU: Uncertainty?

MR. PAUL: You can say, "under the handicap of this uncertainty."



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H.M.JR: Let me just talk out a minute without trying to pick words.

The thing that bothers me, which, of course, isn't here - nobody has put in here, and I would like to talk it out - I mean how I feel.

The thing that bothers me - the reason I can't concentrate on my work is there is this constant undermining of my morale. That is what it is. I am not under a cloud, but there is a constant undermining of my morale by people associated with the President.

MR. PAUL: I am not sure that isn't a good expression.

H.M.JR: That is what it is. My morale is constantly undermined by people closely attached to him. And here I am trying to - I have to supply the driving force to this War Bond thing, and I am diverted by people undermining my morale where I should get the support of the President. I should just concentrate on these jobs.

That is what they are doing, they are undermining my morale. It is to undermine - to sabotage, that is what it is.

MR. SMITH: Can't you say exactly that? Can't you say, "I want you to understand the situation that I am in. I have got to do this job; I have to supply the morale to the War Bond people, and in the face of that, my morale is being undermined."

MR. WHITE: The driving force that is necessary to put this across is being undermined by the--

MR. PAUL: Morale is all right.

H.M.JR: How would this be, "My morale is being undermined, and this permeates all through the Treasury"?

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MR. WHITE: That is all right.

MR. PAUL: You can say it for me if you want to. I can't get up a hot interest in preparing a tax program when I don't know whether it is an academic thing that will never go out of these walls or something real.

MR. WHITE: It is something beyond that, too. I think it is broader than that. It does permeate - it is bound to permeate the whole staff and the integrity of Treasury operations.

MR. GASTON: Suppose we say, "With this undermining procedure going on, I can't go ahead"?

H.M.JR: No.

MR. GASTON: "With this undermining in process"--

H.M.JR: I think you have to make it personal. I feel it is my morale which is being undermined, and then this uncertainty, and so forth, whatever you want to say, permeates through the whole Treasury.

MR. GASTON: Say, "I can't go ahead and do a good job", and so on.

H.M.JR: That is just enough on the threat side. That is just a touch.

I want to get it down, then we will talk about it. I don't say that I won't go ahead, but it makes it very difficult for me to go ahead. I wouldn't say "can't."

I would say, "makes it very difficult" - "unnecessarily difficult."

Of course what I would like to say, which is true, is that ever since I have come to Washington I have always tried to help every other department but I don't get the same support. There isn't the team play which you need. No team can win when there is constant -

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when there are too many quarterbacks, or something - too many people calling the signals.

MR. WHITE: I have a little feeling this letter is too long. I am not sure.

H.M.JR: I would much rather it wasn't. I don't know whether you can make it any shorter.

MR. WHITE: It is all good, and one doesn't like to leave any of it out; but I am wondering whether we had better not sacrifice some of the good material to shorten this down to about three or four pages.

I have a little of the feeling that what might be most easily sacrificed is the material on page four at the bottom - the last paragraphs on page four and the top of page five. It is important but kind of defending the Treasury.

MR. PAUL: That could be eliminated.

MR. WHITE: I think even the part speaking about a clear voice--

MR. PAUL: That is good.

MR. WHITE: The rest of it is good, too. If you feel he will read it--

H.M.JR: He will read it, don't worry.

MR. WHITE: The one paragraph that I am most dubious about - it is rather important - is the top paragraph on page five.

MR. PAUL: You can change it from a rhetorical question.

H.M.JR: Before we get into that, I haven't seen you since you have seen this letter.



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MR. WHITE: I think it is a very good letter.

H.M.JR: Let's talk about whether it should be sent or not.

MR. WHITE: As I mentioned as I came in, if this article is the sole basis of it, it should not be sent. How much more there is beyond this, I don't know, but they seem to indicate that there was much beyond this.

In my opinion, this article, taken by itself, does not justify this. But if there is much more, then it may well be justified.

H.M.JR: Well, there is around town and at Cabinet, too. Just if what happened at Cabinet alone, at which the President definitely kept talking to Vinson - at Cabinet he keeps building Vinson up as the man who is going to do the tax program.

MR. WHITE: I think that is more important. If you get the feeling that he is moving in, that the President--

H.M.JR: Who?

MR. WHITE: The President.

H.M.JR: Yes, I do, very definitely.

MR. WHITE: Then I think the letter is justified.

(Mr. Bell entered the conference.)

H.M.JR: Dan, did the question of taxes come up today?

MR. BELL: No, only in a very general way. They started out to discuss the matter of educating the American public on inflation, what is being done and what needs to be done to control it. And they got into, of course, all kinds of questions on what had been done

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and where we had made mistakes. The only thing that came up on taxes was that we had not been able to put across a tax program sufficient to control that part of it. Enforced savings came into that picture, too, just in a general way, largely by Eccles.

H.M.JR: Was it the usual talky meeting, no agenda, sort of messy?

MR. BELL: No agenda, just the general discussion of this one problem but they got off on all kinds of sidelines.

H.M.JR: Just a waste of time, wasn't it?

MR. BELL: Largely.

H.M.JR: Have you seen this letter since--

MR. BELL: Not since this morning.

H.M.JR: Chuck, you have been very quiet. What do you think about sending it?

CAPT. KADES: Mr. Secretary, I have been quiet because I have been against sending it until this morning when you spoke of the occurrences at the Cabinet meeting; and I am not in a position to judge how definite the President was on that.

That is the only reason - I wouldn't say the only reason, but that would be the controlling reason, in my opinion, for sending it.

I agree with Harry, and I have expressed myself to both Herbert and Randolph, that this article is not sufficient basis for sending it. I haven't talked to Harry.

H.M.JR: But it gives me something to hang it on, and the President has several times at Cabinet led me

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in no uncertain terms at Cabinet to feel that Vinson is sort of the leader on the taxes. He makes up to him so.

MR. WHITE: If that is the case, arguing for a moment on the other side, wouldn't that emerge in a more definite action or specific statement, or something, which would be a clearer indication so you wouldn't have to base your statement on newspaper articles of innuendo.

If, on the other hand, it doesn't move in that direction to anything more concrete or specific, then this is not justified. This, in other words, is justified only if it anticipates a policy which you want to know now; and if it is anticipating a policy, is it reasonable to expect that that policy will crystallize a little more. If it does, will you have gained or lost by waiting, by having a clearer issue? I wonder whether you wouldn't gain by having a clearer issue before you.

H.M.JR: Well, there is another way of doing this thing. I can ask to see Vinson and simply tell him that from my standpoint he seems to be under a misapprehension and that I consider that we are responsible for preparing a tax program and presenting one.

Then if he demurs, I can base the letter on that conversation.

MR. WHITE: That I think would be - I have to choose my words more carefully - I think that would be a little more businesslike, a little more dignified, a little more definite.

This is a little bit in the realm of your being - it takes on a little bit the aspect of querulousness, objecting to rumors and articles, and so on; and the President might say, for example, "Oh, Henry, I told you not to believe what you read in the papers. What are you worrying about?"



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It may leave you neither here nor there. But if you have something definite to go on, it is up to him to make a definite statement.

If, on the other hand, it isn't a definite instruction to Vinson or if the President himself doesn't have that in mind, this may peter out.

If, as you say, you go to Vinson and you have it out with him, if Vinson says, "It is my understanding that I am to have charge" then there is a clear case for you to go to the President.

