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War Savings Bonds

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Withholding Tax

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August 10, 1943
11:07 a.m.

1

HMJr: Hello.

Operator: Mr. Helvering. Go ahead.

HMJr: Guy.

Guy
Helvering: Yes.

HMJr: Good morning.

H: How are you?

HMJr: Marvin McIntyre sent me over Norman Cann's resignation.

H: Yes.

HMJr: I didn't know it was going to go through. Hello.

H: Yes.

HMJr: Now....

H: He has to - he has to resign as Assistant.

HMJr: Yeah. Yeah, but now he told me that he was out of sympathy with what I was doing here. Hello.

H: Yes.

HMJr: I want to know just what he means by that. (Pause) Or, did you tell me that? Hello? Either you or Norman Cann told me that he's out of sympathy with what I'm doing and that's why he wanted to resign.

H: Well, I don't know what - I don't know about that, Mr. Secretary. He told me that he - the situation here - I think I told you under the situation existing here, he didn't want to stay in this particular place.

HMJr: Well, what situation?

H: Well, the....

HMJr: He doesn't even wait 'till I get a report from Dan Bell - he's - Dan Bell has spent hours on this thing.

H: Uh huh.

HMJr: I don't even - I haven't even had a chance to talk with Bell to find out.

H: Well, of course, I think his idea about that was simply to go on giving a vacancy here in this place so we could reappoint somebody else.

HMJr: Yeah. Well, I don't think he should pick and choose what he's going to get in the field. I mean, if....

H: He didn't. I picked a place I could use him.

HMJr: Yeah.

H: Of course, I don't know whether it satisfies him or not, particularly.

HMJr: Well, I think it's more important that it satisfy me. I mean - the man says he's out of sympathy - he gets mad over a matter which he had considerable at fault - he didn't conduct himself well in my office. I mean - that is the first time this has happened to me. After all, we are at war. Who the hell does Norman Cann think he is?

H: Well....

HMJr: I mean - he should control his temper.

H: Yeah, that's true.

HMJr: And he was at fault. You didn't like it. I didn't like it. It was a lousy piece of work that they were going to send out.

H: Yeah. Well, what he....

HMJr: And no matter how many people okayed it - I haven't seen Dan Bell - the man who is Assistant Commissioner ought to have brains enough to know when something's going to make trouble for you and me.

H: Yeah.

HMJr: And to have him come up here and argue with me for forty-five minutes "it was all right" and so forth and so on - I just had to pound it down his throat.

H: Well, let's see - have you that resignation there?

HMJr: Yeah. It's just come back from the White House with an - as a request to prepare an answer for the President.

H: Well - uh - what does it say?

HMJr: Well, it simply says, "This is respectfully referred to the Secretary of the Treasury for preparation of reply. Marvin McIntyre."

H: Well....

HMJr: Oh, you mean what does Cann say?

H: He told me he was simply sending over a resignation to accept another appointment in the field service to the President so as to vacate....

HMJr: Yeah.

H:the Assistant Commissioner. I don't....

HMJr: I know, but I don't see why he couldn't wait until I got a report from Dan Bell. We've taken all this trouble to look into it. He said he wasn't at fault - that other people had okayed it - and we're having an investigation. But he doesn't wait - he goes right ahead and resigns anyway. I don't like it.

H: Well, of course I - I asked you the other day if I could - I thought he was too good a man to lose....

HMJr: I know.

H:and I asked for the privilege of assigning him someplace else.

HMJr: That's right. And I granted that.

H: Yeah.

HMJr: But then, subsequently - subsequently to that I asked Bell to look into the whole thing in view of Cann's remark that he was being blamed for something which he wasn't responsible for....

H: Yeah.

HMJr:and I thought that, at least, he'd wait until Dan - the Under Secretary gave me a report.

H: Well, of course, he did say to me that he didn't feel that he could stay here in this particular position if the Treasury was going to take the attitude of blaming him for things that they participated in....

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HMJr: Well....

H:or something to that effect.

HMJr: That's what you told me and as a result of that I asked Bell to make a complete investigation which he has and I haven't had a report yet.

H: Uh huh. Well, of course, I agree with you - if - of course, I didn't - I told you he had handed me his resignation.

HMJr: Excuse me?

H: I say I told you, you know, that he had handed me his...

HMJr: Well, I know, but I thought....

H: I asked him to hold it to see if we couldn't assign him someplace else.

HMJr: Yeah. But I - Maybe I - I thought that in view of Bell going into the whole thing it would be held up until Bell got through.

H: Yeah.

HMJr: Otherwise, I wouldn't have taken the trouble to - I - I - Bell has spent hours on this - but....

H: I think the only thing he had in mind as far as any statement he made to me, in sending his resignation over to the President was that it was a Presidential appointment and I had to reassign him or suggested a reassignment and sent the fanfolds over for the re-assignment....

HMJr: Well....

H:and he wanted to vacate this position.

HMJr: Would this be agreeable to you? As soon as I can catch my breath, I'd like to sit down with Bell and you and John Sullivan and hear what Bell has to say.

H: Yeah.

HMJr: Hello.

H: Yes.

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HMJr: Let's say at ten o'clock tomorrow. Huh?

H: All right.

HMJr: Well, let's see. Is ten-thirty all right?

H: Any time tomorrow morning except just before noon, I have an....

HMJr: Well, let's say ten-thirty for Bell and you and John Sullivan and let's get a report from Bell.

H: Yes.

HMJr: And I'll hold on to this thing of Norman Cann's from the President until I see you tomorrow morning.

H: All right.

HMJr: How's that.

H: Fine.

HMJr: And in the meantime, will you hold up any assignment to him?

H: Well, it's - the fanfold is over in your office making this change effective the 25th.

HMJr: Who is doing that?

H: Well, I want - you see there's a vacancy in a technical staff job....

HMJr: Where?

H:in San Francisco....

HMJr: Yeah.

H:and I wanted to put Mr. Cann in charge of that office.

HMJr: Yeah.

H: So I started the fanfolds through and I think they are over there now if they haven't come back. We made them up day before yesterday - Saturday, I think.

HMJr: I can't understand. You - you....

H: I say we made the fanfolds up Saturday and sent....

HMJr: Fanfolds?

H:them over for approval.

HMJr: What does that mean - fanfolds?

H: Well, that's the appointment.

HMJr: Oh.

H: Transferring Mr. Cann from this job to the head of the Technical Staff in San Francisco.

HMJr: Is that a very choice job out there?

H: Oh, no I think he'd rather have had some big agent in Charles' office but I thought that was the place I'd like to put him.

HMJr: Well, can't you hold it up for twenty-four hours?

H: Oh, sure, we can hold it up here right along.

HMJr: Well, I mean until I see you tomorrow?

H: Oh, yes.

HMJr: Will you do that?

H: Yeah.

HMJr: Until I can get a report from Bell.

H: Yes. All right.

HMJr: Thank you.

H: All right.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

August 10, 1943.

MEMORANDUM TO THE SECRETARY:

In accordance with your instructions, I have discussed with Messrs. Cann, Blough, Smith, Surrey and Sullivan the matter of clearing the Bureau of Internal Revenue income tax forms and instructions for use this coming September. Most of the information I got from the individuals was, of course, based on memory of what had taken place, but each one told about the same story regarding the channels through which these forms passed.

Mr. Cann stated that when the Bureau first started to prepare the instructions and forms its representatives felt that the whole procedure should be simplified as much as possible. He discussed the matter with the Commissioner before he left for his vacation and he agreed with this approach. The Bureau representatives prepared instructions and forms with tables attached which they thought represented a simplified approach to the problem. (Others did not think they were so simplified.) Those instructions and forms were sent to the offices of the Legislative Counsel (Mr. Surrey) and Tax Research (Mr. Blough) for comments, criticisms and suggestions. There were some telephone conversations between Mr. Cann and Mr. Blough regarding the use of gross income as against net income in the tables as a basis for computing the estimated taxes. The Bureau was then against gross income as a basis.

In a subsequent meeting in the Bureau of Internal Revenue, Mr. Surrey, from the Legislative Counsel's office, stated that the Treasury was not in favor of the Bureau's simplified approach as it raised the question of legality. He stated his views before this committee, all of whom were convinced that Mr. Surrey was correct in his interpretation of the law. (Mr. Surrey states that he did not say it was illegal but that it was inadvisable to use the table in connection with the type of form they were then discussing.) Anyway, upon further consideration of the matter and also in view of the fact that a large part of the 14 million taxpayers who will file these forms have already had experience in filing the long form of income tax returns and would be required to file such form on March 15, 1944, it was decided to adopt the more technical approach. This apparently was the basis for the forms and instructions submitted to you on July 13th.

In my discussion with Mr. Blough he states that the first set of instructions and forms were submitted to his office and while the



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Bureau felt that they represented a simplified approach, he did not so feel. They made some suggestions for changes, many of which were accepted, and thought the forms probably represented about the best that could be had under all the circumstances. On July 5th he had luncheon with you at the hospital in New York. He told you that the forms and instructions were complicated and that you might get some unfavorable public reaction to them. You told him to explain the whole matter to Fred Smith and ask Fred Smith to go over these forms and instructions to see what could be done to simplify them. This he did on July 8th. Mr. Smith made certain changes in the instructions but made no changes in the forms. (Mr. Smith says that he was only asked to go over the instructions.) These changes were sent to the Bureau on Friday, the 9th; most of the changes were accepted by the Bureau.

On Monday, July 12th, the forms and instructions, in what the Bureau thought was final form, were sent to Assistant Secretary Sullivan, who experimented with two experts on the time that it would take to make out his own income tax return. It took him an hour and a half with these two experts, with fifty-six computations, to make out his return. He brought this matter to your attention at a staff meeting on Tuesday, July 13th, and stated he wanted you to know that there would be some public reaction to these complicated forms.

It was then that you began having conferences to simplify the procedure. You will recall at one of the conferences Mr. Cann, just before he was about to return to his office to work on the suggested simplified forms, raised the question of statutory authority. Mr. Paul replied that he had not "the slightest question about the legality of almost any construction of the statute in the direction of simplicity." That statement of Mr. Paul's apparently relieved Mr. Cann on this point, as the Bureau had been previously working under the assumption that the simplified approach was not in accord with the Act.

Mr. Blough states that he believes Mr. Cann had a right to feel that he, as Acting Commissioner, took every step that was required of him to get the views and suggestions of all concerned in the Secretary's office before the papers were in final form to submit to Assistant Secretary Sullivan for approval.

I understood that you only wanted me to cover the clearing of the income tax forms and instructions and not the subsequent controversy about the letter to go out over your signature. I have not questioned many people regarding the letter, but I understand that it is this controversy which brought to a head the resignation of Norman Cann. I have, however, heard enough about it in connection with the above investigation to come to the conclusion that the whole procedure was a matter of misunderstanding. Mr. Smith thought he had made it plain to Mr. Horne that the letter was to come back through him for clearance with you, whereas Mr. Horne thought he had complete authority from Mr. Smith to go ahead and clear the letter, which was done.

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I do not believe that any one person was at fault in this whole controversy. Mr. Cann has submitted his resignation and has agreed with Mr. Helvering to accept another position in the Internal Revenue on the West Coast. He says that nothing can change his mind on his request to be released from his present position as Assistant Commissioner. He does not want anything done to hurt Mr. Blough or Mr. Surrey because of their action in passing upon the forms and instructions. He says they have been very helpful to him and he has had their complete cooperation in the present as well as all past matters affecting the Bureau. He thinks they are two very able men and he wants you to know that he does not in any way blame them for his difficulty.

After reviewing the whole matter I am inclined to believe that it is difficult at times for the head of a Bureau like Internal Revenue to know just who is acting for the Secretary's Office. Mr. Cann apparently assumed that Mr. Blough and Mr. Surrey were keeping Mr. Sullivan informed and these two gentlemen probably assumed that Mr. Cann was keeping Mr. Sullivan informed. There should be a clear line of authority between the Secretary's Office and the Bureau of Internal Revenue and that line should be through the Assistant Secretary in charge. It is up to that Assistant Secretary, by constant contact, to see that this channel is respected by all concerned.

sub

August 10, 1943.
2:22 p.m.

10

Operator: Go ahead.

HMJr: Hello.

Jesse Jones: Hello.

HMJr: Yes, Jesse.

J: How are you?

HMJr: I'm fine.

J: You are in town, are you?

HMJr: In person - in the flesh.

J: In the flesh. Well, I'm coming over there at four to a meeting.

HMJr: That's right.

J: Now, there's another meeting that Biddle and I wanted to talk with you about on this - you know - import duty business.

HMJr: No, I'm not familiar with that.

J: Do you know who is over there?

HMJr: Yeah. Herbert Gaston would be.

J: All right. Then maybe we could see him.

HMJr: Is Biddle coming today?

J: No, he - no, no, he was only going to come with me to discuss this thing that I just mentioned.

HMJr: Oh, well, he'd better not come today because this is a high powered meeting.

J: Okay, then I'll....

HMJr: I mean - I'd be glad to have Biddle come to this other meeting but....

J: Oh, no - no - no, I just....

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HMJr: But we start on time and we've got an awful lot of stuff - it's on a tax program.

J: Okay, I'll be there at four o'clock.

HMJr: And, but I'm afraid if Biddle came....

J: Yeah. He might talk too much.

HMJr: What?

J: I say....

HMJr: No, I think it would be a mistake today..

J: Okay.

HMJr: Any other time, at your convenience.

J: I'll tell him.

HMJr: Any other time.

J: Thanks.

August 10, 1943
3:15 p.m.

TAXES

Present: Mr. Bell
Mr. Paul
Mr. White
Mr. Sullivan
Mr. Blough
Mr. Surrey
Mr. Lindow
Mr. Murphy

H.M.JR: What is this, a dress rehearsal?

MR. BLOUGH: This we thought - Mr. Paul and I thought--

H.M.JR: This fellow Jesse Jones, I can't figure him out. He said, "Henry, I am coming to your meeting. I am bringing Biddle with me. We want to talk about this Customs business - bringing goods into the country."

I said, "Wait a minute, Jesse, this is a high-powered meeting. I will be glad to see you and Biddle any time but I have no time to talk to Biddle at four o'clock."

He said, "I thought you could take a minute."

I said, "I can't take it; you had better postpone it."

He said, "I will tell him."

Do you know about that?

MR. BELL: I suppose I do. It is the Commodity Credit Corporation.

H.M.JR: But imagine bringing Biddle at four o'clock where I have only got three minutes and Paul twelve.

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Do you suppose Biddle has heard about the meeting and wants to come? I should worry.

MR. PAUL: We invited their tax man. I don't think we should go any further.

MR. BLOUGH: What we had in mind was that this is the sheet we would hand the visiting firemen and that this would represent a sort of an agenda. (Agenda handed to the Secretary, copy attached.)

H.M.JR: Is Tickton on vacation?

MR. LINDOW: No.

H.M.JR: Somebody has to be there to defend the volunteer plan.

MR. BLOUGH: We have Lindow.

H.M.JR: I can't count on anybody else. Where are you, young fellow?

MR. MURPHY: I don't feel - I don't see quite eye to eye with going the, shall I say, more extreme advocacy of the volunteer plan. I feel a place can be made for both points. There are--

H.M.JR: We don't want any--

MR. BELL: Middle-of-the-roaders. (Laughter)

H.M.JR: No mugwumps around here; you are either for or against us. (Laughter)

MR. SULLIVAN: And if you are against us, shut up. (Laughter)

H.M.JR: Well now, listen, before I read this very complicated and impressive thing - has the plan been changed? I get up and say, "Gentlemen, I invited you people to come up here to consult with us on the next tax bill. We have for you this afternoon a plan which will raise a billion

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dollars a month of additional taxes, which Mr. Paul will present to you.

"Then after Mr. Paul has done that we would like to raise various methods of combating the inflation problem, which will be presented to you by Mr. Blough. We figure that this will take about an hour.

"After that the meeting is open for questions. We hope that you will be interested. We hope that you have thought about it; and we hope you have ideas of your own. Mr. Paul and his staff will be ready all week for conferences; and if you like this meeting and think we can make progress, we would like to have you come back in a week, after you have thought about this thing, and continue this discussion."

That was my idea, whereupon I sit down, loud applause, and so forth, and so on. (Laughter) All right?

MR. BELL: Would there be any objection to your adding that it is hoped that we can get an agreement by all of the Executive end of the Avenue, and that when we get this agreement everybody gets behind the program and fights for it?

H.M.JR: All right. "I hope we can get an agreement. Naturally we can't get a hundred percent, but we do hope that - last year there was practically no sniping from this end and I hope that there will be none this year, because, after all, presenting a tax bill is one of the most difficult and dirtiest jobs in the Administration. Once the thing is settled we hope that people will do us the courtesy that if they have ideas they want presented to Mr. Doughton on the Hill they will do it through us and not do it directly any more than if we have ideas concerning the work of anybody in this room we will testify to Senators or Congressmen on their work.

"There seems to be a feeling as far as taxes are concerned that there is an open season - anybody can take a pot shot."

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MR. PAUL: I think that is all right - a good approach. There are a couple of items here I want to raise with you.

H.M.Jk: What part don't you like?

MR. PAUL: It isn't that I don't like it; I merely want to clear up a couple of points. Under "I-D," entitled "Privileges and loopholes" - down there at the end of Roman one - that has reference to depletion, to tax exempts, and to what we called last year joint returns.

It was Roy's feeling and my feeling that we should not do any more this year than bring the attention of the committee to that. Our views on that subject are well known. Possibly we might want to present something on joint returns - want to leave that open - but on the other two, depletion and tax exempts, we will just take up time, and we wouldn't get anywhere with them. That would be the way I would like to speak about that.

Under "D-1," "Relief for persons with fixed incomes or heavy commitments," one of the best - probably the best method of relief would be to sweeten the tax in the lower brackets with a small amount of post-war rebate. The reason why I am not interested in the rebate end of it - the reason why I am interested in it as a relief measure is that it would enable us to have people in debt and people with no increased incomes or people with lower incomes anticipate their post-war rebate, as is done by corporations under the post-war rebate system. It makes the neatest method of relief, and I know the President is interested in that debt proposition. He spoke to us several times about it.

H.M.Jk: Well, Randolph, are you going to - how much time are you going to give - do you want to do this?

MR. PAUL: I won't take more than fifteen minutes, but I didn't want--

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H.M.JR: Let's make it perfectly plain with everybody that we are giving these things and the thing is still fluid, even though Scripps-Howard doesn't like that word.

MR. PAUL: But I raised this particular item because it has some similarity to compulsory lending. If Mr. Tickton, who is completely opposed to - Lindow, I mean - is for this - I don't think he objects to it.

MR. LINDOW: I think it is an entirely different proposition.

H.M.JR: Maybe I don't understand it; say it again.

MR. PAUL: Well, you would incorporate in your tax schedules a certain percentage - a certain very small percentage with a maximum amount - which would be payable - a refundable tax which would be refundable to the individual after the war.

H.M.JR: Why?

MR. PAUL: The reason I am interested in it is not from the compulsory lending standpoint, but because we know no way of giving relief to debtors and such people as that without discriminating against people who don't have debts. So if we have that provision in the statute, we have a mechanism for saying to debtors and people who have fixed incomes, "Here, you don't have to wait until after the war; we will give you your relief right away." But the people who don't have the debts and who are in a more fortunate position don't get the relief until after the war. That mechanism enables us to give debt relief without discriminating in favor of debtors. We have it in the statute now for corporations.

H.M.JR: I am not sure I understand it, but let me ask an advocate for volunteer. Do you smell anything?

MR. SULLIVAN: I think I do. I think that whatever advantage that would have, Randolph, would very likely be offset by Congress interpreting that as letting the bars down on the way they would go with compulsory lending

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all the way up and down the scale. I don't know; I haven't studied this.

MR. BELL: Have you something akin to it in the victory tax - post-war credit?

MR. SULLIVAN: That is what it is.

MR. BELL: You have the principle already laid down there.

MR. PAUL: We also have--

MR. BLOUGH: The only reason for mentioning it here is it is likely to be brought up in the discussion this afternoon.

MR. PAUL: I wanted to know what accent to put on it. It could be mentioned. It is just a question of how fluid you want me to be about it.

H.M.JR: Well, in view of the fact that I haven't had time to assimilate it, I would simply mention it, if it comes up, as a method. Is that all right?

MR. PAUL: Yes, I can do it that way.

H.M.JR: This could be a device.

MR. LINDOW: I don't see any conflict in this and the idea of being opposed to compulsory lending, because compulsory lending, as I see it, means to apply a tax to everybody which is refundable. Now, this is just to apply a relief to a certain group of people in the lower income brackets. That is a very different thing. I don't think we will have anywhere near the repercussions on the voluntary program which we have to have if--

H.M.JH: Paul is leaning over backwards. He wants to point out to me that this might be interpreted as an opening wedge.

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MR. PAUL: That is right.

MR. LINDOW: I don't think--

MR. PAUL: If Lindow is not opposed to it - it is in the statute now, as a matter of fact.

H.M.JR: If you want to - say as a device. Should Tickton be here today or not? You have the pay-roll savings figures?

MR. LINDOW: No, he has the pay-roll savings figures.

MR. BELL: I don't think they will come up.

H.M.JR: I think he ought to be at that meeting.

MR. LINDOW: All right.

H.M.JR: What else, Randolph?

MR. PAUL: Those are the two points.

MR. BELL: May I raise the question about--

MR. PAUL: I am going to speak against the sales tax and against the tax on increases in income.

H.M.JR: Against the increases?

MR. PAUL: As a tax, yes.

H.M.JR: Increases in what?

MR. PAUL: Tax on increases in income.

MR. SULLIVAN: Individual excess profits.

MR. PAUL: At least I want to point out the difficulties.

MR. BLOUGH: The reason it hasn't been incorporated in this program--

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H.M.JR: Fine.

Now, the thing - your part of it worries me the least because it is more or less orthodox. Am I right?

MR. PAUL: Yes, it is a new role for me.

H.M.JR: What is that?

MR. PAUL: Orthodox. (Laughter)

H.M.JR: Are you all right on your stuff because you have the difficult role?

MR. BLOUGH: Only time will tell. (Laughter) But I think I can give a short discussion trying to point these up as approaches to a problem, and possible complementary alternatives to - alternative measures to the revenue program which will have anti-inflation value in itself.

H.M.JR: Do them off on your fingers.

MR. BLOUGH: I am going to start with those tax proposals which would have an especially discouraging effect on spending; first, the spendings tax, the variety we were interested in last year; second, the spendings tax with a graduated exemption, which is the one Mr. Smith has been suggesting; and third--

MR. BELL: Smith is supposed to be here.

H.M.JR: He is coming at four.

MR. BLOUGH: Third, the progressive sales tax "a la Benjamin Cohen." (Laughter)

MR. PAUL: I hope you will land all over that one.

H.M.JR: I rather like it. (Laughter)

MR. PAUL: You wouldn't like it if you had to buy some things in the store with that thing.

H.M.JR: I like particularly the loophole. (Laughter) He has a wonderful loophole. The boys told us about it. You sent a couple of smart boys up to see me yesterday. They showed me the loopholes and everything. (Laughter)

- 8 -

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MR. PAUL: How do you think I get along? (Laughter)

MR. BLOUGH: The second general class of devices would be measures to withdraw purchasing power. Of course, taxation is the principal measure there, and the other one is compulsory loans.

Now, at that point I have so little - here is what I had thought of doing, and see whether this is what you want done; to indicate that in brief the reasons why that - the difficulties, just as with the others, what the things to be said in favor of it are, and what the things to be said against it are, not giving any conclusion there unless you want a conclusion given as to why the Treasury has not made that recommendation. But I thought this second part was at this stage of the game sort of a group of open alternatives.

It wasn't your wish to take any of them at this stage and give a final judgment on them - this is finally good and this is finally bad - but here are the things that are said in favor or against these particular measures.

MR. SULLIVAN: Do we intend to commit ourselves to the eventual adoption of any one?

H.M.JR: No.

MR. PAUL: This is more in part one than two.

H.M.JR: Have you talked--

MR. BELL: In other words, the discussion is wide open under two, even though we are against compulsory loans and compulsory savings - the discussion is open.

MR. SULLIVAN: Incidentally, Mr. Secretary - it may be germane to the discussion that Roy is now talking about - OPA is planning to give larger rationing coupons and then have colored glass tokens that the merchants will use as change.

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MR. BELL: I have a letter on my desk that I want you to sign on that.

H.M.JR: Against it?

MR. BELL: No, I want to be consulted because I think they might interfere with the coinage system. I want them to come to the Treasury before they put anything in circulation.

MR. SULLIVAN: The repercussions of that will be great after the housewife has gotten used to one system and it is changed to another.

MR. PAUL: That is the argument I make against the progressive sales tax.

H.M.JR: This other thing, which they tell me makes me a Socialist and what not - (laughter) - these boys I had up there - this thing of saying to everybody that on rationed goods and scarce goods everybody across the board can have so much special money to buy them, and they get that special money three months in advance.

MR. WHITE: That is expenditure rationing.

H.M.JR: But with special money.

MR. BLOUGH: But the wrinkle about it was that everybody gets the same amount, Harry.

MR. WHITE: I see.

H.M.JR: I mean, if it is eighty-five million dollars' worth of goods and there a hundred and thirty million people, give six hundred and fifty dollars to everybody; and then they said those people who can't use the six hundred and fifty dollars can sell what they don't want to the richer people who want it. So it is the rich people who would be subsidizing the poor people instead of the Government doing it. (Laughter) It is not so crazy.

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Instead of a black market you would have it legitimate, where a person who had the money could buy from some poor cuss who can't spend six hundred and fifty.

MR. SULLIVAN: The smart boys would go around to the poor people and buy them up for nothing and make a killing selling to the rich boys.

MR. WHITE: There would be a market price just as any other way - you have buyers and sellers. There would be--

MR. SULLIVAN: Who is going to regulate the market, Delano or Eccles? (Laughter)

MR. WHITE: Private enterprise - competition.

H.M.JR: After all, you said to everybody, irrespective of their income, that they could only have one pound of coffee and one pound of sugar and one pair of shoes over a given period. All I am saying is go a step further and say that everybody in the country can only have so much of the rationed and scarce goods.

MR. WHITE: That was the original idea which was advanced, with some slight modification. I don't know who was the first - it doesn't matter - but Kalecki was one of those. Then because of the objection to that, that was modified by scaling that and new wrinkles put on expenditure rationing.

I remember when we were discussing expenditure rationing that Hansen was one of those who strongly opposed it on the grounds that the public would never stand for any limitation on their spending power. So if he would oppose that, or if he represents any group, they would be infinitely more opposed to the suggestion that you make, although I think that the logic of the situation leads one to the proposal that you suggested.

H.M.JR: All I am saying - I know there isn't a chance of a snowball in hell to get it through, but if you wanted

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to really be fair, eighty-five million dollars' worth of civilian goods to be divided, the way to divide it is to divide it equitably among the people the way you do coffee and sugar, irrespective of their wealth. Then the rich person is going to decide, "Do I want a sirloin steak, or can I get along with a top round? I only have so many of these red tickets left." And the housewife would know she has so many tickets - they are going to last her for three months.

MR. MURPHY: It is hard to persuade a man to work overtime if he doesn't have anything he can spend his money for. You have to have something to give you an incentive to work.

H.M.JR: On that basis, don't let's do anything against inflation. If you just want to carry that, then let everything go up.

MR. SULLIVAN: I don't think that follows from Henry's remarks.

MR. MURPHY: More tickets than there are goods and services. You might buy your goods and services across the board to an extent of a half or two-thirds of the available supply of goods and services. After all, goods and services are not particularly scarce; we merely have a lot more money to bid for them than we had before.

H.M.JR: But the incentive of the fellow to get his money - there are a lot of things that he can use it for that aren't scarce.

MR. MURPHY: The figure that you mentioned - I took it that practically the whole body of goods and services except, say, rent that Harry was going to exclude--

H.M.JR: No, it is scarce and rationed goods. It doesn't keep him, for instance, from taking dancing lessons or violin lessons, or contributing to the Red Cross.

MR. SULLIVAN: Or ballet dancing-- (Laughter)

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MR. MURPHY: As long as the body of unrationed things is sufficient to induce people to put forth the extra effort.

H.M.JR: Well, anyway, I am just kind of doing a little talking here, which is a result of the association yesterday with these boys. (Laughter)

MR. BELL: With a couple of Socialists. (Laughter)

H.M.JR: No, I rather shocked them, but that is the fair way to do it.

MR. WHITE: That is liable to leave you in a dangerous spot because if you assume it is fair to divide scarce goods equally, it doesn't take much of a jump from that to assume that each person has a claim, an equivalent claim, on all scarce goods. If they weren't scarce they would be free; because scarce, they demand a price. Therefore, every man ought to have the same income - something like that. (Laughter)

H.M.JR: That is all right. I have been going in that direction for twenty years, and I told this to the President some time ago - I said, "After all, is there anything in the Socialist plan of twenty years ago that you wouldn't subscribe to today?"

He said, "Yes, because practically all of them are my laws."

MR. SULLIVAN: That is a fact. The Socialist plan of twenty years ago has been enacted in the law, most of which he signed himself.

MR. WHITE: You "ain't" kidding me. You are kidding yourself. You read the wrong books. (Laughter)

H.M.JR: I am quoting the President of the United States.

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MR. SULLIVAN: You look at the platform in the election of 1920.

H.M.JR: The platform, not the books.

MR. WHITE: Maybe you are right. I will read it.

H.M.JR: The platform - the published platform.

Well, I think we are all right. I am getting silly. Anyway, this agenda is all right.

Have you been trying to say something?

MR. BELL: Not very much, but I-- (Laughter)

H.M.JR: What did you fellows do in your office for three and a half hours? (Laughter)

MR. BLOUGH: Did you ever see a bunch of squirrels in a cage? You work on it and work on it, and the cage comes down. That was it. (Laughter)

H.M.JR: You and I and Surrey went places yesterday.

MR. SULLIVAN: But we were busy getting back today. (Laughter)

H.M.JR: Do you feel badly about taking this route instead of the route of your charts?

MR. LINDOW: No, sir. I think this should be explored.

H.M.JR: I think this is going to be - I am very hopeful of this meeting this afternoon, particularly after having seen the President this morning. I told him all about the meeting. He likes it - he likes the idea. And in the room here, he has given Paul and me a date of August 24 to come to him with a program, and the interesting thing - he said, "You bring to the meeting who you want." So Paul is going to bring me, and I am going to bring Paul. Is that right? (Laughter)

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MR. PAUL: The blind leading the blind. (Laughter)
Is that a fixed date?

H.M.JR: He said to get in touch with him around
the 24th.

We go down there at four o'clock. Is everybody
all right?

MR. WHITE: Did you say there was going to be another
meeting a week following to which you are inviting the
same group?

H.M.JR: That is right.

MR. WHITE: And in the meantime the Treasury technical
staff is available for discussions with anybody?

H.M.JR: That is right.

MR. BELL: On "A" here - "I-A" - the amount, I take
it, Paul is going to mention is twelve billion dollars.

H.M.JR: Yes, sir.

MR. BELL: And "B" - Paul--

MR. PAUL: I will divide it up into those blocks.

MR. BELL: Those items represent more or less definite
recommendations for a tax program?

H.M.JR: Yes, we are going through those motions.
I mean, we are not kidding anybody, but on the theory we
have to have a program, O.K., we have got a program.

MR. WHITE: I also understand that under "B-1" the
individual income tax, that there is going to be reference
made to the likelihood - if not stronger - of the probability
that in the lower income brackets there will be some rebate
features with that.

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MR. BLOUGH: If not there, at "D-1".

MR. BELL: I should think it ought to be up there, then two and three under "D" ought to be separate from the relief.

H.M.JR: Let's let it go, Dan. This is going to be a happy-go-lucky meeting.

MR. BELL: I hope so. (Laughter)

MR. WHITE: That relief on the lower brackets, exemption is important.

H.M.JR: I just wonder who is going to get to the telephone first to give it to the Wall Street Journal.

Where is this room?

MR. BELL: Two hundred eighteen - just beyond Harry's.

AGENDA

- I. Revenue Program
 - A. Amount of additional tax revenue to be requested
 - B. Proposed sources of additional revenue
 1. Individual income tax
 2. Corporation taxes
 3. Estate and gift taxes
 4. Excise taxes
 - C. Other revenue sources not proposed
 1. Sales tax
 2. Tax on increases in income
 - D. Problems of the individual income tax
 1. Relief for persons with fixed incomes or heavy commitments
 2. Tax simplification
 3. Privileges and loopholes
- II. Discussion of complementary measures primarily for curbing consumer spending
 - A. Tax measures to discourage spending
 1. Spendings tax
 2. Spendings tax with graduated exemptions
 3. Progressive sales tax
 - B. Measures to withdraw purchasing power
 1. Compulsory loans
 - C. Measures to limit spending directly
 1. Extension of specific rationing
 2. Expenditure rationing
 3. Compulsory saving

August 10, 1943

August 10, 1943
4:00 p.m.

TAXES

Present:

Secretary Jones	Mr. O. V. Wells
Mr. Bell	7 Mr. Garrison
Mr. Paul	Mr. Altmeyer <i>see Sec Bond</i>
Mr. Gaston	Mr. Samuel Clark
Mr. Sullivan	4 Mr. Lubin
Mr. White	Mr. Hinrichs
Mr. Fred Smith <i>Dr. Blough</i>	Mr. Harold Smith
Mr. Patterson	Mr. Colm <i>Sec Bond</i>
Mr. Forrestal <i>W. Dept</i>	Mr. Richard Gilbert
4 Judge Vinson	Mr. Helvering <i>W. Dept</i>
2 Mr. Eccles	Mr. Lindow
1 Mr. Cohen	Mr. Tickton
6 Mr. Nelson	Mr. Surrey
Mr. Whiteside	Mr. Murphy
Captain Strauss	Mr. Shere
6 Mr. Currie	

H.M.JR: Gentlemen, the reason I have asked you people to come together is this: We have been working for some time here on a tax program. We have what I call, for want of a better name, an orthodox tax program that will raise twelve billion dollars.

MR. JONES: How many dollars?

H.M.JR: Twelve billion, which Mr. Paul will outline to you. He says he can do it in fifteen minutes.

After that for about forty-five minutes Mr. Blough will present suggestions for combating inflation.

After that we would like very much to have a general discussion and hear your ideas.

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If you people like this idea, during the week Mr. Paul and his staff are available for individual consultations and suggestions; and if the meeting goes well I would like to have another one next week, with the idea that out of these meetings of the various agencies represented we might get almost a meeting of minds on what we might call an Administration tax program, and possibly anti-inflation as well.

I had a chance to talk with the President this morning. I told him what we proposed to do, and he was very happy at the idea; and sometime the latter part of this month he would like to get the benefit of what we do.

I hope the meetings won't get into the papers, but if they do I hope we get a favorable leak. If we are going to have a leak, let's have a good one. (Laughter)

With those few remarks - one other thing, I would like to say that last year I think everybody who was interested in taxes played ball pretty well with the Treasury, and if they had some ideas while the bill was pending they were considerate and courteous enough to consult with us and we were able to forward their ideas to the chairmen of the specific committees.

I hope that once we settle on an Administration program we can follow that plan. Presenting a tax program, as Mr. Vinson knows from his end - he sat at the other end of the table when we appeared before him - I think is one of the most difficult, and, if I may say it, dirtiest jobs, almost, of any in Washington. If anybody wants it they can have it, but if we are going to do it, once we get the stamp of the President's approval, if we would all play together it would be very helpful to us. As I say, last year was a good year.

So, with those few remarks - I don't think I took more than three minutes, did I?

MR. PAUL: I think we started late.

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H.M.JR: We will charge that to me.

We will have Mr. Paul now, and then later on I am going to ask Mr. Paul to act as master of ceremonies when we have the questions and answers.

MR. PAUL: We have distributed a sheet (Agenda, dated August 10, 1943, attached), and I am going to run down number I on this sheet; and in doing so I am going to give you what the Secretary called the orthodox tax program.

This that we give under point I we feel is pretty well congealed in our minds, and still I want to emphasize the fact that in addition it is to a large degree fluid so that the matter is in the discussion stage. However, we do feel that most of these suggestions are pretty well in shape.

You will notice under "A" we have noted the amount of additional tax revenue to be requested, and the Secretary gave that figure as twelve billion dollars. That will be added to thirty-eight billion produced by our present system for the fiscal year 1944; and the total, if the revenue program were achieved, would be fifty billion, which would be approximately half of our present contemplated war expenditures - not our total.

We are getting down to the bottom of the barrel on sources of additional revenue, and we have listed here four sources. I will give you first the totals that we have planned for those four sources.

Under "Individual income tax" we have additional taxes drawn up which will produce eight billion seven hundred million dollars. That is the largest one of the four items.

MR. JONES: How much additional?

MR. PAUL: Eight billion seven hundred million.

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MR. JONES: Additional?

MR. PAUL: Additional. I am talking now of building up the twelve billion.

The second one is corporation taxes. We have contemplated there a billion dollars additional.

The next one is rather small - estate and gift taxes, three hundred million.

The last one, excise taxes, is two billion one hundred million.

Now let's go to the constituency of those items. The individual income tax is first. We contemplate a reduction of the exemptions - personal exemptions - and the dependency credit. They are now five hundred for a single person, twelve hundred for a married person with no dependents, and three hundred and fifty for each dependent.

We contemplate that in order to raise this additional amount of revenue and to get down into the place where the income is, that from the inflationary standpoint it is necessary to reduce those exemptions - not the single-person exemption, but the married person, from twelve hundred to a thousand, and the dependency credit from three hundred fifty to two hundred fifty dollars.

Of course most of the additional tax arising from that reduction will come from the brackets now paying tax, but it will bring in more taxpayers.

To give you an idea in two or three brackets of how drastic this is, you will remember the present surtax. The beginning surtax rate applicable to the first two thousand dollars of income is thirteen percent.

In order to get this eight billion seven it will be necessary to raise that to twenty-three percent - ten points. And that would make a total tax rate - initial tax rate, with the normal tax - of twenty-nine percent.

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That is exclusive of the Victory tax. If you go up to the ten thousand level of income, under the present law the surtax rate is thirty-two percent. That would have to be raised to forty-seven. There are raises in the bracket rates all along the line. Of course when you get up higher you can't raise them as much because they are already so high.

For instance, on a hundred thousand dollars you raise the seventy-nine-percent bracket to eighty-six.

MR. JONES: Seventy-nine to eighty-six?

MR. PAUL: That is on a hundred thousand dollar surtax net income. The highest rate I have here is, under the present law, eighty-two, and that could be put up to eighty-six in order to raise this eight billion seven. But the preponderance of increased rate is in the lower brackets.

Now, how much tax - those are surtax rates - how much tax does a man pay? In the two-thousand level under the present law - not over two thousand - he pays two hundred and sixty dollars. That is a married person with no dependents. That would be raised to four hundred and sixty. On ten thousand dollars a man's tax is now twenty-six sixty; it would be raised to forty-three twenty.

The corporation tax I can go through very quickly by saying that there are two rate increases, one from ninety percent to ninety-two and a half percent, excess profits rate. The present rate, combined normal and surtax, is forty percent. That would be put up to fifty percent, and as a result of those two changes it would be, at present levels of corporate income, raising a billion dollars.