If, on the other hand, he says, "I have no intention of being in charge; of course we want to cooperate, there is no difference. John Crider got this straight. You know the newspapermen. Sure, we want to cooperate under these circumstances. Why go to the President?" - even though he may not be sincere, then there will be an overt act somewhere along the line, and--

H.M.JR: Well, if I pin him down I think that he will say this is part of his responsibility. I will push him so hard that he will have to--

MR. WHITE: ... say one thing or the other.

MR. PAUL: What you say between you two is not going to cure this general public situation. He will have to go further than tell you that in private. Somebody will have to make an announcement.

MR. WHITE: Frankly, Randolph, I don't think that is as important. I mean, in other words, that if the newspaper articles are shooting, and this, that, and the other, I think you can function. I don't think you can function as well, possibly, but I think you can bide your time until there is something which does interfere definitely with your efficacy.

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If, however, he says that he is responsible, that is different. If he says, "I am not responsible", then you complain, "Well, the public thinks so, and why don't you deny it?" It puts the range of the discussion, it appears to me, at a lower level than you want to put it.

MR. GASTON: You don't think it interferes with the Secretary's efficiency that Vinson directs Stam to meet with him and Paul to meet with him and calls in such people as he sees fit to call in, and makes himself an intermediary between the Treasury and the joint committee?

You don't think it interferes with his efficiency that this is given out and not denied, that he is the man that is gathering the plans for taxes and that people are to look to him and pay no attention to the Treasury? Those are the facts.

MR. WHITE: Not if in effect he doesn't have the responsibility and says he doesn't, in which case there is nothing to stop you from getting in contact with Stam. You do it all the time.

MR. PAUL: Stam is supposed to be in my office this afternoon. Of course I didn't invite Vinson to come.

H.M.JR: Is he there now?

MR. PAUL: I called him up and told him not to come until I telephoned him.

H.M.JR: My inclination is this - I will leave myself open. The President might say, "Now look, Henry, before you go out, why don't you sit down and talk this think out with Vinson?" That is the mood he seems to be in. You know the note about the Attorney General, asking me to talk it over with him.

MR. WHITE: Isn't that the reasonable thing to do? Wouldn't you expect your own staff under reasonable

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circumstances to do so?

H.M.JR: I would hope so.

MRS. KLOTZ: But two of your staff wouldn't go out and do in the open what Vinson has already done.

MR. WHITE: But you expect these things to be settled as much as possible before they come to you.

H.M.JR: My feeling is I would like to call up Vinson now and say, "Now look, Fred, I read this story of Crider's of yesterday, and it has disturbed me. I think you and I had better get together and have a clear understanding on our lines of authority in regard to preparing a tax program. Can we get together?"

MR. GASTON: But yet we believe that the trouble is not with Vinson, from what has happened at Cabinet. All the indications are that the President has tagged Vinson with this responsibility.

H.M.JR: All right, then, if Vinson - that is all right. I don't think the President has. I mean, I think he has encouraged him before Cabinet, but I don't think there is anything definite.

MR. GASTON: You think he is just feeling you out in these Cabinet meetings?

MR. WHITE: If he has tagged Vinson, won't Vinson be the first one to say so? He will say, "Don't take it up with me. Take it up with the President."

H.M.JR: I have seen the President go to Jones and Ickes and all of them - he does it one after another.

MR. SMITH: I think you are making a mistake by giving him a chance to think ahead of time what he is going to say to you. I think when you hit him you ought to sit him down right then and there and have it out.



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MR. WHITE: Don't tell him what you are going to see him about.

MR. SMITH: So he hasn't a chance to get his lines formed behind him.

H.M.JR: I will call him up and ask him if he won't have lunch with me.

MRS. KLOTZ: I wouldn't take it up at mealtime.  
(Laughter)

MR. WHITE: I agree, for this reason, that the way you want a clearer understanding, it is not a friendly, social occasion.

MR. GASTON: I would ask him to come at eight o'clock tomorrow morning. (Laughter)

MRS. KLOTZ: When you are fresh. (Laughter)

MR. BELL: He would be in a bad humor then. (Laughter)

H.M.JR: I will tell him I will be glad to come to see him or would he come to see me.

That is Mr. Hull's great trick, you know, and it gradually gets around so that you go to see him. I won't tell him why. And I think I will ask Paul here as a witness, too, or would you see him alone?

MRS. KLOTZ: I think I would see him alone.

MR. GASTON: Borrow J. Edgar Hoover's office.  
(Laughter)

H.M.JR: What would you do? Would you call him up, Bob, and tell him I want to see him?

LIEUT. MORGENTHAU: Yes.

H.M.JR: Before I write any letter to the President, is that what you would do?

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LIEUT. MORGENTHAU: Yes.

H.M.JR: I think that is the right thing.

MR. PAUL: I would like to canvass the other side of this argument a little bit.

I was of your state of mind yesterday morning. You want to remove the uncertainty. It is necessary to your functioning that you do remove this uncertainty.

One of two things is going to happen. Vinson is going to say he is in charge of the tax program, in which event you can then move perhaps more solidly than you can now. But Vinson may say, "Well, my understanding is we are all to work together" - evade the issue.

And then you are going to continue to be in the same state of uncertainty from now until September 8.

H.M.JR: Well, may I answer you instead of Harry? If he says that, I am going to say, "No, that doesn't satisfy me. I, as Secretary of the Treasury, am responsible for making a tax policy. I am glad to discuss it with you, but it is my responsibility and I am not going to take second place to anybody."

MR. PAUL: Then he says, "I understand you are Secretary of the Treasury. We will move along, we will all cooperate." But his methods of planting stories, if he is doing that, and undermining you will go right on.

H.M.JR: I will be brutally frank. I will say, "The next time something like this happens I am going to invoke this thing that the President talked about, and one of us will have to get out. The town isn't big enough to hold the two of us."

Now, that happened once before with Jimmy Roosevelt and Joe Kennedy and I forget who the third was. The town just got too small for all of them.

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I don't mind being brutally frank. This fellow understands it.

I am perfectly willing - after all, I went across the street and had a similar talk with Jimmy Byrnes.

He said, "Do you mean to say you are over me?"

I said, "No, I am not over you, but under that Executive order" which we fought over last August, wasn't it?

MR. GASTON: Yes.

H.M.JR: I said, "There is nothing in it, and the President particularly said that this excludes the Treasury."

MR. WHITE: Examining all facets of it and merely thinking out loud, there is the danger in discussion with Vinson that he will listen and give some evasive answers, and you won't be able to get him to give a definite answer because he may be just smart enough to say, "I don't understand what you are talking about. This is my job, to coordinate, and I am functioning properly, and we are getting together."

I don't know how strong a man he is. That in itself would mean nothing. But supposing he goes from there, he leaves the office - I don't mean in point of time - and he begins talking either to the President or to Byrnes, saying, "That fellow won't work with me. He won't cooperate. He is always complaining if I do this or that."

In other words, he will begin to undermine you. That is one of the advantages of the letter. I am trying to weigh pros and cons.

In other words, if he is a very strong and astute man--



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H.M.JR: He is.

MR. WHITE: Well, if he is, I don't think you will put him in the corner where he will say--

H.M.JR: He is one of these fellows that can talk for one hour and say nothing. He can talk for an hour and say absolutely nothing.

MR. PAUL: That is right.

H.M.JR: And keep talking all the time.

MRS. KLOTZ: What would happen if you waited a while and did nothing?

H.M.JR: You have to have something to hang onto.

MRS. KLOTZ: That may be stronger. You may have something more. You may have Crider's article and you may have something else.

MR. PAUL: There are other approaches. Are you going to be in town for a while?

H.M.JR: I will be here until after Cabinet.

MR. BELL: How about talking to the President?

H.M.JR: No. You know what he would do. He will take this thing and he will have a half a dozen reasons - he will brush it off, he will rush me, he won't listen. It is absolutely no good, talking to him. He will tell me I am sensitive or I am hurt. He will just brush me off.

There are some times when you have to talk to him. This isn't one of them. He will just brush me off.

MR. BELL: I don't think he can brush you off when you tell him you are losing your effectiveness by reason of all this undermining that is going on.

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H.M.JR: The spoken word on the President - and this I know - has absolutely no effect.

MR. BELL: I was thinking of trying to get him to do something publicly.

H.M.JR: No.

MR. PAUL: I can do this if you want to hold this until tomorrow. I don't know whether I should or not. I could get hold of Prichard for a cocktail or something like that and get talking to him and see what he would tell me. I could bring this Crider story up and say, "Why I should work like--"

H.M.JR: No, I had another thought on the thing. I thought possibly of asking Ben Cohen to come over here and show him this letter. Ben has been all right. He is a very sincere fellow.

MR. PAUL: I don't know whether Ben knows the play now?

MR. WHITE: Does Prichard know more than Ben?

MR. PAUL: Prichard is with Vinson, and Ben is in Byrnes' office.

H.M.JR: I appreciate your - you don't have to. I can tell you this man is by infiltration - that is the word I have been groping for - by methods of infiltration and with the approval of the President he is just working this thing until he has us off to one side. He is a past master at maneuvering.

MR. PAUL: It is not only the President, either. Doughton had a lunch up at his private office just across from the floor, and who was there? Was anybody from the Treasury there? There were two guests, one Senator George and the other Mr. Vinson. The Secretary of the Treasury wasn't invited, nor was I invited.

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Doughton was frank enough to tell me about it right afterward, but I don't know whether he would have if I hadn't seen him.

H.M.JR: But after that - it was before or after that that he called me up and said, "I want to get Paul and Stam together before I leave." But he didn't say, "I want Vinson there."

MR. PAUL: That was right after he talked to me. He said, "I want you and Stam to get together, and Vinson wants to be at the first meeting."

MR. WHITE: I think those things are very annoying, and they are a little more than annoying - they do interfere. But I don't think that they by themselves - or a series of them - are sufficiently important to make the matter one of issue between the Secretary and the President.

MR. GASTON: That would be true, Harry, if the tax bill were of no importance and we didn't care what happened on the tax program.

MR. WHITE: I know I would make that deduction because it seems to me if that is all it amounts to you still can be effective in formulating the program and in presenting it.

Now, if you are not to formulate it and if you are not to present it, of course that puts the issue on a very different footing. But that remains uncertain, doesn't it, that is, the question you are raising, even with Vinson?

Now, it would seem that the simple way to do would be to get it out of Vinson; but if Vinson is very smart and if he hasn't been told by the President - in other words, I think if he has been told by the President he would let you know quickly.



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H.M.JR: I don't think he has.

MR. WHITE: If he hasn't, I think he will be very, very evasive because what has he got to gain by being clear. His technique would be at that point that he has everything to be gained by being vague or evasive. I am afraid after the meeting you will be left with--

MR. GASTON: We think he has not been told definitely by the President what he is to do. But Byrnes is determined that Vinson shall represent the Administration on the tax front, and the President is conscious of that and is encouraging the President to believe that he is. And so he is trying a process of creeping in to see how far he can go, how much he can get away with.

MR. PAUL: That is right.

MR. SMITH: Get himself appointed by the press, that is what he is doing, to this job; and if he keeps doing that over a period of time, if the President ever does take action and says, "Look, Vinson, don't do that", the press, the public, are going to think the President has changed his mind again.

MR. PAUL: We will be correspondingly depleted in our ability before Congress.

MR. WHITE: How fast would he move in that direction?

MR. GASTON: If he gets away with it, he will be in the position--

MR. WHITE: What would your guess be as to the next evidence?

MR. SMITH: My hunch is if the Secretary talks to him then he has got a wonderful piece of ammunition. If the President ever asks him anything on this whole deal, he will say, "Yes, I talked to him for two hours, but, you know, he gets hurt about these things."

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Now, we have some evidence that that is what happened because in this other exchange of letters the letter was about one thing, and the President obviously called in somebody and talked about it and they shifted it over to cooperation on the preparation of a message to Congress. And the President said, "Well, Henry, of course he wants to do this job on the message to Congress", and there it dropped.

And these guys are getting a collection of nice little things that they can throw at the President that can divert him from what he is trying to do - the point he is trying to make.

MR. WHITE: What do you see as the next evidence if nothing is done?

MR. SMITH: He will keep on going, and more and more newspapers are going to assume that he has that job and the public is going to assume he has that job.

MR. GASTON: The printing isn't so important, but he is going to go ahead and call in all departments of Government and shape the tax program and lay it on the desk of the Budget for presentation to Congress. There are no two ways about that.

MR. WHITE: I am wondering, if you are right, that it is a series of steps - if you are right, I think you would expect to see within the next few days or the next week something like this, some other editorial.

MR. SMITH: One thing that will happen is that he will call together the group and say, "Now, we are going to plan a compulsory savings bill." Paul says, "We don't want a compulsory savings bill." So the next day we read in the newspapers that Paul has walked out of a meeting that Vinson has called because he doesn't approve of a compulsory savings bill and so the Treasury isn't cooperating with the President's coordinator.

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That story could very easily be printed. Crider talked to Vinson. I know definitely that Vinson is saying that he has the complete responsibility and is giving the impression very definitely that he is going to Congress and straighten out this tax, that taxes are going to be presented intelligently for once.

MR. PAUL: Crider came to me right after this conference he had with Vinson when he was preparing this story, when maybe he had it on the wires, and said, "I feel very definitely that the Treasury isn't going to present the tax program."

MR. WHITE: Well, I am wondering whether there won't--

MR. PAUL: From the newspaper standpoint, you know that if he had been completely sure he wouldn't have come to me. He wanted to verify it, what he had just gotten from Vinson in a somewhat vague way. That is why he came to me.

MR. GASTON: He wanted to find out whether it had been made official, whether you had been definitely informed. That was the case.

MR. WHITE: Could anything happen in the next few days that would be decisive? For example, you speak of calling a meeting. But if Randolph handled himself properly at that meeting it wouldn't come that way.

MR. SMITH: It could. I think this man is smarter than that. He is not going to let anything decisive happen for another month.

MR. GASTON: What could happen that was decisive would be for the President to put out a formal directive putting Vinson in charge of the tax program and presentation to Congress. That could happen if we don't challenge this.



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H.M.JR: May I say this? I said it this morning. I can repeat it again. As I said, I asked - Harry, you weren't here - I asked everyone in this room to take an oath not to discuss what we are talking about here, either now or if they ever leave the Treasury. Naturally this is a relation between the President and myself.

But this thing is a much deeper thing than this. It goes back to an idea that somebody has over there that there will be four or five of them who will be a super-cabinet, you see. I mean Hopkins and Byrnes and Vinson. Hopkins will take care of the war for the President, and Byrnes will take care of this, and Vinson will take care of that, and Marvin Jones will take care of agriculture and food. And that is a group which is sort of superimposing itself over all the rest of us.