Our projected figures would seem to justify that corporate increase on the theory that taxes have not kept up with increased profits. We contemplate for 1943 a net income of corporation earnings - net income - totaling twenty-three and a half billion. The total tax on that is approximately thirteen, three, leaving net income after taxes of a little over ten billion.

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Now, that ten billion, which is after our present corporate taxes - for instance, you can compare it with the net income after taxes in 1941 of eight billion eight, or take '37, net income after the then taxes in existence was only about six. So that even if we take another billion dollars out of these corporate profits, corporations will have a hundred and fifty percent of the net income after taxes that they had in 1937.

The estate and gift tax situation can be just dismissed with the thought that there is an increased rate schedule and a reduction of the exemption from sixty to forty thousand.

The excise taxes - I might mention a few of the leading taxes - here are pretty fluid, and we would particularly like to get a lot of suggestions.

Taking a few of the leading tax producers, the tax rate on admissions is now one cent per ten cents. We propose to double that. That would get a hundred and thirty million.

Another big item is distilled spirits, which is now six dollars per gallon. By the way, the equivalent rate in Great Britain is twenty-two dollars per gallon. To raise that six to ten dollars per gallon would bring in four hundred million.

To raise beer, which is seven dollars, up to ten would bring in a hundred and eighty million; jewelry, raising from ten to twenty-five percent would bring in a hundred million.

We have contemplated raising cigarettes from three and a half a thousand to five, which I think is a three-percent-per-pack increase. That would raise three hundred and fifty million.

Candy and chewing gum, which is a new tax, will raise a hundred and fifty. Soft drink taxes, if we can get them through, will raise a hundred and fifty.

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The total of these excises is about two billion one, but there are a number of smaller taxes which we may want to drop out of the list.

"C" under "I" mentions a couple of taxes we do not want to propose - in fact, want to oppose. I want briefly to give our reasons.

The sales tax we oppose not only on the old ground that it is an inequitable tax because it bears most heavily on the low brackets, but, in addition, in terms of our present-day situation, for the reason that it has an inflationary effect, or would have, in that it would stimulate demands for increased wages much more than would an income tax.

The second reason why we oppose the sales tax on practical grounds today is that it would require an immense increased organization in the Bureau of Internal Revenue; a large number of additional employees; the policing, in the case of a retail sales tax, of about two million seven hundred thousand retail establishments, which would require automobiles, tires, gasoline, and personnel, which we just don't figure can be handled at the present time.

The tax on increases of income has got a lot of charm about it. A lot of people talk very glibly about the tax because it gets at so-called war profit in the individual field. That is the theory.

We feel that the tax is impractical because of the difficulty or impossibility of getting at a basis for the tax. Most people who had increases of income - and there are many millions who would be hit by such a tax - do not have the records which would permit us to construct a year with which to compare the present year.

Another difficulty there is that it is almost impossible - practically - to distinguish between normal increases which have nothing to do with the present economic

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situation, and increases that are attributable to the war situation. If this tax - I don't want to condemn this tax in absolute terms - if we could work it out practically, it might be used in some way as a refundable tax. At least that idea was once advanced by Hansen, I think, and we are studying it further.

The next subdivision "D" deals with two or three special problems.

MR. JONES: On this "C-2", you do not favor the tax on increases in income?

MR. PAUL: No, we do not favor that, nor do we favor the sales tax. I tried briefly to give our reasons.

MR. JONES: That is what I understood.

MR. PAUL: The next subdivision gives you two or three outstanding problems. The first one is relief for persons with fixed incomes or heavy commitments. Those heavy rates that I gave you are necessary to produce eight billion seven hundred million additional and are not so bad for the income which has risen, but they are pretty tough rates for the stationary income which has already been subjected to a certain increase in the price level, and they are pretty tough for the declining income.

We contemplated softening the rates in the case of people who had not - whose income had not risen, or who had a smaller income, by some sort of - well, several devices. One was a larger personal exemption if a person has a fallen income. Another was the possibility of putting in the statute a refund element in the lower brackets which would have a maximum amount, something like the Canadian and British refundable tax.

That would enable us to give relief by having persons with fixed incomes or heavy commitments - debt commitments - cash in on that relief immediately, and we wouldn't be discriminating against the persons who are not in that unfortunate position.

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Tax simplification - I can simply mention one or two items. The most important one, I think, is the Victory tax. We would like very much, from the standpoint not of equity - that is one thing, but I don't want to mention it because I am approaching this tax from the standpoint of a messy, complicated statute, particularly where we get to the problem of withholding, and we would like to see that Victory tax eliminated and the three percent tax be put in on the regular income brackets as an equivalent, which I think is much more justified since we are reducing the exemptions - not down to the level of the Victory tax exemption, but we are approaching that.

We are figuring what we get out of people who are subject to the Victory tax and who would not be subject to the income tax with the reduced exemption, and we are convinced that it is a very small sum.

MR. HINRICHS: Does that mean that your surtax will become not twenty-three but effectively twenty-six?

MR. PAUL: You can forget the five. It is the net three.

MR. VINSON: Does that go clear across the board?

MR. PAUL: The Victory tax, if you substitute something for it, that would have to.

MR. VINSON: That eighty-six would become eighty-nine?

MR. PAUL: That is right. Whether or not you would retain the present maximum limitation, which is now ninety, is a matter - it is not a very important problem because there are not many of those incomes. Tax simplification contemplates a thing like the elimination of earned income credit. We tried to do that last year and I doubt if we will be able to get it through this year, but we would like to see that earned income credit, which is a misnomer because it isn't an earned income credit

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at all - would like to see that eliminated. Personally, we hadn't covered this before the meeting, but last year we fought for the elimination of the capital stock tax on corporations, which just complicates the corporate tax picture for very little reason at all. I would like to see that done.

Privileges and loopholes - I am sure you are all familiar with the three leading loopholes that were so much discussed last year; one is tax exemption, one is percentage depletion, and the third one is the joint return situation.

One must say that those loopholes are more important the more you raise the individual rates, but we only have a short time. If we begin hearings in the Ways and Means Committee on the 15th of September our idea would be to get through a bill before the end of the year and my feeling is - and members of the Committee have spoken to me along this line - that we can simply say that our position on those points is well known and not take up too much time of the committee rehashing the issues of last year except perhaps in one instance where we haven't finally determined on policy, and that is with respect to the joint returns situation.

MR. FORRESTAL: Do you think that is more difficult to get through than the exemptions - elimination of the tax exempt?

MR. PAUL: I think the joint return would be much easier to get through than the tax exempt. I would put them in that order. The easiest one - they are all hard, but the easiest one would be the joint return, the next easiest would be depletion, and the hardest one would be tax exempts.

One phase of the joint return really can be subdivided. One phase of that is the community property situation, which of course doesn't cover the whole picture. I mean it doesn't cover the higher incomes in the non-community property States where there is a lot of income in the wife's hands.

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The community property situation is becoming more disturbing. Oregon has just passed a law; New York is about to take up passing a community property statute. But we have got to sacrifice something when we only have three and a half months.

Now, I want to save plenty of time for Roy.

H.M.JR: Just before Blough, I want to say something. It hasn't anything to do with this. I would like to say something, gentlemen, and if anybody doesn't think what I am asking you is fair, I would be glad to sit down with you afterwards, or any day, privately.

I don't want to open the discussion, but everybody that has been invited to this room is either a Presidential appointee or represents a Presidential appointee, and for good team play - I will go back. We had this very unfortunate situation that Mr. Stam of the staff of the Joint Committee on Taxation can get out a subpoena, subpoenaing any department and ask for information on any tax plans.

Now, what we are trying to do, as I say, is to have team play. We are all Presidential appointees. What I would like to ask - and if anybody doesn't think it is fair I will be glad to talk with you - is to do what the Bureau of the Budget did when it got a subpoena. The answer to the Joint Committee was, "We have no tax plan." As I understand it, that is the answer they gave.

The thing that bothers us is that Mr. Paul - he gets up there on the Hill and he begins to testify on what he thinks is representing the President and the Administration, and the Committee flashes out some other department's tax plan; and, to put it mildly, it would be very embarrassing.

So what we are asking is that before any department gives the Hill a tax plan, they would do us the courtesy of sitting down with us. Now, if anybody thinks that that is over-reaching or unfair, so forth and so on, I would be very glad to sit down with the individual and talk it out.

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But we can't go around with our hat in hand to every department in Washington and say, "Have you given the Ways and Means Committee a tax plan?"

I asked Mr. Doughton how he felt about it. He said it would be the same thing as though Mr. Knutson, the minority member, asked me for some information and I gave it to him and I didn't give it to the chairman of the committee, and he flashed it on the chairman of the committee in the middle of a heated debate.

But the thing is there. We are up against it. If we could all play together on this end, it would be very helpful to us. As I say, if anybody thinks that isn't a reasonable request, I would be glad to meet him and sit down and talk it over with him.

The Bureau of the Budget set a good example.

MR. PAUL: I think I should say that Mr. Eccles told me the same thing.

H.M.JR: I see - Mr. Eccles and the Bureau of the Budget.

MR. ECCLES: I told Mr. Paul that if we sent up anything, it wouldn't be sent up without discussing it and letting him see it first.

H.M.JR: That is all I ask.

Mr. Blough, gentlemen, the head of our Tax Research.

You understand when he gets through we will be glad to sit here as long as you want to ask questions, either of Mr. Paul or Mr. Blough.

As I say, I have invited the Army and Navy here, thinking they might be interested. If they are not interested and they don't want to come to the next meeting, my feelings won't be hurt.

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MR. JONES: You invite him because he will be required to enforce the law. (Laughter)

H.M.JR: Which one - depletion or joint returns? (Laughter)

MR. PATTERSON: We aren't likely to suggest to the Ways and Means Committee a tax program. (Laughter)

H.M.JR: I don't know whether it interests you or not. As I say, last year when we got down to increasing corporation returns we did consult with you and you felt at a certain percentage you could get production. Before that, you couldn't. You have got certain incentive plans which these high income individual taxes might interfere with. I thought that I would like to have you hear them.

As I say, if you are interested, we hope you will stay with us. If you are bored, I won't feel insulted if you don't come the next time.

MR. BLOUGH: Perhaps we are coming to the section now, Mr. Secretary, where the Army would be required to help enforce the laws. I am not sure. I hope not.

If a tax program of sufficient magnitude, an equitable tax program, and one without harmful economic repercussions could be devised and put through the Congress, I should think, from the fiscal point of view at any rate, that would be the full anti-inflationary measure necessary for consideration. But I believe that no one would feel that a twelve billion dollar program would be sufficient for that under existing economic circumstances.

For that reason I have been asked to discuss briefly some of the types of measures which have been recommended and discussed from time to time throughout the Executive Branch of the Government and elsewhere, for the discouragement or curbing of consumer spending by some measure other than simply removing purchasing power through additional taxes. These are just being thrown out for discussion.

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I will try to indicate briefly what these measures which are selected from a somewhat larger group are - some of the things that have been said for and against them - but leave it in a completely open position so far as discussion is concerned.

They may be divided into three groups; those tax measures which are primarily intended to discourage spending rather than primarily intended to raise revenue, and measures other than taxes for the purpose of withdrawing purchasing power, and then measures to limit spending directly.

Now, the tax measures to discourage spending naturally must be imposed on spending. They must bear some relation to spending. You have two general ways of approaching spending. One is through the individual who is doing the spending - through his total spending picture - and the other is through the sales to him - through the purchases which he makes.

Last fall the Treasury suggested to the Senate Finance Committee a tax on spendings. It had the purpose in mind there both of raising revenue and of discouraging spending beyond the withdrawal of purchasing power. There seemed to be at least some minor objections to that proposal in some quarters. At any rate, it did not pass.

(Mr. Nelson entered the conference.)

Mr. BLOUGH: There seemed to be two particular types of objections to it. The first type of objection went to the compliance problems on the part of the taxpayer - the problem which the taxpayer would have in making out his spendings tax return and in budgeting his spendings so as not to fall subject to the tax, or at any rate, to the tax at high rates.

This compliance and administrative problem is an undoubtedly serious difficulty with a great many anti-inflationary measures, including a spendings tax, and if we are considering it only from the point of view of

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revenue, it may be that the public reaction to such additional work should be controlling.

If, however, the tax is being proposed on a much larger scale, with a much larger purpose in mind, then the comparison of the taxpayers' difficulties and the Government's difficulties should be made with other measures rather than - with other measures to fight inflation rather than other measures to raise some billions of dollars.

The second objection which was made to the spendings tax last year, although it was not made publicly to as great a degree as this first objection, was the idea that it would call for a very much more drastic curtailment of expenditure on the part of the more well-to-do groups in the community than on the part of the lower income groups.

Remarks were passed, for example, that certain high-class New York hotels would be driven out of business if the spendings tax were imposed in the form recommended last year. To meet that, a shift might be made in the exemption. The exemption might be put on a graduated basis instead of on a flat basis. More exemption might be allowed to persons in higher income brackets and accordingly used to spending more than was allowed to persons in low income brackets. Adjustment might thus be made in the spendings tax to bring it more nearly around to the ideas which have underlain some of the expenditure rationing plans.

The general thought there is that we might set up an exemption which would call, in effect, for a proportionate decrease in expenditures for people throughout the various income groups, instead of call for a greater percentage in proportion on reduction of expenditures of the higher income groups, which underlay the spendings tax of last year.

The spendings tax, as you know, of course, applies not to the total income of the person, nor to his total outgo, but to the spendings for consumers' goods and

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services with the exception of such goods and services as it is desired to exempt because, perhaps, they are not considered to be in the inflationary class.

Savings is certainly to be deducted in arriving at your taxable base. So the way which was suggested last year of arriving at the measurement of spending was to take the income for the period of time during which you are considering the tax, and from that subtract any known inflationary spending which is specifically exempted under the terms of the statute - perhaps rent, for example - and subtract further any net increase which has taken place in savings and investments during the period. The net result is then the amount of spending which took place. It is really a device through the changes in the balance sheet to determine spending. It has its difficulties, as you can well imagine, from the point of view of the taxpayer, but it certainly is not an impossible device.

Well, then, you will have these two modifications, or two variations, of a spendings tax which could be employed. The compliance problem and administrative problem loom large here as they will throughout all of these measures which I am going to discuss.

You can approach the spending, then, through another side - through the sale itself - through the sales tax - the sales tax being a sort of spendings tax, but the sales tax in its usual form puts a very heavy burden on the very low incomes, and a lighter burden on the higher incomes, and if imposed without exemptions and without graduation, at a rate heavy enough really to reduce spending, would result in a very much heavier burden at the bottom than could presumably be tolerated in attempting to meet the inflation problem.

And so some suggestions have been made in various quarters for modifying the sales tax along two lines. One, to allow personal exemptions for the sales tax in the form of several methods suggested. One is to issue exemption coupons to people - say, allow two hundred dollars

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per person as an exemption, and if the expenditures of a person do not exceed two hundred dollars there would be no tax payable because the exemption coupons would be used to pay the sales tax instead of money. That suggestion has been made.

There has been another suggestion added to it, namely, that there be successive installments of coupons which would be bought at increasing prices. For example, suppose a single individual were given coupons representing the tax on two hundred dollars of sales - of purchases by him - and that he then bought coupons on another two hundred dollars at ten percent, and that he then was permitted to buy coupons on a third two hundred dollars, but at twenty percent, and on a fourth two hundred dollars, but at thirty percent; thus progressing up the line each of these coupons usable to pay a sales tax, but as the individual's purchases increased, he would have to pay a higher and higher tax on each successive increment.

If that could be made to work successfully, it would be a very great contribution, it would seem to me, at any rate, to meet the inflation problem, although the base is not all spending, but just the goods which would be subject to the sales tax.

There appears to be, especially in the case of the progressive rate, this very serious problem that it would be extremely difficult to prevent persons who should be paying the high rates of tax from using either exemption coupons or coupons which were purchased at a very low rate of tax by others who were in lower income brackets and lower spending brackets, who sold or loaned or gave their coupons to others.

The problem of policing a retailer and making sure that he did not go into the market and buy low-priced tax coupons and give them to people who would have, otherwise - or sell them to people who otherwise would have to pay a high rate, is another element of that problem.

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That administrative and compliance loophole seems to be practically fatal - I wouldn't say finally fatal, because I know some of you don't believe that - but practically fatal to the successful application of that tax.

Moving along to other of these measures, we come to the measures for withdrawing purchasing power other than taxes, and there, of course, you have the compulsory loan. The compulsory loan is capable of being applied in any way that a tax can be applied. So we have had proposals made based on income tax, compulsory loans based on sales tax, based on spendings tax, compulsory loans based on taxes on increases in income, and practically any tax basis that you can think of that applies to persons. There have been suggestions made that that be the basis for a compulsory loan.

The compulsory loan would involve in the first instance the same problem of collection, and so on, as the tax at the same rate and on the same basis, and it would require then some machinery for the repayment of the loan and some determination as to when to repay, and so on. Objections have been - take the arguments which have been made in favor of it first - the compulsory loan has been urged to a very considerable extent on the ground that the Congress would be willing to pass a substantially larger amount of fiscal withdrawal of purchasing power through the compulsory loan than through taxes, and that additional amount which Congress would be willing to pass would represent an increase in the effective control of the fiscal problem from the point of view of interest on the debt, from the viewpoint of control over the debt, and from the viewpoint of the inflationary effect of that withdrawal.

There is also the argument that for the very low income groups the compulsory loan can, in effect, take the place of an income tax or other taxes on them which we might feel desirable to levy during the period of the war, but not to maintain as a permanent measure after the war.

On the other hand, there are a number of rather serious objections to the compulsory loan which have been made by

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persons who take the opposite position. To begin with, if the compulsory loan is to be really effective as a method of taxing inflation, it would be necessary to have an extremely large program, larger even than the necessary tax program to do the same thing, the magnitude probably running in the neighborhood of thirty-five to forty billions of dollars, depending somewhat on what your view of the inflationary problem is. An amount of that size to be levied even for the period of the war through compulsory means would appear to require a degree of flexibility and of adjustment to an individual set of circumstances almost out of question for a tax measure, which is that it would be in the first instance, and you would have a serious problem of digging too deeply at some points in order to get money of that amount.

On the other hand, if the amount of the compulsory loan is relatively small, perhaps twelve billion dollars or less, or in that general neighborhood, there seems to be little reason - at least this is the position which many take - to believe that you could sell any substantial amount of compulsory lending to Congress beyond the amount of taxes that Congress would be willing to impose. And when you get down to that point it really isn't worth while attempting to get a little more compulsory lending than you could get taxes, because the compulsory lending to a very considerable extent would replace the other lending and the other saving which people are doing. A compulsory loan is not a compulsory saving, except in those areas where people otherwise are not saving and do not have the wherewithal to save. There compulsory loaning would be a compulsory saving, but elsewhere the compulsory loan might represent merely a shift of assets from one form to another.

Unless you are going to get a large program, you may get very little in actual anti-inflationary effects. Then, those who are selling the war bonds and who have that responsibility have the feeling - the very definite feeling - that the compulsory loan would have a very serious effect on the willingness of people to buy war bonds under the

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war bond - voluntary war bond program.

They might very well consider that their duties have been discharged when the amount of the compulsory loan has been taken from them.

MR. JONES: What was that last?

MR. BLOUGH: They might consider their duties discharged and not buy war bonds.

Then move on to the last set of measures, those which would limit spending directly.

They get, really, somewhat outside of the fiscal field, but I mention them because they are certainly considered as being alternatives and in the same general category.

There are three of them listed here. First, the extension of specific rationing, which would mean, in effect, rationing a very large number of items and allowing points for each, as under point rationing, or a similar method of that kind.

Thereby, you would cut down spending by limiting the quantitative amounts that people could buy, and then, of course, combining that with price control.

So therefore, you would put some limit on the quantitative amount of money which that would permit to be spent.

MR. JONES: It isn't quite clear to me about the limiting of expenditures. What is that?

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MR. BLOUGH: In this group C you have measures--

MR. JONES: Number one?

MR. BLOUGH: The present type of rationing of goods is what that is and put into a lot of other fields where it isn't now.

If clothing were rationed, if furniture were rationed, if other kinds of foods were rationed than those now rationed, you could do a great deal to limit expenditures by placing quantitative limits on the amounts of things people could buy through specific rationing. It is a goods rationing device.

The second item, expenditure rationing, is a somewhat different matter because there the limitation is not on the quantities of goods that you can buy, but on the total amount that can be spent on the goods. You have two general approaches to that rationing.

In the original plan for expenditure rationing, as drawn up, I believe, in Great Britain, it was proposed that everybody have the same number of dollars of rationing, regardless of their present expenditure and regardless of their present income. In the discussions of expenditure rationing which have been carried on here, it has been with the graduated rationing in mind, a larger rationing for people who have had larger incomes and have been used to spending more than for people who have had smaller incomes and have been used to spending less. And that rationing, to be enforced - there are a number of ways, but one of those which seemed to be most practical would be through the issuance of coupons or a sort of a second type of money which would have to be used in the purchase of certain types of articles in addition to the money which we have to spend for it.

In other words, it would be a type of rationing coupon which would have to be used in the purchase of goods, and by policing those coupons the expenditure of any family would be limited to the amount of the ration granted to

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them. By getting directly at the volume problem, you reach your end of cutting down spending by very direct means.

The problem of deciding how much rationing to give different families is a political problem of a very serious character, as is readily seen, and the problem of making sure that that rationing is adhered to despite the considerable volume of money which would not be available for spending presents a policing and an administrative problem of serious character.

MR. VINSON: We have had the Army, and we have had the Navy. Is there any representative of the Marine Corps? (Laughter)

MR. BLOUGH: I think, though, it is only fair to say this, that any of these measures by which you really try to cut down spending in substantial quantities below what people want to spend and have the money to spend will require much of the same difficulty whatever method is used. Many people feel that the use of taxation is the easiest of them, but essentially the problem is to try to get people not to spend money that you leave in their hands. And, of course, if they have it, it is awfully hard to keep them from spending it some way or other or trying to spend it.

The last measure - and my time has practically expired - the last measure on this list is something which is generally - given the general name of compulsory saving. Now, compulsory saving is simply a method or an idea of forcing everyone to save a certain amount. This isn't lending to the Government; it has nothing to do with the amount of Government bonds purchased or anything like that. But it is a required saving of a certain percentage of income within the period; and if it weren't saved, presumably something very nasty would happen. There is the problem of deciding what that nasty something would be and of imposing it and of imposing it before the end of the year so that the poor man would find that he had spent his money, that he hadn't saved it, and now he

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was going to be punished for it. He might feel a little badly at that point if some plan weren't worked out. But it is an idea, at least, that has possibilities, and that is the reason it is mentioned in this list.

Now, there are others of the same general character, but these are all that I have selected out for this purpose. You will notice that they are of really two general types. One is to take the money away, and the other is to try to prevent people - or discourage them - from spending it. Some of these measures do both, and others do one and not the other. But they are all suggested as possible approaches to a problem which remains after all the taxes which appear to be politically practicable have been imposed.

H.M.JR: Now, Mr. Paul will go back and act as moderator, or umpire, or whatever you want to call it.

MR. PAUL: There ought to be plenty of questions, after what Mr. Blough has said, anyway.

MR. LUBIN: I came in late, and I didn't hear what you said about excise taxes, but has any consideration been given to prohibitive excise taxes, or prohibitive to the extent that they interfere with certain types of spending? I have been very much impressed in the last month by the tremendous extent to which our newspapers are carrying advertisements for expensive furs. Apparently the market is ripe for people to buy expensive fur coats.

MR. PAUL: We did have an additional excise proposed on jewelry, but I don't think we did on furs.

MR. LUBIN: Is there any consideration being given to, say, a hundred-percent excise tax on things which we know are real luxuries that no person in time of war should buy, and if he wants to buy should contribute to the Government?

MR. PAUL: You are directing that not to the advertising but to the actual principle of spending money

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for those absolute luxuries. We haven't gone that high. On furs we raised it from ten to twenty. Maybe that twenty is too low. We have to consider other phases of the impact, the question of whether you would ruin an industry.

MR. LUBIN: One of the most popular taxes in England, I found, was the hundred-percent tax on luxuries.

MR. PAUL: You mean the British purchase tax.

MR. GASTON: I think Mr. Lubin came in after that general schedule was discussed, but we are suggesting there - Mr. Paul is suggesting there a much stiffer excise tax on luxury items - perhaps not stiff enough.

MR. PAUL: The fur is ten up to twenty; maybe the twenty is too low. Jewelry is ten up to twenty-five. We have here cabarets, now five percent; we have boosted that to twenty percent. That one item gets you sixty million dollars. Maybe those aren't quite high enough.

We have in the list here a tax which is simply luxury, and perhaps can't be - we can't include it finally because there is an administrative compliance problem. Beauty and barber shop services, seventy-five million; toilet preparations we propose to increase here from ten to twenty-five percent.

Now, maybe, as I say, those aren't drastic enough, but most of those items - the answer is that most of those items might be politically desirable from the standpoint of morale, they might be popular, but none of them would bring much money.

MR. JONES: Chewing gum?

MR. PAUL: Candy and chewing gum - there is no tax on them now. We propose a tax here of thirty-five percent of the manufacturers' sale price - a hundred fifty million in that.

MR. HINRICHS: Have you considered in developing those excise taxes the frequency with which purchases

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are made? That is one of the repercussions you are going to get from that - tobacco, soft drinks, and candy - the feeling that there is part of our cost-of-living items going up.

We have found in looking at the public reactions to changes in prices that the item that is purchased every day makes an all-out-of-proportion impression on people, whereas the item that is purchased only once a month is more or less overlooked, and granted equal funds from--

MR. PAUL: That is true, that is a matter of gaining the public reception of the tax. There would be less objection to something you might not buy in the whole year than something you are buying every day.

MR. HINRICHS: It is not only - it is the public reaction as the tax is being levied - I mean, not only the public reception of the idea of the tax in the first instance, but the way in which they react to it and what they say to the War Labor Board after you put it on.

MR. BLOUGH: On the candy tax they wouldn't see it except as it affected the price immediately, and that, of course, would have the same effect as the price increase in candy because it is a manufacturers' tax. The soft drink tax would presumably show up right away.

MR. PAUL: The whole problem of soft drinks we had up last year, and it is just a matter of how to tax the over-the-fountain drinks. You can't tax just the soft drinks in the bottles without equalizing on the others, and then you have this problem of leaking drums, and all that sort of thing. I think it is a magnified problem, but it is there.

MR. HELVERING: We have a schedule worked out on that about the syrup drums which I think is pretty good.

MR. PAUL: Marriner, how do you feel about some of this program?

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MR. ECCLES: I think it has been an excellent presentation of the problem that we are all confronted with. I think that the most equitable source of taxation is the individual income tax, of course. It is the one that everybody is used to, and it is the most practical to collect. I am glad that you are proposing a reduction in the exemptions and recognizing that the large increase in income is in the lower groups.

MR. PAUL: I have some figures in passing.

MR. ECCLES: I think I remember some of them, sixty percent of the total income - individual income - is in the group below three thousand dollars or less; and eighty percent, according to the figures we get, is in a group of five thousand or less. Of course, that group, the group of three thousand or less or five thousand or less, are the ones that spend practically all of their - that is, they are more likely to spend a larger portion of the income. Certainly to get an effective tax program you have got to go to the group that is getting the income. If that is correct - if eighty percent comes from the five thousand or less, that is where you have to go to get most of your taxes. I think that is a realistic approach.

MR. PAUL: You really have to go down lower than that. Some figures here, which are very tentative, add up to a hundred and twenty-five, and you would have to increase that proportionately now. But I find that out of a national income of a hundred and twenty-five, sixty-four billion is in the brackets from nothing to two thousand - over half the income.

MR. ECCLES: You have to reduce the exemptions, which you are proposing to do.

MR. PAUL: At the present time on the basis of a hundred and thirty-two billion net income we have, after the deductions, a tax of about a hundred and twelve.

I gave you these figures, Judge, the other day. we find that the amount received by persons subject to the

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income tax out of that hundred and twelve is ninety-two. Personal exemptions at the present time take away from that phase forty-one, leaving only a surtax net income base for the whole country of fifty-one billion.

Now, that would be raised if we reduced the exemptions, as we have suggested here - that will be raised to sixty-three or sixty-four. I am just fortifying your-

MR. ECCLES: I was just going to say that with reference to the cost of living the question, it seems to me, in our present cost-of-living index is based largely upon the way people spend money for normal or peacetime conditions, with some modifications, but generally it seems to me that we might think of a cost-of-living index based upon a war condition and limit the items in that cost-of-living index to the basic needs, food, clothing, and shelter, and protect the price on that cost-of-living index but not undertake to maintain the present cost of living as it covers - for instance, we might say cigarettes. I don't know whether it covers jewelry or not, but there are a good many items that certainly we could not consider as an absolute necessity during a war period.

It might be easier to maintain the cost of living on basic needs, and certainly labor could hardly complain if the cost went up on many other items through a very heavy excise tax. And the heavy excise tax on items other than those basically necessary would in itself not only give the Government revenue but would greatly curb the expenditure, possibly, for such items, and it would help in the question of price control. Or it might well make it possible to largely eliminate the price control in the group other than the essential items, depending upon the high enough excise tax in and of itself to effect a control. I think that that might be a thought worth considering in connection with your excise tax approach to this thing.

MR. HINRICHS: Only two things have moved in the cost of living in the last year. One is food, which most people regard as essential; and the other is the service items, medical expenditures, and the rather small item in

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the budget on laundry and cleaning services, and barber shops.

MR. VINSON: What about furniture?

MR. HINRICHS: It hasn't moved.

MR. VINSON: The figures I have seen show that.

MR. LUBIN: If you take out of the index everything but the real essentials - granted clothing and food - your index will be slightly higher than it is now.

MR. PAUL: Will you repeat that?

MR. LUBIN: If you take everything out of the index, as suggested by Marriner, and leave only the essentials in it, your index would be slightly higher than it is now.

MR. WHITE: The point he has to deal with is the future.

MR. ECCLES: What I am talking about is your difficulty of exercising a price control over everything. What we are more concerned about in the protection of labor in the lower income groups generally is in the essentials. To maintain the cost of living you have got to control prices and rationing in the essential category. When you get beyond that, the prices likely would have gone up during the past year on furniture and all of those items, had it not been for the question of price control.

My point is that if the expendable income expands as it is and the supply of goods diminishes as they are diminishing the job of price control of everything becomes increasingly difficult, and the job of expanding the rationing likewise is going to increase the problem.

But my point is, don't undertake the price control beyond that, but meet it with a heavy excise tax; put the effort on the maintenance of the price control of all of

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the basic essentials, and the rationing on that instead of trying to cover the--

(Mr. Vinson left the conference.)

MR. PAUL: We could do that to some degree. We could increase some of these excises which are in the category of luxuries, or at least semi-luxuries, but to undertake to put an excise on practically everything outside of the basic commodities of living would be an insuperable administrative problem.

MR. ECCLES: Say you are going to have a sales tax of a certain figure, we might say, on everything except these basic essentials, a very high general sales tax on everything but certain items.

MR. BLOUGH: Let's see what would be left. The latest figures we have on a sales tax base outside of sales to the Federal Government amounts to about sixty billion dollars, and some of that is probably not available because it is sales to States and localities, and so on.

Now, of that, over one-fourth, or sixteen billion dollars, is food other than restaurant sales. Undoubtedly some food is in this luxury class, but the administrative problem of trying to separate out the caviar and a few other things like that seems pretty great in order to arrive at the luxury items.

Another five billion dollars or more is restaurant sales of foods. Now, you might say that all restaurant sales of food are luxuries, but that hardly fits your Government girls here in Washington, and so on. And how to separate out a luxury sale of food in a restaurant and one that isn't a luxury seems - perhaps there are ways of doing it.

Another eight billion is liquor and tobacco, which are subject to excises. Those can be increased as much as you might desire.

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A billion fifty-seven and a half is medicines and drugs. Probably some of those are luxuries, but you could hardly get anybody to admit that even some of the patent medicines ought to go into the luxury class.

Then you have ten billion six hundred thousand of wearing apparel. Now, that is about a sixth of the total. But the great part of that, of course, is the basic wearing apparel, and at what level are you going to say that a pair of shoes becomes a luxury, and so on. We tried during the last war, as you know, to put taxes on luxury articles above certain prices. It proved to be a terrific administrative headache, brought in very little money, and was rather widely evaded.

Take the figures on house furnishings and equipment - possibly that could all have been considered luxury. I suppose newlyweds would hardly so consider it.

The rest is chicken feed. When you look around and say, "Where are these luxuries to which we can apply these heavy excise taxes and have a substantial effect on inflation?" it looks like we would have to split some of these categories, like food, and so on, and say, "This is luxury, and this isn't" or, "This price class is luxury and this isn't." That, of course, gets you into an administrative problem which makes one wonder whether it is really worth while.

MR. ECCLES: Of course there is no approach you can make to the problem without getting into very great difficulties. Even in the case of the heaviest kinds of an income tax or compulsory savings or a compulsory loan, you don't get at the problem, it seems to me, at this stage because you create an inflationary condition which is reflected by very large holdings of cash, bank deposits, and Government securities.

So if you put enough pressure through taxation on people or you put pressure on them now for a compulsory savings or lending, they may cash in the securities that they have, or they may use the funds they have. So I

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think that the 1940 - December 31, 1940 - during the past three years up to the end of this year I think it would figure approximately a hundred billion dollars of inflation in the form of currency growth, deposit growth, and Government bond growth in terms of the rank and file - the public, I mean - other than bank Government securities or corporate Government securities.

So you have this very large spending power that no matter how heavy the taxes are - I am not saying that they shouldn't be very heavy - but no matter how heavy the taxes or how much enforced savings you put on, you still have the problem of expanding need, increasing of black markets, and all of these other problems that now have to be dealt with largely, it seems to me, by direct means.

MR. PAUL: There isn't any question but what our problem is much tougher.

MR. ECCLES: It has to be done by direct means.

MR. PAUL: In other words, we have accumulated nearly forty billion of savings, or at the present rate we are accumulating nearly forty billion of savings a year, and that is a legacy of difficulty.

(Mr. Patterson left the conference.)

H.M.JR: Mr. Nelson, I wondered if you could tell us this far in advance what are the chances of spending for war purposes - have we reached the peak? Is it going to be greater, or is it going to fall off? If you could answer that question, because, after all, we are all talking about inflationary goods here, then you or Mr. Whiteside could tell us after that what the chances are for more or less civilian goods.

MR. NELSON: The production for war is at present on a plateau - a pretty high plateau - but it is on a plateau. It is very difficult to get off. I think it will get off; I think we will go up. We are planning to get up at the rate for 1944 of somewhere around eighty-five billion. It is going now at the rate - strictly

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munitions - of somewhere around sixty to sixty-five billion at the moment.

Now, I think there is some question as to whether we can get up to the eighty-five billion, depending entirely on the character of things that we make. But we are certainly reaching the peak.

MR. PAUL: Are you speaking of the calendar year '44?

MR. NELSON: Yes.

Now, you are nearer the peak, whatever amount you put it at. Answering your next question--

H.M.JR: Do I understand you think you may go from sixty-five to eighty-five?

MR. NELSON: Yes, I think we can go up from sixty-five to eighty or eighty-five.

H.M.JR: What is the rate right now?

MR. NELSON: I say right now it is running at the rate of about sixty to sixty-five billion.

MR. PAUL: Does that cover all war expenditures?

MR. NELSON: That is munitions and construction. That is not all war spending.

MR. JONES: Won't construction go off enough to take care of the other?

MR. NELSON: It is going off quite markedly.

MR. PAUL: If you go to eighty-five in your terms of production, what would that be in - can you translate that into your total budget figure?

MR. NELSON: At eighty-five it would be a total budget of somewhere around a hundred. That would be total war spending, including subsistence.

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H.M.JR: You don't mind my challenging you, do you?

MR. NELSON: No, sir, go right ahead.

H.M.JR: From what has happened - and Mr. Smith is much closer to this than I am - but just from watching the thing, it doesn't look as though we are going to reach - it looks as though in many cases we are leveling off, and in some cases we are falling off.

MR. NELSON: No, we are not falling off.

H.M.JR: On our dollars.

MR. NELSON: We are at a plateau that we are trying awfully hard to get off of. You get, for instance, airplanes - we got seventy-three hundred last month. Our schedule for December - we are trying to get it up to around ten thousand - now they run into money pretty fast - and I believe it can be done, maybe not in December, but it will be done in January or February. We are going to put through at the rate next year of around ten thousand a month. They run into money pretty fast, especially with the equipment that is in them now.

You have some programs being cut back. You have adjustments being made in this program. I think your expenditure for munitions last month was up about three percent for munitions.

MR. HAROLD SMITH: The total, as I recall it, was six million point forty-three for all, and probably July was something of an unusual - there were some unusual factors in it.

MR. NELSON: There were a number of unusual factors in July.

MR. SMITH: Substantially there is the beginning of a plateau there.

MR. NELSON: You are certainly at the moment on a plateau. I believe it can be gotten off that plateau,

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but I think you have a lot of problems in June, July, and August in getting it off. When you come to September, October, and November it will begin to climb back up again.

H.M.JR: It makes an awfully lot of difference.

MR. PAUL: Of course it is perfectly clear--

MR. NELSON: Your major items have all gone up in total quantity, your major items of airplanes, ships, merchant ships, and naval ships. Now, those are three big programs. There are others that have been cut back.

H.M.JR: One other thing isn't quite clear. Where you have these cancellations on plants, does that mean that a plant gets another war contract?

MR. NELSON: In nearly every case. Out of some sixty-five cancellations, for example, we put sixty-three back in production on other things. Now, it takes time to make those change-overs; and the program, while you are making those change-overs, is temporarily halted from increasing. But on the dollars, it just depends entirely on the quantities we can get. That depends entirely on manpower today, nothing else. There is no limiting factor.

H.M.JR: The reason I am asking this - if it isn't obvious, I would like to make it obvious because it has sort of gotten around that you have reached a plateau, that it may drop off.

MR. NELSON: I don't believe that--

H.M.JR: I am just saying - but as that gets around, it is more difficult for us to press for additional taxes. That is the point. So if there is any evidence that it is going to go up, it will help us in our fight before the Committee.

MR. NELSON: The whole thing depends, Mr. Secretary, upon the requirements of the armed services and of the

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Lend-Lease countries. If their requirements are cut back - if, for instance, for any reason they don't want these quantities of airplanes and decide we don't want ten thousand airplanes a month - we only want seven - it would be cut back. At the present there is no cutback in that requirement of ten thousand airplanes a month, there is no cutback in the requirement for merchant ships of twenty million tons, there is no requirement of cutback on the naval ships. All of those programs are being restudied by the War Mobilization Committee and Mr. Byrnes.

What I am telling you now is only on the basis of the requirements as they are actually given to us today. I believe that they can be met. I think we are on a plateau that we are going to get off of.

H.M.JR: Do you want to say anything on the civilian goods side?

MR. NELSON: I can state it in general. Until the requirements for the military services are cut back, until and unless they are cut back, there will be no great increase in the total volume of consumer goods that is being made, because we are at the limit now of our materials. And while there will be certain needs, it won't be large in terms of total dollar volume.

H.M.JR: If what you say is correct, that we are going to get off this plateau and increase by twenty billion dollars, then the supply of civilian goods ought to go down.