Now, the funny thing is - I mean, how these things happen, to show you how the President does - the first time Byrnes called a meeting and announced he had sent for me and he was going to do the spade work on the message to Congress, the President, without even telling Byrnes - I forget what the statement was he got out - at that time Steve Early told John Sullivan something happened and the President just cut the ground out from Byrnes.

But since then that little group over there - Sam Rosenman and that whole little group - is all the time working, all the time plotting to superimpose themselves over the regular departments. It isn't just the Treasury. It is all of us.

And the President, instead of holding up the old-line departments he is constantly watering us down.

Now, what I am talking about here, it isn't just Vinson. I mean, should I make an effort, continued effort, which I have, vis-a-vis the President, to maintain my independence as Secretary of the Treasury, responsible to him and to him only.

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Now, when Byrnes called me up the other morning - incidentally, did that letter ever come from Byrnes?

MRS. KLOTZ: As of yesterday it had not because I inquired.

H.M.JR: Call again. There is this letter coming over setting out what the policy is, the State Department in this thing, with Crowley.

He said, "We find that War and Navy and the Treasury has something to do with it, and I am calling a meeting Monday." He said, "Of course you won't want to come to that meeting", showing that he feels my resistance.

Well, I had a talk with Hull, and I asked Hull point-blank what he did, and Hull told me.

He said they called him up on a matter and said he should come over. He said he wasn't familiar with the matter and he said, "I just sent Herbert Feis." He said, "I have answered, haven't I? When they sent for me I wasn't going to go over there. I sent Herbert Feis." That was his answer. This group hasn't yet quite gotten in the saddle.

Now, I think what happened, from the little I pick up here and there, is that the President is so harassed and the White House - Hopkins said he would take it apart and put it together again - they have no administrative organization.

They have got Pa Watson, who is an over-aged general. He may have been good during the World War, I don't know. They have Marvin McIntyre, who is a very sick man; Steve Early, who contacts the newspapers, and that is about all. The only person over there who functions, who is a first-class person, is Grace Tully. She is a very excellent secretary, but she has no administrative responsibility.

He has nobody, so these people come along - the coal strike, or something - and he will say, "Jimmy, you take



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this" and somebody else, "You take that." He is harassed, so he just throws these things at these people. They have as their assistants a couple of lawyers. Now, lawyers are very good and very useful, but you can't run the whole Government of the United States with a couple of very bright, young lawyers like Ben Cohen and these other fellows.

But the point of my story is, here are four or five people, very ambitious - and don't forget, every one of them is a politician. They have never had any administrative experience. They are strict politicians, all of them. They are maneuverers; they are finaglers. They came up as politicians.

Now, they are much smarter than I am. They are interested in their personal ambitions. Politically they are smarter than I am, and everything that motivates them is political. And that is what we are up against.

The question is, should I bring this thing to a head. Maybe this isn't a very good way, but it is a good letter - bring this thing to the President's attention and ask him for sailing orders.

MR. WHITE: I find myself arguing on both sides.

H.M.JR: So do I.

MR. WHITE: I am thinking aloud. After all, there is some doubt in your mind, I gather, as to what the President's definite intentions are on this matter. You are interested in finding out what his intentions are. If he means for you to have control, you want to know it. If he means for someone else to have control, you want to know it.

Now, why fiddle around with these subtleties? Why not go to headquarters? And he may say - if, in other words, he had no intention he would tell you so. He may say, "You are worrying too much about the newspapers." So what? At least you will have your mind cleared up.



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If, on the other hand, he has an intention of something other than that, he will tell you so. If he is on the fence, I think this will push him so that - a man never looks for a fight, and you will push him so he will say that--

MRS. KLOTZ: You mean to go to him personally?

MR. WHITE: No, no, I wouldn't go to him orally. I think it would be an error in a matter of this kind. He would probably give you a lot of applesauce.

MR. PAUL: What you said I think is very cogent. That is what swings me.

H.M.JR: Look, the person next to myself here who has had the most relationship with the President is Bell, as director of the Budget. Now, Bell went through hell for four and a half years - that is a nice way to talk - and you went all through this.

MR. BELL: Sure.

H.M.JR: Harry summed up the thing very well, and in my own clear-cut thinking - it may not be good, it may be petulant, it may be this, it may be that, but you have got to look for a chance - you did it in January and it came out all right.

MR. BELL: Last month.

H.M.JR: In June you came out pretty well. You see, this thing of Hull again - I don't know how Hull works, whether he works it with letters or telephone calls, or what, but you have this thing.

Frankly, I don't feel that if the President wants to give this to Vinson - as far as I am concerned, I don't feel that I would resign as Secretary of the Treasury if he said that this responsibility is Vinson's.

MRS. KLOTZ: It comes right back to what we started with.

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H.M.JR: On that basis I think the letter should go. I would like to have this thing cleared up. It is very time-consuming, very wearisome, and a very difficult thing.

I want to say something here. If the Treasury is rid of the thing, I would get a great deal better press for my War Bonds because they would have nothing left to attack me on. They would have nothing left. The newspapers then would be a hundred percent for me.

I wish I had known yesterday that Jimmy Byrnes had held up Mrs. Ogden Reid's increases in her salary for two months. I didn't know it was there. I wish I had known it.

If they take it away from me, O.K., then I am a popular guy. All I got to do is to raise the money, go out and make speeches, and so forth and so on. They have nothing left to attack me on.

This is the most unpopular thing. Why should I hanker so for it? What the hell? Let it be over in the left wing of the White House. I think I am crazy to fight for it. I can have peace and quiet for the next year and a half. Let the President have this thing. I have taken more murder and more punishment than any other member of his Administration on the tax bill.

I have seen poor Herman Oliphant so sick with worry, and so forth and so on, and he had to go up and testify. I mean he was just absolutely ill. I have seen Haas - I mean, go to bed before he was testifying, and so forth. Why should I fight for this thing? To hell with it. Let the President and Vinson have it.

MR. PAUL: I would like to see them do one bill.

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MR. GASTON: The difficulty with that is that Vinson isn't competent. He isn't competent to handle a tax bill.

H.M.JR: That is the President's decision. I don't think Harry Hopkins is competent to be the second man on the war, which he is. I mean every cable, everything - people have no conception - all decisions, how many planes should go to Russia or China, it is all Hopkins. Is he competent for that? That is the President. Why should I resign if he takes this away from me?

MR. WHITE: There is something a little broader--

MR. GASTON: Go ahead, you are going to say about what I was going to say.

MR. WHITE: I think there is something a little broader than that involved, although I can see the attractiveness of being relieved of a source of such headaches and responsibilities and unpleasantness as carrying a tax bill. It is very attractive.

But I think that what is overlooked in that picture is that you, after all, are Secretary of the Treasury and that the President is moving a little too much in the direction of rapping the knuckles of his Cabinet. The only one that has fought back at all publicly is Ickes.

I don't think the President is in a position to do just what he likes on that front. I think he, too, is in a little vulnerable--

H.M.JR: I think you are wrong. Do you know why you are wrong? Because he is having these great victories in the war, and that is so much more important. Whether I have a tax bill or Vinson has a tax bill - everybody else sinks into insignificance. He knows about his victories all over the world, and he is being a victorious Commander in Chief. That is all he cares about.



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MR. WHITE: That may be as far as his personal - the number of votes that he may poll, but, after all, this comes right on top of some other things. Taking away the tax bill from you would mean weakening another regular department.

I smiled, Herbert, because I think you thought I was going to say something else.

MR. GASTON: That is exactly what I thought you were going to say.

MR. WHITE: I don't think it can be passed over lightly.

MR. GASTON: I sincerely believe this whole thing is a weakening of the Administration - of the Roosevelt Administration. I think that is the strongest ground on which to put it, and on that ground I think the Secretary ought to fight to the best of his ability.

I think it is his duty to fight on the ground that he is doing something seriously damaging. If the President understands all the implications, and so on, of what he is doing, and then decides to do it of course there is nothing more to be done. You are through. But I want to see it put up definitely as to what are the dangers and what is happening.

MR. WHITE: I don't think this letter does quite that, but maybe that isn't necessary. I think that if what you have in mind is getting this clarification from the President - and the more I think that, the more good reasons I can see for it - I am afraid this letter is too long. Maybe that is not important.

MR. GASTON: I don't think you can state the essential things otherwise.

H.M.JR: I don't think that is very important.

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MR. GASTON: I think the essential things are stated here.

H.M.JR: I feel this way, gentlemen. I just would like to get this thing straightened out, and the only way to get it straightened out is to put it up to him cold in a letter. I want these two questions answered. I don't see why we should monkey around with it.

Now, if he wants to weaken the Treasury and weaken me and shorn me of my powers, O.K., let him tell it to me, but I don't want it by this circuitous manner. I want it straight from the shoulder. I mean, the way I do with any one of you fellows. If I feel White isn't representing me properly with the State Department, I am not going to begin to give his work to George Haas. I would tell him about it. I am not going to keep wearing him down so he has to go home each night wondering, "What does Morgenthau mean when he does this? What did he mean when he took this away from me?"

MRS. KLOTZ: The President has always been like this.

H.M.JR: But Mrs. Klotz, I have been here ten years, and your moral fibers begin to weaken after a while. You take a rubber band, you pull it so often and it snaps.

MR. BELL: Particularly true when your duties get heavier all the time.

H.M.JR: You can take a rubber band and keep pulling it, and after a while the thing just snaps. The things I could take five years ago when we weren't at war I can't take now.

MR. WHITE: I think there can be no doubt of the very bad effect of the uncertainty in the way you stand in these matters. I think we all agree on that.

H.M.JR: I tell you the last time I ever got a pat on the back from the President of the United States. I will show you - well, I don't find it.

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MR. WHITE: These days people are glad if they don't get a kick in the pants. (Laughter)

H.M. JR: Chuck, have you modified your opinion at all, or do you still feel--

CAPT. KADES: I sympathize with the way you feel, and I certainly have great respect for the judgment of the persons here, but I feel that what the President will do with this is to send it to Jimmy Byrnes and say, "Get the Secretary and Judge Vinson together and see if you can't work something out." It seems to me it is playing right into their hands.

It would be much better for the Secretary to talk to Judge Vinson and Byrnes at the same time, and for him to take the initiative and to say where he stands rather than to put it up to him to referee.

MR. SMITH: You are assuming that they are honest men, though, and they are not.

CAPT. KADES: I am not assuming - on the contrary, I think they are both ganging up on the Secretary. That is why I would rather see him--

MR. WHITE: Don't you think it makes it more difficult for the President to ignore a letter of this kind if it is shorter? You lose something by making it short, because it is an excellent argument here; but the longer the letter, the easier it is for him to read it and look it through and then send it to Byrnes and say, "See if you can't straighten it out."

He doesn't get the feeling that he is asked for a definite answer, yes or no, and why. I don't know whether I am right or not.

MR. PAUL: Let's not get too much into that collateral argument of the length of the letter, because we have it as short as we possibly can, and we are making a different decision.



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MR. WHITE: No, no, I am thinking of meeting Chuck's argument about if the President got this letter would he give the answer to the Secretary that he wants or would he be inclined to turn it over to someone.

MR. GASTON: Harry, we could write him a one-page letter but we would tell him nothing about what we think of the situation.

MR. WHITE: It is hard.

MR. SMITH: It depends on how hard you want to hit. You could say everything said here in a page, or a page and a half, but it would be awful blunt, awful sharp.

H.M.JR: What is that, Fred?

MR. SMITH: I say you could say everything that is said here in a page and a half except that it would be a very sharp letter.

H.M.JR: I am not interested in whether the letter is long or short. I don't care where the President sends it. I mean, there is no other way, where the President has been doing what he has done, to get him to give me a re-statement of what I should do.

And very few of you people know what I have gone through on the tax bills, and how I have had to - each person will tell you. I remember what's-his-name of Columbia--

MR. PAUL: McGill.

H.M.JR: Yes. He said to me that it wasn't facing the enemy on the hill that he minded so much but it was the shots in the back.

MRS. KLOTZ: If the letter does nothing else, it certainly makes a record of what you did during the tax period - during this period.

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MR. WHITE: Of course if he turned this over to Jimmy Byrnes and told him to fix it up, the Secretary could still be in a position to tell Jimmy Byrnes and the others, "I want an answer to these two questions."

H.M.JR: That is right.

MR. WHITE: "I am glad to cooperate a thousand percent if I have an answer to these two questions."

H.M.JR: That is right.

MR. WHITE: That is what he can say to them. He can't talk to the President that way.

H.M.JR: That is right, and I would.

MR. GASTON: You have an honest record of what you think, anyway. You have it in the record.

H.M.JR: There is another person I could show this to before it goes. That would be Judge Rosenman, who was very fair with us, wasn't he, Herbert?

MR. GASTON: Yes, he was very fair with us.

• MR. PAUL: I wouldn't.

MRS. KLOTZ: I wouldn't show it to him. This is a decision that you have to make.

MR. GASTON: He will probably discourage us.

MR. WHITE: He will probably have in mind to make it easier for the President than you. If he thinks this is going to make it unpleasant for the President, I think he is going to probably discourage you.

MR. GASTON: It will be uncomfortable both for the President and all of the people who surround the President, including Sam.

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MRS. KLOTZ: It is simple. The President will either say it is you or it is Vinson, and if it is Vinson then you have to make up your mind, do you stay here or do you not.

H.M.JR: No, it is a little--

MRS. KLOTZ: That is what you are putting before him and nothing else.

MR. SMITH: I don't think you can get an unbiased judgment from anybody. It is up to you to decide.

H.M.JR: Bob said to have a letter and just keep reading it for a couple of days, and then decide it.

MR. BELL: I was just thinking, I wonder if it wouldn't be well to wait until Monday.

MR. PAUL: I wouldn't wait very long.

MR. GASTON: I would make your decision by tomorrow. Putting it off is just further worry without coming to any better decision.

H.M.JR: I want to say this - I don't see why I have to decide beforehand - supposing the President takes it away from me, does that mean I have to resign as Secretary of the Treasury? I don't feel that way.

MRS. KLOTZ: I do.

MR. WHITE: The only thought is if you think at all that that is a possibility, I think this letter has to be examined in that light. If you thought that was a possibility, then the question of the uncertainty with which you are laboring under would have to be weighed against those other far more important factors.



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I think that the importance of the decision whether to send this letter or not becomes infinitely greater if you think there is a possibility that you would wish to resign if he said no. If, on the other hand, you wish to--

H.M.JR: I don't have to think that over. I do not have in mind to resign.