MR. NELSON: Certain ones will go down. Services, for instances, will go down without any question if we can get the manpower - the manpower has to be forced into these other industries. There are certain of the civilian service industries that will have to be cut down in manpower if we are going to reach the goal. There is no doubt about it.

H.M.JR: I wonder if Mr. Smith wants to say something.

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MR. HAROLD SMITH: No, I don't really have any definite observations on that, Mr. Secretary. I don't - it all depends upon manpower, resources, and what not, whether you can push it up farther than it is. I think we are obviously reaching some sort of plateau if we are not already on it. I don't think anyone can tell at the moment whether we are or are not.

MR. PAUL: It certainly looks as if you are not going to make the hundred for 1944 fiscal.

MR. HAROLD SMITH: I have serious doubts as to whether we haven't overestimated our expenditures for next year. I assume that one of these times we will begin to increase the quantity of consumer goods, and as we increase them on the up side we will begin to enter, slowly, without saying much about it, a post-war economy before the war is over. I assume that is going to be the case. It won't be running along at the same rate of expenditure.

MR. NELSON: That is my opinion, but when that will be I don't know. On the basis of the present requirements of the armed services for 1944 that would not be the case.

MR. HAROLD SMITH: That is right. Looking at the dollar situation and the various factors that make that up, it begins to look as if we had overestimated our next year's expenditures.

MR. PAUL: Do you want to say anything, Mr. Whiteside?

MR. WHITESIDE: All I can say is that the aggregate will be the same whether it is war or civilian. It doesn't make any difference because the civilian economy can absorb considerably more than it is getting.

MR. PAUL: Will there be any increase in efficiency of production of civilian goods?

MR. WHITESIDE: I don't think so because of the manpower situation.

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The other part is that we will continue to produce to the maximum of the productive capacity of the country for export purposes. So your total volume, whatever that peak is, is reached now and will stay there. It may be one way or the other.

MR. ECCLES: Doesn't it make a difference from this fiscal standpoint if the civilian gets less, which they must do if the war requirements are more, and if the war requirements are more the inflationary problem becomes increasingly acute?

MR. PAUL: That certainly is true.

MR. NELSON: On the basis of the present stated requirements of the military, that certainly is true.

MR. PAUL: Do I understand you correctly in understanding that you think that the total production, however you may divide production between civilian and military, has about reached its peak?

MR. NELSON: Yes, I would say so.

MR. WHITESIDE: The manpower situation tells you that.

MR. PAUL: We didn't say anything in our list here about social security. I don't mean to exclude it. It would certainly be an anti-inflationary factor, but there seems so little hope of getting the political action on it at the moment that I wanted to explain why it wasn't in the list.

MR. LUBIN: I wonder why this isn't the time to start educating the American people to realize that this is the time to take care of social security because of the war being over in '44.

MR. PAUL: It is a problem of educating the American Congress. The Secretary was present at one lunch where

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some of the leaders were guests, and I think it looked from that luncheon and talk that it was virtually impossible to get any action out of Congress on that front.

H.M.JR: I don't know what luck Mr. Altmeyer has but we have tried it again and again. He can talk better than I. There is always some pressing bill that they have to get out.

MR. PAUL: They always say--

H.M.JR: And Bob Doughton is like Coolidge against sin. He is just against it; you just can't make him budge on it. (Laughter)

MR. ALTMAYER: The two labor groups, of course, have said that they are willing to pay the increased taxes, which is something in favor of getting consideration by Congress. The increase under the Wagner Bill for the employees would be from one to six percent in both the CIO and the AF of L. They have indicated that they are prepared to support that increase. I suppose they are hoping that perhaps they can keep the increase on the taxes down or divert it, in other words, to social security purposes. I haven't any doubt that is in their minds, but they don't say that outright. And the fact that they have indicated flatly that they are willing to pay the increase seems to me a good argument for their not coming along later and saying, "we have more social security taxes to pay; therefore, we ought to have an increase in wage rates." I think they are estopped from making that argument by their own position now.

MR. GARRISON: That won't stop them, though.

MR. ALTMAYER: But I agree it is a little discouraging getting the committees of Congress to put attention on dealing with social security.

H.M.JR: Has anybody any more--

MR. COHEN: Under the proposed increases in income tax, what does it make the basic withholding tax?

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MR. PAUL: You can lift your basic withholding tax to that figure which represents a combination of the normal and the first surtax brackets. It would be just as easy to collect that as the present. It depends on whether you include the victory - what you do with the victory tax. The rate here would be twenty-three plus six. That is twenty-nine.

MR. BLOUGH: Thirty.

MR. PAUL: Allowing for deductions a rate of thirty percent would approximately be about as close as you can get it, which is approximately the Canadian rate.

MR. GARRISON: You are already facing a - I haven't the statistical figures, but there is quite a problem of preventing employers from paying that tax for the workers.

MR. PAUL: We have looked into that - there are stories in the New York Times, and as far as we have been able to trace it through, there is not very much foundation for the stories. If you have any proof on the subject, I certainly would like to have it.

MR. GARRISON: We will get what we can.

MR. PAUL: If nobody else has anything to say I would just like to repeat what the Secretary said, that we are going to be here right along and would like to receive suggestions and talk over any of the more detailed points that can't be covered in a meeting of this size. We will be at your service right along.

MR. HAROLD SMITH: Would you like to have some memoranda on some of these points?

MR. PAUL: Certainly we would. We have some memoranda, for instance - that reminds me - we have some rather detailed memoranda on the sales tax and various other aspects of the program that anybody in this group is welcome to study. All he has to do is call Roy Blough or me and we will send them over to you.

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MR. HINRICHS: Were your exemptions considered at all in relationship to the needs of the labor market this next year? You cut your exemptions back pretty sharply on dependents, and except in the case of the woman who is physically incapacitated to work there would seem to be no reason for as large an exemption for a married couple as you have unless you are thinking of the exemption for the joint income.

On the other hand, you don't - there isn't an opportunity, and you don't especially want to press the woman with children at those income levels into the labor market. And your joint exemptions now have gotten down pretty close to bedrock minimum.

MR. PAUL: I might say that one of the reasons - we have thought a great deal about that labor market phase of it, but one of the things we have to face there is the practical advantage of having those credits in a mathematical ratio. The two-fifty is half of the single person - the two fifty we propose is half of the single person of five, and the single person is half the married person of a thousand. By adopting tables of that sort for temporary withholding purposes in the last Senate bill, we reduced the number of withholding taxes from about twenty-five to five. And unless there is some very compelling reason why those credits should be in some other than that precise mathematical relationship, we tend to favor that because it simplifies the whole withholding job.

MR. GASTON: Reduction of the married credit from twelve hundred to a thousand goes a little way along the line of Mr. Hinrichs' thought, I think. Your thought is that the wife who does not work is a favored dependent under the present setup.

MR. HINRICHS: That, as a matter of fact, doesn't worry me. It is the three fifty to two fifty that is questionable.

MR. PAUL: We did propose what we call a working wife credit, a certain additional allowance for wives, the idea

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being that any wife who went out of the home and worked had greater expenses. Perhaps that might be renewed.

MR. LUBIN: If you want to use the tax system for purposes other than revenue and to control inflation, tie it up with manpower, you might have differential rates for children of different ages. In other words, force mothers with children over a certain age into the labor market.

MR. PAUL: It would be rather complicated. By the way, the labor market situation enters into the problem of the individual excess profits tax. One of the arguments against that tax is that it would take away the incentive on the part of a great many women to go into factories, and so on.

If no one has any questions, I think we will call it an afternoon.

AGENDA

- I. Revenue Program
 - A. Amount of additional tax revenue to be requested
 - B. Proposed sources of additional revenue
 - 1. Individual income tax
 - 2. Corporation taxes
 - 3. Estate and gift taxes
 - 4. Excise taxes
 - C. Other revenue sources not proposed
 - 1. Sales tax
 - 2. Tax on increases in income
 - D. Problems of the individual income tax
 - 1. Relief for persons with fixed incomes or heavy commitments
 - 2. Tax simplification
 - 3. Privileges and loopholes
- II. Discussion of complementary measures primarily for curbing consumer spending
 - A. Tax measures to discourage spending
 - 1. Spendings tax
 - 2. Spendings ~~tax~~ with graduated exemptions
 - 3. Progressive sales tax
 - B. Measures to withdraw purchasing power
 - 1. Compulsory loans
 - C. Measures to limit spending directly
 - 1. Extension of specific rationing
 - 2. Expenditure rationing
 - 3. Compulsory saving

August 10, 1943

Followed up 8/11.
Mrs. Klotz said

August 10, 1948

"File"

8/30/48-

Mr. Paul

Secretary Morgenthau

The President told me today that by the 24th of August he would be ready to see you and me, and any one you wish to bring along, to go over the tax bill with us and get his okay.

August 10, 1948

Mr. McConnell✓
Captain Kades
Secretary Morgenthau

I talked with the President today about the various departments that are interested in conversion of plants. I told him I thought that none of the military agencies should have anything to do with it, and he agreed. I told him I thought that either the Department of Commerce or the Treasury should handle it.

The President has asked me to send him a list of the departments which are interested in it. Before I send him a memorandum on the subject, I wish you would go over Mr. Lynch's memorandum to Mr. McConnell of August 6th, and make sure that it is correct.

Finished -

WAR FINANCE BULLETIN

Office of the Secretary of the Treasury

73

Issue No. 4

August 10, 1943

"Taxes and Bonds, Bonds and Taxes"

While the job of the War Finance Division is to sell bonds, not taxes, the one does not preclude the other; and our success in the months to come will be measured by our ability to sell both. Taxes and bonds must be partners, not competitors, in the nation's fight for life.

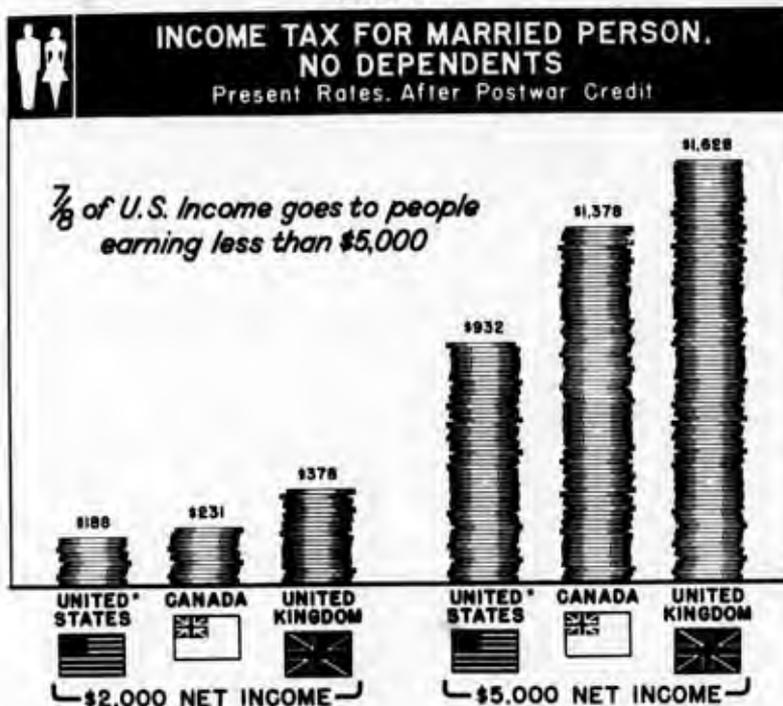
It is not a question today of more of one and less of the other; it's a question of more of both -- taxes and bonds. It would be tragic indeed if we allowed pay-as-you-go or the current preoccupation with the September 15 quarterly income tax payment to take the edge off our determination to make the Third War Loan Drive the greatest money-raising crusade in the history of the world. This need not -- and should not -- happen.

Just as there is need for raising money from the sale of War Bonds, so is there need for raising revenues from taxes. While Government expenditures during fiscal 1944 will run at almost \$9 billion a month, tax revenues at prevailing rates will amount to something like \$3 billion a month and receipts from the sale of Treasury issues to nonbanking investors to about \$4 billion a month. This still leaves a difference of almost \$2 billion a month to be raised by sales of securities to banks -- and it is precisely this \$2 billion "gap" that might be further closed by additional sales of War Bonds and/or additional taxes.

Information Service for State War Finance Committees

- 2 -

CHART I



* U.S. includes net victory tax and N.Y. State income tax.

Chart 1 above shows the lower income tax rates in this country in contrast with those of Canada and the United Kingdom, by reference to two important income levels. In the United States a married person with a net income of \$2,000 a year and no dependents pays a total tax (Federal and N.Y. State income tax) of \$188; in Canada, \$231, and in the United Kingdom, \$378. Were his income \$5,000 a year, he would pay \$932 in the United States, \$1,378 in Canada, and \$1,628 in the United Kingdom. These figures take on added significance when it is borne in mind that seven-eighths of this nation's income is going to individuals earning less than \$5,000 a year.

- 3 -

CHART 2

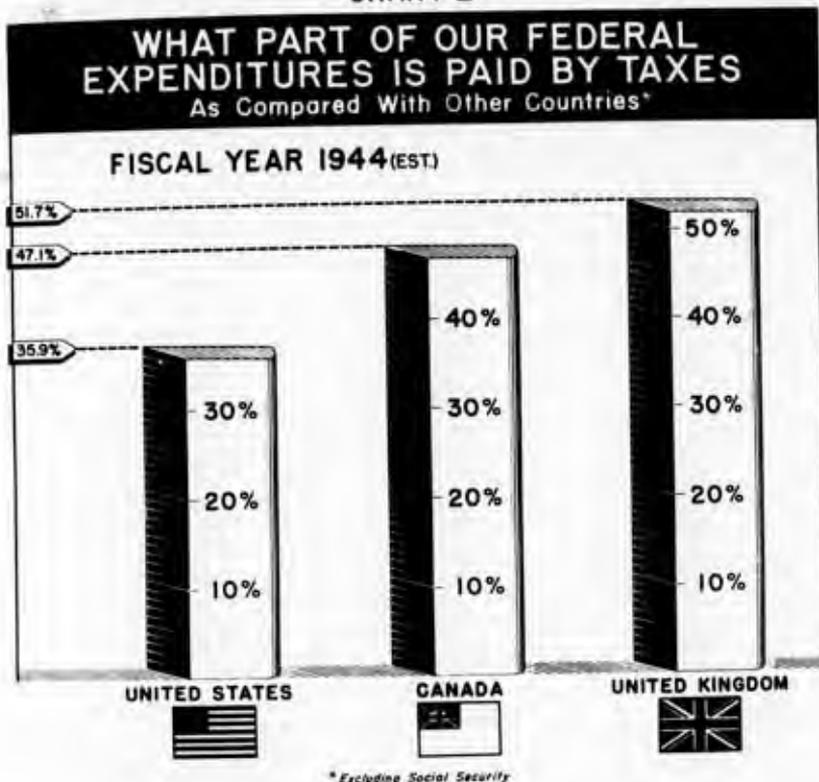
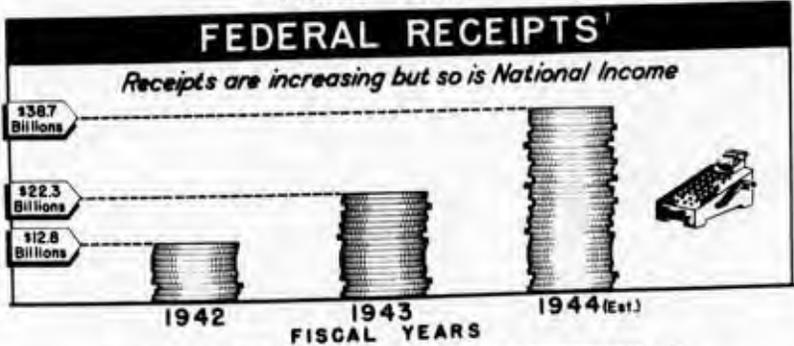
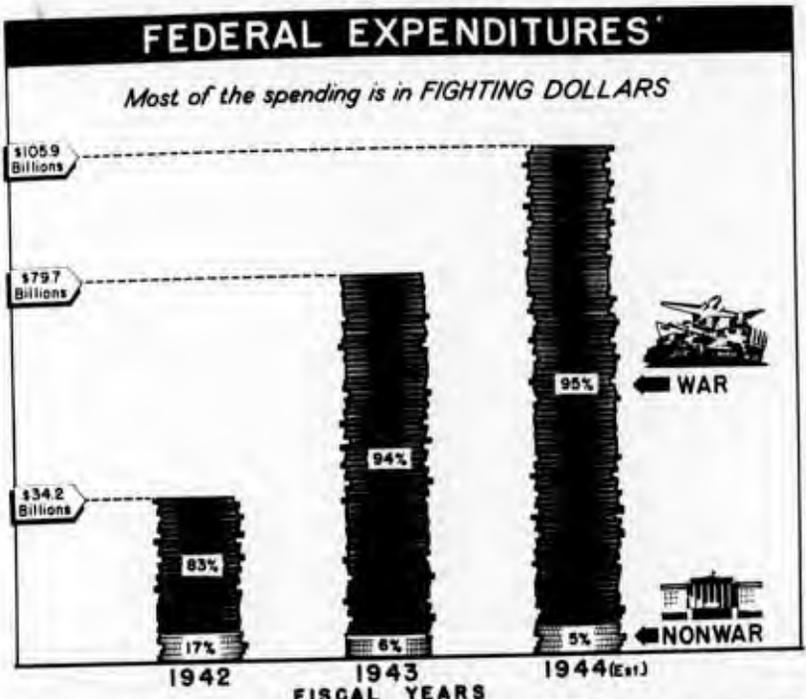


Chart 2 above shows that tax dollars in fiscal 1944, under prevailing rates, will meet only 36 percent of total Federal expenditures in the United States, while in Canada they will constitute 47 percent and in the United Kingdom 52 percent, of Government expenditures. We should be able to do better -- especially if we bear in mind that \$36.8 billion of the approximately \$38.7 billion to be received in tax revenues this year will go toward the purchase of guns, tanks, ships, and planes in order that decency be restored to the world.

CHART 3



¹ Excludes public debt retirements; includes net expenditures of Government corporations.
² Total receipts less net appropriation to Federal old-age and survivors insurance trust fund.

Chart 3 above shows how Government receipts compare with Government expenditures during fiscal years 1942, 1943, and 1944. Between fiscal 1942 and 1944 receipts will have increased from \$12.8 billion to \$38.7 billion, ex-

- 5 -

penditures from \$34.2 billion to \$105.9 billion -- the ratio of receipts to expenditures remaining a little better than 1 to 3. While in 1942, however, 17 percent of Federal spending was for nonwar purposes, in 1943 such spending had declined to 6 percent, and in 1944 is estimated to be only 5 percent. In other words, this year ninety-five cents out of every dollar of Federal expenditures is being routed directly into the war effort.

What does all this add up to? Simply this. What we're putting into taxes and bonds is practically all going to war -- but we're not putting enough in! What we're contributing in the way of taxes and bonds compares very favorably with our performance of a year or a year-and-a-half ago -- but it doesn't compare so favorably with the financial sacrifices of our Allies!

In spite of increased taxes, the vast majority of our people last year had more money left to spend or to save than the year before; and this year they will have even more than last year. This year it is estimated there will be the unprecedented total of \$45 billion in "excess dollars" -- the difference between income payments of \$130 billion after personal taxes and the available supply of goods and services of \$85 billion.

More of these "excess dollars" must put off the civilian dress of peace and put on the uniform of war. "Every tax dollar as well as every bond dollar," as Secretary Morgenthau has pointed out, "does double duty; it provides funds needed urgently for winning the war, and checks the tendency toward rising prices." It is high time we say to our money as we have begun to say to our men, "Work or Fight."

-oOo-

WAR FINANCE BULLETIN

Office of the Secretary of the Treasury

Issue No. 4

August 10, 1943

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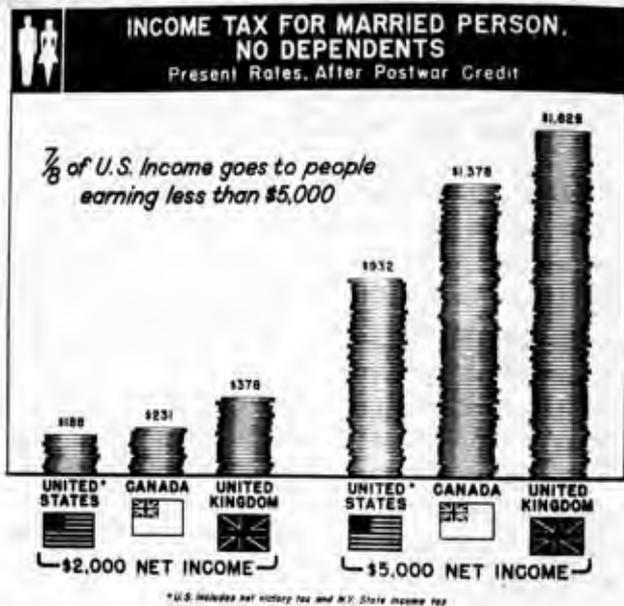


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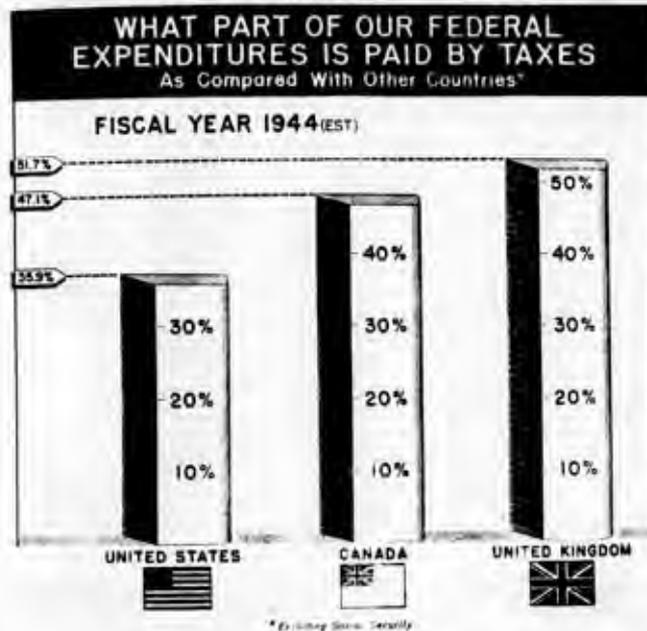
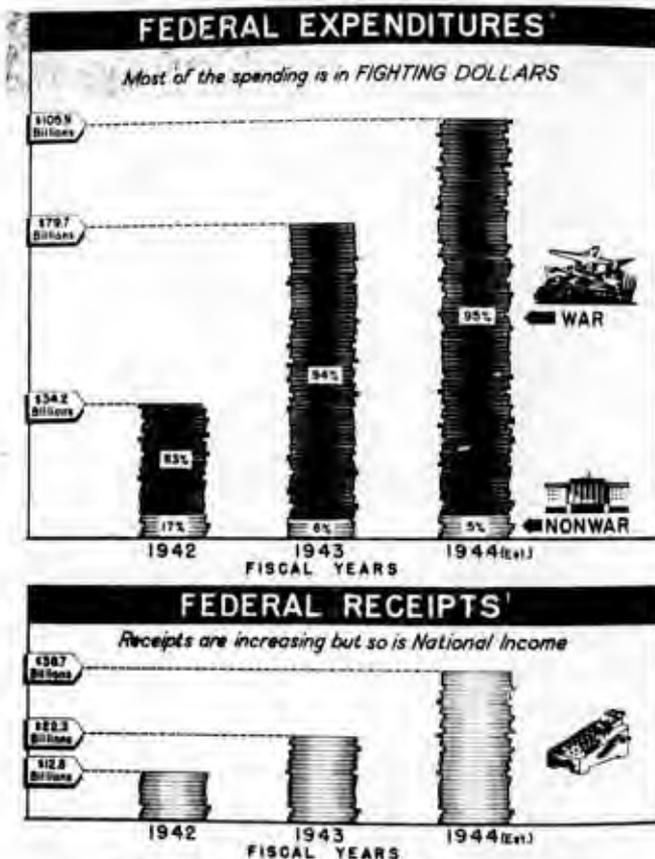


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OFFICE OF THE VICE PRESIDENT
WASHINGTON

August 10, 1943

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

Dear Henry:

I have just returned to find your very kind letter of July 27. I hope I can measure up to your high expectations.

Sincerely yours,

H A Wallace

H. A. Wallace

SECRET



OFFICE OF THE DIRECTOR

**TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON**

August 10, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended August 7, 1943.

Current excess production of 26 million yards of drill cloth (used for making work clothing), has been taken over from the Quartermaster Corps to fulfill requirements for the civilian populations of North Africa and Australia.

A. J. Walsh
Acting Director of Procurement



SECRET

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF AUGUST 4, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$3874.0 (3873.8)	\$1931.8 (1931.8)	\$1557.0 (1557.0)	\$103.4 (103.4)	\$10.9 (10.9)	\$270.9 (270.6)
Purchase Authoriza- tions (Requisitions)	\$2954.8 (2942.6)	\$1574.9 (1570.4)	\$1222.9 (1216.7)	\$38.4 (38.3)	- -	\$118.4 (117.1)
Requisitions Cleared for Purchase	\$2897.0 (2869.6)	\$1540.9 (1538.2)	\$1202.5 (1179.5)	\$38.3 (38.2)	- -	\$115.2 (113.5)
Obligations (Purchases)	\$2763.0 (2747.7)	\$1512.3 (1506.6)	\$1114.9 (1108.9)	\$38.2 (38.2)	\$7.1 (6.8)	\$90.2 (87.1)
Deliveries to Foreign Governments at U. S. Ports*	\$1198.8 (1192.2)	\$830.9 (826.0)	\$336.3 (334.6)	\$18.6 (18.6)	- -	\$13.0 (12.9)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of July 28, 1943.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

PHONE EXECUTIVE 2020


 Box 680
 BENJAMIN FRANKLIN STATION
 WASHINGTON, D. C.

August 10th, 1943.

SECRET

Dear Dr. White:

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

	<u>Jul. 2</u>	<u>Jul. 9</u>	<u>Jul. 16</u>	<u>Jul. 23</u>	<u>Jul. 31</u>
Total Gold	977	969	973	975	969
Official Dollar Balance	<u>361</u>	<u>391</u>	<u>392</u>	<u>424</u>	<u>431</u>
Total Gold and Dollars	1338	1360	1365	1399	1400
Scattered Gold	184	184	185	184	191
Gold Reserve against immediate liabilities	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
AVAILABLE GOLD AND DOLLARS	<u>1144</u>	<u>1166</u>	<u>1170</u>	<u>1205</u>	<u>1199</u>

Yours sincerely,

A.T.K. Grant.

H.D. White,
 Assistant to the Secretary,
 United States Treasury,
 Washington, D. C.

AUG 10 1943

My dear Mr. Acheson:

This will acknowledge your letter of July 31, 1943 containing corrections to the memorandum on Dutch currency transmitted to me with your letter of July 27.

Very truly yours,

(Signed) H. Morgenthau, Jr
Secretary of the Treasury

The Honorable Dean Acheson,
Assistant Secretary of State,
Washington, D. C.

File returned to Mr. White.
Photo of incoming and copy
of reply in Diary.

HT:Dr1 -8/5/43



DEPARTMENT OF STATE
WASHINGTON

July 31, 1943.

My dear Mr. Secretary:

Referring to my note of July 27 transmitting a copy of a memorandum of conversation held by officers of the Department with the Minister of Finance of the Netherlands regarding monetary questions that might arise at the time of reoccupation, I wish to make the two following corrections:

(1) The banknotes are being printed in Ottawa, Ontario.

(2) The rate of exchange proposed by the Minister of Finance is 10.50 guilders to the pound (instead of the 12.50 mentioned); the rate of 10.50 corresponds to a dollar-sterling crossrate of 4, about with the old gold parity of the dollar and the guilder of approximately 2.50 guilders for a dollar.

Sincerely yours,

A handwritten signature in cursive script, reading "Dean Acheson".

Dean Acheson
Assistant Secretary

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

SECRET

To: Adler, Chungking, China.
From: Secretary of the Treasury.

Reference is made to your cables of August 6,
TF-150 and August 4, #1373.

Please inform Dr. Kung:

The Treasury instructed Mr. Adler to submit his resignation because the 1941 Agreement had lapsed since no request was received for its renewal as provided in paragraph 9 of the 1941 Agreement. Dr. Kuo and Mr. Hsi have just informed us that Dr. Kung wishes Mr. Adler to withdraw his resignation inasmuch as the Ministry of Finance is now considering revisions to the 1941 Agreement to be submitted to the Treasury. The Treasury is therefore asking Mr. Adler to withdraw temporarily his resignation.

ISF/afa 8/10/43

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

August 10, 1943

PLANE LOSSES FROM JANUARY THROUGH JUNE 1943

The United States - 846 (Figure obtained from Haskin Information Service, which quoted a War Department Air Force release.)

*Axis - 4905

*R.A.F. - 2289

*These figures obtained from British Information Services and include planes destroyed over Great Britain, Europe, Tunisia and the Middle and Far East.

NOTE - All figures are approximates.

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NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 263

Information received up to 10 A.M., 10th August, 1943.

1. NAVAL

On 9th one of H.M. Submarines torpedoed an Italian 6" Cruiser off SPEZIA. Ex-French tanker FIRUZ, 7,300 tons, flying the German Flag arrived at ISTANBUL on 6th badly damaged after having been torpedoed at the entrance to the BOSPORUS.

2. AIR OPERATIONS

WESTERN FRONT. 9th. Operations consisting of minor bombing missions with fighter cover resulted in enemy casualties 7, 2, 1, for 4 missing.

9th/10th. 523 aircraft sent out - MANNHEIM 457 (9 missing), DUISBURG 6, seaminging 10, Intruders 30 (2 enemy aircraft destroyed), anti-shiping 6, leaflets 14. Preliminary reports indicate successful attack on MANNHEIM, one large explosion occurred near the railway station and most crews report good fires both sides of the river.

TREASURY
1943 AUG
SECRETARY

August 11, 1943
8:45 a.m.

GROUP

Present: Mr. Bell
Mr. Paul
Mr. Gaston
Mr. White
Mr. Sullivan
Mr. Thompson
Mr. O'Connell
Mr. Smith
Captain Kades
Mr. Gamble
Mr. Blough
Mrs. Klotz

H.M.JR: I am having this early for two reasons: One, to have a little fun; and, two, Mr. Hopkins is coming in at nine-twenty.

Norman, will I be correct if I tell the Commissioner today that we have been doing his work for him on checking up on all of his paper and all of that kind of stuff, and that is something they should do themselves? He is coming over at ten-thirty.

MR. THOMPSON: I think perhaps the situation reached a point where he was justified in giving in on it. They needed a lot of assistance, perhaps. Normally they would have their own people do that.

H.M.JR: Why didn't they this time?

MR. THOMPSON: They were in on it, and they were handling the forms, but we got in on the letter and ran into the paper situation when--

- 2 -

H.M.JR: Yes, but Gamble, who has a much smaller operation, has his people out in the field, and he has got his paper and dealt with the Public Printer, and he is all right.

But Sullivan and the Commissioner and their crowd - they have no paper, and we have to do the footwork.

MR. SULLIVAN: Just a minute, Mr. Secretary, this is a very small job compared to the one that we did in June. It is small compared to the one we did last March. We have handled this before.

H.M.JR: But what is the matter on this one?

MR. SULLIVAN: I understood you put Charlie Bell in charge of it.

(Mr. Smith and Mr. O'Connell entered the conference.)

H.M.JR: Do we have to have another investigation?

MR. THOMPSON: Of course the letter was late because of the rewriting of it, and you wanted Mr. Bell to follow through. We got to checking it with the Government Printing Office and found - they were going to do the job, and we checked there and found they had no paper.

H.M.JR: But who made the arrangements?

MR. THOMPSON: For the printing?

H.M.JR: I put Charlie Bell on it to follow on the trail of Internal Revenue.

MR. SULLIVAN: The original contract was made by the Bureau and the Government Printing Office. Then this was stopped. At the time it was stopped I understood that Charlie Bell was put in touch with the Government Printing Office.

Now, in the past we have just had to live with the Government Printing Office. They will make all kinds of

- 3 -

promises and won't fulfill them. And we are with them every day all along during one of those things.

Now, Charlie started going and got the plates ready on Monday, I think, the 2nd of August. They were all delivered. The Government Printing Office had told them that everything was all set, and then Monday afternoon Charlie's fellows found out that they hadn't even gotten their contracts.

(Mr. Blough entered the conference.)

H.M.JR: From whom?

MR. SULLIVAN: From the Government Printing Office.

H.M.JR: But from whom?

MR. SULLIVAN: From the Government Printing Office.

H.M.JR: Who hadn't gotten their contracts?

MR. SULLIVAN: The printers - the private printers around the country.

H.M.JR: But the point I am making is that Charlie Bell was following through - I mean, after all, there was going to be a letter, and I was told that this letter was all ready when I first was told it was with the printer and that we would have to remake the plates.

MR. SULLIVAN: That is correct.

H.M.JR: Well, when they went to the printer it was the same size letter and everything else - the same number of letters - all we did was to change the letter and have the plates remade.

MR. SULLIVAN: That is right.

H.M.JR: Sure. Then I said to Charlie Bell, because everybody was trying to get something on me, "You had better follow through and try to hurry the thing up." When he

- 4 -

started to follow through, he found this was a mess.

MR. SULLIVAN: I don't know about that, Mr. Secretary. This is a very small job compared with those in the past, and we haven't had any trouble in the past.

H.M.JR: Every time I go after the Bureau everything is perfect, and every time I touch it personally I find there is something wrong, and I am saying that the letter - all we did on this letter was to change the letter and change the plate. And when we wanted to get the thing printed so that some two-by-four person wouldn't try to hold me responsible, we found that the contracts and the paper didn't exist. You always want to make a fight out of it, John.

MR. SULLIVAN: No, I don't, Mr. Secretary.

H.M.JR: I was asking him a simple question. You always get so excited about these things. Why can't you once say that maybe it is wrong, and so forth. I had to do the same thing with Norman Cann. It took me forty-five minutes to pound before he admitted that the sun didn't rise and set with the Bureau. I always have the same thing.

After all, let's put it this way - always getting excited about it - supposing we hadn't checked the letter and the same letter had gone out?

MR. SULLIVAN: You would have had it on time.

H.M.JR: Where was the paper?

MR. SULLIVAN: We would have had the paper.

H.M.JR: Who would have gotten it?

MR. SULLIVAN: Norman Cann and myself and the fellows who always take care of that. We have had the same--

H.M.JR: That is ridiculous.

- 5 -

MR. SULLIVAN: All right, Mr. Secretary, we haven't had that trouble before.

H.M.JR: They go out - do you know what happened out in the field - what they found?

MR. SULLIVAN: Yes.

H.M.JR: And you fellows would have cleaned it all up? There was nobody there from the Bureau.

MR. SULLIVAN: We wouldn't have relied on the Government Printing Office's word the way Charlie did.

H.M.JR: I am not - I won't get angry; I won't bring it up. Look, John, if something is going to happen - I can't always get in trouble. I can't get in trouble - everything that you or the Bureau does is always right.

MR. SULLIVAN: Oh, no, that is not true.

H.M.JR: That is your position.

MR. SULLIVAN: I beg your pardon?

H.M.JR: That is your position.

MR. SULLIVAN: No, it isn't my position at all.

H.M.JR: Well, let's change the subject. I am sick and tired of it. I mean, the fact remains that when Charlie Bell went out - it had nothing to do with changing the letter - the contracts weren't there; the paper wasn't there.

MR. SULLIVAN: That is correct.

H.M.JR: You take the position that if we hadn't changed the letter the paper would have been there.

MR. SULLIVAN: I say this, Mr. Secretary, going along in normal channels we would have been with them every day

- 6 -

and gotten the amount of paper that is involved here - it is a very small fraction of the paper we had to get last year.

Now, I don't come running to you when things go wrong. We lost a whole carload of paper in the flood in St. Louis last May when we were trying to get out these exemption certificates. We have all kinds of trouble. I was spending a great deal of my time with the Government Printing Office. That is a very inefficient organization; you can't believe them. You have to follow them up all the time.

Now, Charlie is just having some of the same trouble that we always had with them, but we followed them very closely because we knew we couldn't rely on them.

H.M.JR: Why didn't you follow it this time? Because I changed the letter you just lay down on the job.

MR. SULLIVAN: I don't know; I was away.

H.M.JR: Then why get in on the argument? I don't think you do know, now.

MR. SULLIVAN: Well, Mr. Secretary--

H.M.JR: The inference is that because I got in on it the Bureau laid down and said, "Let the thing go to hell."

MR. SULLIVAN: Not at all. I do think - I wouldn't be doing my duty to you, sir, if I sat here and listened to things that I thought were not correct.

MR. THOMPSON: I think normally Internal Revenue would have run into the same situation, but I doubt if they would have gotten the expeditious action we got, because it needed a little higher level with the Printing Office because of the need of getting the job out.

H.M.JR: Where were the people from the Bureau who normally follow printing in this situation?

- 7 -

MR. THOMPSON: I suppose if they ran into this shortage of paper they would have had to have the collectors get in touch with the forty plants.

H.M.JR: They didn't do it.

MR. GASTON: Wasn't it the understanding that Charlie had taken over this with the--

MR. THOMPSON: He found the form was in the same difficulty, but not until he got on the letter. At Norman Cann's--

H.M.JR: Well, the impression I get about the altercation of Sullivan is because I stepped in and wanted the letter the Bureau just sat down and said, "Well, let him stew in his own fat."

MR. SULLIVAN: I beg your pardon; that isn't so. Norman Cann has been working with Charlie Bell even after he was supposed to leave here. He cancelled his reservation and stayed over and worked on this thing. Isn't that correct, Norman?

MR. THOMPSON: Yes.

H.M.JR: Then Charlie Bell wasn't responsible.

MR. SULLIVAN: No, I didn't say that Charlie Bell was responsible.

H.M.JR: You did at the beginning. You said that Charlie Bell was responsible for getting the letter out, that he took it out of the hands of the Bureau.

MR. SULLIVAN: I thought you meant responsible for the delay.

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H.M.JR: I mean, I am responsible for changing the letter.

MR. SULLIVAN: I understand that, sir.

H.M.JR: Then I wanted to see that the letter got out, so I asked Charlie Bell to check up on the Bureau and make sure that everything had clicked, because everybody was doing business on a pinhead basis. Everybody was trying to get something on somebody else.

MR. SULLIVAN: I don't know about that.

H.M.JR: Well, I do. And Norman Cann says he is out of sympathy with me and he is resigning. It is just too bad.

Well, anyway, I was just trying to get some facts before I saw the Commissioner.

(Mr. Gamble entered the conference.)

MR. THOMPSON: I think the whole thing has been definitely expedited by having Charlie in on it because they listen to him more than they do the Printing Office.

(Mr. Paul and Captain Kades entered the conference.)

H.M.JR: Well, as long as we are on this thing we might just as well clean this thing up. I gave some orders the other day and they haven't been carried out, and I want them carried out. That goes for you (Sullivan), too.

I said I wanted a man put in this vacancy in the Bureau at sixty-five hundred who would be responsible to Chick Schwarz. That hasn't been done.

- 9 -

MR. SULLIVAN: I talked with the Commissioner about that Friday.

H.M.JR: Where does that stand?