MR. WHITE: In that event--

H.M.JR: I mean that is something that is purely me.

MR. WHITE: I am not arguing that.

H.M.JR: I am just saying that at no time since I wanted to write this letter have I had it in mind that this was a threat for resignation.

MR. WHITE: If that is the case, I am wondering then whether you aren't giving this - whether you aren't troubling yourself about the sending of this letter a little more than it is worth. After all, your relations with the President extend over a number of years, and you have a perfect right to send him this letter to find out where you stand so it won't spoil your week end or your next weeks, and he will answer you one way or the other.

Your sending him this letter isn't going to make him give it to Vinson if he didn't intend to. Neither is it going to give it to you if he intends fully and has his mind made up to give it to Vinson.

I don't see what you have to lose by sending him the letter and sending it now and not sleeping over the thing, since all that will happen is that the most he will say is, "I would like Vinson to handle this."

MR. GASTON: The whole basis for sending the letter is on something we know is characteristic of

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the President, that he makes these half-way decisions.

MR. WHITE: Am I correct in saying that every time you sent him a letter - I think there were a couple of times that I remember, right off-hand - the matter was cleared up?

H.M.JR: Been cleared up, and he has backed down.

MR. BELL: We have won every time so far.

MR. GASTON: He hasn't definitely in his own mind made a clear-cut decision. He is putting off the decision, which is quite characteristic of him.

MR. WHITE: What is the harm in sending this letter? What unfavorable consequences do you envisage?

(The Secretary left the conference.)

CAPT. KADES: In the first place, it seems to me the Secretary is going to get called over to Byrnes' office and he is going to say, "What have we done that you object to?"

MR. WHITE: What has that to do with these questions? These are specific questions. One is, is the Treasury going to present this bill to Congress.

CAPT. KADES: The President has answered that in the previous memorandum. He says he will present his program to Congress.

MRS. KLOTZ: He says that definitely in the letter.

CAPT. KADES: He has already answered that. Now, if the question is, is the Treasury going to formulate the program, the President has said it is going to be formulated in cooperation with the Economic Stabilization Director.

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MR. WHITE: But that is a vague term. Who has the responsibility for it? One person has to have the responsibility.

(The Secretary reentered the conference.)

MR. GASTON: There is just one thing, one possibility of this forcing the situation to where you would have to resign; and that is that the President would be greatly angered and answer you in an ugly tone. But if--

H.M.JR: I am willing to take that.

MR. GASTON: But if it is possible for him to do that--

H.M.JR: That doesn't bother me. If he wants to get angry at me, O.K.

MR. GASTON: I don't think that will happen.

H.M.JR: Herbert, that doesn't bother me. If this thing makes him angry and he wants to force my resignation, that is all right.

MR. GASTON: That is, if he is in that state of mind, it doesn't make any difference.

MR. WHITE: Mr. Secretary, I didn't see this (indicating President's letter dated June 12, 1943). I find myself like a chameleon, changing every minute. But I think this makes a difference.

He answers your question here very specifically, that you are to present it to Congress. It is June 12, and here on June 22 - July 22 - you are asking him again, does he mean it.



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H.M.JR: No, but read the letter to him. I told them to give you everything.

MRS. KLOTZ: Bob raised that very point.

H.M.JR: I told them to give you everything to read. There is one thing in this letter to him, particularly, which we put in which he didn't answer: "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 got a verbal answer to go ahead. "Nothing is changed" - that was the answer I got.

"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."

"If I am to continue to be responsible to you" - he completely avoids that.

MR. WHITE: It doesn't completely avoid it, but it does answer this part about the tax program. Why do you ask the question again?

MR. GASTON: We ask the question again because Vinson practically announces that he is to present the tax program.

MR. WHITE: Why ask it again? You are asking the President a question on which he gave you a definite answer only a month ago, and he has said nothing, to my knowledge, which would alter that.

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MR. PAUL: The two questions are tied together, though. If he is to formulate the tax program and not the Secretary, then the matter of presentation has an entirely different light. The matter of presentation goes together with the formulation and responsibility for the formulation.

MR. WHITE: Wouldn't the thing be slightly different? Wouldn't you begin by saying, "On June 12 you indicated, in response to my letter, very definitely that you wish me to present the program which you approve. However, there is some doubt about the formulation, who is responsible for the formulation. Just as you cleared up that point, I would wish this point to be cleared up because the presentation without the formulation" - I mean something like that.

But to ask him two questions, one of which he specifically answers within a month--

H.M.JR: Look, in view of what Harry raised, let me put this thing a little bit differently.

Supposing we said, "My dear Mr. President, I asked certain questions in my letter of June 10, and you cleared up part of them, namely, that we are to present the tax bill. But the important thing is not the presentation but the preparation. Now there seems to be confusion on that. Therefore, let me ask you the question about the preparation. I am satisfied you want me to present it, but there seems to be confusion on the end of the presentation." Confine it to one question.

MR. WHITE: That would make more sense.

CAPT. KADES: I realize I am a lone dissenter, but I still, Mr. Secretary, don't think it would be advisable to send the letter.

It seems to me the important question is whether or not you want to present a program to Congress which



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you don't agree with.

Now, if that is the issue, which is hinted at in the middle of the letter here, that the Vinson program or the program that results after all the spade work is done is going to be something that you won't care to take down and defend on the Hill, then you disagree on the merits with Vinson but not on the mere question of who is going to do the ground work.

Obviously Vinson doesn't have the staff to do it. As to whether or not the program prepared in the Treasury is going to have to go and be submitted to the White House for approval, I think it is perfectly clear under that memorandum that it will have to be.

H.M.JR: Now look, let me stop you, because in the first place I have this man outside, and I haven't done my mail yet. I can hit this thing tomorrow morning.

He evidently has a different angle on this thing. We will take this one the way it is. Supposing you go to your room, Chuck - let me state what I have in my mind, and then if you agree you would like to do it - if you don't agree with me, tell me so.

The thing that bothers me is this - I know I am restating it, but let me state it once more - that this fellow Vinson has taken the bit in his teeth and figures that through maneuvering, and so forth, he can maneuver himself into the position where he will assume the leadership in the Executive department for the preparation of this tax bill, using all of us, you see, and then he will say, "All right, Morgenthau, you go ahead up there and present it."

Now, I don't want that to come to pass, and I want to keep in the Treasury the responsibility for the leadership of preparing a tax bill for the President and the Congress.



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I want to get that to the President so that he will say to me, "Morgenthau, you are responsible not only for the presentation but for the preparation, and it isn't Vinson. It is you. You should consult with Vinson, consult with Harold Smith, consult with Eccles, consult with John Jones." See?

Now, do you think that you can honestly - I mean intellectually prepare such a letter for me?

CAPT. KADES: Mr. Secretary, I think that this letter does that. I couldn't improve on this letter. I think this is a beautifully worded letter. I don't think it is too long.

It is simply the idea of sending a letter on the basis of what seems to me to be very tenuous matters - I mean the newspaper story.

H.M.JR: All right, let's say that is no good. Then let's say we do nothing. Where do we find ourselves?

CAPT. KADES: In a state of uncertainty.

H.M.JR: How are you going to correct that?

CAPT. KADES: By talking to Byrnes and Vinson.

H.M.JR: You mean that is your advice?

CAPT. KADES: Yes, sir.

H.M.JR: As against a letter?

CAPT. KADES: Yes, sir, as against a letter. And I don't think Vinson alone. I think you have to talk to Byrnes because I think Vinson is just Byrnes' boy.

H.M.JR: But I don't recognize Byrnes as my superior. Why should I go to Byrnes?

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CAPT. KADES: Because of the President's memorandum in which he says that in this the tax program will have to be formulated in cooperation with Byrnes - unless you are not willing to accept the memorandum of June 12.

MR. PAUL: You are ignoring the point of responsibility for formulation.

H.M.JR: Well, let's stop and we will start in again tomorrow morning.

July 22, 1943.

My dear Mr. President:

A number of recent developments force me to seek enlightenment from you on a matter of crucial importance, if I am to function effectively as your Secretary of the Treasury. The two points on which I am in urgent need of your guidance are:

(1) Am I, as Secretary of the Treasury, to continue to be in charge of the formulation of tax plans and policies for submission to you as the basis for an Administration tax program;

(2) Do you look to the Treasury, as heretofore, to present the Administration's tax program to Congress.

In seeking your advice and direction on these two points I am mindful, as I always have been, of your order that "disagreements either as to fact or policy should not be publicly aired" but are to be submitted to you for decision. I want you to know that I am in complete agreement both with the letter and spirit of that order. It is a policy that I have followed punctiliously from the time when you first entrusted me with the responsibility of public office. But I now find myself in the position where word of mouth rumor and statements in the newspapers, both obviously emanating from persons within the Administration, are not only undermining my effectiveness but in my opinion weakening the power of the Administration and doing serious damage to the war program.

A typical newspaper story of this kind is that by John Crider in the New York Times of Wednesday. This represents Mr. Vinson, Economic Stabilization Director, as having assumed charge of formulating an Administration tax program for presentation to Congress and conveys the further suggestion that Mr. Vinson may himself present the program to Congress. This is not in accord with any



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instructions I have received from you, but I am not able to comment on it without running the risk of entering into public controversy, which I should certainly not wish to do.

You will recall that on June 10 of this year after a similar story had appeared naming Mr. Byrnes, the War Mobilization Director, as the Administration's new "tax policy maker" I wrote to you suggesting that if you wished me to continue to be responsible to you for the development of tax policies and their presentation to Congress it would be appropriate for you to clear up the confusion on this matter created by statements made by Mr. Byrnes and their interpretation by the newspapers.

While you were good enough to reply by memorandum on June 12 stating that you would expect me to present to Congress a tax program having your approval you did not clearly indicate whether you wished me to retain primary responsibility for developing such a program to present to you. You suggested that the Mobilization Director and I should "get together and arrange to cooperate in this matter." I have conferred with Mr. Byrnes and with Mr. Vinson both on tax and general fiscal matters, but I have not received any indication from either of them of the basis on which they expect or are expected to cooperate on the extremely vital matter of formulation of a tax program for presentation to you.

You asked me in your memorandum of June 12 not to let the newspapers disturb me; but, lacking any clear directive or information as to what I am to do and what others are to do, I am compelled to pay a great deal of attention to what I read in the daily press, especially when there is no authoritative denial of these demoralizing rumors. Besides, it is not solely or chiefly a matter of my being disturbed. The widespread impression has been circulated through many channels of dissemination that, except for gathering data for some other agent or agents of the Administration to utilize, the Treasury is "out of the tax picture." This impression makes it practically impossible for us to continue to seek the advice of other agencies of the Government on tax matters, as we

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have been conscientiously attempting to do; it hampers most seriously our dealings with members of the committees of Congress and the staff of the Joint Committee, with whom a great volume of preparatory work must be done in advance of any tax legislation, and it exercises a blighting effect even on our own tax research work and the formulation of our own ideas as to a tax program.

It goes even further than that. The situation of uncertainty that has been created is rapidly putting you and your entire Administration into a position where your tax proposals, no matter how carefully formulated, are quite unlikely to get the attention they deserve from the committees of Congress when they meet to consider a tax bill. The picture being presented to them is one of indecision and confusion, even on so primary a matter as the question of who is charged by you with responsibility for formulating and coordinating Administration tax research and advice. The effectiveness of the Treasury Department in that field is being dissipated without any designation of a substitute to take over the Treasury's traditional functions and responsibilities.

How far this state of confusion has advanced is indicated by the statement in Mr. Crider's story that the staff of the Joint Committee is preparing, after gathering data by subpoena from various executive departments and agencies under powers expressed in the 1942 Tax Act, to present its own entire program of tax legislation to the committees and to Congress. This decision forecasts scant attention to any Administration program you may recommend.

In my opinion it would be deplorable if events should take that course. This is especially true in the light of what we have been able to learn of the views of the chief of staff of the Joint Committee and those of various members of the two committees. I feel very strongly, as I believe you do, about the need for new tax revenue in very substantial amounts. What we know about the huge increase in national income, the great pressure of excess buying power on prices and the relatively poor showing we



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are making on the revenue front as compared to Great Britain and Canada all spell out the need as a mere matter of fiscal and economic prudence of much more drastic taxation. Yet so far as we have been able to ascertain the people on the Hill have not been impressed. They are talking of leaving the income tax structure, including all its present discriminations, substantially untouched, and raising revenue in relatively trivial amount--possibly through a sales tax, which may very well add to rather than lessen the inflationary pressure. In addition they are suggesting as the easy way to escape the necessity of higher taxes the inauguration of some half-hearted plan of forced lending which would act as a bar to the higher rates of taxation we ought to get and might only substitute for a part of the funds we are now getting through voluntary lending.

It seems to me that if ever the Administration needed to speak with a clear voice on any subject it is now, and on the subject of taxation. A chorus of voices, each one speaking on the basis of some rumored authority, can not be a clear voice; it can not be reassuring; it can not do otherwise than create an impression of indecision and confusion--and that is the precise impression that is being created every day both by word of mouth and by printed assertion and innuendo.

I have read in various newspapers the statement that the Treasury has no fiscal program, and the implication is conveyed that on that account the whole war effort is being endangered and that financial ruin stares us in the face. This is certainly not helpful publicity as we prepare for a 15 billion financing drive in September in which we will call for far the largest individual subscriptions to a war loan in our history.

The statement is not true. The Treasury has a program, in general and in detail. We have had a program for war financing since long before Pearl Harbor. When we inaugurated the War Savings plan in May of 1941 it was as a part of an integrated plan of taxation and borrowing intended not only to finance the war, but also to throw



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up the most secure defenses possible against inflation. We are prepared now to give you a complete set of recommendations for new taxation at any time you may deem it appropriate to call for it.

But how can the Treasury be considered by the public to have a program if it continues to be advertised, as it is being advertised, that it makes no difference what kind of ideas or plans the Treasury may have, since what the Treasury has to say is not with authority and isn't going to count in the end?

There is an organized effort to discredit the Treasury as your representative. Have you analyzed the sources from which that effort comes in order to find out why that is so? Is it not chiefly because the Treasury has been the spearhead which you have employed over the last ten years to drive for many salutary reforms and to remove rank discriminations in our revenue structure? It is my opinion that anyone you might choose to represent you on the tax front would share the same obloquy. And when they say that the Treasury "has no program" they are saying that you have no program; but what they really mean is that you have no program which is to their liking.

What is being whittled away by this backfire in the corridors and in the press is not the prestige and authority of the Treasury, but the prestige and authority of the Roosevelt Administration and its ability to discharge adequately its duty and responsibility to the Nation on the fiscal front.