MR. SULLIVAN: I don't know. I haven't talked with him since Friday.

H.M.JR: That is something that I want done. I want a man in there, or a woman, and I want that man responsible to Chick Schwarz. And then when this stuff flows from this person to Chick Schwarz, then we can make arrangements - we don't have to have any written memorandum. If Schwarz has anything from the Bureau that you want to see, Schwarz can check it with you - check it with Smith - Paul if necessary, or anybody else. I don't need any fancy written memorandum.

But certainly somebody can be put into that Bureau who will be there, and John, I don't want a little publicity bureau in your office.

MR. SULLIVAN: That is perfectly all right with me. There never has been one there.

H.M.JR: Yes, but I said that all once before and I am just where I am. I can't see that I have made any progress.

MR. SULLIVAN: I told the Commissioner Friday exactly what you said, that you wanted that filled and you wanted it filled right away, now.

H.M.JR: Now, what is going to happen to Horne?

- 10 -

MR. SULLIVAN: Horne is only here on a part-time basis. We don't need to worry about Horne. Horne is making a very considerable sacrifice to come back here. We don't need to worry about him at all.

H.M.JR: But this thing I am worried about and I want it settled so I can forget about it. If this stuff is going to originate in the Bureau, where does Horne fit in the picture?

MR. SULLIVAN: He is just here to do this particular job.

H.M.JR: What particular job?

MR. SULLIVAN: The publicity on the September 15 declarations.

H.M.JR: When that is finished, what happens?

MR. SULLIVAN: He goes back running his business.

H.M.JR: All right. Now, do we understand each other?

MR. SULLIVAN: Completely.

H.M.JR: I will say it again. I don't need any order. I want a man - maybe this woman we have got upstairs - she might be the woman - and this person will be over in the Bureau responsible to Schwarz.

The understanding is that - what I am trying to do here is - and I want the cooperation of everybody - I am trying to get one person who will look for me on the over-all policy, so that we are not two people trying to do the same thing at the same time.

- 11 -

Now, for example, I understand that you (Paul) saw the Time people, Monday.

MR. PAUL: Yes.

H.M.JR: Now, did you know that Gamble is trying to get something out of the Time-Fortune people?

MR. PAUL: No.

H.M.JR: You see. He is trying his best to get something - you go up - I don't know about it. I do know what Gamble is doing. We might be at cross-purposes. I am just using that as an example.

MR. PAUL: I would lay off that subject, of course, because I don't know anything about it.

H.M.JR: But the point I am trying to get at, I brought Smith down here for me - to work with me, personally - to assist me, so we have one approach to the public on public relations, and I am asking everybody to cooperate on that line.

Now, Herbert did it for me for a long time. He did it at the beginning, he dropped it, and did it again after Kuhn left. I tried to have Kuhn do it. Now I have relieved Herbert of that and I have got Smith down here. Now I am going to ask everybody to cooperate with him so at least - I may not have time - he knows and can make suggestions and advise everybody on what the Treasury is doing in its contact with the public. That is what I want. Now, it is better for everybody.

MR. SULLIVAN: Correct.

H.M.JR: So if everybody will cooperate - I mean, he is doing it for me, and I am trying to do it for the Treasury. Why did I get in on the September 15 withholding? Because I wanted it to go smoothly so there would be no conflict between our Third War Loan and the September 15 withholding - and there isn't going to be. It is working very well.

- 12 -

But there are so many things with such a broad field. I just don't want to have conflicts in the Treasury. So if you people - again I am repeating myself - would cooperate on that it would be helpful.

Now, we don't need any order, do we?

MR. THOMPSON: I don't think we need an order because existing orders provide for that liaison with the public relations officers in the Bureau.

H.M.JR: Can I count on your cooperation?

MR. SULLIVAN: Entirely, sir.

H.M.JR: Is there anything about it - say it now - if there is anything you don't like, say it, John.

MR. SULLIVAN: Not a thing, sir.

MR. BELL: I would like to ask a question.

H.M.JR: Excuse me one minute.

MR. SULLIVAN: You think I get excited and perhaps I do, but the thing that gets me excited, Mr. Secretary, is when people who have been doing a job are assumed not to know anything about it.

As I said before, the job we had to do for July 1 was, I understand, the second or third largest printing job the Government has ever had, and there are a million and one headaches.

Now, I think that one very good result that might come out of this very unfortunate affair is some sort of an overhauling of the Government Printing Office, or permission for the Treasury to do its own printing outside, because what we are experiencing now we experience every year when we are trying to get the forms out for March 15. Every time we have a job to do we have trouble with them. They are inefficient, they are conceited, they are arrogant, and they are independent.

- 13 -

H.M.JR: They are nice people, in other words.
(Laughter)

MR. SULLIVAN: I mean, it got to the point where I had to call up at least once a day through May to congratulate them on what a fine job they had done on some minor phase of the thing and try to butter them up so they would try to do a better job on something else. You have to take your hat in your hand, get down on one knee, and just pray to them. And they are not doing a good job.

H.M.JR: No question about it. I think it is a shame if the other departments are going through the same thing we are. I don't see anything about the Government Printing Office's - there is a lot of work to be done, but there are a lot of printers around the country to help them.

If out of this we can have some sort of an overhauling of that outfit, or permission to cut loose and go on our own, I think that is swell.

MR. BELL: They do go outside more than they did before.

MRS. KLOTZ: Terribly slow.

MR. BELL: They take their time about getting the work out.

H.M.JR: What Thompson told me yesterday about the experience we have had in the field on this letter, it is shocking. I mean, anybody in business who would run it like that would get fired.

MR. THOMPSON: I think we can follow through on this and get some good out of it.

H.M.JR: I wonder - you have to go through the Bureau of the Budget to try to get out from under them?

- 14 -

MR. BELL: Joint Congressional Committee.

H.M.JR: Why not let's go up there and talk to them?

MR. BELL: It is a closed corporation. It is pretty tight. It always has been.

MR. THOMPSON: I am just wondering if we would get in a worse position, because the Government Printing Office is supposed to have contracts with the largest printing companies in the country. If they have contracts and we can't get in, we might find we are frozen out.

MR. SULLIVAN: I agree the problem isn't as simple as I indicated, but we do think a little fuss here would--

MR. THOMPSON: I plan when Mr. Bell gets back tomorrow to get the exact facts and go to Giegengack and show him the picture.

H.M.JR: Would you (Thompson) take it on and follow through with it? Will you please?

Bell?

MR. BELL: I just wanted to ask what the relationship of this publicity man in the Bureau had to the head of the Bureau. Does he have any responsibility to the head of the Bureau? Does he get anything out he wants to and it comes to Chick and it is Chick's responsibility?

MR. GASTON: It is not a new plan, and it is not new either in the Treasury or outside the Treasury. The relationship is somewhat similar to the relations of the Chief Counsel over in the Bureau to the General Counsel. The relationship is the same as the man who is the publicity man in a particular plant of a large organization to the general head of publicity of the organization. He is there to serve that particular organization. He doesn't put out anything that is inaccurate with respect to that organization. He checks carefully with all the people

- 15 -

that are concerned with that organization before he puts out anything. But he also has directions and his understanding from his own chief as to this general policy of the sort of thing he puts out. And it is somewhat similar to the relation - a type of this is our friend - Fred's friend - who is with duPont.

MR. SMITH: George Albee.

MR. GASTON: He works for Young and Rubicam. He is there to serve that particular client. He checks very carefully. He should check with everybody in the Bureau that he puts out nothing that is inaccurate or is going to cause trouble, but also he generally works under the public relations director and is guided as to general policy by the man who supervises public relations.

MR. BELL: I agree with that over-all control in the Secretary's office. Nothing should go out that isn't checked by Schwarz or Smith, or whoever is in charge. But I don't think that any publicity man in a Bureau, or General Counsel, or whatever you have, should come between the head of that bureau and the man in charge in the Secretary's office, like an Assistant Secretary in charge of Internal Revenue. I don't think the publicity man ought to come between the Commissioner and an Assistant Secretary.

MR. SULLIVAN: I think that is bad organization.

MR. GASTON: What do you mean - come between?

MR. BELL: He goes down and gets something approved in the Bureau, then he puts it through to Schwarz and out it goes. I think the Assistant Secretary has got to approve it and I think he ought to approve it before it goes to Mr. Smith.

MR. GASTON: That is right. It certainly wants to be checked before anything is put out. It wants to be checked with Mr. Sullivan.

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H.M.JR: I can answer that. I thought about it and I checked this with Gaston last night. I agree with you. Before the thing comes over, no matter who it is, it ought to be cleared by somebody in the Bureau - the Commissioner or somebody. Then when it comes over here I want it to go directly from there to Schwarz' office. Now, Sullivan is a part of my office, the way everybody in this room is.

MR. BELL: That is right, and you are looking to him for administrative supervision.

H.M.JR: But it is publicity, and I want it to go from one publicity man to another, then if Schwarz - if it is Internal Revenue, I would think - I would want Schwarz to clear it first with Sullivan before he showed it to anybody else.

MR. PAUL: That would apply all along the line, wouldn't it?

MR. THOMPSON: That is the procedure that Schwarz operates under.

H.M.JR: I think, if you are going to get down to - I thought quite a lot about this - I am not making any accusations, but I mean I have been blocked on it for a long time.

MR. SULLIVAN: Not here.

H.M.JR: All right. You can relax - you and I can get along well. (Laughter)

MR. SULLIVAN: I am having a wonderful time - completely relaxed.

H.M.JR: I am not. I get excited and I don't enjoy it. I am afraid you do and I don't. (Laughter)

MR. SULLIVAN: No I don't. I was just kidding you. (Laughter)

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H.M.JR: Just take it a little easier. I always feel badly afterwards. I don't enjoy them at all. I don't know how you feel.

But I mean, this vacancy has been there how long - over in the Bureau?

MR. SULLIVAN: Over a year, sir.

H.M.JR: So I say I have been blocked on the thing. I would like it to go - to have a man known as somebody from Schwarz' office - before the thing comes over it has to have Mr. Heilvering's initial; or somebody he designates - it comes to Schwarz and Schwarz takes a look at it. It may be something out of the General Counsel's office which wouldn't necessarily affect you. It could perfectly well be an income tax case. I mean it might first go to Paul, but if it is something in the Bureau, a man - Schwarz has got to see it. He has to keep Sullivan happy. Those are my instructions.

MR. SULLIVAN: The most important thing is that one definite procedure be established and followed. Then just so long as the Commissioner cleared and I clear, I don't care what the procedure is as long as those two things are performed.

H.M.JR: Well, then, let's go - if you don't mind my differing with you (Bell)--

MR. BELL: Well, no, certainly not. You are the umpire. But in all of my offices the press releases come to me first from the head of that office, then I send them to Mr. Schwarz. If he and Mr. Smith don't like them they are subject to change, of course, but they all come to me first.

H.M.JR: That is a little bit different. This is something from your office. If Smith - if he has somebody write something for him, it comes to him direct, but this is something from the Bureau.

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MR. BELL: That is right.

H.M.JR: But this is something from the Bureau.

MR. BELL: I am speaking of something from Public Debt Service - Accounts, or any place else. It comes to me first. I go over it as a matter of policy as to whether I want that thing to go out or want it to go out in that form. I sit down with my people and go over the press statement and then it goes to Mr. Smith for final clearance for you. It goes to Mr. Schwarz and then he takes it. I think that is the channels.

MR. PAUL: I think that is a good system.

MR. GASTON: I think the situations vary in different cases. Sometimes, for instance, myself, although I have very little publicity from the bureaus under me - sometimes I suggest a story to Schwarz, he puts a man on it, writes it up, and checks it with me before he puts it out. In other cases a man runs onto a story, brings it to Schwarz, and if Schwarz thinks it is a story, he brings it down to me - "Is it all right to put this out?" He calls me up to ask me - "Somebody has asked a question and what shall we say?" "What ought we to say about this" - something relating to Customs. So I tell them what I think they ought to say.

H.M.JR: Take Customs or Narcotics, if they have a story does it come to you first?

MR. GASTON: Routine stuff, no. They put it out without questioning me at all. But if there is anything that Schwarz thinks is new, or anything there is a question of policy on, he asks me about it. But we have routine things - the cattle quota - that go out as a matter of routine.

H.M.JR: But he is thinking of specific - on account of having had so much trouble and so much delay, we will have to just lay it down fairly straight.

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MR. GASTON: I think it would be a very logical arrangement to have him show the story to - not only to the Bureau, but to Mr. Sullivan before he submits it to Schwarz.

H.M.JR: That is all right with me. If that is what you all think--

MR. BELL: That seems to me to be good organization channels, and I think there are situations that you have to deviate from that, like the invasion currency story. That wasn't written in my shop. Mr. Schwarz came to me and said, "How about it?" I said, "Go ahead and write the story." Then he contacted the Bureau of Engraving and Printing, the War Department, and wrote it.

H.M.JR: Just as long as this person realizes, though, that he has a joint responsibility, and that he is out of Schwarz' shop--

MR. GASTON: He is working under the publicity organization and the Bureau, and Mr. Sullivan and his Bureau are their clients.

Now, they may turn down something, or want to have something written in a way he doesn't like, he will go to his superior and talk it over. His superior may come and argue with Mr. Sullivan on it.

H.M.JR: Just as long as they know that Schwarz is a service agency and this is part of Schwarz' organization, and if he wants to look at it - you put it very well, Sullivan and the Bureau as his clients - that is all right with me. Is that all right with you?

MR. SULLIVAN: Sure. I still don't know which system we are going to use.

MR. THOMPSON: I don't think it is very material.

H.M.JR: Bell's.

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MR. THOMPSON: If Schwarz is sure he gets the initials--

H.M.JR: Is it all right with you?

MR. SMITH: Sure.

H.M.JR: The way Bell - I mean, as long as the majority is against me, I will go with the majority. It is not terribly important. If I hadn't been blocked so long--

MR. THOMPSON: It is important that Schwarz sees that the Under Secretary initials it.

MR. SULLIVAN: Helvering's and Sullivan's initials - then he knows it is cleared.

H.M.JR: But the important part is that this person over there is part of Schwarz' organization.

MR. WHITE: Then I gather that the important part is that if he doesn't get your initials or Helvering's initials, he can go to Fred. That is the important thing with it, because that is what a service organization does, and I gather that is what you want to do - to have sufficient independence so that you have this service organization.

H.M.JR: No, no, you are just muddying the waters, Harry.

MR. WHITE: I don't think so, but if you think so - I think that is the vital difference between the two proposals.

MR. GASTON: There isn't any vital difference.

MR. SMITH: I don't see any difference, frankly.

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MR. GASTON: It is a routine of checking. I will say this: In the early days when I was here I ran onto this situation that I wanted certain information out of certain bureaus. The Bureau of Internal Revenue was one of them. They say, "We don't want to talk about this." I said to any man, "You tell me what the facts are and I will decide whether we want to talk about it or not." And that is--

MR. WHITE: That is exactly what I am saying.

MR. GASTON: That final decision has to be made by the man in charge of public relations.

MR. WHITE: Which is Smith. That is why I said if it is disapproved by either Helvering or John, under normal circumstances, if you follow Dan Bell's routine, which, if I understand Dan Bell's routine it would stop with Dan Bell. If Dan Bell, in other words, said, "I want it this way," or "I don't want it this way," it would go as Bell wanted it to Fred, and I am suggesting that what I thought your reasoning is that you want to service--

MR. BELL: I said subject to Fred's change.

MR. GASTON: I said that if there is any question - if Mr. Sullivan disapproves something the man thinks ought to go out, or the contrary, then he goes to Smith to tell him the situation.

MR. WHITE: That is right. I think this thing applies to all the agencies.

H.M.JR: Where are we? I don't want to cut you off.

MR. WHITE: I understand it and I think that is the way it should be.

H.M.JR: I don't know now - are you satisfied or not satisfied?

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MR. WHITE: I am satisfied that they agree with me, and I agree with me, and I think that is the way it should be. (Laughter)

H.M.JR: I said I can't fight - I can't fight any more. So you are satisfied?

MR. WHITE: I am perfectly satisfied.

H.M.JR: I have to stop. I am sorry it has taken so much time. It is really important.

What I really got you people together - I just made this remark because I am going to see the Commissioner - I have got to make a speech. I am exhausted now. I have got to make a speech before some Negro businessmen on the 26th.

I read this thing (indicating draft of speech) and I didn't like it at all. And from a remark that Altmeyer dropped last night to me, I wanted to ask this group what they would think if I would back up the President and devote my speech on the 26th at Baltimore to social security and the Wagner bill.

I mean, there is seven billion dollars' worth of revenue in that thing and it is all anti-inflationary.

MR. PAUL: It isn't exactly revenue, but it certainly is anti-inflationary.

H.M.JR: It certainly is anti-inflationary. Why not get behind the President on this thing? It is of interest to everybody - certainly of interest to black, white, and brown, and nobody has had the courage to back up the President. Altmeyer could help us, and make a speech on that. That is what I had to say this morning.

MR. PAUL: Lubin feels the same way.

H.M.JR: I am going to stop. Think it over and I will talk to you later in the day.

August 11, 1943
9:50 a.m.

THIRD WAR LOAN DRIVE
(Re: Discussion with Mr. Harry Hopkins)

Present: Mr. Gamble
Mrs. Klotz

H.M.JR: Mr. Hopkins was here, and I suggested to him that we would like to get General Montgomery and General Patton for a couple of weeks during our War Bond Drive, provided, of course, that they are through in Sicily.

I said that this wasn't just for War Bonds. I said I didn't know whether he agreed with me, but I felt the country had gone into a sort of lethargy.

He said, "No question about it."

I said, "You bring these people and we can put them in the war plants, and so forth. It can't help but electrify the country." I told him how successful we had been with the English heroes, which he didn't seem to know about.

He said, "Do you think they would want an Englishman?" I said, "They really want Montgomery. It would just take Patton to sort of offset it."

I said, "From the English standpoint it would be awful good because with the Lend-Lease in Reverse picture so poor, coming out in September, this would put the country in a good frame of mind to receive a poor Lend-Lease in Reverse picture."

But he didn't know anything about the Lend-Lease in Reverse. He is going to go and see Stettinius. I told him about that. He didn't know about that. Everything I told him, he liked.

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So I said, "Now, for instance, we could send them up to Boeing where production is so poor."

He said, "Don't send Patton up there. He is a very colorful fellow, but he is very anti-labor, and you don't know what he would say."

I said, "Would you rather not have him?"

He said, "No, you ought to have Patton."

Then I said, "This isn't just War Bonds. If the idea is any good it is for the whole country."

Well, Hopkins got hold of the idea right away. Then he said, "Of course Eisenhower would be good, but he can't be spared."

So I said, "I think the way to do this thing is to get Churchill to agree to let us have Montgomery first, and then if we get Montgomery, they will say that we can't send Montgomery around the country alone, that we will have to send somebody along with him like Patton."

Then after a while Hopkins said, "You know, that idea of going to Churchill first is good." He said, "Churchill will see the importance of building up the English good will in this country."

He said, "I will find out from Marshall whether Patton can be spared."

I said, "Don't ask Marshall to let us have Patton because he would say no."

He said, "No, no, I will just see whether he is going to need him." Then he said, "You ought to get somebody like Admiral Halsey." He went on, "You can't insult the Air people. We have to get somebody from the Air. I will get you a bomber crew that has been over Germany, maybe on twenty-five different missions somewhere. We

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will bring them over." Then he said, "If we do that we will have to get a submarine crew."

So he--

MR. GAMBLE: Sparked?

H.M.JR: Sparked. He got the idea. Then I took him upstairs to show him the advertising - which I would like Mrs. Klotz to see.

So Hopkins said he would talk with Churchill and the President and he would give me a ring.

MR. GAMBLE: He seemed to be impressed and seemed to be interested, and seemed to know what he was talking about.

H.M.JR: I feel good about it.

August 11, 1943
9:58 a.m.

HMJr: Hello.

Operator: Mr. Forrestal is out of the city until tomorrow morning.

HMJr: Is somebody there in his office? Has he got a....

Operator: I have his orderly on the line.

HMJr: His orderly?

Operator: Yes. Master Sergeant Elder.

HMJr: Okay. (Aside: These are the boys that do their work)

Operator: Go ahead.

HMJr: Hello.

Master Sgt.
Elder: Good morning, Mr. Secretary.

HMJr: Hello, Mr. Elder. Look, I spoke to Mr. Forrestal last night about wanting this film on - that the Navy is sitting on in connection with Sicily....

E: Yes, sir.

HMJr:and he said I could have it to show in my own projection room over here.

E: Yes, sir.

HMJr: Did he do anything about it?

E: That I am not sure but I will check, sir. Captain Lovett here in our Press Section, I am sure, will know about it if he contacted him, sir, and I'll have the Captain call you.

HMJr: Now, wait a minute - Wait a minute - somebody is sitting here telling me that we may have it. Do you want to wait just one minute?

E: Yes, sir.

HMJr: Just hold on. Maybe we have it.

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E: All right, sir.

HMJr: (Aside: Find out.) Oh, they say Mr. Duffield called and said that it is available.

E: All right, sir. Mr. Duffield is Mr. Forrestal's Assistant.

HMJr: Yes.

E: All right, sir.

HMJr: So it is available. All right. I didn't know it.

E: Very well, sir.

HMJr: I'm sorry. We - evidently we've got it.

E: All right, sir.

HMJr: Thank you.

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E: All right, sir.

HMJr: (Aside: Find out.) Oh, they say Mr. Duffield called and said that it is available.

E: All right, sir. Mr. Duffield is Mr. Forrestal's Assistant.

HMJr: Yes.

E: All right, sir.

HMJr: So it is available. All right. I didn't know it.

E: Very well, sir.

HMJr: I'm sorry. We - evidently we've got it.

E: All right, sir.

HMJr: Thank you.

August 11, 1943
10:30 a.m.

TAXES

Present: Mr. Bell
Mr. Paul
Mr. Sullivan
Mr. Thompson
Mr. Helvering
Mr. Smith
Mrs. Klotz

H.M.JR: Have you had a chance to see Bell's report on this (indicating Memorandum of August 10, copy attached)?

MR. HELVERING: No.

MR. BELL: No, he has not. I have shown it to the people that are named in there - Sullivan, Smith, Surrey, Blough, and Cann. No, I didn't show it to Cann because he had left town.

H.M.JR: It would have saved me if he had seen it.

MR. BELL: I could have done that, yes.

H.M.JR: Let me read the last paragraph and you (Helvering) get a copy of this afterwards. Have you seen this, Paul?

MR. BELL: No, he has not.

H.M.JR: "I do not believe that any one person was at fault in this whole controversy." This is the Cann, Blough, Surrey business. "Mr. Cann has submitted his resignation and has agreed with Mr. Helvering to accept another position in the Internal Revenue on the West Coast. He says that nothing can change his mind on his request to be released from his present position as Assistant Commissioner. He does not want anything done to hurt Mr. Blough

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or Mr. Surrey because of their action in passing upon the forms and instructions. He says they have been very helpful to him and he has had their complete cooperation in the present as well as all past matters affecting the Bureau. He thinks they are two very able men and he wants you to know that he does not in any way blame them for his difficulty.

"After reviewing the whole matter I am inclined to believe that it is difficult at times for the head of a Bureau like Internal Revenue to know just who is acting for the Secretary's Office. Mr. Cann apparently assumed that Mr. Blough and Mr. Surrey were keeping Mr. Sullivan informed and these two gentlemen probably assumed that Mr. Cann was keeping Mr. Sullivan informed. There should be a clear line of authority between the Secretary's Office and the Bureau of Internal Revenue and that line should be through the Assistant Secretary in charge. It is up to that Assistant Secretary, by constant contact, to see that this channel is respected by all concerned."

This is Bell's memorandum. I take it you have seen this.

MR. SULLIVAN: Yes, Dan read it to me.

H.M.JR: Well, I agree with everything that is said here. Now, I think that evidently from what Mr. Bell says, that Mr. Cann contacts Blough and Surrey and Mr. Sullivan isn't informed and I gather that things happen - in other words, the line of authority isn't clear.

Now, the whole purpose of having the Assistant Secretary who is over the Bureau of Internal Revenue is that he should service both ways. He should make it easy for me and he should make it easy for the Commissioner.

Now, the thing that I would like to do, and decided I wanted to do this morning - using that as an example - is this question of publicity, you see. I don't know whether I told you a week or ten days ago - was it you?
(Helvering)

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MR. HELVERING: It was reported to me what you said about this vacancy.

H.M.JR: Didn't I tell you direct? Anyway, using that as an example, I would like to have that position filled by somebody who is agreeable to you (Helvering).

When there is publicity - let's say it is Mr. Jones - Mr. Jones fills that position - in the first place he will have to satisfy you (Helvering) and the people over there, but when they have something that you want to get out it will come over here after it is cleared with you. Then it will go to Sullivan and Sullivan will clear it, and then it will go up to Schwarz' office and Schwarz will clear it with the various people whom I have.

Now, Smith's position - before I come to Smith, this man over there will be attached to Schwarz' office, but nothing can leave the Bureau unless it has your initials on it or somebody that you designate. Do you see what I mean, Guy?

MR. HELVERING: Yes.

H.M.JR: Then, as far as Schwarz is concerned - where Smith comes into the picture - I am trying to coordinate all Treasury publicity so that it is some one person. It used to be Gaston, then it was Kuhn, and then it was Gaston again. Now it is Smith who will know the relation of the Treasury with me. Now, after reading this thing, it seems to me, if it is agreeable to you, that you would tell your people if there is something that you want out of the Secretary's Office, please clear it through Sullivan. Make sure that Sullivan knows. If there is something that I want from the Bureau I will go through Sullivan. So Sullivan should know anything that I want or anybody who is attached to me, you see. But Sullivan should know what is going on as between the Office of the Secretary of the Treasury and the Commissioner.

Now, where are the exceptions, Paul?

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MR. PAUL: Well, there is another type of case where you have a bill in process, and all kinds of suggestions are made by outsiders and some suggestions we make where problems come up - before the committees. We can't make a suggestion without checking it with the Bureau to see the administrative end of it. There is a legislative type of problem which constantly has to be checked with Mr. Helvering's office, and I am raising the point.

Our practice has been to try to keep John informed, but, frankly, in the lower brackets our men will talk with Atkeson - you know, a lot of your (Helvering's) men.

I don't know whether it is feasible to have every sort of - to have everything go through John. It will be a great burden on John. If there is any major decision I think John ought to be informed, but I don't know whether it is practical--

H.M.JR: Let's ask John.

MR. SULLIVAN: I know exactly what Randolph is talking about. I have been through the same thing. Very frequently along about half past four in the afternoon some member of the committee will say, "How about so and so?" It is something that is new and that you don't dare give them an answer on without talking to the Bureau. Suppose I was over at Procurement, or some place like that. Randolph means that to give the committees service he has to get quick action, and certainly in that type of case I think he should go directly to the Commissioner.

MR. PAUL: Below that there is constant discussion between our men and the Bureau men - the lower level. I can remember a lot of them last year. I can't keep track of them myself. You (Sullivan) would be swamped.

MR. BELL: It seems to me those are suggestions at the technical level, and when they get into more or less policy levels, then I think Sullivan certainly should be brought in at that point for the Secretary.

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H.M.JR: There are three men here, Paul, the Commissioner, and Sullivan. Let's settle it now, once and for all.

MR. SULLIVAN: What do you think about it, Guy?

H.M.JR: I mean the Commissioner, Paul and you (Sullivan). Let's settle this thing once and for all so that it is agreeable to everybody.

MR. HELVERING: Of course, if there is a bill submitted up in Congress, Mr. Paul - I have an idea that those various bills - he sends them to Mr. Wenchel and Mr. Wenchel carries on discussions with me, and all that. But I don't know whether that is the thing that is of preliminary discussion--

MR. PAUL: Lots of our discussions are between my men and yours, not with Wenchel. We are talking with Atkeson and various men all the time.

MR. BELL: I don't think there is any question about reports on bills. They follow regular channels.

MR. PAUL: They go to Wenchel.

MR. HELVERING: That would be an exception to the rule of the Secretary.

MR. PAUL: He gets those bills because they are legal and he is your attorney.

MR. THOMPSON: And those bills come through Sullivan in the end.

MR. PAUL: That is a pretty established procedure.

MR. BELL: No question about the bills.

MR. THOMPSON: On this proposed order the other day, we said there would be an exception on legislative problems, that they wouldn't go through Mr. Sullivan, they would go through Paul.

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H.M.JR: I want to know whether it is agreeable to these three men.

MR. PAUL: John and I have phrased that thing.

H.M.JR: Is that agreeable to you gentlemen?

MR. SULLIVAN: Yes, if it is all right with Guy.

H.M.JR: That legislative problems are excepted?

MR. GASTON: I don't think this covers legislative problems at all. This is a second problem we are introducing. The publicity matter is all settled. This is a matter of contact on the legislative front.

H.M.JR: No, there are a thousand and one things, evidently, that go on which are at loose ends. I want to make it easier for everybody involved and have the authority clear cut so if I want to know what is going on and I call Sullivan and Sullivan knows, and if Blough and Surrey are passing on some forms, or something or other, then I can say, "Well, John, that is your responsibility; you ought to know." And if they don't inform him, then he can give them hell, you see. But the way it is now--

MR. PAUL: Of course, on that part of it I wouldn't have assumed that they had any more than an advisory function on that because after a bill is passed it is John's problem, not mine.

MR. BELL: I think that is what Roy and Surrey would assume - that what they did was advisory. It is unfortunate that possibly people in Internal Revenue feel that when Roy and Stan went over these forms and instructions, that it had the O.K. of the Secretary's Office. That was wrong, but nevertheless it did exist. That is what I think the Secretary is trying to straighten out.

H.M.JR: Well, yes, I am. Let's go back to the legislative thing. Do I understand on the legislative

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thing, if you, Paul, in your capacity as tax advisor handling legislation, if you want something from the Bureau you go to whom in the Bureau?

MR. PAUL: It depends on what you want. It depends on what level it is. If it is purely informational, we wouldn't bother Mr. Helvering with it. If it were some question involving policy, we would. If it is an important question like, for instance, you remember last year we got in a jam on inventory reserves - things like that where the fundamental administrative machinery is concerned - but there are constant requests for information - constant minor technical points.

MR. GASTON: I think Mr. Paul has given the answer there. He calls up the Bureau in a hurry for some point of information. It is not a point of policy at all. The custom is all right when he wants to get information in a hurry. But if there is a policy question involved, I should think it ought to be taken up with Mr. Sullivan.

H.M.JR: Could I make it a little bit differently? Would this be a fair division - while it is in a legislative status, that Paul will contact the Bureau - contact Helvering or whoever Helvering wants, once it becomes a law, then from that time on, all contacts with the Bureau should be through Sullivan.

MR. SULLIVAN: That is it, with one exception.

H.M.JR: Would that be a clean-cut provision?

MR. SULLIVAN: That phase of it, and that is what Randolph and I and the Commissioner have been in accord with on this order that was prepared last week. I think the only remaining question is the level at which Randolph will contact the Bureau.

MR. PAUL: You can't have a rule for that. You have got to have good faith. Even on some of these legislative problems, John, I wouldn't think of depending on a contact with some subordinate of Mr. Helvering's. We have to use our judgment all the time - is it something which Mr. Helvering should pass on?

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MR. BELL: Where there are major problems.

MR. PAUL: So even if you say legislative, it doesn't answer the problem. You always have to use your judgment.

MR. GASTON: If something is being proposed on the Hill that poses an important administrative problem in the bureau, I think John should certainly get in on it.

H.M.JR: You are the ham in the sandwich, so talk up. (Laughter)

MR. HELVERING: I would like - we are continually asked by various fellows - by Mr. Blough's office - Mr. Paul's office through Mr. Surrey - to give them a memo on administrative problems on certain tax matters. I will just take my hair down and tell you, some of those are so absurd that I think that it wastes the time of our boys who work day and night over there, to be asked to write up a long memorandum showing the futility of that particular thing.

MR. PAUL: But we have got to show that to Congress. We have got to have material from that end in order to get it licked.

MR. HELVERING: As I stated to you the other day, here comes a memorandum over there to consider the proposition of the tax on cut flowers and potted plants.

H.M.JR: You told this to somebody else. I would have remembered that.

MR. HELVERING: Would you? I thought I told you.

H.M.JR: You must have used that on somebody else. (Laughter)

MR. HELVERING: Well--

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H.M. JR: You must have used that on somebody else.
(Laughter)

MR. HELVERING: For me to designate Capt. Bliss' office - it goes direct to his office - he thinks it comes from the Treasury - that that is something that ought to be studied - a tax problem.

On first blush we know that the administrative difficulties will make it absolutely impossible.

I think, if Mr. Sullivan was clearing that, or somebody, before it came over there to take up our time with it, that he wouldn't send it to us.

MR. PAUL: If I were in charge and you had called me about that and told me it was absurd - I wouldn't know from looking at that, that it was absurd - I couldn't dismiss that. You would dismiss it immediately.

We could have eliminated a lot of work.

H.M. JR: I still haven't got it clear. I mean, which way this thing should go. I would like to clear it up so that everybody will work under less tension and more efficiently.

It still isn't clear in my mind.

MR. HELVERING: When Mr. Farioletti says, "Write me a memorandum on this" - or Mr. Surrey, or anybody else - I don't care who it is - what I would like to have is somebody in the Treasury that I can send this to and I won't have to look up to see who it is that this goes to, and what the question is.

MR. PAUL: Maybe the answer is to route all those memoranda to me. It means a whole lot of extra work on details.

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H.M.JR: It means that - the work falls on somebody, and I think it should fall on the person who originates it.

MR. PAUL: Yes, but there are a lot of them that are not important enough.

H.M.JR: Then they fall on the Commissioner. I mean, if you could weed them out before they went over there, then he wouldn't be bothered with them.

MR. PAUL: It still doesn't solve your problem, because I wouldn't be able to - take this potted plant thing - I wouldn't be able to dismiss that. There is nothing in the orbit of my experience that shows that is a silly tax - the Commissioner who gets it can see it is a silly tax on the basis of his experience and tell me that there is no use of working on that.

H.M.JR: Would you know that it was a silly tax?

MR. SULLIVAN: Certainly.

Now, for instance, yesterday morning in this tax program that was presented, there was not only that - and I hadn't seen that at all until we were in Mr. Bell's office - but there was also a tax on photographic studio services and a tax on beauty shops and barber shops. I mean, it would take an army to supervise those.

I asked Roy not to divulge to anybody that those three were in the program, and you will notice when Randolph was asked about the different increases in excises he very carefully refrained from referring to those, because that is the type of thing that you immediately recognize the impossibility of policing. You wouldn't put that in.

MR. BELL: Why shouldn't those memoranda of the character you have been talking about go to the Commissioner through Assistant Secretary Sullivan?

MR. GASTON: That is very definitely my opinion - very definitely. After all, it is an administrative problem, and you are looking to Mr. Sullivan for administration of the Bureau for you.

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H.M.JR: That is right.

MR. BELL: And he ought to say first, it seems to me, whether or not the Bureau's time ought to be taken up working on a matter of this kind. If it requires a conference then he calls the Commissioner and Mr. Paul's office, whoever wrote the memorandum.

MR. GASTON: I think that when Captain Bliss or the Commissioner gets a request for the administrative report on a certain tax, for instance, that if they think that is absurd, that it is clearly on the face of it administratively impossible, then they should check back with Mr. Sullivan and have him speak to Mr. Paul about it.

MR. HELVERING: The trouble is this one I refer to - I refer to that particularly because I saw the memorandum. It didn't come to me at all; it went direct to Captain Bliss. And coming from the Treasury Captain Bliss thought he would have to prepare a memorandum showing - which took some time - and to make it effective he would have to make a survey of the number of people affected by that all over the country, and all those things.

MR. GASTON: I think you should post him that in a case like that he should consult you and you report to John on the thing.

H.M.JR: What is the matter with this? I mean, supposing we tighten the thing up. Then you can always make exceptions if it gets too tight?

MR. PAUL: That is what I am afraid of, it will get too tight.

H.M.JR: After I read this report of Bell's - I mean, there are too many loose ends and too many people cutting corners and there are too many people putting work - asking for unnecessary work. Then this whole business of Norman Cann and this darned letter and everything else has taken hours and hours of my time because there isn't a smooth organization. Now, I pride myself on having a smooth

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organization, and having to bother the people as little as possible, and evidently - I mean, Blough and Surrey go to people down the line, the Commissioner doesn't know about it, Paul doesn't know about it, Cann comes back and goes to people, people in the Office of the Secretary don't know about it, so on both sides it is bad. If it were channelized - I mean, it works both ways. We bother your people, your people bother us. We send Charlie Bell into the field to see whether he can find some paper to print the letter on so that they don't think we are holding the thing up, all the stuff - I am sure there are people to do it. If it were said, "Now, as far as the Office of the Secretary is concerned if something comes out of the Office of the Secretary it has got to have Sullivan's stamp on it," then I can look to Sullivan; and if it is wrong, I can hold him, and Sullivan can say, "I am responsible, that is my responsibility. Nobody else is responsible; I am personally responsible."

But on this other thing there are about ten people and I get in a mire, and I get all worked up. I don't want to. I haven't the time; I haven't enough energy, and everybody spends hours investigating who is to blame.

MR. GASTON: It is all due to lack of proper^m coordination. This whole thing was due to lack of proper coordination.

MR. BELL: That is right. It is just a result of a system that has sort of grown up.

H.M.JR: I don't want it to happen again. Everybody here wants to be helpful. That is the purpose of this meeting. The purpose of Bell's report is to see that this doesn't happen again.

MR. HELVERING: That is what I was trying to say the other day. We must assume when stuff comes over from the Treasury that that is something you want information on. If that could come from some coordinated head - I don't care where, just so they decide on it - I would put the

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men to work on it, and we get the report of what we think the Treasury wants. But, if these are just fellows sent out by different fellows, here to there, to find out whether or not this thing, we have to go to the trouble of analyzing the whole thing and preparing reports on it, showing the futility of it, which all takes time.

MR. THOMPSON: We should have everything flow through Mr. Sullivan and let Mr. Sullivan make the exceptions as they come along. You just cannot write down in black and white that this goes here and that there. The problem is so great, and a number of questions come up. You have to have it all or none.

MR. HELVERING: You have to have an exception on this legislative stuff.

MR. THOMPSON: Then the question arises of legislative--

MR. PAUL: I think the best you can do - you can't have it in black and white - I think the best you could do would be to have the legislative go through me so that Guy will have a responsible head, with the idea that if there is anything of basic policy in it I should talk with John about it.

There aren't enough hours in my day or John's day for us to talk over every one of these little requests. It would satisfy Guy if we have some responsible head as a conduit for any requests.

H.M.JR: That isn't going to solve it.

MR. GASTON: I think that anything that attains the dignity of a written memorandum ought to go through John's hands both going and coming. The idea is, as far as is possible, to clear all questions that may affect administration in the Bureau through John's office. Of course, there will have to be some judgment exercised. There will be occasions when Randolph's men will want to call up in a hurry to get some informational material, as Randolph himself has

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mentioned. And, naturally, you will have to do this in a hurry, and it is all right for the man to respond. But if the man who gets that inquiry senses some serious question of administrative difficulty, then he ought to take it up with Guy, and Guy will want to talk with John about it.