I can't go ahead under this cloud to do a good job with the war financing and a great many other things that are on my hands. I ask you most urgently to give me a clear answer to the two questions I put at the opening of this letter.

Do you want me to continue to be in charge of formulating recommendations on tax policy and tax legislation for presentation to you? If you do, we shall of course

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continue to consult all the interested agencies of the Government as we have been doing and to give full weight and consideration to their advice.

Do you want the Treasury to present your tax program to Congress, as it has done in the past? We can present such a program cheerfully and with complete and willing energy, but only if we have been chiefly responsible for its formulation and presentation to you. Neither Mr. Paul nor I wishes to have anything to do with the presentation of any program formulated by anyone outside the Treasury other than yourself.

I hope you will give me definite answers to these questions just as soon as possible so that I and others in the Treasury may know how to direct our energies.

Faithfully,

Secretary of the Treasury.

The President

The White House

JUL 22 1943

My dear Mr. President:

This will acknowledge receipt of your letter dated July 15, 1943, calling attention to your instructions of August 21, 1942, relating to disagreements and conflicting viewpoints as between department and agency heads, and setting forth the procedure to be followed in such instances.

I have again brought to the attention of members of my staff your instructions of August 21, 1942, and the contents of your letter of July 15, 1943, and am pleased to advise you that strict compliance in every respect is assured.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

File to Thompson,  
Photo of incoming and  
copy of reply in Diary.

CSB:em  
7-22-43

*Lyons: Claude 527 7/22*



THE WHITE HOUSE  
WASHINGTON

July 15, 1943

Dear Sir:

On August 21, 1942, I sent to the head of each department and agency of the federal government a letter, copy of which is attached.

I call your attention to the statement contained in that letter that "disagreements either as to fact or policy should not be publicly aired, but are to be submitted to me by the appropriate heads of the conflicting agencies." Notwithstanding these positive instructions, disagreements between agencies have been publicly aired on several occasions.

I realize the nervous strain under which government officials are working in war time but I cannot overlook any further violations of my instructions. By this letter I do not place any restriction upon your furnishing statements in response to Congressional inquiries. But if when you have a disagreement with another agency as to fact or policy, instead of submitting it to me or submitting it to the Director of War Mobilization for settlement under the terms of the Order creating that office, you feel you should submit it to the Press, I ask that when you release the statement for publication, you send to me a letter of resignation.

If any subordinate of yours violates my instructions in this regard, I shall expect you to ask for his immediate resignation.

I am sending identical letters to the heads of every department and agency of the government.

Sincerely yours,



The Honorable  
The Secretary of the Treasury,  
Washington, D. C.

The President has sent identical letters, reading as follows, to the head of each department and agency of the Federal Government:

In dealing with the many complex war problems which we face today, it is unavoidable that there be wide differences of opinion between agencies of the Federal Government -- opinions sincerely and honestly held. However, too often in recent months, responsible officials of the Government have made public criticisms of other agencies of the Government; and have made public statements based either on inadequate information or on failure to appreciate all the aspects of a complex subject which is only partially within their jurisdiction.

This is inadvisable at any time. But in times of war it is particularly contrary to public policy. It contributes only to the confusion of the public, which naturally does not know what to believe on an involved issue when it gets different stories on successive days from officials of equal standing, though not necessarily of equal understanding.

Such divergencies, especially when coupled, as they often are, with express or implied criticisms of other officials are a direct and serious handicap to the prosecution of the war. Officials divert to quarrels with each other the time and energy they ought to be devoting to fighting the enemy. The people, confused by these contradictory voices, are apt to obtain the false impression that the Government as a whole is uncertain as to its objectives and general method and that it does not know its job.

This feeling is of course pounced upon, exploited, and intensified by opponents of our war effort. Our enemies use this raw material of discord provided for them by men who ought to be making trouble for the enemy and not for one another.

One of the duties prescribed for the Office of War Information is the coordination of war informational activities of all Federal departments and agencies, for the purpose of assuring an accurate and consistent flow of war information to the public and the world at large and for the added purpose of eliminating conflict and confusion among the departments and agencies of the Government in the matter of their public relations. Elmer Davis, Director of this Office, tells me that so far as written statements from departments and agencies are concerned, very satisfactory progress toward this objective is being made. But, he points out that the attainment of the objective is being gravely hampered by verbal statements dealing with matters touching more than one department or agency made by high officials in press conferences and elsewhere, - statements which do not contribute either to the accuracy or the consistency of public information.

In a recent report to me on this situation, Mr. Davis makes a statement which should be emphasized: "The enemy is constantly at work trying to undermine public confidence in the government; why should members of that government help him along by undermining it themselves?"

Where honest differences of opinion exist no one would propose to suppress them. Nor would anyone attempt to interfere with the free use by every public official of the normal processes of information to the public and press. But it is no solution to a controverted question to argue it out in public. If the agencies would refrain from resorting to public debate of this kind they would have a good deal more time to attend to their business, and the nation would have a good deal more assurance that that business was being done right.

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These differences between agencies often deal with matters of fact which can be harmonized by fuller investigation, or questions of policy which should be adjusted by conference between the agencies or by reference to me as the responsible head of the Government. Disagreements either as to fact or policy should not be publicly aired, but are to be submitted to me by the appropriate heads of the conflicting agencies. The policy of the government should be announced by me, as the responsible head thereof. Disagreements as to facts can be resolved, if necessary, by investigations and surveys directed by me.

Will you please see to it that your particular department and its various bureaus and divisions comply with these instructions.

I am sending an identical letter to the responsible head of each department and agency of the Federal Government.

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JUL 22 1943

Dear Mr. Davis:

This will acknowledge receipt of your letter dated July 17, 1943, indicating that in accordance with the President's letter of July 15, 1943, your office will withhold clearance of any public statement where disagreements between agencies as to fact or policy are not settled by agreement of the agencies concerned, and that in such circumstances your office will refer the disagreement to the President or to the Director of War Mobilization for solution.

This is to assure you that the Treasury Department will cooperate fully with the Office of War Information in enforcing strict compliance with the President's instructions.

Very truly yours,

(Signed) H. Mergenthau, Jr.

Secretary of the Treasury.

Mr. Elmer Davis,  
Director, Office of War Information,  
Washington, D. C.

File to Thompson.  
Photo of incoming and copy  
of reply in Diary.

CSB:em:lc  
7-21-43

OFFICE OF WAR INFORMATION  
WASHINGTON

OFFICE OF THE DIRECTOR

July 17, 1943

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

Dear Mr. Secretary:

The President has sent you, as an attachment of his letter of July 15, 1943, a copy of his letter of August 21, 1942 addressed to the heads of all Departments and agencies. As you are aware, by the terms of the letter of August 21 and by Executive Order 9182, the Office of War Information provides the mechanism for the clearance of public statements by the heads and principal officials of all Departments and agencies.

In the exercise of its authority to coordinate the war informational activities of all Federal Departments and agencies, the Office of War Information will, in accordance with the President's letter of July 15, withhold clearance of any public statement where disagreements between agencies as to fact or policy are not settled by agreement of the agencies concerned. In such circumstances, this Office will refer the disagreement to the President or to the Director of War Mobilization for solution.

Very truly,



Elmer Davis  
Director



July 22, 1943

Fred Smith

Secretary Morgenthau

Mrs. Ogden Reid told me yesterday she is personally for the volunteer savings plan.