H.M.JR: I don't think it is as simple as that, Herbert. The trouble is, using the case that you give, somebody in Paul's office calls up somebody in Helvering's office and between them they say that this is all right. Then the thing turns out that I am not satisfied.

Then they say, "Well, somebody in Helvering's office said somebody in Paul's office cleared it." Paul knows nothing about it; Sullivan knows nothing about it; but I am not satisfied. And the chances are nine out of ten that the Commissioner doesn't know anything about it and we are right back where we were before.

The Commissioner says, "I don't like that form."

I say, "I don't like the form."

Then we spend two weeks trying to find out who O.K.'d it and we are right back where we were.

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MR. GASTON: I was speaking about facts only. For instance, Surrey calls up Captain Bliss and says, "How much did you collect last year on cigarette taxes?" That is just a question of fact.

But if Surrey calls up Captain Bliss and says, "What would be the administrative difficulty of a tax on andirons?" that is another matter, and it should come through - the reply on that, if a memorandum is required, should come through Sullivan's office, in my opinion.

H.M.JR: I have a suggestion. Supposing the Commissioner designates somebody close to him who would handle all inquiries that have to do with legislation, and anybody who wanted to call up to get information on legislation would have to call that person. Then that person would be instructed by Helvering. He would say, "Wait a minute, that isn't legislative, that is administrative. That request has to come to me through Sullivan."

But have one person in your (Helvering's) shop, and all inquiries concerning legislation have to go through that person. He would have to devote his whole time to it.

MR. HELVERING: The question might involve legislation which would be both legal and factual, that is, administrative. For instance, we haven't had a bit of trouble by Mr. Paul referring stuff to Mr. Wenchel on bills and things like that.

MR. BELL: That channel is pretty well set on bills. There is a very definite channel.

MR. HELVERING: Of course there are many, many recommendations as to change in law, for clarification, and all that.

H.M.JR: Well, how would it be, Guy, they wanted to find out something - supposing it does slow it up a little bit? It can't be helped. In the long run there

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would be less irritation. Supposing Paul wants something that has to do with legislation or something to do with alcohol - he wants some information - or if Blough wants something, and so forth, that has to do with legislation, it will have to go through Wenchel. He is there; he is set up, and it is up to Wenchel to get it.

MR. HELVERING: Of course Wenchel wouldn't be equipped to get them information on the amount of tax brought in and the number of people.

H.M.JR: Could he get himself an assistant?

MR. HELVERING: That isn't really the function of Mr. Wenchel's office at all.

H.M.JR: Then have somebody attached to you so that all the requests from Paul and Blough and Surrey go through somebody in your office?

MR. HELVERING: If they would come directly to me through somebody who cleared them over here - if Mr. Sullivan should be the clearance man and he sends over a memorandum on legislation, we will know then that you really are interested in a report on that thing and get busy and handle it.

H.M.JR: It is all right with me if it is all right with Paul.

MR. PAUL: Somehow I think - I don't think that is going to work. I think it is going to enormously increase John's work and slow up the whole thing.

H.M.JR: Well, let's find out if John is willing.

MR. SULLIVAN: I beg your pardon?

H.M.JR: Let's first find out if you would be willing to take on that responsibility.

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MR. SULLIVAN: If they feel that will clarify the situation, I will be very happy to.

MR. HELVERING: If it is just a matter of statistics, as Mr. Paul said a while ago, that is just a matter of information. Anybody who handles that particular line will give this to anybody if it is statistics.

H.M.JR: Where do you want the line drawn? You get it one place, then go back again. If you had to write the ticket, how would you want the ticket written, just from your angle, let's say?

MR. HELVERING: I would like to have some one man over here who would send everything over to us that has been approved by the Treasury for consideration; that is, whether we adopt it or not, that isn't the question. It is whether or not it is for consideration, except as to bills and legal matters which go direct to Mr. Wenchel, who talks every one over with me.

H.M.JR: Except as to bills?

MR. HELVERING: We never have a bit of trouble that I can recall about that at all.

H.M.JR: Then everything that has gone through Wenchel would continue to go through Wenchel, is that right?

MR. HELVERING: Yes.

H.M.JR: So we leave that channel the way it is.

Now, what would go through Sullivan?

MR. HELVERING: All other stuff that the Treasury wants absolutely considered by the Bureau except statistics.

MR. SULLIVAN: Factual information.

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H.M.JR: And how will they handle it?

MR. HELVERING: The statistics are all confined to Dr. Atkeson's office except, of course, where it has to do with the number of people employed at a collector's office, and things like that.

H.M.JR: Let me see if I get it. All legal matters or legislative matters that are going to Wenchel now will continue to go to Wenchel from Paul. Right?

MR. HELVERING: Yes.

H.M.JR: All requests for statistics would go directly to Atkeson?

MR. HELVERING: Yes.

H.M.JR: And any other problems would go through Sullivan? Is that right?

MR. HELVERING: Well, that will help quite a bit.

H.M.JR: I am asking you. First I will see if I can get you satisfied. Would that help?

MR. HELVERING: Yes, indeed.

H.M.JR: What do you think?

MR. SULLIVAN: O.K.

H.M.JR: What do you think?

MR. PAUL: I don't think it will work, but we can try it and see. I am afraid it will slow up the work very considerably. Then I get up on the Hill, and because I haven't got a report on something--

H.M.JR: Let's try it.

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MR. PAUL: Things come up at four-thirty or five in the afternoon and John is in New York or something, or John has a string of important appointments, and we can't get to him to argue something out and discuss it. That is what I am afraid of. But go ahead and try it. We may be able to work it.

MR. SULLIVAN: It seems to me we can have this procedure, with the understanding that on anything that is urgent and I am not available you go directly to the Commissioner. Wouldn't that help?

MR. GASTON: Or the Acting Commissioner. If it is anything involving a written report back, it should come back through you (Sullivan) and then you will know about it.

MR. PAUL: I am not trying to keep John from knowing about these things.

MR. SULLIVAN: I know that, the same as everybody else.

H.M. JR: Well, look, the spirit I like is, let's try it, and if it doesn't work we can meet again. How is that? We don't need anything in writing on this thing. We all have it in our heads. I don't want to put it down in writing.

What do you think?

MR. THOMPSON: I think it is a perfectly good arrangement.

MR. BELL: It is all right. Everybody understands it, and as we go along Mr. Sullivan can make exceptions.

H.M. JR: And will you accelerate this thing of getting somebody on publicity in your shop?

MR. HELVERING: I have offered the place to two men. I am not taking any exceptions to your desire to have it

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filled, but here is the problem. Anything we write up over there is written in the unit that handles the problem. If it is miscellaneous tax, it is in Captain Bliss' office; if it is an income tax matter, it is in Mr. Mooney's office; if it is alcohol tax, it is in Mr. Berkshire's office; if it is procedures and collections, it is in Mr. Schoeneman's office. They have to really prepare these memoranda.

Now, it seems to me, Mr. Secretary, that with the clearance you have over here we have no need at all for that person over there. If everything we send over here is sent direct to Mr. Sullivan, because, as I understand it, all the publicity is to be coordinated here - and I agree to that - so if we have a publicity item on income taxes and it is written up, sent to Sullivan, and he submits it - he agrees to it and he submits it to Mr. Smith, that is a matter of public policy and that is all that is necessary.

MR. GASTON: Excuse me, I don't think that is all that is necessary. I think we want a specialist on the Bureau of Internal Revenue problems. That man should be familiar with what goes on in the Bureau. He should inform us of what goes on. If he gets an idea that a certain thing ought to be publicized he ought to talk to you and the men involved in the Bureau and maybe work up something on it and get your approval.

On the other hand, Captain Bliss' office may prepare something, they submit it to him and he thinks it ought to be presented in a little different form; so he talks to you about it and prepares something in a little different form. If it gets your approval, then it will go over here.

You want a specialist who is well acquainted with what is going on in the Bureau and can check matters directly with the Bureau to see that a satisfactory story is prepared.

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MR. HELVERING: My point is it takes just as much time for these men to write a memorandum telling the other men what it is as to write it themselves. That is what I am getting at.

MR. PAUL: I get your point.

MR. HELVERING: The fact of the matter, Mr. Secretary, is that I would abolish that job entirely. But taking your cue, I have offered this to two men.

Mr. Ireys recommended a man to me, a Mr. Smith, who has been Senator Glass' secretary for a number of years.

H.M.JR: What is his name?

MR. HELVERING: Rixey Smith. He is a man about fifty-four years old. I had a conference with him, and he seems to have his feet on the ground pretty well. He was previously a newspaperman.

H.M.JR: He is a good man?

MR. BELL: A very good man. I don't know about his publicity capabilities, but he is a good man.

MR. HELVERING: I had him down and had a talk with him. There was some talk that Senator Glass was going to resign. I asked him, and he said there is some talk of it. He said, "I don't think he is." He said, "If he does I would like to have this place."

I would like to have given it to him, but Senator Glass called him up a few days after that and told him a program he had in mind for several months ahead. So he said his first duty was to Senator Glass.

I offered it to Mr. Irwin over at the OWI, whom Mr. Schwarz recommended to me, and Mr. Irwin was over to see me the last of June. I authorized him to go ahead and file his application and that we would make the job

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effective August 1st. While I was away I had the usual investigation made, and during this investigation Mr. Irwin advised me that the OWI didn't want to release him and that he had thought previously that was going to be cut down and he would want another place. So he declined it.

I asked Mr. Graves a few days ago, after Mr. Cann told me you wanted this place filled, to contact Mr. Schwarz again and have a talk with him when he was over here and see if he had somebody else to suggest.

Now, that is the status of it. Of course my own feeling about it is, from my experience, that it is absolutely unnecessary to fill that place.

MR. GASTON: My feeling is, to be quite frank, that that is not going about it in the right way. My opinion is it should be Mr. Smith's responsibility to find a man because the man is going to work for him. He is going to be a public relations man who is going to specialize in the Bureau of Internal Revenue matters and treat the Bureau of Internal Revenue as his client.

I think Mr. Smith should take the initiative of finding a man who is acceptable to Mr. Helvering for that position.

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

H.M. JR: Where were we?

MR. HELVERING: Have you somebody in mind?

MR. SMITH: There are a couple of people we might investigate. I hadn't done anything in particular about it.

H.M. JR: What about this woman?

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MR. THOMPSON: Mr. Paul doesn't want her to leave up there. She is too valuable to him.

MR. PAUL: My point was she has been working very hard getting the whole legislative tax, and I don't want to throw away that and put her in another angle.

MR. SMITH: Mr. Shaeffer has suggested a man by the name of Perlmeter.

MR. BELL: Everett Perlmeter.

MR. GASTON: He is a good, conscientious, able boy. He used to be the Associated Press man in the Treasury.

H.M.JR: He is a good man. If you get Perlmeter, he would be a good man. If you can't get Perlmeter, we can always take that woman from upstairs. I found her.

MR. PAUL: And I approve of her. You and are the same. (Laughter)

H.M.JR: What is her name?

MR. THOMPSON: Mrs. Mannon.

H.M.JR: As a matter of fact, I don't think I did pick her. It was--

MR. GASTON: Genevieve Herrick.

H.M.JR: Well, anyway, let's do it the way Gaston said and see if we can pick somebody who would be acceptable to you (Helvering). O.K.?

MR. HELVERING: All right.

H.M.JR: In a pinch we have always got this woman upstairs.

MR. PAUL: I was wondering what would happen in the remote eventuality that we might have some matter where John and I felt differently about. What do we do then?

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H.M.JR: You can come and see papa. The main thing, I think, is that the three of you (Paul, Sullivan, and Helvering) work together as a team. If there is anything that doesn't work you can ask to have another meeting like this. There is nothing more important than that this should work smoothly, with the minimum of friction on all of this.

MR. HELVERING: I just want to say I have another matter I would like to take up.

H.M.JR: I have the matter I called this meeting on that I haven't yet discussed, this Norman Cann thing.

MR. HELVERING: I think while we are all in here this would be the time. I am put right square in the middle, Mr. Secretary, on the proposition of this committee up on the Hill and the Treasury Department.

Now, here comes down a request from Mr. Stam, and approved by Senator George, in which they quote the law and which I have to transmit for action. They say for me to send them any alternative suggestions of our staff for raising revenue or combatting legislation, with accompanying data and statistics. There is a note that the source of the information will be kept confidential.

MR. PAUL: Not the information, but the source.

H.M.JR: Could I see the form of that letter?

(Letter dated July 14, signed by Mr. Stam, handed to the Secretary.)

MR. HELVERING: That said to report not later than sixteen days. I haven't reported on it yet, but I have started - I have contacted the heads of the units and told them to prepare something and submit it to me.

H.M.JR: You heard me yesterday on that subject?

MR. HELVERING: Yes. That came down while I was away.

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H.M.JR: Well, do you want to say something, because I have an answer to this thing.

MR. HELVERING: They quote the law to me and say I have got to do it.

H.M.JR: Well, I have got an answer.

MR. PAUL: Was it a request for suggestions?

MR. HELVERING: They just quote the law and say--

MR. PAUL: "Any suggestions of your staff for raising additional revenue or combatting inflation" - you don't have to make suggestions, do you?

MR. HELVERING: Of course they know we are.

Then it comes down to specific requests to study - here is one, to study postwar reserves.

H.M.JR: What was your answer going to be, Herbert?

MR. GASTON: Well, the answer is going to be this, that in the first place any reply made by Mr. Helvering should be a reply by the Secretary, "Complying with your request to Commissioner Helvering"--

H.M.JR: That is the way we have been doing it.

MR. GASTON: Yes. Now, if there are some new suggestions I would also incorporate in that reply a statement like this, "The Bureau of Internal Revenue has examined the suggestions heretofore submitted by the Treasury Department and is in agreement with them." If there is anything new then I think you can submit that.

H.M.JR: I may have to postpone this. This thing has been running much longer than I contemplated, and I am way overdue now.

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I think that the thing to do - I talked with Doughton, and he was sympathetic - the thing to do is for Paul and Helvering and Sullivan and me to sit down with George and Doughton and have a heart-to-heart talk.

I think if Sullivan would draft a letter for me to George and to Doughton and show it to these two people, saying, "These things are up. We want to cooperate, but the situation is such that we have to have a face-to-face talk with the two of you - the situation is getting impossible."

MR. SULLIVAN: I will be very glad to prepare that letter. I think it might be just as well if I talked to each of them.

H.M.JR: Anyway, if you would think about it and then see me some time this afternoon with a recommendation, and before you bring your recommendation to me would you mind talking on the phone to Helvering and Paul?

MR. SULLIVAN: Yes, sir.

H.M.JR: I think we can take this thing off your (Helvering's) shoulder by asking for a chance for the four of us to sit down with George and Doughton. When I talk with each of them they are always decent about it.

So will you mind letting it wait - not wait - we will take action.

MR. HELVERING: Mr. Stam called me yesterday and said he would like to come down and talk it over with us.

H.M.JR: We will move this afternoon on it. It will either be a telephone call or a letter from me.

Now, the next thing is on Norman Cann, this request, and I take it in view of everything that is said - you (Sullivan) prepare a letter, and we will accept his resignation.

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Now, the thing I don't understand - and I wanted to ask you - is what did Norman Cann mean when he told somebody he was out of sympathy with my office.

MR. HELVERING: Well, I don't know what he meant, but what he said to me was that if he couldn't assume that stuff coming from the Secretary's office - that they could work on it and take that as a basis to work on and have the Secretary's office stand back of it that he had lost his effectiveness over there in that particular place, that he would rather be relieved.

H.M.JR: While I have given you my word, and the word stands - you asked me if you could give him an appointment in the field, and I said yes, and I also said that was your responsibility. I haven't changed. I can't change. I have given the word, and you passed it on. But before you give him an important position I would like you to send for him and ask him - say that the Secretary is bothered - "What do you mean, that you are out of sympathy with the Secretary's office?" Just say, "What do you mean by that?"

That is a perfectly fair request, I think.

MR. HELVERING: Now, he hasn't said to me he is out of sympathy with your policies or anything like that. The only thing he said to me was that you blamed him for a thing before you knew that the other boys had come over and insisted on certain things going in there.

H.M.JR: Well, we now have the Bell report which he can read, but what I am asking you, his boss, is that before I give him another position I want him to know - I must know whether he can be loyal to me as long as I am here. When I say "me" I mean the Office of the Secretary, which includes the people in this room.

MR. SULLIVAN: Norman talked pretty frankly with me, Mr. Secretary, and at no time did he ever say anything that implied what you are implying.

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H.M.JR: Well, there is no harm, John, in letting the Commissioner ask him this thing. I mean, let him give us - I mean, can he be loyal to my office, and that includes Thompson, Bell, and every one of you. That has been raised in my mind by somebody. I am not trying to withhold it, but somebody in one of these many conversations said that one of the reasons he wanted to resign was he was out of sympathy, and so forth, with what I was trying to do. I don't know what that means.

MR. HELVERING: I don't think it means he is out of sympathy with the way you are trying to collect taxes or trying to sell bonds, or anything like that. I think he is out of sympathy with the idea of people coming over there and doing this, that, and the other.

H.M.JR: Would you find out, and would you mind calling me back on the phone?

MR. HELVERING: He went on vacation before taking his other assignment. He is in Boston.

H.M.JR: Well, you can call him, can't you?

MR. HELVERING: I can talk to him tomorrow. He is on his way up there now.

H.M.JR: Will you do that for me because I want to satisfy myself. I am not questioning you, John.

MR. SULLIVAN: I understand that.

H.M.JR: But this is his immediate superior, and he makes the assignment, and I told him he could make the assignment. You (Helvering) made the request - you came to me and said, "Can I do this?" I told you yes and said it was up to you to decide what you wanted to do. So would you call him and then call me back.

Now, let's try this thing, everybody, and if it doesn't work, if there are some things you think should be excepted, let's have another meeting.

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MR. SULLIVAN: I have Mr. Cann's new appointment on my desk. Am I to hold that until you have had this talk with him?

H.M.JR: Yes.

MR. SULLIVAN: Then I will sign it as of the day it came to me - yesterday.

H.M.JR: I told the Commissioner and I told Thompson to hold it.

MR. SULLIVAN: Is there any lapse in salary there?

MR. HELVERING: No.

MR. BELL: Did he resign as of August 21?

MR. HELVERING: The appointment was to take effect the 26th and his resignation the 25th. But there are other changes to be made, Mr. Secretary, that I feel I am impelled, if I am going to make those, to--

H.M.JR: What?

MR. HELVERING: Well--

H.M.JR: You don't usually consult me on those things, do you?

MR. HELVERING: No, but if Mr. Cann's--

H.M.JR: It is only being held up twenty-four hours, just so you can talk to him on the phone.

MR. HELVERING: What I am trying to say is that he is going to take the place of a man by the name of Virgil Bean who is in San Francisco. Mr. Bean is a married man with children, and I would like to notify him of this change because Mr. Bean has a home here in Washington and I am assigning him to the Baltimore

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office. He can commute back and forth from his home out here in Silver Spring. At least Mr. Myers, the head of the unit, assures me that will be agreeable to Mr. Bean, and I would like to notify Mr. Bean.

H.M.JR: I held it up two days. I held it up today thinking Cann was in town. He is not, and I am holding it up forty-eight hours, which can't make or break the Bureau.

MR. HELVERING: Let me understand it. Do you want to see him?

H.M.JR: Cann?

MR. HELVERING: Yes.

H.M.JR: No. I just want you to call him up on the telephone and say to Norman Cann, "Mr. Morgenthau somehow or other has gotten this impression, and before he gets you in a responsible position do you feel you can carry out his policy? What did you mean? He got the impression from somebody that you were out of sympathy - didn't have confidence in the Secretary."

MR. HELVERING: It isn't confidence in the Secretary, as to your intentions of doing everything right.

H.M.JR: I want to know - I want a declaration of faith from him; that is what I want. If he satisfies you, that satisfies me.

MR. HELVERING: Well, I will--

H.M.JR: I don't want to see him. If you say to me, "Morgenthau, I am satisfied this fellow will be a loyal public servant and do what you or your associates want while you are in office" that is all I want.

MR. HELVERING: I will call him tomorrow morning, and I will tell him of our conversation.

H.M.JR: That is right.

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MR. HELVERING: And I will tell him that there is no question about the Secretary going through with this but he wants some assurance as to whether he agrees with the general policy of running the Treasury or whether it is just some incident coming up here that he didn't want this particular assignment.

Of course he told me he thought his effectiveness would be lost in this particular assignment after the controversy had about this.

MR. BELL: That is what he told me; also the fact that he said, "Maybe I am making this decision because I am so worn out that I don't want to go through another two weeks like I went through in the last two weeks." He said, "I am just tired and worn out."

H.M.JR: The point is, with the Commissioner away and with Sullivan away he wasn't a big enough man. That is what it gets to - to handle me. (Laughter) We are at war, and for the fellow to quit like that - if he said to me, "Look, Mr. Morgenthau, I would like to have a talk with you" - he has never done that, you see. And under great pressure he finally did admit that this was an improvement that we got out.

But I don't want to go over the whole business. The man has made his decision, and I think less of him for it.

MR. HELVERING: I want to cure you of one impression. I got from the conversation yesterday that he had picked out the particular job. He didn't do that.

H.M.JR: Well, that is all right, but I think less of him. He has gone down in my estimation. He was here acting, with you and Sullivan away. He couldn't handle the job, in my estimation. Then when he got the pressure put on him he couldn't take it.

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MR. HELVERING: He doesn't understand your psychology of the thing.

MR. SULLIVAN: I think that in fairness to Norman, Mr. Secretary, I should tell you that here is a fellow, and for many years he has been contributing substantially to the support of older relatives. It isn't any question of his loyalty to the Bureau or you. He is taking a fifteen-hundred-dollar cut in salary. Last Thursday afternoon he was offered fifteen thousand dollars on a part-time job. That would have been disloyal to you, and he turned it down.

H.M.JR: From whom?

MR. SULLIVAN: I can't tell you. The next afternoon he was offered a three-year contract at thirty thousand dollars a year.

Now, I think he is a pretty loyal fellow, Mr. Secretary. I doubt very much if Norman Cann has been able to save any money in the last twenty years.

H.M.JR: Well, if you don't mind, I still want the Commissioner to have this talk with him.

MR. SULLIVAN: I wasn't saying that to dissuade you from that.

H.M.JR: I still want that.

MR. SULLIVAN: I thought in justice to Norman that you should know what I told you.

MR. PAUL: Those figures are being offered to everybody in the Bureau, in Wenchel's office and in my office. It is terrible the way - a man making seven thousand dollars in the General Counsel's Office can walk out and get fifteen or twenty thousand any day.

H.M.JR: O.K.

August 10, 1943

MEMORANDUM TO THE SECRETARY:

In accordance with your instructions, I have discussed with Messrs. Cann, Blough, Smith, Surrey and Sullivan the matter of clearing the Bureau of Internal Revenue income tax forms and instructions for use this coming September. Most of the information I got from the individuals was, of course, based on memory of what had taken place, but each one told about the same story regarding the channels through which these forms passed.

Mr. Cann stated that when the Bureau first started to prepare the instructions and forms its representatives felt that the whole procedure should be simplified as much as possible. He discussed the matter with the Commissioner before he left for his vacation and he agreed with this approach. The Bureau representatives prepared instructions and forms with tables attached which they thought represented a simplified approach to the problem. (Others did not think they were so simplified.) Those instructions and forms were sent to the offices of the Legislative Counsel (Mr. Surrey) and Tax Research (Mr. Blough) for comments, criticisms and suggestions. There were some telephone conversations between Mr. Cann and Mr. Blough regarding the use of gross income as against net income in the tables as a basis for computing the estimated taxes. The Bureau was then against gross income as a basis.

In a subsequent meeting in the Bureau of Internal Revenue, Mr. Surrey, from the Legislative Counsel's office, stated that the Treasury was not in favor of the Bureau's simplified approach as it raised the question of legality. He stated his views before this committee, all of whom were convinced that Mr. Surrey was correct in his interpretation of the law. (Mr. Surrey states that he did not say it was illegal but that it was inadvisable to use the table in connection with the type of form they were then discussing.) Anyway, upon further consideration of the matter and also in view of the fact that a large part of the 14 million taxpayers who will file these forms have already had experience in filing the long form of income tax returns and would be required to file such form on March 15, 1944, it was decided to adopt the more technical approach. This apparently was the basis for the forms and instructions submitted to you on July 13th.

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In my discussion with Mr. Blough he states that the first set of instructions and forms were submitted to his office and while the Bureau felt that they represented a simplified approach, he did not so feel. They made some suggestions for changes, many of which were accepted, and thought the forms probably represented about the best that could be had under all the circumstances. On July 5th he had luncheon with you at the hospital in New York. He told you that the forms and instructions were complicated and that you might get some unfavorable public reaction to them. You told him to explain the whole matter to Fred Smith and ask Fred Smith to go over these forms and instructions to see what could be done to simplify them. This he did on July 8th. Mr. Smith made certain changes in the instructions but made no changes in the forms. (Mr. Smith says that he was only asked to go over the instructions.) These changes were sent to the Bureau on Friday, the 9th; most of the changes were accepted by the Bureau.

On Monday, July 12th, the forms and instructions, in what the Bureau thought was final form, were sent to Assistant Secretary Sullivan, who experimented with two experts on the time that it would take to make out his own income tax return. It took him an hour and a half with these two experts, with fifty-six computations, to make out his return. He brought this matter to your attention at a staff meeting on Tuesday, July 13th, and stated he wanted you to know that there would be some public reaction to these complicated forms.

It was then that you began having conferences to simplify the procedure. You will recall at one of the conferences Mr. Cann, just before he was about to return to his office to work on the suggested simplified forms, raised the question of statutory authority. Mr. Paul replied that he had not "the slightest question about the legality of almost any construction of the statute in the direction of simplicity." That statement of Mr. Paul's apparently relieved Mr. Cann on this point, as the Bureau had been previously working under the assumption that the simplified approach was not in accord with the Act.

Mr. Blough states that he believes Mr. Cann had a right to feel that he, as Acting Commissioner, took every step that was required of him to get the views and suggestions of all concerned in the Secretary's office before the papers were in final form to submit to Assistant Secretary Sullivan for approval.

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I understood that you only wanted me to cover the clearing of the income tax forms and instructions and not the subsequent controversy about the letter to go out over your signature. I have not questioned many people regarding the letter, but I understand that it is this controversy which brought to a head the resignation of Norman Cann. I have, however, heard enough about it in connection with the above investigation to come to the conclusion that the whole procedure was a matter of misunderstanding. Mr. Smith thought he had made it plain to Mr. Horne that the letter was to come back through him for clearance with you, whereas Mr. Horne thought he had complete authority from Mr. Smith to go ahead and clear the letter, which was done.

I do not believe that any one person was at fault in this whole controversy. Mr. Cann has submitted his resignation and has agreed with Mr. Helvering to accept another position in the Internal Revenue on the West Coast. He says that nothing can change his mind on his request to be released from his present position as Assistant Commissioner. He does not want anything done to hurt Mr. Blough or Mr. Surrey because of their action in passing upon the forms and instructions. He says they have been very helpful to him and he has had their complete cooperation in the present as well as all past matters affecting the Bureau. He thinks they are two very able men and he wants you to know that he does not in any way blame them for his difficulty.

After reviewing the whole matter I am inclined to believe that it is difficult at times for the head of a Bureau like Internal Revenue to know just who is acting for the Secretary's Office. Mr. Cann apparently assumed that Mr. Blough and Mr. Surrey were keeping Mr. Sullivan informed and these two gentlemen probably assumed that Mr. Cann was keeping Mr. Sullivan informed. There should be a clear line of authority between the Secretary's Office and the Bureau of Internal Revenue and that line should be through the Assistant Secretary in charge. It is up to that Assistant Secretary, by constant contact, to see that this channel is respected by all concerned.

(Initialed) D.W.B.

August 11, 1943
11:15 a.m.

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HMJr: Hello. Hello.

Operator: Go ahead.

HMJr: Hello.

Harry
Stimson: Hello.

HMJr: Harry.

S: Henry, look here.

HMJr: Yeah.

S: Your Bartelt, Commissioner of Accounts....

HMJr: Yeah.

S:is going to - has had a conference already today
with General Arthur H. Carter, our Fiscal Director on
this same subject.

HMJr: No, that isn't what I want to see you about.

S: You want to see me about - well, I'm told it is
the same subject. What's....

HMJr: What's that?

S: Isn't this - I want - I didn't - I want to get out
of an interview on the subject of Bonds if I can.
I'm awfully busy. This - you know what's going on.

HMJr: Well, it's - we can't - it isn't - that isn't what
I wanted to see you about at all. There are a half
a dozen things that we've been trying to get the
Army to do to help us raise this money and we - we're
just pushed around from pillar to post.

S: Well, the other night, I thought you gave me a very
good report of the Army.

HMJr: I said on the question of delivering the bonds -
they're current on the present bonds. This - I'm
talking about the Third War Loan. We need a lot of
things to help us sell these things and the Army
could be very helpful if they wanted to. Now, if
you're too bush - if Bob Patterson isn't too busy -
somebody at the top so that they don't keep stalling
us all the time.

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S: Well, I know I want - I don't want them to stall you.

HMJr: Well, they're stalling us all the time and we can't get any decisions out of them and they always come back and tell me I should write a letter. Well, I don't want to be writing a series of letters. Now, if you haven't got the time - if you'll tell Bob Patterson....

S: All right.

HMJr: If you'd give me....

S: He has - he has almost less than I have.

HMJr: Well, I've got to raise this money and I should think that the Army would want to help us.

S: They do.

HMJr: But they are not, Harry.

S: Don't put it that way.

HMJr: But they are not helping us, and....

S: Are you sure about that?

HMJr: Well, if you'd done - I'll put it all in a letter and I'll send it over to you in hand - the things that I want and they - my War Bond people tell me we usually end up with some Second Lieutenant.

S: No. (Laughs) That's an exaggeration.

HMJr: No. Well, all right, I'll - I'll put it all down....

S: I'll bet it's a First Lieutenant anyhow.

HMJr: I don't even know whether it's a First Lieutenant - personally if they'd give me a Top Sergeant with....

S: Henry, I - you know me - that I don't really - that my bark is worse than my bite.

HMJr: Yeah.

S: I don't want to be tied up with this engagement this afternoon. In the stuff that I've got on here....

HMJr: Well, will you send General Surles over here with authority?

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S: Yes, I think - perhaps I could do that - yes, he's as good a man - a much better man than I to talk to about it.

HMJr: Well, I - I want to talk with somebody that can say "yes" or "no".

S: Well, I'm going to see him in about - just about twelve minutes. I'll try to put that down and tell him.

HMJr: Will you?

S: Yes.

HMJr: Will you - uh - So I - I've been holding my afternoon sort of free but do you suppose three o'clock for General Surles?

S: I guess so. Yes. Wait a minute. Hold the wire. (Pause) (Question: Are you free to spell me this afternoon at the Treasury? Secretary Morgenthau is calling me and wants me to come to see him this afternoon. It's about getting better response to his Bond Loan. Answer: Yes, sir. - Q: I would appreciate it very much if you would spell me for our people. A: Very well, sir. Q: He has suggested that you are the only man in the Department that can take the place of me. A: All right, sir. I'll cover that. Q: Is three o'clock all right? A: Yes, sir. Q: All right, fine.) Hello.

HMJr: Hello.

S: That's - uh - he - I just talked with him over my box here and he says that he will be over there at three o'clock.

HMJr: Three o'clock. And will you give him power to act.

S: Yes. I told him that you wanted....

HMJr: What?

S: I told him that he was the only man in the Department that you would take instead of me.

HMJr: That's right. (Laughs) Well, God bless you.

S: All right.

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HMJr: It'll take more than this to make you and me have a fight.

S: (Laughs) Oh, there's no fighting in this.

HMJr: No. Now, when we need help....

S: I'm just trying to squirm out of it.

HMJr: I know what you are doing and - you're trying to pull an old Army game on me. But it's all right and Surles can give me what I want.

S: All right.

HMJr: Thank you, Harry.

S: Good bye.

August 11, 1943
2.34 p.m.

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HMJr: Most likely you have already thought of this but if you haven't I would like you to take the initiative in talking to various technical people of the various Departments represented there yesterday.

Randolph
Paul:

Well, of course, I'll be glad to do it from now on. I have been doing it, you understand.

HMJr: I know.

P: Uh....

HMJr: I would do it even more so.

P: Yeah. Well, I, for instance, had a conference after that one last night with Hinrichs of Labor and, as a matter of fact, tonight - this is a little off the path but tonight I'm having the C.I.O. people up to my house for a conference.

HMJr: Well, the point is - will you make a point sometime tomorrow to talk to me about when we should call the next meeting?

P: Yeah. Yeah. I'll put it down. I....

HMJr: Will you please?

P:I thought the other meeting died out a little bit but I think we - I'll talk with you tomorrow about it.

HMJr: Thank you.

P: Okay.

August 11, 1943.
3:35 p.m.

HMJr: Hello.

Renfle
Likert: Hello, Mr. Morgenthau.

HMJr: How are you?

L: Fine, thank you. How are you?

HMJr: Fine. Dr. Likert, how far are you along with your Buffalo survey?

L: Why, they are in the field now - uh - in the interviewing on both the sales tax and the - uh - oh, that whole expenditure and savings study.

HMJr: I see. How much could I get out - if I went up there and spent an evening with your people - how much could I get out of it personally?

L: Well, I have this - this has been the experience - I know Mr. Stewart was very much impressed....

HMJr: Yeah.

L:with the session that he had with some of the people in the field.

HMJr: ^{uh} Yeah.

L: It - it - it gives you a - well - the grass-roots feeling so-to-speak. Uh - now, what we could do, if you want to - we could arrange a meeting down here and save you the trip to Buffalo.

HMJr: How many people have you got in Buffalo?

L: Well, there are - I think there's around twelve to fifteen people that are working there.

HMJr: Yeah.

L: And rather than bringing them all down, I think we could bring down a small group of about three or four and give you - in fact, even two or three could give you the....

HMJr: Yes.

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L:the bulk of what....

HMJr: Well, how far along are they? Because Stewart got so much out of that.

L: I beg pardon?

HMJr: How far along are they?

L: Well....

HMJr: How many days have they been working?

L: They have been working about ten days now.

HMJr: Have you seen any of the reports?

L: Not much. Most of it - they've been organizing the work out on the job and we've - we've received some but not much and we were going to get in touch with them tomorrow to check up on how things were and what the developments were.

HMJr: I see.

L: Uh....

HMJr: Well, what I had in mind was - I might want to go up there tomorrow afternoon.

L: Yes.

HMJr: Do you have to give these people any notice?

L: Well, I'd be glad to. And I'll be glad to have it arranged for - for a meeting for you tomorrow evening or whenever it suits your convenience.

HMJr: How much notice do you need?

L: Any time - it doesn't matter - one hour or less.

HMJr: I mean - do I have to let you know tonight or do I have to let you know tomorrow?

L: Tomorrow is plenty of time.

HMJr: Would you want to go up with me?

L: I'd be delighted to.

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- HMJr: I'm going - if I go up I'm going to fly.
- L: All right.
- HMJr: I think I can go up in two hours.
- L: Fine, indeed.
- HMJr: You think about it, because - uh - these people will have a lot of questions and stuff won't they?
- L: They'll have some. Now, I think the chief value of it to you would be this - In talking with the people that have done the interviewing, you get a chance to sort of get the earthy feel so-to-speak.
- HMJr: Yeah.
- L: If you can get just how the people that they have talked to - the experiences that these people have had - the kinds of problems they have faced....
- HMJr: Yeah.
- L:the concerns that they are expressing and in what terms - in other words, for example, if they are worried primarily about just what kinds of adjustments they are going to make - uh - you'll get the - the everyday point of view and experience of the fellow who says, "Gosh, I just can't do it. Can't cut down our grocery bill when grocery prices have gone up. I just don't see how we're going to make the adjustment." And the other fellow that says, "Well, yeah. We're getting along pretty well. I think we could do it. It might mean that we'll have to pull the belt in a little bit here." Uh - so that it would give you just the way the fellow - the rank and file - the fellow on the streets is thinking and talking and the way he views this - the types of problems that are - that you face in this whole tax policy problem.
- HMJr: What hotel - is the hotel in Buffalo - when you stay there....
- L: I beg your pardon?
- HMJr: What hotel do you stay at when you are in Buffalo?
- L: Oh, I don't know.
- HMJr: Where would the meeting be?

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L: Well, we could arrange it anywhere. I think most of them are probably....

HMJr: well, I can find out.

L:yeah, scattered. I don't know the address right now of the group. What generally happens when they go to a place for a while - they take some place in some of the less expensive hotels on a weekly basis.

HMJr: Well, I'll let you know. Is - would tomorrow morning be time enough.

L: That will be plenty of time?

HMJr: I mean to get your men together and all that?

L: Yes.

HMJr: Well, I mean, you don't have to reach them tonight? Why don't you put them on notice that I may....

L: I was going to say - I'll put them on notice and - so they will be prepared.

HMJr: Put them on notice.

L: And we can do it within very short notice to....

HMJr: Why don't you say the chances are - the chances are two out of three that I'll be up there tomorrow night?

L: All right. Fine.

HMJr: See?

L: Fine, indeed. And I'll let them know.

HMJr: Thank you.

L: Thank you, Mr. Morgenthau.

August 11, 1943 161
4:31 p.m.

Operator: Go ahead.

HMJr: Hello.

Walter
Stewart: Hello, Henry.

HMJr: Hello, Walter?

S: Yes.

HMJr: Well, I miss not seeing you or hearing from you.

S: Yes, I'm sorry not to see you.

HMJr: How are you?

S: Well, I've - when I stay quiet, I'm all right. When I move around too much, I'm not.

HMJr: Yes.

S: I'm sorry to say. I've tried New York and Princeton and neither one of them worked very well for me at the moment.

HMJr: Are you home?

S: Yes.

HMJr: Well, Walter, could I give you something to think about? That won't....

S: Yes, sir. I'd like it.

HMJr: Well, this is awfully confidential....

S: Right.

HMJr:but the Army is going to set up a sort of a Planning Board in England. You see?

S: Yes.

HMJr: To handle - to think - what happens and when we go into Europe. You see?

S: I see.

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HMJr: And they want a really able financial fellow that we've got confidence in....

S: Right.

HMJr:who can advise them on all of Europe....

S: Right.

HMJr:and he's got to be vis-a-vis the English and all these governments in exile.

S: Right.

HMJr: He has really got to be a top flight fellow.

S: Right.

HMJ: And, by God, I'm stumped.

S: This is the thing they talked with me about, Henry.

HMJr: What's that?

S: They sent a man up and talked with me about this.

HMJr: Well, it's General Hilldring.

S: That's right. I had a letter from him afterwards.

HMJr: Yeah. They wanted you.

S: Yeah. Uh huh. God, that's the first thing I've seen that I really would like to do.

HMJr: (Laughs)

S: That's the first time I - I - really, these other things I could turn down easy, but that I think is a honey.

HMJr: Yeah.

S: And it's really one of the few things that I really feel I could be of some help in.

HMJr: Yep.

S: Well, now....

HMJr: Well, Hilldring just left here and....

S: Yeah.

HMJr:he said he understood that you weren't well enough to do it.

S: That's right.

HMJr: And I told him, of course, as far as I was concerned no one would please me more than you.

S: Of course, I would have - I would have come to you first of all if anything - if I thought there was anything in it....

HMJr: Yeah.

S:to see whether it did suit you.

HMJr: Yeah.

S: Uh - I suggested a few names.

HMJr: Yeah.

S: My inclination, Henry,...

HMJr: Yeah.

S:if they cannot find someone who combines a sense of affairs....

HMJr: Yeah.

S:with a technical knowledge....

HMJr: Yeah.

S:is to get a man who has some sense of affairs....

HMJr: Yeah.

S:and let him get some technical knowledge from his advisors.

HMJr: Yeah.

S: I'm a little frightened of these men who - who believe they have technical competence but don't know how to handle themselves....

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HMJr: Yeah.

S: in a situation that will be as complicated as that is.

HMJr: Yeah.

S: They had one or two names....

HMJr: Yes.

S:which wouldn't have occurred to me....

HMJr: Yeah.

S:but when they mentioned them, they struck me as pretty good.

HMJr: Yeah.

S: One of them was Dorsey Richardson.

HMJr: Who?

S: Dorsey Richardson, whom you probably don't know.

HMJr: No.

S: He's either a member of the firm of Lehman or he's their counsel.

HMJr: Yeah.

S: He was in the State Department in the old days.

HMJr: Yeah.

S: He's thoroughly upright, straightforward - I think unbiased - kind of person.

HMJr: Yes.

S: If you don't know him that's a handicap because....

HMJr: They didn't mention him to me.

S: I see; well, they had him on - the man that saw me had him on their list.

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HMJr: No. Well....

S: Of course, if a man could have had some experience with you there....

HMJr: Yeah.

S:and at the same time have some connection abroad....

HMJr: Yeah.

S:then he really could clear things fast.

HMJr: That's right. And they don't want - they don't want anybody that isn't sympathetic to the Treasury.

S: That's right. Oh, it's very important.

HMJr: Yeah.

S: It's the sort of thing where decisions will have to be taken so fast....

HMJr: Yeah.

S:frequently, that you've got to have confidence in the man and know how he thinks.

HMJr: That's right.

S: I didn't feel that there was anyone in your immediate setting there that you....

HMJr: No.

S:could spare and that would fill the bill.

HMJr: That's right.

S: And my colleague who is in London has - you know, Winn Riefler....

HMJr: Yeah.

S:has some brilliant aspects to him....

HMJr: Yeah.

S:but would not, I think - I would regard him as advisor rather than a person of affairs.

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HMJr: Check.

S: Jack is a little the same way.

HMJr: Check.

S: Well, now that rather exhausts the people that you - you've gone through the shop there....

HMJr: Yeah.

S:that you have a first-hand feel for - the technical people.

HMJr: Yeah.

S: Have you - have you anyone on your mind?

HMJr: No, I haven't.

S: Uh huh.

HMJr: No, I haven't.

S: They - they want to have it on a military basis, don't they?

HMJr: Yeah.

S: I mean....

HMJr: You got to put on a uniform.

S: That's what I thought. Yes.

HMJr: Yep.

S: And I think that's right.

HMJr: You've got to put on a uniform.

S: I think that's right. I also would be glad to see it handled that way in the interim period but when it's handled that way, it means an awful lot of future decisions.....

HMJr: Yeah.

S:are taken as immediate decisions.

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HMJr: Yeah. Well, think about it and if you get any ideas call me on the phone collect....

S: I certainly will, Henry.

HMJr: Will you?

S: I certainly will.

HMJr: Because it's....

S: I think it's by way of being the most important....

HMJr: Yeah.

S:single post in that area....

HMJr: Yeah.

S:that has to be filled.

HMJr: I've got to move fast.

S: Right.

HMJr: So, if you get any ideas, will you use the phone?

S: I will.

HMJr: You can call me collect.

S: Right. All right, Henry.

HMJr: All right.

S: Thank you. Good bye.

HMJr: Good bye.

August 11, 1943.
4:39 p.m.

HMJr: Hello.

Operator: Mr. Eastman. Go ahead.

HMJr: Hello.

Joseph B.
Eastman : Hello.

HMJr: Henry Morgenthau.

E: Yes, sir.

HMJr: How are you?

E: Pretty good.

HMJr: Good. Look, Eastman, it's in regard to this thing of our getting the theatre people to help us sell fifteen billion dollars worth of bonds to the people.

E: Yeah.

HMJr: I got your letter. See?

E: Yeah.

HMJr: And while I realize that you tell me I can go ahead, I'd kind of like to have your blessing....

E: (Laughs)

HMJr:because this is the thing - it's - as I have explained first this morning to Mr. Hopkins and then to General Surles this afternoon, and they've all seen it. It isn't - the country is in the doldrums....

E: Yeah.

HMJr:and production is going down. They think the war is won. Now we've got an opportunity in September to wake this country up through the medium of this Third War Loan.

E: Yeah.

HMJr: And it isn't just to go out and try to sell forty million people each a \$75 bond - \$75 worth of bonds - is what we are going to do - but we are going to try to wake the whole country up and get them back to production the

- 2 -

HMJr:
Cont'd: way they were and everybody I've talked to said, "Fine, and we'll help you." Now, these theatre people that we want to send around attached to a special train - I mean - they are part of the picture to set this country afire....

E: Yeah.

HMJr:and the country is just dead-ripe now. And....

E: You don't think that they couldn't do it without this special train?

HMJr: No. You've got these people earning two and three hundred thousand dollars apiece. They are going out and they make talks all day long - something they are not accustomed to do and they just work themselves down to skin and bones and they are doing it for their country. It's - and we have to keep them as a group - and it's a thing that they hate to do, this personal appearance stuff. They are not used to it....

E: Yeah.

HMJr:and we've got to give them some kind of semblance of comfort and it - it's a physical torture to them....

E: Yes.

HMJr:and we can't send them around in a lot of upper berths and we've got to keep them in a group.

E: Yeah.

HMJr: We don't want a special train - we just want to attach these cars to a through train.

E: Yeah.

HMJr: Now, beginning with the President with his proclamation - the only proclamation he has given since he is President other than Thanksgiving - from the President down - everybody is going to help us.

E: Yes.

HMJr: And, we are actually going to try to sell forty million people a \$100 bond and the banks are excluded - and it's - I mean - everybody we've talked to say, "Well, we need

HMJr:
Cont'd

something like this right now to wake the country up."

E:

Well, I can see your point of view on the thing. Of course, I have to look at it from the point of view of the Pullman cars.

HMJr:

Sure.

E:

And many people think we should have rationing which I think is impossible but even if we had it, it would hardly affect the Pullman cars at all because all our tests show that they are being used for necessary travel.

HMJr:

Yes.

E:

And, furthermore, we've got the Army seeking a lot more than we can give them.

HMJr:

Yeah.

E:

The situation. I hate to see - cars used for other purposes.

HMJr:

Well, this is strictly a war operation. I mean, everybody that we've talked to from the President down said they're giving us the green light - the OWI, everybody is making way for us in September.

E:

Yeah.

HMJr:

And it isn't just the question of going out raising money which is important but it's the whole morale at home, and these people are going to work like hell for us for nothing and we can't get them around - I mean, if we started to send them around in individual groups, depending upon upper berths and that kind of thing, we'd just lose them.

E:

Yes. Well, I - I shan't criticise you if you decide to do that.

HMJr:

You won't?

E:

No.

HMJr:

Well, I hope you do better than that.

E:

(Laughs)

- 4 -

HMJr: I hope you might even give me a pat on the back.

E: (Laughs) Yeah. Well, I don't know that I can do that.

HMJr: Yeah.

E: But at any rate I certainly shan't criticise you. You - you understand that end of it much better than I do.

HMJr: Well, I'm - I'm willing to take full responsibility because I've got the President back of us with a proclamation.

E: Yeah. Yeah.

HMJr: And I want to go to town but I'd like everybody that's in this thing - I'd like to feel they're back of me....

E: Yeah.

HMJr:and not too far back either.

E: (Laughs) Well, I'm part of the way up anyhow.

HMJr: Well, I'm going to - how shall I say - your silent blessing - how's that?

E: Yes.

HMJr: Okay?

E: All right.

HMJr: Thank you.

August 11, 1943
5:49 p.m.

HMJr: Hello.

James
Byrnes: Henry?

HMJr: Yes, Jimmy.

B: The matter I was talking to -- about Brown.

HMJr: Right. To Brown or to the President?

B: I was talking to the President, I say, about Prentiss Brown's matter.

HMJr: Yes.

B: Oh, Prentiss has been having a fit from time to time about a bank application and as far back as July 12th he gave - he had talked to me about it and he gave me a memorandum - which he wanted me to give to the President and I thought - I have a memorandum to the President dated on that date which I sent and I told him, "I first thought of sending it to Henry...."

HMJr: Yeah.

B:Morgenthau but Brown has such strong feelings about the matter that I knew he would never be satisfied if I didn't submit it to you. I promised him I would."

HMJr: Yeah.

B: Here's what - here's all that I can add to the memorandum which I am going to send you. He says that there was a very understandable attitude on the part of the Comptroller that as long as there was legislation pending in Michigan....

HMJr: Yeah.

B:to prohibit chain banks, that no action should be taken and - but that the legislature did not pass the bill which was then pending....

HMJr: Yeah.

B:that the other argument that was advanced as a reason for not approving the application was that Delano feared that it would give to Giannini in California a basis for his demand for the further extension

- B: of his tremendous bank system which Brown said he
Cont'd thought ran into five hundred branches.
- HMJr: Yeah.
- B: But in this - in this Michigan case that they allow
but six branches and the request was for one and that
he thought, therefore, that it could be distinguished
from cases like the California Bank with five hundred
or thereabouts. He urged that the controlling interest
in one of the banks in Detroit is substantially General
Motors and in the other the Ford interests substantially
had control.
- HMJr: Yeah.
- B: Outside of those interests the motor companies have a
very bad time and that the - so far as labor organiza-
tions go - that they, too, do not like the controlling
interests with the - having no other competitive - any
other comparable institution to which they can go -
that from the standpoint of competition that he thought
it could be justified as a matter of public interest....
- HMJr: Yeah.
- B:that - he says the two institutions controlled by
these two companies control approximately - that they
had more than half of the total bank deposits....
- HMJr: Yeah.
- B:in the entire state....
- HMJr: Yeah.
- B:and that these other motor companies and parts
manufacturers who want substantial credit must go to
them and reveal their financial situation. If his
facts are right and I, of course, know nothing about
that....
- HMJr: Yeah.
- B:it looks like Delano might review the thing in the
light of the fact that the legislature did not take the
action that was considered when it was - when the appli-
cation was rejected six months or more ago.

HMJr: Well - yeah - do I understand, Jimmy, you're going to send me....

B: I'm going to send you the memorandum because there isn't any use to....

HMJr: All right.

B:take your time and mine. It's set out by him....

HMJr: Well....

B:in the memorandum which he asked that I send to the President and I'm just going to send the two pages over there....

HMJr: Okay.

B:and then you'll have really all that I know about it.

HMJr: Well, I....

B: He does say this - that in this - that I - he asked me to say to the President....

HMJr: Yeah.

B:because he couldn't say it there - he says that these two banks with more than half the deposits have been antagonistic to the Chief and that it hasn't - it has embarrassed all of his friends up there at times and I told him that he couldn't put that in any memorandum to the President.

HMJr: No. Well, I....

B: That's what the Chief had in mind....

HMJr: Well, that....

B:roughly that the officers and the - that the personnel has been such that....

HMJr: Yeah.

B:according to him, the banking institutions have been used in a political way against us. Now, I know that's always charged by people about the banks and it may not be susceptible to proof but I'm giving you the

B:
(Cont'd) whole story....

HMJr: Well....

B:and then you can look into it.

HMJr:I've already asked Bell and the Comptroller to get me up a memorandum and have it ready the first thing in the morning.

B: Fine. Well, I'll just have this mailed to you.

HMJr: Yes. Uh - Brown....

B: I feel very badly that I did not take it up with him before. It's since July - I sent it to him July 12th....

HMJr: Yes.

B:and he sent me a note that he'd talk to me about it....

HMJr: Yeah.

B:sometime and not until today did I do it.

HMJr: There's a lot more to the story, Jimmy, than that. It isn't as simple as that.

B: Not that simple, et?

HMJr: Oh, no. These - there are ten or twelve members of legislature who were bribed to vote the way they did.

B: What do you mean - to vote against the bill that was pending?

HMJr: Not to vote.

B: Not to vote?

HMJr: Not to vote. And which caused the legislation to fail and that is all being gone into. I'll get the whole story for you.

B: All right.

HMJr: And, even to please Prentiss Brown, we don't want to walk into a mess.

- 5 -

B: Oh, no.

HMJr: And Bell and Delano by tomorrow noon will have the whole thing.

B: All right. The....

HMJr: I'd like for you to have it because Brown has been on our neck and, frankly, I don't think he's been fair about it and I'll let you decide that when you get all the facts.

B: Well, that I know nothing about. He'd never - he did mention to me when he first....

HMJr: Yeah.

B:was up here about his interest in it and the interest of people around the state to - uh - the thing that impressed me is the fact that if it is a - the fact that these two banks with more than half the deposits are controlled by two interests....

B: All right.

HMJr: Yeah. That would be perfectly well but as I say I'll get all the facts down....

B: All right.

HMJr:and we'll get them to you....

B: And I'll get this over to you.

HMJr:after you've seen them....

B: All right. You and I can chat about it.

HMJr: That's right.

B: Good bye.

HMJr: Good bye.

MEMORANDUM

August 11, 1943.

TO: The Secretary
FROM: Mr. Sullivan

JLS

I saw Senator George at the Mayflower this afternoon. I explained to him your reluctance and mine to intrude upon him at such a time as this. He said that he rather welcomed a diversion.

I advised him that Mr. Stam had made certain demands for memoranda upon Commissioner Helvering and that this demand arrived while Mr. Helvering was away on vacation. I stated that all of the information which the Bureau of Internal Revenue had was now being put into memorandum form but that the Commissioner was reluctant to send that directly to Mr. Stam and that you did not wish to have memoranda forwarded out of the Treasury Department without your knowledge. I said that you were willing and anxious to give Mr. Stam the benefit of all information possessed by the Bureau, as well as your own staff, and would be glad to forward to Mr. Stam such proposals as the Bureau forwarded to you.

I told the Senator that it was your conviction that the inter-departmental squabble had had a serious effect upon the morale of the country and if there was any ground for suspicion that all parts of the Treasury were not in accord, this might have a further bad effect upon the country. The Senator readily agreed and stated that of course if the Commissioner was forwarding material to Stam without your knowledge and approval and not sending it through you, that might give rise to the very suspicion I referred to.

I suggested to the Senator that if the Commissioner were to be required to forward material to Mr. Stam direct and without the Secretary's knowledge, that would be similar to our giving to minority members of the Senate Finance Committee material which we were not giving to the Chairman.

The Senator recalled that he had signed the demand which was made upon the Commissioner but that he did not care to have the Commissioner placed in the position which he now appeared to occupy.

I told the Senator that you were hopeful that this matter could be held in abeyance until sometime next week when you and he could discuss it together. The Senator suggested that he advise Stam

- 2 -

that he was most anxious that there be complete cooperation between the Bureau, the Treasury, and the staff of the Joint Tax Committee and that he did not want Stam to take any hasty or drastic action. He added that this was a situation which grown men should be able to solve without any sparks flying.

The whole situation is held in abeyance until the middle of next week and if there is any difficulty at that time the Senator will call me. He felt that the best solution would be for you to forward such information as the Commissioner presented to you in the hope that this would be accepted as adequate by Mr. Stam.

It was concluded that if this method proved satisfactory to Mr. Stam it would be unnecessary to discuss the question further.

Mr. Smith

Dow-Jones

August 11, 1943

11:28 A.M.

TAX CONFERENCES

Washington - D.J. - Treasury Department would like the Administration to present a unified front on the multi-billion dollar tax program which will go to Congress next month.

Secretary of Treasury Morgenthau, it was disclosed today, is conducting a series of inter-agency conferences on tax program. The first of these discussions took place at Treasury Department late Tuesday afternoon.

This meeting was described as "exploratory." Discussions, it was said, centered on proposals which would increase federal revenue receipts and at the same time draw off excess purchasing power as a safe guard against inflation.

In addition to Secretary Morgenthau, Undersecretary Bell and their staffs of experts, those participating in yesterday's discussions included Director of Economic Stabilization, Vinson; Office of War Mobilization General Counsel, Ben Cohan; War Production Board head, Donald Nelson; Civilian Requirements Director, Arthur Whiteside; Budget Director, Harold Smith; Secretary of Commerce, Jesse Jones; Federal Reserve Board Chairman, Marriner S. Eccles; Undersecretary of the Navy, Forrestal; Undersecretary of War, Patterson; and Bureau of Labor Statistics Chief, Lubin.

While official comment on the gathering was skimpy, it was understood that the primary purpose is development of a tax program which will be as near satisfactory as possible to all branches of the Administration.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

August 11, 1943

TO Secretary Morgenthau

FROM Fred Smith

To let you know what's going on before it happens:

We have had some trouble in the Treasury, particularly in the lower brackets, with people not understanding their deductions on withholding. Mr. Brodsky brought this to my attention last week.

We went to work with Banyas to try to figure some fool-proof way of showing actual deductions, and the attached poster is a result. It is based on the Comptroller General's table for making deductions, so it has to be right.

This is just a proof. If you think it is a good idea, we will get copies made for use throughout the Treasury and its field offices and make it available to other Government offices, where the same scale is used.

I think it is pretty good.

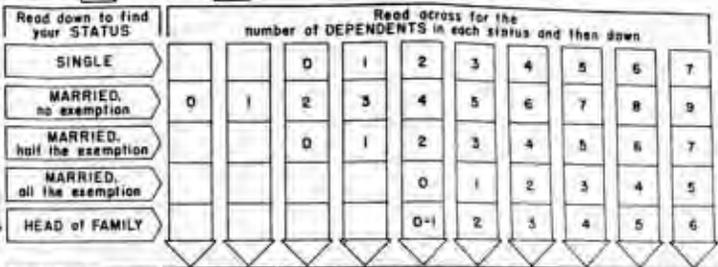
FS

yes - Phoned Smith 8/11/43 -

Attachment

HOW RETIREMENT AND WITHHOLDING DEDUCTIONS AFFECT YOUR PAY

This declaration which you filed tells how much of the exemption you claim and the number of dependents you have. Your deductions are based on this declaration.



ANNUAL SALARY	SEMI-MONTHLY PAY	OVERTIME	TOTAL EARNED	RETIREMENT (5%)	Net before TAX DEDUCTION	WITHHELD for taxes	Your PAY, before War Bond deduction
800	25.00	6.25	31.25	1.56	29.69	7.00	24.69
850	27.50	6.87	34.37	1.72	32.65	7.40	25.25
900	30.00	7.50	37.50	1.88	35.62	7.80	25.82
950	32.50	8.12	40.62	2.03	38.59	8.20	26.39
1,000	35.00	8.75	43.75	2.19	41.56	8.60	26.96
1,050	37.50	9.37	46.87	2.34	44.53	9.00	27.53
1,100	40.00	10.00	50.00	2.50	47.50	9.40	28.10
1,150	42.50	10.62	53.12	2.66	50.46	9.80	28.66
1,200	45.00	11.25	56.25	2.81	53.44	10.20	29.24
1,250	47.50	11.87	59.37	2.97	56.40	10.60	29.80
1,300	50.00	12.50	62.50	3.12	59.38	11.00	30.38
1,350	52.50	13.12	65.62	3.28	62.34	11.40	30.94
1,400	55.00	13.75	68.75	3.44	65.31	11.80	31.51
1,450	57.50	14.37	71.87	3.59	68.28	12.20	32.08
1,500	60.00	15.00	75.00	3.75	71.25	12.60	32.65
1,550	62.50	15.62	78.12	3.91	74.21	13.00	33.21
1,600	65.00	16.25	81.25	4.06	77.19	13.40	33.79
1,650	67.50	16.87	84.37	4.22	80.15	13.80	34.35
1,700	70.00	17.50	87.50	4.37	83.13	14.20	34.93
1,750	72.50	18.12	90.62	4.53	86.09	14.60	35.49
1,800	75.00	18.75	93.75	4.69	89.06	15.00	36.06
1,850	77.50	19.37	96.87	4.84	92.03	15.40	36.63
1,900	80.00	20.00	100.00	5.00	95.00	15.80	37.20
1,950	82.50	20.62	103.12	5.16	97.96	16.20	37.76
2,000	85.00	21.25	106.25	5.31	100.94	16.60	38.34
2,050	87.50	21.87	109.37	5.47	103.90	17.00	38.90
2,100	90.00	22.50	112.50	5.62	106.88	17.40	39.48
2,150	92.50	23.12	115.62	5.78	109.84	17.80	40.04
2,200	95.00	23.75	118.75	5.94	112.81	18.20	40.61
2,250	97.50	24.37	121.87	6.09	115.78	18.60	41.18
2,300	100.00	25.00	125.00	6.25	118.75	19.00	41.75
2,350	102.50	25.62	128.12	6.41	121.71	19.40	42.31
2,400	105.00	26.25	131.25	6.56	124.69	19.80	42.89
2,450	107.50	26.87	134.37	6.72	127.65	20.20	43.45
2,500	110.00	27.50	137.50	6.88	130.62	20.60	44.02
2,550	112.50	28.12	140.62	7.03	133.59	21.00	44.59
2,600	115.00	28.75	143.75	7.19	136.56	21.40	45.16
2,650	117.50	29.37	146.87	7.34	139.53	21.80	45.73
2,700	120.00	30.00	150.00	7.50	142.50	22.20	46.30
2,750	122.50	30.62	153.12	7.66	145.46	22.60	46.86
2,800	125.00	31.25	156.25	7.81	148.43	23.00	47.43
2,850	127.50	31.87	159.37	7.97	151.40	23.40	48.00
2,900	130.00	32.50	162.50	8.12	154.37	23.80	48.57
2,950	132.50	33.12	165.62	8.28	157.34	24.20	49.14
3,000	135.00	33.75	168.75	8.44	160.31	24.60	49.71
3,050	137.50	34.37	171.87	8.59	163.28	25.00	50.28
3,100	140.00	35.00	175.00	8.75	166.25	25.40	50.85
3,150	142.50	35.62	178.12	8.91	169.22	25.80	51.42
3,200	145.00	36.25	181.25	9.06	172.19	26.20	51.99
3,250	147.50	36.87	184.37	9.22	175.16	26.60	52.56
3,300	150.00	37.50	187.50	9.37	178.13	27.00	53.13
3,350	152.50	38.12	190.62	9.53	181.10	27.40	53.70
3,400	155.00	38.75	193.75	9.68	184.07	27.80	54.27
3,450	157.50	39.37	196.87	9.84	187.04	28.20	54.84
3,500	160.00	40.00	200.00	10.00	190.01	28.60	55.41
3,550	162.50	40.62	203.12	10.16	192.98	29.00	55.98
3,600	165.00	41.25	206.25	10.31	195.95	29.40	56.55
3,650	167.50	41.87	209.37	10.47	198.92	29.80	57.12
3,700	170.00	42.50	212.50	10.62	201.89	30.20	57.69
3,750	172.50	43.12	215.62	10.78	204.86	30.60	58.26
3,800	175.00	43.75	218.75	10.94	207.83	31.00	58.83
3,850	177.50	44.37	221.87	11.09	210.80	31.40	59.40
3,900	180.00	45.00	225.00	11.25	213.77	31.80	59.97
3,950	182.50	45.62	228.12	11.41	216.74	32.20	60.54
4,000	185.00	46.25	231.25	11.56	219.71	32.60	61.11
4,050	187.50	46.87	234.37	11.72	222.68	33.00	61.68
4,100	190.00	47.50	237.50	11.88	225.65	33.40	62.25

KEEP BUYING WAR BONDS

Back the Attack!

August 11, 1943

MEMORANDUM FOR THE SECRETARY

About two weeks ago Mr. Paul sent you a memorandum on special wartime reserves, prepared in the Division of Tax Research. That memorandum was somewhat lengthy and did not have a summary.

The attached memorandum, "A Statement on Special Wartime Reserves", is a summary of the earlier memorandum of the same title.

Roy Blough

(see Box 65
p. 49)

Attachment

August 9, 1948

MEMORANDUM FOR THE SECRETARY

A statement on special wartime reserves

Postwar reserves have been advocated as a means of (1) improving the definition of taxable income by deducting from wartime revenues certain costs resulting from the war even though actual payments will not be made until after the war; (2) providing firms with cash for reconverting from wartime operations to peacetime operations; (3) inducing firms to postpone, until peace, unnecessary use of scarce resources. While business concerns may, of course, deduct such reserves from the income they report to stockholders, they also want to deduct these reserves in computing net income subject to wartime tax rates.

Several specific reserves have been proposed. Some of them make provision for costs that can already be deducted under present law, and hence raise no tax problem. Some of the others refer to costs that are too difficult to estimate in advance. Four of the reserve proposals, however, deserve special study. They are: (1) a reserve for inventory price declines, (2) a reserve for postwar reconversion costs, (3) a reserve for deferred maintenance, and (4) a reserve for dismissal wages.

Inventory reserves were recommended last year by the Treasury but rejected by Congress in favor of the carry-back of losses and of unused excess-profits tax credits.

Current determination of the amount of reconversion costs and of deferred maintenance presents problems which, while perhaps not insoluble, are extremely difficult. Furthermore, unless reconversion costs are narrowly defined, business may be directly subsidized under the guise of reserves.

- 2 -

Reconversion costs necessary to restore facilities to their prewar condition are clearly proper deductions from wartime revenues. In contrast, expenditures for the development of peacetime products and for similar purposes are not justifiable deductions from wartime revenues.

The deferred-maintenance reserve might also induce postponement, until peace, of some maintenance expenditures that are not essential during wartime. In practice, however, the amounts involved and the incentives for postponement are probably not great enough to make this purpose an important consideration.

A reserve for dismissal wages is a proper charge against wartime profits, and in some cases may be capable of fairly accurate determination in advance.

Allowance of any of these four postwar reserves would probably strengthen the postwar cash position of business. But to use these grounds to grant reserves beyond what would be justified on a sound accounting basis would be to use the tax system to grant hidden subsidies to business.

(Note: This memorandum is a summary of a longer memorandum of the same title, dated July 19, 1943.)

RB

August 11, 1943

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Attachment

RB:dad
8/11/43

August 9, 1948

MEMORANDUM FOR THE SECRETARY

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Treasury Department
Division of Tax Research

ECB:JKB:CS--emb
8/9/43

AUG 11 1943

Dear Mr. President:

Subject to your approval, I propose to offer for cash subscription, under authority of the Second Liberty Bond Act, as amended, an issue of 2-1/2 percent Treasury Bonds of 1964-69 and an issue of 2 percent Treasury Bonds of 1951-53 in amounts which will not be specifically limited. At the same time, I propose to offer for cash subscription 7/8 percent Treasury Certificates of Indebtedness maturing September 1, 1944, also in an amount which will not be specifically limited. Subscriptions will not be invited from commercial banks for their own account for any of the three issues at this time. In general, the terms and conditions of the new 2-1/2 percent bond will be similar to the 2-1/2 percent Treasury Bonds of 1964-69 issued in April in the Second War Loan Drive. The other two issues will be conventional market issues. All three issues will be dated September 15, 1943.

These three issues, Series D, E and G Savings Bonds, and Treasury Savings Notes, will constitute the securities available in the Treasury's Third War Loan Drive, with an objective of \$15,000,000,000. I propose to start the Drive, and make the new securities available for subscription, on September 9.

The authorizing act provides that bonds may be issued only with the approval of the President. Accordingly, I trust that the proposed issues will meet with your approval.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

APPROVED: 

AUG 11 1943

Hon. Prentiss M. Brown,
Administrator, Office of Price Administration,
Washington, D. C.

My dear Mr. Brown:

There has come to the attention of this Department through the Stainless Steel Branch of the War Production Board, information which indicates that your Agency is contemplating issuing token pieces made of stainless steel to be used in connection with point rationing.

Although detailed information is lacking relating to the proposed manufacture of these tokens it is understood that consideration is being given to making them the same size as the one-cent and five-cent pieces.

As the introduction of any metal piece to be used in point rationing would interfere with the circulating media of the country, I should appreciate your technicians discussing this problem with officials of this Department before proceeding further.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

File copies to Thompson

LH:bl

AUG 11 1943

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

My dear Mr. Nelson:

There has come to the attention of this Department information from the Stainless Steel Branch of your Agency that the manufacture of stainless steel tokens is being considered, the size of the one-cent and five-cent pieces, to be used by the Office of Price Administration in connection with point rationing.

Although information is lacking as to the details in connection with this coinage, I am sure you realize that the issuance of any metal piece for this purpose might seriously interfere with the circulating media of the country.

For this reason I should appreciate your having the matter discussed with members of my staff before approving an allocation of metal for this purpose.

Very truly yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury

File copies to Thompson

EM:bl

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE AUG 11 1943

TO Secretary Morgenthau

FROM R. E. McConnell

A number of the individuals on the list of the proposed financial and industrial advisory committee have, in the last few months, spoken to me with approval of the Treasury Department. They have endorsed your policies and I believe they would cooperate with you in a friendly and helpful manner.

If this idea of an advisory committee appears to you to possess possibilities and you care to explore it further, I would suggest that I arrange a short meeting for you with George Moffett and Gordon Rentschler, who would be instrumental in helping to organize the group if you then wish to proceed. I have taken the liberty of discussing this proposal briefly with Messrs. Bell, White and Paul, who have not seen the attached list, but who I believe agree in principle.

The following are some of the advantages which occur to me:

1. They would act independently as a sounding board for industry on any suggested procedure the Treasury may wish to refer to them.

2. Most of them are the heads of large and efficient organizations which would in each instance be on call for the Treasury for work on specific problems connected with demilitarization.

3. Formal public announcement during the early days of confusion which would follow the Armistice would in itself inspire confidence in the minds of the industrialists because of the high character of the group.

4. If you wish, I could assume the responsibility of organizing the group and later of channeling their advice and help to you and your staff so as not to divert attention and time of Treasury people from other duties.

There is attached a revised list, which, of course, is subject to further discussion and revision.

Attachment

R. E. M.

Number

- | | | |
|---|-----------------------|---|
| 1 | Commercial
Banking | Gordon Rentschler - Chm. National City, N.Y.
Sloan Colt - Chm. Bankers, N. Y.
Wm. Potter - Chm. Guaranty, N. Y.
Henry Bruere - Pres. Bowery Savings, N. Y. |
| 1 | Investment
Banker | Clarence Dillon, New York
Bayard Pope - Stone & Webster and Blodget, N.Y. |
| 1 | Venture equities | Emil Schram - Pres, N.Y. Stock Exchange, N.Y.
Floyd Odium - Pres. Atlas Corp., N. Y. |
| 1 | Treasury | R. E. McConnell |
| 1 | Insurance | M. J. Cleary, Pres. Northwestern Mutual
Life Ins. Co., Milwaukee, Wis. |
| 1 | Utilities | Joe Gill - Pres. Elec. Power & Light, N. Y.
Curtis Calder - Pres. Amer. & For. Power, N.Y. |
| 1 | Publishing | Hugh Baillie, Pres. United Press, N. Y. |
| 1 | Construction | Carlton Proctor - Engineer, N. Y. |
| 1 | Mining & Oil | E. L. deGoyler - Independent - Texas
John Lovejoy, Pres. Seaboard Oil Co., N. Y.
C. F. Kelley, Chm. Anaconda Copper, N. Y. |
| 1 | Education | Harry Rogers, Pres. Brooklyn Poly. |
| 2 | Manufacturing | Zay Jeffries - Tech. Dir. G.E., Schenectady.
Norman Russell - Pres. U.S. Pipe Corp., Phila.
Grant Simmons, Pres. Simmons Company, N. Y.
C. L. McCuen - V.P. General Motors, Detroit
George Moffett - Pres. Corn Products, N. Y.
James Adams - Pres. Standard Brands, N. Y.
M. C. Whitaker, V.P. Amer. Cyanamid Co. N.Y. |

8/17/43

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Mr. Gamble and Mr. Coyne saw Professor
Uch, and he decided that he would remain
with the Treasury.



TREASURY DEPARTMENT

WASHINGTON

August 11, 1943

~~CONFIDENTIAL~~
War Finance Division

Dear Mr. Morgenthau,

Let me confirm my telegram to you of last Friday evening in which I asked you to release me from the Treasury as soon as may be convenient. This request is the result of a long study of my functions which has convinced me not only that I should resign, but that, of the entire staff, I am the one whose opinion with regard to my decision should prevail.

My associations here have been entirely pleasant and I shall leave with regret. I shall never cease to be grateful to you for creating an opportunity for me to have a part in the magnificent work you are doing. As I said in my telegram, you may count on me to give any help I can at any time as special need may arise. I shall return to Princeton, where I may easily be reached.

My cordial greetings to Mrs. Morgenthau, who, I trust, is finally on her way to recovery.

Very sincerely yours,

Ray M. Mohr

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury

DEFENSE

BUY

UNITED STATES

GOVERNMENT

BOND

AND

STAMP

WAR DEPARTMENT
WASHINGTON

AUG 11 1943

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

You kindly sent me with your note of July 23 a copy of your letter of the same date to the Secretary of State on the subject of an appropriate policy with respect to the narcotics problem in occupied territories.

With reference to the suggestion made on page 4 of your letter to the secretary of State that we enunciate to the Chinese our policy on this problem and send them copies of our military orders to suppress opium monopolies, I have no hesitation in assuring you that it will be the military policy of any expeditionary forces under American command to take all practicable measures to suppress any existing opium traffic and opium agencies and all non-scientific use of opium and its derivatives.

Expeditionary forces under allied command will be subject to directives approved jointly by the participating governments of the United Nations. Presumably the Chinese Government will participate in formulating such directives concerning areas to which you refer. If the United States policy prevails, these directives will provide for the suppression of opium monopoly. Subject only to controlling directives, American Commanders will be instructed to suppress such monopolies wherever found in areas to be occupied in consequence of military operations.

When the time comes to consider directives and orders on this subject, I shall be glad to send complete documentary information to the Secretary of State for transmission to the Chinese Government.

I am sending the Secretary of State a copy of this letter.

Sincerely yours,



Secretary of War. 4



THE SECRETARY OF COMMERCE
WASHINGTON

August 11, 1943.

My dear Mr. Secretary:

The list of Japanese residents in the Washington Metropolitan Area which you requested under date of August 4, and to which I referred in my reply of August 7, has now been completed by the Bureau of the Census and is transmitted herewith. I hope that this information may be of service for the purposes mentioned in your letter requesting it.

Sincerely yours,

Wayne Taylor

ACTING Secretary of Commerce

Enclosure

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



AUG 4 1943

My dear Mr. Secretary:

It will be appreciated if you will cause to be released to this Department under the provisions of Executive Order 9157, for the exclusive and confidential use of the U. S. Secret Service in connection with the protection of the President of the United States, a list of all Japanese residing in the Metropolitan Area of Washington, D.C., as recorded in the last census of 1940, including information as to addresses, occupations and whether citizens or aliens.

In view of the fact that this information is deemed essential to the protection and security of our Chief Executive, I trust that this request may have your early favorable consideration. You are assured that the information will be handled under rigid confidential restrictions.

Sincerely yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury

Copy in Diary.

File copies to Mr. Gaston.

The Honorable Jesse H. Jones
Secretary of Commerce
Washington, D.C.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: August 11, 1943, 8 p.m.

NO.: 1088

Reference is made to your cables of August 6, TW-150 and August 4, #1373.

Please inform Dr. Kung:

The Treasury instructed Mr. Adler to submit his resignation because the 1941 agreement had lapsed since no request was received for its renewal as provided in paragraph 9 of the 1941 agreement. Dr. Fuc and Mr. Hsi have just informed us that Dr. Fung wishes Mr. Adler to withdraw his resignation inasmuch as the Ministry of Finance is now considering revisions to the 1941 agreement to be submitted to the Treasury. The Treasury is therefore asking Mr. Adler to withdraw temporarily his resignation.

WELLES
(ACTING)

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 264

Information received up to 10 a.m., 11th August, 1943.

1. AIR OPERATIONS

WESTERN FRONT. 9th/10th. MANNHEIM. 1684 tons dropped including 275 4,000 pound H.E. and 849 tons of incendiaries in 40 minutes. Some cloud otherwise good visibility. Two main fire areas developed. Ground defences slight and searchlights ineffective. Two enemy aircraft claimed destroyed.

10th/11th. 695 aircraft sent out: NUREMBERG - 653 heavy (16 missing), COLOGNE - 3, DUSSELDORF - 3, MANNHEIM - 2, Sea Mining - 18, Intruders - 16. NUREMBERG results difficult to assess owing to cloud conditions.

OFFICE
SECRETARY OF TREASURY
1943 AUG 12 PM 1 11
TREASURY DEPARTMENT

August 12, 1943
8:45 a.m.

GROUP

Present: Mr. Gaston
Mr. Sullivan
Mr. Paul
Mr. Bell
Mr. Blough
Capt. Kades
Mr. Smith
Mr. White
Mr. Thompson
Mr. Lindow
Mrs. Eaton
Mrs. Klotz

H.M.JR: I had a couple of things, because I am going away this afternoon, that are of interest generally.

I saw the President yesterday and evidently he has seen the Netherlands Minister and the Netherlands Financial Minister. The President said that he was asking for a loan in order to buy material for the Netherlands for postwar.

So I said, "Yes, I know about it, but we in the Treasury feel that it is a mistake to begin to make postwar loans to foreign countries, and furthermore, we have no authority."

The President said, "Well, Jesse Jones can do it." I said, "I don't know whether he can do it or not, but I certainly don't think he should do it without consulting Congress."

So the President said, "Well, the man is here and he can't go home until he gets an answer."

- 2 -

So I said, "It is my impression that the State Department is in agreement with us. They don't want to start it. If we once start it there is no end."

Am I right?

MR. WHITE: Not wholly - partly.

H.M.JR: After I am going to call up Mr. Hull. I said I wouldn't see him. Then I saw the President and I had this conversation, so I flip-flopped.

I said, "After all, what do they want?" He said, "Locomotives." I said, "Heavens, we have all the locomotives in the world."

He said that they want to buy Swedish locomotives now and have them ready when the war is over.

I said, "I don't think that is very good because if they shut down our locomotive plants and the armament plants, and we lend money to help the Swedish workmen, what are our workmen going to say? If there are any orders, I think our workmen ought to have them and not the Swedish workmen."

He said, "Well, you better see him, anyway. He can't go home until he gets an answer."

My feeling is - this is very much in the room - I think the President went and told him he could have it, but we will see him, and I would like both Bell and White here at eleven, so that these two men will know what I say. I thought I would call up Mr. Hull as soon as he gets in.

MR. WHITE: Are you just going to give him an answer, or do you want to give him the reasons why, because one of the big reasons is they have got plenty of money.

- 3 -

H.M.JR: Now I am on the receiving end. What are some of the answers? I would like to hear. That is the purpose of this meeting.

MR. WHITE: Well, there are several answers. One is that they have a great deal of money. They have got over a billion dollars. To be sure, a great deal of it is owned by the Central Bank, but it is our feeling that they ought to resort to that.

You remember that the Dutch Minister has already been to Jones. Jones said he would be glad to lend it to him.

H.M.JR: I didn't know that. If I did--

MR. PAUL: There is a memorandum Harry White and I sent you about a week or ten days ago.

MR. WHITE: It is just two pages. You might want to run over it before--

H.M.JR: Do it verbally.

MR. WHITE: The history was that van den Broek came over especially for that purpose, though nominally to discuss questions of invasion currencies. He has been to the State Department, he has been to Jones, and here, and possibly elsewhere, because they are very eager to get this.

Jones said that it was all right with him if it was all right with the Treasury, that he would make the same arguments with the Dutch that he made with the British in which the British left with Jones securities owned by British citizens as collateral against the loan.

The Dutch said that they would also like to leave the securities owned by the Dutch citizens as a basis for a loan, and the reason why Jones, among others, said, "Well, you will have to see what the Treasury says on that" is because the Treasury has the authority with respect to the vesting of those securities.

- 4 -

Therefore, if the loan is to be made that way, the Treasury is a necessary part of the machinery. That is why he is bringing pressure to bear on the Treasury.

Now, the Treasury has felt, first, that it would be very unwise to permit the Dutch Government to take over the securities of the Dutch nationals, and in that point of view the State Department is in complete agreement.

However, the State Department had another suggestion which would avoid the necessity for that, and that is to have Crowley's outfit, the Alien Property Custodian, to take hold of it, and then if they did that it might be possible to make the loan.

H.M.JR: You mean take over Dutch securities in this country?

MR. WHITE: Yes.

MR. PAUL: Which are now in Foreign Funds. Of course the trouble with that collateral arrangement first suggested is that it allows recognition.

MR. WHITE: That was the reason why the State Department doesn't want it and is in agreement with the Treasury. They found a way out, the way out being to turn it over to the Alien Property Custodian.

MR. PAUL: That involves no recognition of any authority.

H.M.JR: Recognition of what?

MR. WHITE: The present Dutch Government.

H.M.JR: Who handles that?

MR. PAUL: We have blocked all these.

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MR. BELL: Alien Property is supposed to take over alien property stuff.

MR. PAUL: No, his is broader. He is discussing taking over all occupied areas.

MR. WHITE: Therefore, on those grounds alone, the Treasury had recommended that we not go forward, but even if that were out of the picture, in other words, if you are willing to turn these securities over to the Alien Property Custodian, and if that were done it has a lot of ramifications which are extremely important.

H.M.JR: Hull is out until this afternoon.

May I just say this without going into all the ramifications? There is a way to find out - to do it if you want to do it. I don't want to do it.

MR. WHITE: Let's give the reasons why in addition that could be advanced.

H.M.JR: You are just giving me the mechanics - how it could possibly be done.

MR. WHITE: And also why we wouldn't like to do it that way. But there are other reasons why we wouldn't like to do it which has nothing to do with the mechanics - why I don't think we should.

One is that they have got plenty of money of their own. The only reason they don't want to touch it is because they say it is part of their monetary reserves. England and a lot of other countries have tapped their monetary reserves, and we feel they ought to go to that before they go to foreign countries - to the United States - for loans.

Secondly, their claim that they want to buy locomotives in Sweden, and other goods, is, we feel, merely camouflage because they would have absolutely no difficulty in placing

- 6 -

such orders in Sweden, or here, on credit. The credit of the Dutch Government is excellent, and they can make a small down payment if they want to. They can't begin to work on the orders until after the war - shouldn't begin to until after the war.

Thirdly is the point you raise, that we are not certain whether we want them to place orders here or whether we would want them to buy in Sweden with American money. Everything depends upon the situation after the war. And there is no reason why a loan should be made with American money, at this time, to permit production after the war of items that are going to be very scarce, and we want to allocate among various countries. Or if they are going to be not scarce, if there is going to be unemployment, we would want the American money to be used as you stated, for domestic production.

So for those reasons; a, that they have got plenty of money; b, that they could place orders if they wanted to without any money; and c, that we are not sure we want them to place orders with their money.

H.M.JR: And four - under those circumstances, under any guise or camouflage, ought we make a postwar loan without first consulting Congress.

MR. SULLIVAN: That is what I was going to say. You committed yourself to that, absolutely, in the hearing on International Stabilization. You were asked - there was one question there as to whether or not this contemplated postwar rehabilitation--

MR. WHITE: This wouldn't come from the Stabilization Fund.

MR. SULLIVAN: I understand that, but the answer the Secretary made was that he would in no way commit himself on anything like that without telling the Congress about it in advance.

- 7 -

H.M.JR: I think you are confused. I think, John - would you check up on that?

MR. WHITE: I will check up, but I am pretty sure you refer to the Stabilization Fund.

MR. BELL: Anyway, you are right; you ought to go to Congress.

MR. SULLIVAN: It came in one way or the other, there.

H.M.JR: I think you are right on your conclusions, but I think the examples you give--

MR. SULLIVAN: I thought there was a commitment.

MR. WHITE: There is a fourth reason there. The British loans which Jones is using as a pattern, and which the Dutch are referring to as a pattern, you remember were created for very different purposes. That was to provide Britain with funds to carry on the war and to protect the domestic market by not throwing those securities on the market. None of those prevail with regard to Holland.

H.M.JR: And complete payment on outstanding contracts in the United States prior to Lend-Lease.

MR. BELL: Yes.

H.M.JR: I would give that as number one.

MR. GASTON: The primary thing is they are not for rehabilitation, they are loans for carrying on the war.

H.M.JR: They were loans to complete payment to American manufacturers.

MR. WHITE: They were loans which didn't have a time element. The Dutch want a fifteen or twenty-year loan, and that is definitely a long-term investment.

- 8 -

Moreover, I think that private investors would seriously complain about the American Government making a loan to a government that has adequate credit to float a loan after the war from private sources. It is a definite illustration of the Government interfering with, and competing with, private investors.

H.M.JR: Harry, I am surprised. (Laughter)

MR. WHITE: I feel very bad about that last part. (Laughter)

H.M.JR: What are we coming to - Harry protesting about Government loans. (Laughter)

MR. WHITE: I am protecting American bankers. (Laughter)

H.M.JR: And here I asked Paul the other day to present the orthodox Treasury tax program. (Laughter) He said that would be a novel experience for him.

MR. GASTON: What would be our answer if they make this statement, that if the Swedes start to build locomotives for the Dutch now, it will take them out of war production for Germany?

The only way you can take the Swedes out of making steel machinery for German war use is to give them outside contracts now.

MR. WHITE: I should think the answer--

H.M.JR: I will give you the answer - "Skoal!" (Laughter)

MR. WHITE: If they felt that way they should have done it a long time ago because they have adequate money to do that. Since they are interested in winning the war, why didn't they do it before?

- 9 -

MR. SULLIVAN: It would be dangerous to have so many nearing completion in Sweden - Germany might grab them.

MR. WHITE: I think they must recognize that this is for purposes of camouflage. They want their government to be strong. They want to convince their people that they are taking care of them ahead of time, and they want to get a loan which they would want after the war at a low rate of interest, because if they borrow from the RFC they will get it at very low rates, and they want this vested privilege which they have been fighting for for two years, isn't it, Dan?

MR. BELL: Yes.

MR. WHITE: They are trying to vest these securities.

MR. PAUL: Every angle there--

MR. WHITE: I think almost two years.

MR. BELL: Private funds.

H.M.JR: Is there any memorandum from us to the State Department on this, along the lines you have been talking about?

MR. WHITE: To the State Department - there are a number of them, and we discussed at great length the question of vesting, but the question of whether or not to give them the loan, I don't think so.

H.M.JR: I tell you what I think you should do, Harry. I wish you would prepare a letter for me giving all these data - start off this way: "Why I do not believe we should make a loan to the Netherlands Government" - then give the reasons. Then say, "Dear Cordell: I would appreciate it if you would go into this matter because the President has asked me to look into it, and I would like to recommend to him that no agency of the Government

- 10 -

make any loan, for the following reasons Would you please let me know whether you concur?"

I think we will send it over because I found this now. I have been doing something new. You see, I have been sending these things right to Cordell, personally, and I have got good service when I dealt with him direct.

I had Luxford in yesterday.

It was a funny thing - that memorandum on that loan--

MR. PAUL: I think that certainly meant he was not going to object.

H.M.JR: No, no, but I want a memorandum and it will be time enough when I get back Tuesday to be in the works. But I will explain to Welles what I am going to do. I think it ought to be a very careful memorandum. I would like Bell and Paul to see it and initial it, and anybody else who is interested, then I will send it over.

I will say, "This is a memorandum I would like to send to the President saying why I don't think we should ~~make~~ a loan. This should be a policy of the Administration. But I would like to know if you concur, and if you don't, where do you differ?"

MR. WHITE: If you start doing it with Holland, why won't Belgium, and France, and every other country who is eager, both to get loans at low rates now, and get the vesting of their private securities all thrown in, in which case the Government is embarking on a policy which, as you say, they should never do without consulting Congress first.

H.M.JR: Do that first.

MR. WHITE: Are you going to tell van den Broek - if you are seeing him?

- 11 -

H.M.JR: He has asked to see me. He says he can't get home. Now, all right, I am going to tell Welles - I am going to ask Welles' advice - "What should I tell van den Broek?" I am going to tell him this memorandum is in preparation and tell him I saw the President last night, and I will have this memorandum over to Mr. Hull not later than Wednesday. I am going to allow myself enough time. And should I tell van den Broek to go home, or should I tell him to wait another week? He has nothing to do, anyway. (Laughter) What have these fellows got to do except pester us? (Laughter)

MR. PAUL: Molekamp was in yesterday.

H.M.JR: Who is Molekamp?

MR. WHITE: He is his financial advisor.

MR. SULLIVAN: A resourceful fellow, too.

MR. WHITE: They are all--

H.M.JR: Do you agree on this, that this is an important matter, that this is a good way to provide--

MR. BELL: Yes.

MR. WHITE: What you tell van den Broek will depend on your conversation with Welles.

MR. BELL: How about sending a copy of that to Jesse Jones and let him know how you feel about this?

H.M.JR: I want to wait until I get Hull's, first. I don't see why I should ask Jesse Jones. I mean, I am going to assume that as the Secretary of the Treasury it is my responsibility to decide whether or not we make inter-Governmental loans - Hull has always taken that position, you see--

MR. WHITE: That was the basis of the British loan. Jones did it at your request.

- 12 -

H.M.JR: Sure.

MR. BELL: I was thinking more of putting him on notice as to how you feel, rather than--

H.M.JR: Let me see, after my talk with Welles.

Well, that is that. Let me go to the next thing.

MR. WHITE: Don't leave the Dutch because there is another point he is going to see you about. Van den Broek is coming in for two things. That is the real thing but there is also something else which he would like an answer on from you.

H.M.JR: What is that?

MR. WHITE: That is the exchange rate which would prevail in the event of invasion. They have made a recommendation. Now I would like to get your reaction to the following so that you might be able to tell him. They want a higher rate than we think is in their own interest or in our interest. However, our interest is very slight during the war. It is in our interest after the war to let them have the higher rate.

H.M.JR: I can answer before you - the reason I don't want to go into it is I can't answer him now. I have very good reasons for not answering.

MR. WHITE: Then you will be able to tell him that.

H.M.JR: Military reasons, and so forth and so on.

MR. WHITE: That is all; those are the two things.

H.M.JR: After all, General Hilldring is setting up this planning board in London, and I can't make any commitments because the final say will be the Army's, anyway. They will ask for our recommendations, but they are going to make the final decision. So I can't make any commitments.

- 13 -

MR. WHITE: I didn't think you would make the decision, but just--

H.M.JR: I am going to tell him I can't say anything - not even argue. For military reasons I can't argue, I will say.

MR. WHITE: That will be all right.

H.M.JR: I mean he will come over here and pester us - take all our time for nonsense. I am not going to give him a run around, I am going to give him a clean cut answer.

To come back to this question - I wrote a memo - you most likely haven't got it--

MR. PAUL: About Rosenman?

H.M.JR: Yes, that is service for you.

MR. PAUL: It is better in that direction. (Laughter)

H.M.JR: Did I tell you about my conversation with Rosenman?

MR. PAUL: No.

H.M.JR: Let me do it now. I forgot about it. I had another reason to talk to Judge Rosenman over the week end, and incidentally, I brought in this question of Crowley again trying to bring up this thing that Judge Rosenman settled. I would like to get him in the picture.

You remember I told you (Paul) last week to go to him. I asked him if he had heard from you and he said no.

He said if I would write a letter to the President and simply say, "Dear Mr. President: Mr. Crowley has brought up a matter which was settled when you got out your Executive Order. Judge Rosenman spent months and

- 14 -

months on this, and I would appreciate it if you would refer this matter again to Judge Rosenman, who is entirely familiar with it and who, I understand, would be glad to go into it."

MR. PAUL: All right, I will get that right out. Assuming there has been no - I have got to check it on the other end. We may have stopped it anyway.

H.M.JR: If you haven't you will have to get it to Mrs. Klotz by two.

MR. PAUL: That is easy.

H.M.JR: Well, that takes care of that.

I have got still another thing.

MR. PAUL: You asked me to bring up with you today the question of another meeting.

H.M.JR: Yes. When do you think we ought to have another meeting?

MR. SULLIVAN: Have you had any response from those fellows?

MR. PAUL: The only one that has responded at all is Hinrichs of Labor. He had certain ideas and we stopped and talked after the meeting, and he is coming over at twelve o'clock today.

MR. SULLIVAN: Did you get Harold Smith's memorandum?

MR. PAUL: No. I should think if we are going to have any more meetings we had better have one next week about Wednesday.

H.M.JR: All right. What would the agenda be?

MR. PAUL: I don't think we ought to have so much agenda. We ought to try to stir up response from them. We didn't get much the other time.

- 15 -

H.M.JR: I don't think you can just call them together again and say we want more palaver.

MR. PAUL: We can get up some specific questions and ask them.

H.M.JR: We could boil this thing down further and be a little bit clearer ourselves on which one of these devices we wanted to take.

MR. BELL: Get up a list of questions.

MR. PAUL: You mean on the second part - the controls?

H.M.JR: Yes.

MR. PAUL: We can do that.

MR. BLOUGH: I heard a couple of them talking afterwards and one - well, there was Eccles and I think Ben Cohen - one of them said, "Well, it is really too late to do any of that sort of thing now. A year ago last spring was the time to do it, but it is too late, now."

MR. PAUL: It depends upon what you regard as the purpose of these meetings. If you expect to get much out of them, I think you are living under an illusion. The only reason for having the meetings is so they never can say we didn't consult them.

MR. WHITE: It is more than that. It appears to me that here is an opportunity to get them to say one of two things - either "We agree with you that nothing more can be done, and this is the thing" - or they ought to say they are in favor of pushing this. And I think you could approach - this may be a possibility - to have Roy get in touch with the technical men in each one - the highest technical man - and say, "I want to go over our program with you and your staff" - each one separately, and when they discuss it here, ask the specific and definite questions - finding out, and so forth, and say you wish that insofar as they can, they speak for their chief.

- 16 -

In other words, if you do it at that level, by the time of the next meeting - I would postpone it to a little later on to give Roy that chance - when that meeting comes you will have before you the definite opinions of the various important groups. Then you call the chiefs together and you raise that summary. That summary then becomes the agenda. So by the time the second meeting is over, the Secretary will be able to know whether Eccles has to say - either "Nothing further can be done and we agree with you that this is the only thing that can be done," or he will have to say, "We think you ought to fight for this."

If you have something definite of that character, you have a basis for discussion - a basis for operation - and you gain a great deal.

H.M.JR: I would like to - I am glad that Harry said what he said, but I would like to supplement the thing. In this talk with the President I think that it would be good ball if we sort of consulted with Vinson, you see. Now, I would like to make this suggestion, that you (Sullivan) would get in touch with Vinson and say, "Could you and I and somebody from OPA sit down and discuss these particular devices? Are any of them acceptable - has OPA got anything in mind? Would OPA consider any of them?" - you see?

I mean, if you could do that this week - say to Vinson, "Now, look, Fred, won't you ask whoever you think to get together and we would like to get - eliminate them. Is there a chance - should we go further - explore them further?" I would like to push on that front.

MR. GASTON: I think there are important preliminaries to that. It seems to me the question is whether they agree on a program of stiff additional income taxes, both corporate and individual, stiff additional luxury taxes - as stiff as we have proposed - or would they want to compromise.

Then, second, in the light of such a drastic program of income and luxury taxes, do they think any other devices

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directly addressed to the inflationary front are necessary? My answer would be no, and I believe that the answer of a good many of them would be no. But then, "If you believe that something more, directly on the inflationary front, is necessary in addition to this kind of a drastic program, what do you prefer?"

MR. WHITE: Then if they come out with some specific provisions, then there will be real hot discussion at the next meeting, because they will have to defend their position.

MR. GASTON: I would like to see a questionnaire of that kind addressed.

MR. BELL: That is what I would like to see, a series of questions put to all these people.

MR. PAUL: I can tell you what Vinson and Eccles will say to this. I have talked to all of them.

H.M.JR: I can't help it if you have, Paul, you have to do it again. I mean, because--

MR. PAUL: That is all right.

H.M.JR: We are not making any progress.

MR. WHITE: They have to say it to the Secretary. I think that is the important thing.

H.M.JR: They have got to say it to this group out in the open.

MR. WHITE: That is right, so there is no way of their hedging on it.

MR. GASTON: I would like to go through - not make just a gesture out of this thing - go through and make something real out of it.

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H.M.JR: I would. What objection can you have to calling up Vinson and saying--

MR. PAUL: I don't have any objection. I don't think we will get many of those people to state publicly what they really feel, but I certainly don't have any objections.

MR. BLOUGH: Speak now or forever hold your peace.
(Laughter)

MR. WHITE: The Secretary could ask them definitely at that meeting, say, "We have to operate," and they will have to say how far they are qualified - Eccles will have to say, "You should have done it last year," this and that, but he will have to say that in this next proposal, "I agree with you, there is nothing further we can do," or something else.

MR. GASTON: You want to ask them, "Is this schedule too heavy? Have you something else to propose?"

MR. SULLIVAN: Suppose they ask us, Harry--

MR. WHITE: I think we ought to have our mind made up. I agree to that.

H.M.JR: I am coming back to this. I don't want to have one meeting and say that this is a publicity meeting of Morgenthau's. I would like to have Paul, because I talked with Vinson - I want to say, "Can't we agree on a set of questions which we will ask at the next meeting?"

"Now, let's get out in the open. Does OPA want to do something more, or don't they want to do anything more? Do you want to do anything more? Do you want to rely just on taxes? Do you want some other devices?" And then throw that into the meeting. I don't think we should do it without consulting with them first.

MR. PAUL: I don't have any objection to that. I am not too optimistic about what we will get out of them, but we can try.

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H.M.JR: Supposing we get nothing? Then I can again say to the President, "I have done everything I can, Mr. President, I have seen this thing," and so forth, and so on.

There are certain things that happened again last night. They keep needling the President about the Treasury all the time. Now I will be able to tell the President - might as well tell it--Jimmy Byrnes evidently saw the President after I did and told him that Doughton had told Vinson that he, Vinson, was one man he had to lean on he just needed him so badly.

So the President said that he thought we ought to encourage Vinson to work with Doughton because the old man needed him so badly.

So I told the President that between you and myself we see Vinson two or three times a week.

MR. PAUL: That is correct.

H.M.JR: So I just thought now you should have this meeting and say - maybe nothing will happen, but you go over again and say, "Now, look, here are these things. Won't you have somebody from OPA present? Let's get some questions and answers. Let's get it out on the floor. Let's see - somebody has got to decide."

He won't discuss it at his meeting. Shall we go along just with our tax program or this, that, and the other thing, and then after we have those things, we have another meeting and put it before this group?

MR. BELL: Let's send these questions out ahead of time. Let them have a chance to study them, then have a definite answer.

H.M.JR: But, Dan, as a matter of courtesy you certainly ought to work out those questions with Vinson and with Nelson. I just think out of courtesy you ought to.

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MR. PAUL: You mean Brown?

H.M.JR: I mean Brown.

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

MR. PAUL: I guess the Dutch are going to be out of luck. (Laughter)

H.M.JR: Well, Randolph, are you and I together on this or not?

MR. PAUL: Yes, I think so.

H.M.JR: What are you going to do?

MR. PAUL: I am going to get hold of Vinson and we will draw up some questions and Roy - in some cases Roy and in other cases I will discuss them with various people in the other departments. Then the only thing that remains open is the date of the meeting.

H.M.JR: Well, I would like to have as much time as possible when I come back. Shall we say next Thursday?

MR. PAUL: That will be all right. I think that is a good day.

MR. WHITE: I think it will take more time if you think particularly if Roy is going to see the technical men. They will want to go back to their chiefs and they can easily occupy a week.

MR. PAUL: Ought to have it by next Thursday.

MR. BELL: Why couldn't the questions get out pretty quickly and then let the discussion go along after the questionnaire gets out. Let them be working on what you are thinking about.

MR. PAUL: We can get it out tomorrow.

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H.M.JR: Roy is going up with me this afternoon.

MR. BLOUGH: We can get some tentative questions.

H.M.JR: Roy has twenty-three assistants I found out.

MR. PAUL: He has a good organization down there.

MR. BLOUGH: They are not all as good as I am, Mr. Secretary. (Laughter)

H.M.JR: Roy, I wish you would go once a month to Indiana. That is the best thing that happens to you. I want you to go back once a month to Indiana. (Laughter)

MR. PAUL: I think I had better go there. (Laughter)

MR. WHITE: Are you beginning to think your men are as good as you are? (Laughter)

H.M.JR: Getting low?

MR. PAUL: No, I think Harry's point is well taken. I am beginning to think my men are as good as I am. (Laughter)

MR. WHITE: That is the time to go away. (Laughter)

(Mr. Lindow and Mrs. Eaton entered the conference.)

H.M.JR: What I want - whoever knows - to tell me, because I want it on account of my press conference, is what is, very briefly, going on in Buffalo in regard to this questionnaire.

MR. LINDOW: Well, it is a study of a number of families, running close to three hundred, as a matter of fact, at different income levels. The idea is to take three income levels, fifteen hundred, three thousand, and five thousand, and have a check of about fifty families in each one on the side of people who haven't had any increases or any extra income, and also take about fifty families who have had extra income. In other words, it ties in pretty closely to that chart analysis we had.

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Then there are the sets of questions asked these people. One set concerns itself with savings, how much has been deducted from your check in June for various items, social security, and so on. Then the other set - then there is another set of the same questions for January so you have some comparison of what has happened during the year.

The other set of questions concerns itself with spendings. The idea is to ask a smaller number of people, those who seem most cooperative, to fill in a budget for two weeks of their spendings so that the effect of a sales tax can be analyzed.

H.M.JR: Well now, the point is Smith last night thought I ought to say something at my press conference at ten-thirty about my going up to Buffalo.

Now, Smith, you tell them why you think I should. And let's see whether these people--

MR. SMITH: I think it is an awfully good story to have you up there actually finding out what the impact of taxes will be on people. We can do it statistically.

Now, you have gone out on the end of a limb here with twelve billion dollars, and Doughton says that you can't get more than four billion or something, and both of you, as far as the public is concerned, are guessing - are you doing it statistically? This is an evidence that you are really making a pretty thorough investigation of what the actual reaction of the people will be.

H.M.JR: Let me ask you - will I get that answer when I go up there?

MRS. EATON: I think you will get it when we have finished our survey. I am not sure we will get the full answer now, but you will get something interesting on it from the interviews covering what they have already studied.

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H.M.JR: What risk am I taking in announcing that I am going up there before I know what the answers are?

MR. LINDOW: The risk you take, it seems to me, is that we don't have the data yet; and once you say that you are having the survey made and that you are going up to see what is happening on it, there are going to be requests for some of the figures. I think there is some argument for waiting on any public announcement of it until we have some of the figures.

How do you feel, Roy, especially on the sales tax part of it?

MR. BLOUGH: I think I see some point on both sides of that particular one. Of course, there are only about three hundred families all together.

MR. LINDOW: Less on the sales tax.

MR. BLOUGH: That is sort of standing on your little finger at best. (Laughter)

MR. PAUL: I agree with Lindow.

MR. BLOUGH: We are not even on that little finger yet. We are in the early stages of the study, and there certainly is a risk there. It will probably turn out all right.

H.M.JR: Standing on your little finger- is that an Indiana colloquialism?

MR. BLOUGH: No, I invented that to apply to a certain person, and I use it sometimes.

MR. PAUL: Treasury?

MR. BLOUGH: No, he is in the Bureau of the Budget. (Laughter)

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H.M.JR: How many guesses can we have? (Laughter)

MR. BLOUGH: Three. (Laughter)

MR. GASTON: That is a stormy weather expression.

MR. SULLIVAN: Do you think there would be any risk that the publicity of this would color the response you would get from those three hundred families?

MR. LINDOW: It might. They are told that we don't want their names, that we will not keep any check of who they are, that the results will only be used statistically. I have the feeling that you will get better results if there isn't something in the papers.

MR. SMITH: The interviewing is done, isn't it?

MR. LINDOW: I don't think the interviewing is finished.

MRS. EATON: No, it isn't completed.

H.M.JR: How many more days?

MRS. EATON: They expect to finish this week.

MR. LINDOW: It is close to the end now, but I didn't know they were that close to being finished. The last time I talked to Likert he wasn't absolutely sure they would be finished.

MRS. EATON: It is just a hope that they will finish.

MR. SMITH: Let me uphold my end just once more.

H.M.JR: On your little finger? (Laughter)

MR. SMITH: On both my little fingers and my thumbs. (Laughter) I don't think you ought to go into details on the sales tax or anything like that. What I see in this is that you said here a week or so ago that you were consulting

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everybody, that this was a very cooperative venture, and so on, and you came out with the meeting and that was a very cooperative venture. The newspapers liked it; thought it was fine. Now you are going still further and cooperating with the public at large, which is not accustomed to being cooperated with in tax matters - I mean, that is the appearance the thing gives.

MR. WHITE: The Secretary of the Treasury is going to Buffalo to ascertain what the impact of taxes is on workers. It sounds to me ridiculous. (Laughter)

MR. SMITH: No, he isn't going to do that, he is talking to these people, you see, we have--

MR. WHITE: What is he going to find out, do you like to pay taxes, could you pay more?

MR. SMITH: He is finding out what the impact of taxes will be.

MR. WHITE: What does that mean? That is a statistical, professional job; and if the Secretary can't pick in the country persons who are more competent than he is to find that out, it is very unfortunate.

MR. SMITH: He isn't going to ask any questions, he is just going up and talk to the people who are finding out. He has these surveyors out for Likert.

MR. WHITE: Excuse me, I thought he was going to talk to the workers. He is going to talk to the surveyors? Why doesn't he get the surveyors down here and talk to them?

MR. SMITH: Because he wants to go up there where they are on the job.

MR. WHITE: It sounds very fishy to me. (Laughter)

MR. SMITH: He is going up.

MR. WHITE: I know he is going up.

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MR. PAUL: God help us if we get the wrong answer.

MR. WHITE: How about San Francisco? If that is an impact in Buffalo, how about St. Louis, Boston - they are all different impacts.

H.M.JR: Mrs. Eaton doesn't know what to make of this. This is just typical. (Laughter)

MR. WHITE: I know Fred doesn't mind this.

MR. SMITH: I think you are wrong.

MR. WHITE: I think you are, or I wouldn't have spoken up. I think a sample of three hundred is unfortunately small. It is all right for your own information, but if you are going to attempt to base any remarks you make upon a survey, and you have to make public that survey which is based on three hundred out of a hundred and forty million, or out of forty families, I think there will be a lot of shooting at it on the grounds that from any statistical point of view - and I am sure Mrs. Eaton will agree with me - that that sample cannot be taken as anything like adequate. It is possible for them to increase that and make it larger, or is it impossible?

MR. LINDOW: In the time limit the idea was - see, we wanted to get something by the first of September, and the idea of the sample is not to make any claim for it as being representative, but merely to get some idea of the variation of the situations of different people, so the thing was streamlined. It makes no attempt to be another ELS survey or anything of the kind.

MR. WHITE: What you are saying is--

MR. LINDOW: In Buffalo we had five fifty, five forty-eight--

MR. WHITE: What you are saying is inconsistent. You are saying that you are taking a sample; you only want to find out if it is representative. That is another way of

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saying you are taking a sample, but don't want to use the sample.

H.M.JR: Don't end up on Smith's side. (Laughter)

MR. WHITE: I am pleading for a larger survey if possible. I think it is an excellent thing, very revealing, and very useful, but I think its usefulness will be very greatly enhanced - and you can use it if you wish as a basis for any conclusions that you come to - if the sample is larger.

If the sample is as small as that, you are stopped from using it publicly.

MR. LINDOW: Everybody would like to have the sample bigger and probably more ambitious. It is an attempt to get a little something where we have nothing now. We talk about these differences in family situations, and we have very little to go on that is up to date, practically nothing. We had a little information from Buffalo last year.

Now, this is merely an idea to get some of that same information a little more up to date.

MR. WHITE: You feel it is impossible, in other words, to get a much larger sample within the time?

MR. LINDOW: Within a month, yes. It was just begun in July. We wanted to get something by the first of September so it was deliberately streamlined.

MR. WHITE: This is all in one area?

MR. LINDOW: Yes, sir.

MR. SMITH: We have the check we made last year, too, only we got people in Buffalo as they were last year, and then this year is an indication of what is happening to the people generally.

MR. WHITE: In Buffalo?

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MR. SMITH: That is right, but the change is fairly typical, because we have gotten a wide variety of people and a wide variety of circumstances.

Now, if it should come out that - as I say, that is an indication, that is all, it is just a trend. It is something to stack up against your statistical evidence that there is forty-five billion dollars that we ought to be able to get. Mr. Doughton doesn't believe that, and the public doesn't, either - you haven't any loose money hanging around, and yet everybody reads in the newspapers that there is.

MR. WHITE: Obviously there is a great deal to be said for the sampling. It is an excellent idea. If the sample can't be larger, it is better than nothing, too, but to revert to your own idea - how many surveyors do you have?

MR. LINDOW: About a dozen.

MR. WHITE: The Secretary is going up to Buffalo to see a dozen people and make that public. It seems absurd to me.

MR. GASTON: I don't think so.

MR. LINDOW: The survey will be just as good a month from now when you have something to look at.

MR. GASTON: I don't agree with Harry.

H.M. JR: You have to talk louder if you don't agree.
(Laughter)

MR. WHITE: I don't hear you if you don't agree with me. (Laughter)

MR. GASTON: I think you can give this a little broader implication than just a study in Buffalo. The Secretary wants to know something more about tax distribution, tax burden, tax impact, and the relation to the sale of bonds.

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We are starting some studies, some field investigations. This is one of the first of them. The Secretary is going to go up there to talk to the workers about the method they are using and how it is working out. He is not going to have any statistics to report as a result of this visit. He is just going to see how the method - what the prospects and the promises are of this method of inquiry. For that purpose he would like to talk to the worker on the ground.

H.M.JR: The thing that I am afraid of the most in this thing is that if I announce that I am going up I am immediately going to be bombarded with stuff.

MR. GASTON: You will be interviewed up there. You will have to face newspaper reporters up there and you will have to give them a lot of particulars about what you are there for.

H.M.JR: I don't think I want to do it.

Harry, just so that you don't think I am only going up for that, tomorrow I am going through Bell Aircraft and Curtiss-Wright. I am just doing this tonight, and tomorrow Bell Aircraft and Curtiss-Wright.

MR. SULLIVAN: You might want to refer to this in your testimony before Ways and Means. If it comes fresh, that would have an effect.

H.M.JR: We don't know. I know what Smith is trying to do, but--

MR. BLOUGH: If you like what you see, won't Monday be as good, or next week be as good as this week to say, "I have been there," instead of, "I am going"?

MR. SMITH: It wouldn't make anywhere near as good a story.

H.M.JR: You will know after this story. If we announce from here that we are going, then there will be a lot of photographers around. Then you watch Smith. (Laughter) Then Smith always gets his picture, whether coming out of

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a hospital or something - you will always see Smith's picture. (Laughter)

Now, the photographers won't be there unless I make this announcement. You watch them now.

MR. SMITH: You just think they won't be there. (Laughter)

MR. GASTON: It is fixed already? (Laughter)

MR. WHITE: I think Fred has a good idea there about having you see the taxpayers, but I think it ought to be a larger program. I think there ought to be something more specific that you can talk to them about, and I think it ought to be more than one city - it ought to be three, four, or five.

I don't know how it could be worked out, but the idea of your coming into contact more with the taxpayer with respect to the problems before you, I think, is all to the good, but I don't think this particular vehicle is.

MR. SMITH: I had one other idea that I think would click beautifully. If it did, it might be worth while to send five groups out to do this same thing. It might look like it was that profitable to do it.

MR. LINDOW: You know the ELS survey was cut off because Congress refused to give them any money to continue it. I think we ought to go a little easy on this to see where we are at.

H.M.JR: If it looks good we can break it from up there. O.K. Thank you.

(Mr. Lindow and Mrs. Eaton left the conference.)

H.M.JR: Now, I have taken one hour. Does anybody else have anything?

MR. BELL: I just wanted to tell you that Delano and I are ready whenever you are.

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H.M.JR: Eleven-thirty?

MR. BELL: That is all right.

H.M.JR: Van der Broek - I can say no to him in fifteen minutes. Let's say eleven-fifteen.

MR. GASTON: Have the Attorney General and Jesse Jones been pressing you on that question of imports free of duty?

H.M.JR: Jones wanted to bring Biddle over here the other day to that meeting. I told him to see you.

MR. GASTON: The answer is very simple; we just want one thing from the Attorney General.

H.M.JR: What is that, his scalp? (Laughter)

MR. GASTON: I want his statement in writing that we don't have to look over, or under, or beyond the certificate of the agency that these are war materials. That relieves us of all further liability that we don't have to inquire as to what the use is they are to be put. If he tells us that, then we can say all right.

H.M.JR: If I don't have to learn this thing I would rather not. I told Mr. Jones that the matter was entirely in your hands.

MR. BELL: There is one more hurdle.

MR. GASTON: I am the fellow who caused all the trouble; I stopped them.

H.M.JR: One other thing - again trying to keep Vinson happy within the reasonable limit - I thought you (Sullivan) might tell Vinson that I asked you to tell him about our conversation, about our troubles with Stam, and that you went up to see Walter George - what his attitude is - and I also mentioned it to Doughton. But if Doughton should

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mention it to him, I would like to have his support in this matter. You know what I am talking about?

MR. PAUL: I talked to John this morning.

Before you have that meeting with them I would like to have a chance to catch you up on several little things.

MR. SULLIVAN: It looks now as though there may not be that meeting. We are going to try the other way.

H.M.JR: But I would like you to tell Vinson this thing.

MR. SULLIVAN: I will, sir.

H.M.JR: I want to service him and keep him happy. If he will meet me thirty percent of the way, I will meet him sixty-six and two-thirds.

MR. WHITE: There are a couple of things, Mr. Secretary

H.M.JR: All right, please.

MR. WHITE: One is, we are getting Senatorial letters, and I am sure the Army is, and there may be a lot of other letters coming in with respect to the use of the invasion currency.

There is a draft which has been agreed on at this end and is now being considered with the British, so there will be an adequate answer to them.

Secondly, we are being urged to make a Lend-Lease of silver to Iraq. We are willing to go along, but there is this element in it that needs your approval - there is much more risk in this loan than there is in any we have made or any we would contemplate. In other words, the prospect of getting this silver back is not good. Now, what do you want before you agree to make it under those conditions?

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H.M.JR: What I would like you to do is - frankly, I am tied up now. You are going to be up to the farm Monday. I would like to take up that and take up the question of the loan of silver to India. So if you bring up all unfinished business, before you get back Monday night we will clean it up.

I would like to stop now. I will clean you up or clean you out on Monday. (Laughter)

August 12, 1943 234
9:23 a.m.

Sumner
Welles:

Hello.

HMJr:

Sumner.

W:

Good morning, Henry.

HMJr:

How are you?

W:

Fine. I hope you are. How is Mrs. Morgenthau, Henry?

HMJr:

Oh, she's getting along very nicely. She's back in the country.

W:

I'm awfully glad to hear that.

HMJr:

What I called up about is - I want a little advice. I don't know how familiar you are with the constant pressure on all of us from the Netherlands to lend them some money for post-war purchases.

W:

Yes, I am.

HMJr:

And the President mentioned it to me last night without making any recommendation....

W:

Yes.

HMJr:

....but evidently the Dutch or Netherland Minister brought in a Finance Minister to see him.

W:

Yes.

HMJr:

And apparently went all through the thing about us lending them money to buy locomotives in Sweden.

W:

Yes.

HMJr:

Now, he's coming in at eleven to see me. He asked to see me and I wouldn't have seen him unless the President raised the question.

W:

Yeah.

HMJr:

Now, what I thought I would do was this - I thought I would prepare a very careful memorandum why we in the Treasury don't think we should make any postwar loans at this time.

W:

Yes.

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HMJr: Anybody - Jesse Jones or anybody.

W: Yes.

HMJr: And send it over to Hull....

W: Yes.

HMJr:and say if he concurs in this thing I would like this to be the Administration policy and send it over to the President.

W: I think that is an extremely good way of handling it. We have taken the position here that this is a question of financial policy that the Treasury Department is primarily called upon to determine to the President.

HMJr: Yeah.

W: So I think that will work out just - just right.

HMJr: Good. Well, now in view of that - it will take us several days because it's a very difficult memorandum to prepare.

W: Yes. Naturally.

HMJr: What should I tell this fellow at eleven o'clock?

W: Well, my suggestion would be that you should tell him that the matter is now under consideration....

HMJr: Yes.

W:and that within a day or so you will give him a final statement of policy.

HMJr: Good. Well, I'll tell him within - I'll tell him some time next week.

W: Uh huh. I think that will take care of it all right.

HMJr: You do?

W: Yeah.

HMJr: How is your own feeling on the matter?

W: I'm completely in accord.

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HMJr: That we should not make any loans?

W: Absolutely. I think in the case of the Netherlands particularly.

HMJr: Yeah.

W: Public opinion here would realize that it is not essential to them.

HMJr: Yeah. That they have the money - you know.

W: That's what I mean. And I think it would simply cramp your style in things that you might feel that you really should do from the standpoint of post-war policy.

HMJr: Right. Thank you.

W: I'm whole-heartedly in agreement, Henry.

HMJr: Thank you, very much.

W: Thank's for calling.

HMJr: Good bye.

W: Good bye.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

August 12, 1943

MEMORANDUM FOR THE SECRETARY'S FILES

At the request of the President the Secretary had a conference this morning with Mr. Van den Broek, Minister of Finance of the Netherlands Government in Exile, and Mr. de Jongh, Financial Adviser to the Netherlands Government in Exile. They had also previously requested a conference.

The Finance Minister said that he would like to discuss three matters with the Secretary:

First, was the rate of exchange in Holland whenever the United Nations get ready to move into that territory. He said he had discussed the matter with Mr. Finletter and Mr. Feis of the State Department and with General Hilldring of the Civil Affairs Division of the War Department. He said he had gotten some encouragement from them and their point of view. He said that his Government had had new currency printed for use in that territory which would be quite distinctive from the currency now in circulation in Holland. He said he wanted the gold parity rate to be the new rate of exchange. He was asked if the old currency in circulation would be exchanged on an equal basis with the new currency. He said he hoped that would be the case.

The Secretary told them that he could not give them any decision on this point; that he had not been asked by the War Department for any recommendation; we have many other matters under consideration at this time which seem to be more imminent than the case of Holland. He said he would be glad, when the time came, to sit down and talk to these gentlemen about the economic conditions in their country and obtain whatever information they had before he made his recommendation to the War Department. He assured them that he was sympathetic with their problem but he was sure they could see why he could not make any definite decision at this time.

The Minister then passed to another question. He said he had up before the Lend-Lease Administration the matter of obtaining silver for coinage purposes. He said it would be quite necessary for them to have a rather large amount of silver coins when they went back into their country. The Secretary said he had not heard about it, but if it was in the hands of the Lend-Lease Administration he was quite sure it was being given proper consideration.



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He then raised the real question about which he apparently came to see the Secretary - that was to obtain a credit in this country for his Government against collateral which is now in the form of blocked funds and securities belonging to the Central Bank and private citizens of Holland. He said his country was in favor of a world-wide stabilization plan (he did not say whether it was the British, American or some other plan he was in favor of). He said they had little money left so far as the Government was concerned, but the Central Bank and the citizens of the country had substantial amounts of money, gold, bank deposits and securities in this country and they would like to obtain a credit from the Reconstruction Finance Corporation with these funds and securities as collateral. He said the governing authorities of Holland would be in a rather embarrassing position if they went back into Holland and had to tell their citizens that they had not bought the things that Holland needed to restore the country. He said they were particularly anxious to move at once to buy locomotives in Sweden with these funds.

The Secretary told them that this was quite an important policy matter and what we do in the case of the Netherlands will set a pattern for the other governments in exile. He said he had directed that a formal memorandum be prepared setting forth the policy of this Government and when that memorandum was completed and had his approval, he would send it to Secretary Hull for his approval. If they both agreed, it would then become the policy of the two Departments in this matter. The Finance Minister asked the Secretary if he could tell him whether or not that policy would be favorable to his request. The Secretary said "No, I can not tell you that at this time." He told him he hoped he would be able to advise him on this matter possibly some time next week.

SWB

August 12, 1943
11:25 a.m.

HMJr: Hello.

Operator: Mr. Jones.

HMJr: Jesse.

Jesse Jones: Yeah.

HMJr: Henry talking.

J: Yeah.

HMJr: This Netherlands Finance Minister just left here....

J: Yeah.

HMJr: ...and he saw the President yesterday and the President asked me to see him.

J: Yeah.

HMJr: Now, what we are doing is this - we are preparing a formal memorandum on this question which I am going to send over to Cordell Hull for his approval or disapproval....

J: Yes.

HMJr: ...and I just thought I'd like to let you know that that is in the wind.

J: Okay.

HMJr: We here - this is just for you - feel that we shouldn't do anything because the whole question comes up of recognition of these governments in exile....

J: Yeah.

HMJr: ...and, but anyway, it's going to take us a couple of days. I'm going to send it over to Cordell and if he approves it, I'll let you have a copy of it. ✓

J: Okay.

HMJr: But it will be by next week so you just hold them off until then.

- 2 -

J: All right. I'll - of course, I'm not hurrying about it. He's just been anxious to get back.

HMJr: Yeah.

J: And....

HMJr: Well....

J:I had thought this, Henry....

HMJr: Yeah.

J:in connection - I had thought I'd - I called you a time or two and maybe you were out of town. Then I called Harry and he was out or I would have talked to you long ago.

HMJr: Well, I never got your message you had called me or I would have called you right back.

J: Now....

HMJr: Better leave your name next time.

J: Well, of course, I used the board and I suppose they do.

HMJr: Well....

J: Sometimes, they don't maybe.

HMJr: No, I don't think....

J: Oh, maybe I guess I usually use the White House phone in calling you. Maybe.

HMJr: Well....

J: There I don't have any check on that.

HMJr: I see.

J: Anyway....

HMJr: Yeah.

J: That will be all right and - now on the - when can we have a little meeting on this - should we meet with Gaston on that other thing.

August 12, 1943
11:30 a.m.

Re: MICHIGAN NATIONAL BANK

Present: Mr. Bell
Mr. Delano

MR. DELANO: I don't like this.

H.M.JR: This is all right. This doesn't worry me.

MR. DELANO: Frankly, it worried me. Maybe I am borrowing trouble.

H.M.JR: Let me read this. (Indicating memoranda dated August 11, 1943, copies attached.)

Why do you bring in the city of Lansing, seventy-seven thousand?

MR. DELANO: Just to show the relative size between this and Detroit. Lansing is a small city and that makes it a country bank. The whole theory of branch banking is that you go from a big city to a small city.

H.M.JR: I see.

MR. BELL: They would have to put in quite a bit more capital, wouldn't they? They are right now almost thirty to one.

MR. DELANO: One of the aspects of this thing is, of course, that they haven't any idea of giving capitalization factors that we would require.

H.M.JR: Write a letter to the Honorable James Byrnes - "My dear Mr. Byrnes: As a result of your telephone inquiry yesterday, plus the memorandum of July 12 from Prentiss Brown to you, I am sending you

- 2 -

herewith a confidential report from the Comptroller of the Currency.

"Entirely aside from the merits of the case as to whether or not the Michigan National Bank should be granted a branch in Detroit, I strongly recommend that this whole question be kept in abeyance until the Detroit Citizens League has completed their investigation, and until the Attorney General of the State of Michigan has completed his investigation. Yours sincerely."

MR. BELL: The Attorney General has made a decision as to what action should be taken on the case. Well, that is all right. You have got two investigations in there.

H.M.JR: Well, there are two.

MR. DELANO: That is right. I see Dan's point. It is just a question of - he may complete his investigation then, and not have his decision as to what he is going to do.

H.M.JR: There is another thing. Supposing his investigation finds that they are not guilty - well, he doesn't prosecute. But if he prosecutes, then I can say, "Well, he isn't going to be technical."

MR. DELANO: I see.

H.M.JR: I say wait until - you can put the two things together - "until the Detroit Citizens League and the Attorney General have completed their investigations."

MR. BELL: That is all right.

H.M.JR: I don't want to say, "See what action they take." I would put it strictly confidential. I don't want him to show this to Prentiss Brown.

- 3 -

MR. DELANO: I would be very anxious not to have it go to Prentiss Brown because Ferguson asked me to keep it confidential.

MR. BELL: That ought to be marked "strictly confidential."

(The Secretary held a telephone conversation with Mr. Byrnes, as follows:)

August 12, 1943
11:38 a.m.

245

James
Byrnes: Hello.

HMJr: Hello, Jimmy.

B: Yes, Henry.

HMJr: This afternoon there will be over in your hands a memorandum from us....

B: All right.

HMJr:on this Michigan bank thing.

B: All right.

HMJr: But I 'm going to ask you a favor - that you don't show it to Prentiss Brown.

B: No.

HMJr: Because there are certain things in it which I'm glad to give you....

B: No. He's not here.

HMJr: But there's a - you'll see the State's Attorney of Michigan is making an investigation and I don't want that information passed back to Michigan.

B: No. No.

HMJr: No. You'll see from the....

B: I will. I'll do that in any event.

HMJr: And it will be in your hands this afternoon.

B: Fine. Thanks, Henry.

HMJr: Thank you.

- 4 -

MR. DELANO: There is one other thing. About six weeks ago the Michigan Tradesman, which is a paper devoted to any branch bank interest, ran a little bit of a quip about the fact that such an investigation was taking place and that there was considerable talk about corruption, not only about this but about other matters in the legislature.

Now that has stimulated some of these banking fellows to bore in a little bit, and this story may break. It may get public for the reason that Ferguson is out there now and they are buzzing him and he is talking.

He said the other day - for instance, he told one of these newspapermen who came in - they tried to get something out of me - that Ferguson had intimated he had been to us here and put us on notice. That has been done. Now, the story - you may not be able to hold the story. I don't know whether we want to hold the story.

H.M.JR: I wouldn't do anything from here to stimulate it. In fact, I wouldn't talk about it. But if the story breaks--

MR. BELL: All the better.

H.M.JR: Listen, the chances are nine out of ten that Jimmy Byrnes will do what I ask - keep the thing in abeyance.

MR. DELANO: I wanted to emphasize that, Mr. Secretary, because the one dangerous thing is that Ferguson, who has a nose for corruption and was elected on that ticket, you know, in Michigan, will try to make an issue out of this.

H.M.JR: All right.

MR. DELANO: Another thing, this last letter from these people states that they are sending us along some copies of some of the evidence submitted to the Attorney General of the State, and when we went over that in the past we thought it was pretty skimpy and didn't have much dynamite in it.

- 5 -

We took another look this morning and I got Roberts to work on it. He was a pretty clever attorney and used to be with the FBI here, whose judgment I trust, and he said he thinks there is more in that thing than we thought, and that if the Attorney General uses the leads that are in there he might very well develop a case.

Now, that is the--

H.M.JR: A case against whom?

MR. DELANO: A case against the Michigan National Bank.

H.M.JR: Now, another thing, while you are at it, will you see - when you say the "Bohn interests" - supposing they say to me, "The Bohn interests - you say they control this bank. Who? What does that mean?" I want to know - to be ready to answer.

MR. DELANO: You want to know the individuals?

H.M.JR: When you say the "Bohn interests" - Mr. "X" - Mr. "Y" - when you say the "Bohn interests" what do you mean?

MR. BELL: Isn't there one particular family or individual?

MR. DELANO: An individual who is the head of the Bohn Company is the man behind the gun in this bank.

H.M.JR: Have it on a piece of paper, and have also on a piece of paper what the Bohn people have been indicted for.

MR. DELANO: I understand.

H.M.JR: "The Bohn interests represent Mr. so-and-so. He controls fifty-one percent of the Bohn Company and he controls fifty-one percent of the bank. The same man controls the Bohn, and this is what he was indicted for:"--

- 6 -

MR. DELANO: Right.

There was one other thing I would like to put in the record here. He makes the statement - Prentiss Brown does - that there isn't proper bank competition in Detroit, that it is all in the hands of General Motors and Ford. As a matter of fact, there are twelve banks there, and there is plenty of competition.

H.M.JR: That is all right.

MR. BELL: There is one independent bank that is almost as big as the others - three hundred million dollars of deposits.

MR. DELANO: Yes, there is about five hundred million of deposits out of a billion and a half of deposits that are independent, outside of these so-called--

H.M.JR: Don't let this worry you. I have got lots of worries much worse than this, and I have been able to handle them.

MR. DELANO: Mr. Secretary, I, frankly, was worried because I thought he might throw some dirt successfully at us in case we did this thing.

H.M.JR: Who?

MR. DELANO: Ferguson.

H.M.JR: I think he would.

MR. BELL: Yes, if it comes out they actually did bribe these people, we would be in an awful position.

H.M.JR: I know we would.

August 11, 1943

MEMORANDUM TO THE SECRETARY:

On May 17, 1943, Senator Homer Ferguson of Michigan called me on the telephone and stated he understood that the request made by the Michigan National Bank for branches at Detroit and Bay City, and denied by the Comptroller in December 1942, had been renewed. He further stated he understood this renewal of the applications had been made because of the failure of the 1943 Legislature to pass the anti-branch bank measure, as had been confidently expected.

In the light of this fact, Senator Ferguson said he thought it was his duty to inform me that responsible quarters in Michigan believed there had been corruption in this action of the Legislature and that officials of the Michigan National Bank had distributed money to certain members of the Senate to refrain from voting when the anti-branch banking bill was presented for passage (the Upper House of the

-2-

Michigan Legislature registered twenty votes in favor of the anti-branch bank bill, with one vote against, and eleven not voting. Twenty-two votes, or two-thirds of those present, were necessary to pass the legislation.)

The Senator added he had satisfied himself that this was the case, and he felt strongly that any contemplated action by the Treasury tending to reverse its previous decision should be held in abeyance until sufficient time had elapsed to permit a full investigation. He further advised that a citizens committee in Detroit was now engaged in such an investigation and expected that indictments would result.

Senator Ferguson requested that this information be considered confidential for the present. He has several times reiterated his conviction that the matter will ultimately result in indictments, and on June 3rd Mr. W. P. Lovett and Mr. M. N. Wendell of the Detroit Citizens Committee called on me and orally confirmed the Senator's advice.

By letter of July 16, 1943, the Detroit Citizens Committee advised me that the evidence concerning the

-3-

alleged corruption of certain members of the Legislature by the Michigan National Bank had been assembled and delivered to the Attorney General of the State for his consideration. It is my understanding that the Attorney General still has the matter under study and as yet has reached no decision as to his action.

Inasmuch as Senator Ferguson has brought these facts to our attention, and has several times reiterated his opinion that indictments would eventually result, I feel very strongly that until this entire matter is cleared up we should make no move to reconsider our action in the case.

Irrespective of the situation created by Senator Ferguson's intervention, valid reasons exist for refusing to permit the Michigan National to make an entry into Detroit either through a branch, or a new charter which would later be made a branch of the system already existing. These reasons are briefly outlined in the attached memorandum.

Preston Delano

August 11, 1943

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The Michigan National is a branch banking system operating in Michigan, with its head office at Lansing, and branches at Saginaw, Grand Rapids, Flint, Marshall, Port Huron (4) and Battle Creek (2). The system, which is controlled by the Bohn Aluminum interests, has deposits of something over \$80,000,000, and a capital structure of some \$3,000,000.

Late in 1942 the management of the Michigan National system informally approached the Office of the Comptroller with a request for two branches, one in Detroit and one in Bay City, both of which were to be consummated by the purchase of small existing banks in those areas. At this time Senator Prentiss Brown approached the Comptroller of the Currency, requesting that the bank's applications be granted. He further requested prompt action because of the impending meeting of the State Legislature and the probability that that

-2-

body would pass legislation prohibiting any further expansion of existing branch systems in the State of Michigan.

The request for branches in Detroit and Bay City were both denied. The reasons follow:

- (1) The granting of these two applications of the Michigan National, particularly in the matter of the one for Detroit, would be entirely inconsistent with the policy of this office toward the expansion of branch systems at the expense of independent banks in the localities affected.
- (2) In Detroit there are 12 banks with over 100 banking offices. The approval of the application of the Michigan National Bank to enter Detroit would be tantamount to authorizing a new national bank in that city where there is certainly no need of additional banking facilities. This would violate the well-established practice of the Comptroller's

-3-

office in refusing to authorize additional banking facilities in communities which are already adequately served.

- (3) The population of Lansing is about 77,000 and the population of Detroit is approximately 1,600,000. Even assuming that the City of Detroit has need of additional banking facilities, it would be contrary to sound banking supervisory policies, as well as the theory and function of branch banking, to permit a bank located in a place the size of Lansing to establish a branch in a large industrial center.

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

Preston Delano

DETROIT CITIZENS LEAGUE
1021-1023 Dime Building Detroit, Michigan

C
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P
Y

July 21, 1943

Hon. Preston Delano
Controller of the Currency
Treasury Building
Washington, D.C.

My dear Mr. Delano:

Since writing to you July 16, I have again conferred with Senator Ferguson, and with other citizens interested in the subject which we discussed with you in your office. I also have talked by telephone with Hon. Herbert J. Rushton, Attorney General of Michigan, Lansing.

Mr. Rushton is making a study of the documents and written statements which I gave him, when I requested that he initiate a grand jury proceeding for investigation of matters of grave importance now in controversy in this state. Because of the Detroit riot problems of June 21 Mr. Rushton has been delayed, but will give me his answer as soon as possible.

Meantime I am taking the liberty of sending you copies of some of the important documents and reports that bear on this case. These are for your information, so that you may know a little of the reasons and motives which prompt some of our citizens to request official investigation in this state.

Yours sincerely,

(signed) W.P.Lovett

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DETROIT CITIZENS LEAGUE

1021-1023 Dime Building, Detroit, Michigan

July 16, 1943

Hon. Preston Delano,
Controller of the Currency
Treasury Building
Washington, D.C.

Personal

My dear Mr. Delano:

Today Senator Homer Ferguson talked with me on the subject which he and I discussed with you and Mr. Upham, in your office, not long ago. Because of my recent absence from Detroit, Senator Ferguson, much to his regret, was unable to see me, and that explains delay in this letter, which I also regret.

Since I saw you our committee have continued with vigor the investigations which we discussed in your office. We then consulted authorities at Lansing. As a result the documentary data, giving information, all has been placed in the hands of Hon. Herbert J. Rushton, Attorney General of Michigan. In an interview with him June 29 it was agreed that he would study the evidence and as soon as possible decide whether he, in his official capacity, would initiate a grand jury proceeding for the State of Michigan.

I expect to consult Mr. Rushton next Monday on this subject. He may then inform me what are his conclusions and what he may have decided to do in these circumstances.

As soon as I shall have secured this information, I will be glad to re-lay it to you, so that you may know our exact situation in Michigan.

Yours sincerely,

(signed) W.P.Lovett

WPL/CC

August 12, 1943

MEMORANDUM TO THE SECRETARY:

There are 150,000 outstanding shares of the Michigan National Bank of Lansing, Michigan. Of this amount, 56,743 shares are in the hands of Mr. Charles B. Bohn and other officials of the Bohn Aluminum & Brass Corporation, as follows:

Charles B. Bohn, Chairman of the Board of the Bohn Aluminum & Brass Corporation, and Chairman of the Board of the Michigan National Bank	40,469
Geo. M. Endicott, an officer of the Bohn Aluminum & Brass Corporation and a director of the Michigan National Bank	12,600
Leo M. Butzel, Attorney for the Bohn Aluminum & Brass Corporation	2,674
Simon D. Den Uyl, Secretary-Treasurer of the Bohn Aluminum & Brass Corporation, and a director of the Michigan National Bank	<u>1,000</u>
	56,743

This total of 56,743 shares constitutes practical although not actual control of the bank, particularly

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when considered in connection with the holdings of Howard Stoddard, President of the Bank, and of Waldo I. Stoddard, totaling over 15,500 shares. The Stoddards are close associates of Mr. Bohn. There are no other concentrated holdings of stock in this bank.

In regard to civil and criminal suits against the Bohn Aluminum & Brass Corporation charging the manufacture of defective motor parts for planes, the Department of Justice advises as follows:

Indictments were returned on the ground of sabotage against Frederick M. Eaton, Assistant Manager of Plant No. 2, Paul Cordess, Plant Superintendent of Plant No. 2, George King, Foreman, Trim Room of Plant No. 2, and the Corporation itself. An attempt was made to obtain an indictment of Emerson Frantz, a Vice President of the Corporation, on the ground of conspiracy, but no indictment was returned.

A civil action was also filed by the Government against the following persons for the

-3-

purpose of recovering \$14,000,000: T. A. Markey, President, J. D. Leavitt, Vice President, Emerson Frantz, Vice President, S. D. Den Uyl, Secretary-Treasurer, as well as the corporation itself, the three individuals against whom indictments were returned, as aforementioned, and other very minor officials and employees of the corporation.

Preston Delano
Preston Delano

August 12, 1943

*Personal
and
Confidential*

My dear Mr. Byrnes:

As a result of your telephone inquiry, plus the memorandum of July 12 from Prentiss Brown to you, I am sending you herewith a confidential report from the Comptroller of the Currency.

Entirely aside from the merits of the case as to whether or not the Michigan National Bank should be granted a branch in Detroit, I strongly recommend that this whole question be kept in abeyance until the Detroit Citizens Committee and the Attorney General of the State of Michigan have completed their investigations.

Yours sincerely,

(Signed) H. Mergenthaler, Jr.

Honorable James F. Byrnes,
Director, Office of War Mobilization,
Washington, D. C.

HMJr/mod

Del. by S.S. Agent 8/12

MEMORANDUM

To: James F. Byrnes
 From: Prentiss M. Brown

In furtherance of our conversation of yesterday, I am giving you in writing as concise a summary as possible.

The Michigan National Bank has branches in six of the principal out-State cities of Michigan, with its main office at Lansing, the State Capitol. In May of last year, it asked the Comptroller for authority to take over an existing bank in Bay City, with part of its deposits withheld. The proposition involved full payment of the deferred deposit liability. In September it asked for the opening of a branch in Detroit for reasons of economy of operation, as well as convenience to the general public. Its capital compares very favorably with existing institutions in Detroit. The bank is progressing rapidly. Both applications were denied. They were renewed in April, 1943, but have not been formally acted upon. Comptroller Delano tells me they will be denied again. No new reasons for the expected denial were given.

The Federal law permits branch banking wherever the State law permits branch banking. Michigan permits it. Among other reasons given for the previous turndown of the two applications was the statement by opposing banking groups that the Michigan Branch Bank law would be repealed in the 1943 legislature. A previous attempt to repeal it had been defeated in the 1941 legislature. The 1943 effort was defeated. Other than the above, a major reason for the refusal given by the Treasury was that the Treasury disliked to take any action that would give Mr. Giannini of California a basis for his demand for the extension of his already tremendous branch system, I think running into five hundred branches. The Michigan National Bank has six branches. Obviously the conditions are vastly different. Deposits in Detroit have increased tremendously. Substantial addition to the capital assets would certainly improve the general banking picture in Detroit. The bank will comply with any reasonable conditions required by the Comptroller.

The basic facts that impel me to go to the President are these,

- (1) The two great banking institutions of Detroit are almost completely owned by two motor interests - General Motors and Ford. These two institutions have more than half the total bank deposits in the entire State of Michigan. Other motor companies and parts manufacturers who want substantial credit must go to them and reveal their situation. This is unhealthy. The new bank would not be connected with these interests. I think such competitive addition valuable.
- (2) Since the Federal law permits new charters and branches, the Comptroller should not deny men the right to compete in the business world except in the public interest. In this case the public interest will be served by additional capital to back the tremendous increase in deposits and supply needed competition.

STRICTLY CONFIDENTIAL

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August 11, 1943

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Michigan Legislature registered twenty votes in favor of the anti-branch bank bill, with one vote against, and eleven not voting. Twenty-two votes, or two-thirds of those present, were necessary to pass the legislation.)

The Senator added he had satisfied himself that this was the case, and he felt strongly that any contemplated action by the Treasury tending to reverse its previous decision should be held in abeyance until sufficient time had elapsed to permit a full investigation. He further advised that a citizens committee in Detroit was now engaged in such an investigation and expected that indictments would result.

Senator Ferguson requested that this information be considered confidential for the present. He has several times reiterated his conviction that the matter will ultimately result in indictments, and on June 3rd Mr. W. P. Lovett and Mr. M. N. Wendell of the Detroit Citizens Committee called on me and orally confirmed the Senator's advice.

By letter of July 16, 1943, the Detroit Citizens Committee advised me that the evidence concerning the

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alleged corruption of certain members of the Legislature by the Michigan National Bank had been assembled and delivered to the Attorney General of the State for his consideration. It is my understanding that the Attorney General still has the matter under study and as yet has reached no decision as to his action.

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office in refusing to authorize additional banking facilities in communities which are already adequately served.

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Preston Delano
Preston Delano

DETROIT CITIZENS LEAGUE

1021-1023 Dime Building Detroit, Michigan

July 21, 1943

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Treasury Building
Washington, D.C.

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Yours sincerely,

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Yours sincerely,

(signed) W.P.Lovett

WPL/GC

August 12, 1943
12:00 Noon

HMJr: Hello.

David Niles: Hello, Mr. Secretary.

HMJr: Good afternoon.

N: This is Dave Niles.

HMJr: Right.

N: From two - what I consider reliable sources....

HMJr: Yeah.

N:I am told that the former President of these here United States at an off-the-record Press Club Luncheon in Los Angeles said, "The Bonds are not worth the paper they are printed on."

HMJr: That's nice.

N: And I thought you ought to know about it and probably get somebody to really check on it, but I....

HMJr: Now, Hoover said this at a lunch club in....

N: In Los Angeles - a Press Club Luncheon.

HMJr: At a Press Club Luncheon?

N: Yes, sir.

HMJr: Recently?

N: Yes, sir. Within the last ten days.

HMJr: We have some very good men there.

N: Yes, sir. And I think you ought to check about it. One of them happens to be the Public Relations fellow for 20th Century Fox and he was in to see me yesterday. He was there and he heard it.

HMJr: Uh huh.

N: And then I got it from a lawyer friend of mine and that's why I....

HMJr: What was the name of the 20th Century fellow?

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N: It's - well, I don't think he'd want to....

HMJr: All right. Because I have movie people here of my own, you see?

N: Yeah.

HMJr: Well, I'll just say that somebody from 20th Century Fox heard it.

N: Yeah, that's right.

HMJr: What?

N: Yes, sir.

HMJr: You consider it's on the way - it's done.

N: Righto. Fine.

HMJr: Thank you.

Aug. 12, 1948

Ted Gamble

Secretary Morgenthau

Ex-President Hoover, at a Press Club Dinner about 10 days ago in Los Angeles, made the statement that our bonds were not worth the paper they are printed on. I would like you to check up on this. If he did make such a statement, I think we ought to do something about it, and the way to do it would be to get him to make a statement in favor of our Bond Program. - *Gamble talked to Hoover 9/14 - Finished - ?*

The President suggested that we get Charles Evans Hughes to make a two-minute record for us for our Third War Loan. I think the idea of getting him to do something is swell. *This will be made 9/1 or 9/2.*

Please follow through, and give me a report on both of the things I have mentioned in this memo.

List of those to attend meeting with Secretary, Thursday, August
12th, at 2:30 PM, on promotion ideas:

Howard Dietz	Metro-Goldwyn-Mayer	Arriving on 9:30 AM plane
Harry Scherman	Book-of-the-Month Club	" with Mr. Dietz
Max Shuster	Simon & Shuster	" with Mr. Dietz
Edward L. Bernays		Coming on 10 AM train
Holcomb Parkes	Southern Railway	Here in Washington
Mr. Slater	Kings Features (for Joseph Connelly)	
B. Lewis Fosen	Promotion Director of National Retail Dry Goods Ass'n.	Coming from Baltimore
Mort Blumenstock	Warner Bros. Theatres	Coming by train
Max Cook	Scripps-Howard Newspapers	Coming by noon plane

August 12, 1943.
2:13 p.m.

HMJr: Hello.

Guy
Helvering: Mr. Secretary?

HMJr: In person.

H: (Laughs) Yeah. Why, I had an opportunity to talk to Mr. Cann by telephone....

HMJr: Oh, yes.

H:and he said that he was surprised that anybody would question his loyalty. I told him....

HMJr: Yeah.

H:nobody was questioning it....

HMJr: Yeah.

H:and what we wanted to know if his humor was such as a result of this little incident that he could go ahead and carry out the policies as he had before this came up.

HMJr: Yes.

H: Well, he said, or course, he felt that he wouldn't be justified in taking the job unless he could do that.

HMJr: Yeah.

H: And I told him that we had talked the matter over and you had agreed all along the line to a different assignment for him....

HMJr: Yeah.

H:and - but somebody had dropped the hint that you weren't in agreement - he wasn't in agreement with the policy.

HMJr: Yeah.

H: And I said, "We both want to be assured on that."

HMJr: Yeah.

H: And he said, "On that there is no question at all and you can so tell the Secretary and know it yourself."

HMJr: Yeah.

H: So....

HMJr: Everything is in the clear?

H: Yes, I think it's all right.

HMJr: Well, thank you so much.

H: All right.

HMJr: Now I hope that our new system works and if it doesn't we'll have another meeting.

H: Yes. All right.

HMJr: It'll take a little time but I - don't you think it's to the good?

H: Yes, indeed.

HMJr: Yeah. You're satisfied aren't you?

H: Yes.

HMJr: Fine. Of course, if you and John had been around here the thing never would have happened.

H: I think not.

HMJr: No. .

H: I know if the former was here to come over, he wouldn't have come.

HMJr: No. Okay.

H: All right.

HMJr: Thank you.

MEMORANDUM

August 12, 1943.

TO: The Secretary
FROM: Mr. Sullivan

JKS

In accordance with your request, I called on Judge Vinson to acquaint him with our general problem arising out of Mr. Stam's demands for information direct from Commissioner Helvering and also to tell him about my conversation yesterday afternoon with Senator George.

Judge Vinson said that he was disturbed about the attitude of the Committee and was afraid that the fact that they had specifically named the Internal Revenue Bureau in the resolution might be interpreted as a Congressional directive that information should be transmitted directly from the Commissioner to Mr. Stam. I explained to Judge Vinson that you had no desire to withhold from Mr. Stam any recommendations the Bureau of Internal Revenue wished to make but that you felt it would be very unfortunate if these recommendations were not transmitted with your knowledge and through you. Judge Vinson recognized what an uncomfortable position this would be not only for you but also for the Commissioner. However, he added that it might be well to anticipate the trouble that anti-administration members of the Committee would cause by insinuating that since the Commissioner's recommendations came through you they had been censored by you. In other words, the right to transmit implied control of the substance of the memoranda transmitted.

I told Judge Vinson I thought that that question could not be decided until we had had some experience of transmitting the Commissioner's recommendations through the Secretary and that if Mr. Stam was persuaded that he was receiving the Commissioner's uncensored recommendations and getting them promptly he should be satisfied with that arrangement.

He said he felt that Stam's attitude was important and that he was sure he could find out from time to time whether Mr. Stam was satisfied with the arrangement without indicating to Mr. Stam that he had talked with me or knew anything about the controversy. He added that he would be very glad to try to be helpful in this matter and to try to smooth out irritations which did not exist when he was on the Committee and with which he had no patience.

Randolph Paul
Secretary Morgenthau

August 12, 1943

Will you please speak to me today - I can't remember whether I told you about my conversation with Judge Rosenman about the disposition of the disagreement again between Crowley's organization and ourselves on foreign funds. Anyway, be sure and get to me before noon today, because I want to talk to you about it. *Finished -*

See Group 8/12 -

Mr. Fred Smith.

August 12, 1943

The Secretary.

Please ask Shaeffer if he has read Jerry Klotz' Column in today's Washington Post with reference to a conversation I am supposed to have had with Mr. Byrnes. It never took place. He is all wet. I think Shaeffer knows him well enough that he can tell him that.

Finished -

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE August 12, 1943

TO Secretary Morgenthau

FROM Fred Smith (RS)

I heard Morgan Beatty on the air telling about soldiers buying Bonds. It was wonderful, so I had a transcription made. It is probably three or four minutes long, and worth listening to if you want to take the time to do it. If you don't, attached is a transcript of what he said.

MORGAN BEATTY'S BROADCAST ON THE
ATTITUDE OF THE MEN IN SERVICE
TOWARD WAR BONDS.....
FROM LONDON, DURING THE ALKA SELTZER
(DR. MILES LABORATORY) PROGRAM OVER
THE NATIONAL BROADCASTING COMPANY
NETWORK FROM 7:15 TO 7:30 P. M., EWT
ON MONDAY, AUGUST 9, 1943.

This is NBC in London. Today I set out to look for a few reasons why you folks back home might be interested in buying more War Bonds. I thought I would get a few factual stories--you know, Private Smith or Able Seaman Jones has decided to buy War Bonds--and then tell you why. Well, sir, as the day wore on, the crop of stories began to pile up but they were the same stories you have all heard before--invest in Uncle Sam, and that kind of thing. The trouble with telling you stories like that is that you know them all. So I checked back through for something different. It was then I discovered what I thought was an overwhelming amount of looking into the future in our Army camps and naval zones in Great Britain, a mature kind of thinking you don't expect of young soldiers.

One Navy man said he thought the money he put in Navy War Bond allotment plans would go a long way toward tiding him over the shoals in case of unemployment after the war. Another fellow was speaking of his peacetime craft. He is an ornithologist. He said his equipment would be dated by the time the war was over. He is buying Bonds so he can modernize his gear. Private J. F. Roebuck said if this wasn't war he would be back in the States making payments on a home now; he is making the payments in advance, as it were, through War Bonds.

Now all this set me hunting for totals. In the Navy over here, the men are not limiting themselves to ten percent of their pay, as many citizens do. They are putting up 16 percent, money deducted at their own request from their pay checks. What's more, they are handing

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over another 13 percent of their pay in cash and ask the paymaster to give them bonds for it. In the European theater the Navy men are signed up for War Bonds allotment purchases--that is, regular purchases--95 percent strong.

The Army, since the first of June, has more than doubled the rate of purchases of War Bonds now that special offices have been set up to handle the job. And so all day the evidence kept piling up that this was no ordinary thing, that it was not getting material for a pep talk to you folks back home. I was running into a news story. So I telephoned to one of our big camps where Colonel J. Fulton of Seattle, Washington, runs the financial offices for the European theater of operations. He was out to dinner when I called but a few minutes ago he returned it, and I said, "Colonel, what's all the fever about buying War Bonds among soldiers over here?"

"You're mistaken," said the Colonel, "it's not a fever. It's part of the saving program of the men in this theater. You see," he explained. "I was in France during the first World War. The men didn't want to buy bonds--or rather they simply were not interested then. They came over to fight the war, and they didn't look much further ahead--or many of them didn't. But these boys in this generation have more of an eye for their future. We have merely made it easy for the men to save. No high pressure stuff, just ordinary reasoning and reminders. Funny thing," said the colonel, "if it isn't a fever, it's catching--this savings idea. Apparently some of the boys--well, anyway--every once in a while, some fellow comes in and says something about his luck last night and plunks down a sizeable sum for Bonds and savings."

The Colonel confirmed a hunch that these men in uniform are building for the future, their future, and it's the kind of building and thinking that is necessary if we are to solve the problem of unemployment and rehabilitation, as one of them put it. Not long ago, the Lord Mayor of London invited me to a reception for enlisted men, and I went down to Mansion House. I asked some of the staff how these men of this generation compare with the men of the first World War. "Oh," said the Lord Mayor's secretary, "they are about the same in spirits, I guess, but there's one difference. These youngsters have a greater sense of responsibility than their elders to my way of thinking."

"How do you know?" I asked.

"Well," he said, "do you see the little receptacles for cigarette ends, those things tied to the posts?"

"Yes," I said. "What about them?"

"Well," he said, "this generation actually uses them, and not the floor of Mansion House." And he went on, "I have looked for some differences among the nationalities because we get them all here--Americans, French, Poles, Norwegians, Czechs and so on. But it's the same with all of them."

The other day Admiral Harold Stark of our Navy put it this way: Just because we Servicemen wear uniforms, it does not mean we are not a part of the civilian population of the United States. And that is a plain fact. These soldiers are a long way from home, as they are in all the theaters of war. They are more conscious of their citizenship and the responsibilities of the future than most

of us, I think, because they are so close to Europe's disaster. They know the value of America's future. They are merely expressing their confidence and their hope in dollars and cents through war bonds. And now this is Morgan Beatty switching you to the NBC news room in Washington.

August 12, 1943

My dear Mr. President:

You asked me to let you have a survey of the various departments that are working on conversion of industry from war to peace. I am enclosing herewith such a list.

After you have read it, you will see that the efforts of these departments should be co-ordinated, and I would be glad to discuss it further with you at your pleasure.

Sincerely yours,

(Signed) H. Mergenthau, Jr.

The President,

The White House.

Del. by S. L. Agent 8/12/43

Secy. asked Mr. McConnell and Captain Kades to go over the attached memo before he sends it to the President.

McConnell and Kades would like to see the Secy. before he forwards the memo to the Pres.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 11, 1943

TO Secretary Morgenthau
FROM R. E. McConnell *R.E.M.*

I believe the attached memorandum prepared by Mr. Lynch listing the several Departments of the Government which are actively studying post-Armistice plans and conversion of plants is substantially correct. There may be some omissions which a further search would disclose but I do not think they will be important.

We have been unable to find a central group concerned with the larger aspects of this problem and believe it will probably be necessary to establish such an over-all viewpoint in order to integrate the various departmental procedures into a unitized policy. I have discussed this subject at some length with Mr. O'Connell, Captain Kades and Mr. Lynch and suggest that we see you for ten or fifteen minutes before you send the memorandum to the President.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

to Secretary Morgenthau

FROM Mr. McConnell *R. E. M.*

A preliminary survey reveals that the following Government Departments are engaged in consideration of various problems relating to conversion from a wartime to a peacetime economy:

War Department

General Tompkins is charged with responsibility to the General Staff in this field.

George Harrison, President, Federal Reserve Bank of New York, acts in a general consultative capacity.

Major General Clay is responsible for policy and procedure in connection with termination of war contracts.

Navy Department

Admiral Bowen is charged with the disposition of facilities.

Arthur O. Dietz, President of Commercial Investment Trust Corporation, is charged with policy and procedure in connection with termination of war contracts.

RFC

The Chairman of the RFC has spoken publicly on policy with respect to the disposition of Government-owned facilities. No special policy unit exists in the RFC.

Maritime Commission

The Commission has established a Post-War Policy Committee.

WPB

WPB has established an Interdepartmental Procurement Policy Board which is giving particular study to termination of war contracts and reimbursement of war contractors.

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- Department of Commerce The Department is studying the overall problem of conversion to a peacetime economy under immediate direction of Morris Livingston, Director of the National Economic Unit.
- The Secretary of Commerce has sponsored and made available the facilities of the Department to the Committee for Economic Development, a private organization dealing with all aspects of the conversion problem.
- Labor Department Engaged in studies of problems involved in the demobilization of ex-servicemen and war workers and related problems involved in the demobilization of war industries and of wartime controls. Dr. Donald H. Davenport, Chief of the Employment and Occupational Outlook Branch of the Bureau of Labor Statistics is immediately in charge of these activities.
- Bureau of Selective Service Col. Lewis E. Sanders is Chief of the Reemployment Division of Selective Service.
- Social Security Board and Federal Security Agency Representatives of the War Manpower Commission and the Federal Security Agency served as members of the Conference on Post-War Readjustment of Civilian and Military Personnel, which reported to the President on June 30, 1943. The report embraced consideration of the many aspects of the reconversion problem.
- Bureau of the Budget Mr. Louis Bean has been acting on behalf of the Bureau in sponsoring meetings between representatives of the several Federal Departments engaged upon various aspects of the reconversion problem.

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State Department

Problems of foreign trade and commerce which relate to specific aspects of our domestic economy, such as policies with regard to metals and minerals, etc., are lodged with the Economic Advisor's Office headed by Herbert Feis, and with the Division of Defense Materials headed by Henry Labouisse. These staff officers are responsible to Adolph Berle, Assistant Secretary, with reference to long-term financial policy, and to Dean Acheson, Assistant Secretary and Chairman of the Board of Economic Operations with reference to general economic policy.

see calendar 290

JOHN CLIFFORD FOLGER
730 FIFTEENTH STREET
WASHINGTON, D.C.

August 12, 1943

My dear Mr. Secretary:

Under Secretary Bell was kind enough to act as my emissary in extending an invitation to attend a luncheon in the private dining room of the Metropolitan Club on Wednesday, August 18th, at 12:30 P.M., to meet Edward Hall of Chicago, who is arriving next week to work at the Treasury.

I am delighted that you are planning to attend.

The luncheon will be small and informal and includes a number of those interested in the War Bond Program.

With assurance of my high esteem, I am

Sincerely yours,

J. Folger

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

AUG 12 1943

TO Secretary Morgenthau
FROM Randolph Paul

You may recall that on November 6, 1943, Dean Acheson spoke to you about a matter regarding which there had been considerable discussion between Treasury and State. The question involved was whether under the Trading with the enemy Act the Standard Telephone and Radio Company of Zurich, Switzerland, which is wholly owned by the International Standard Electric Corporation of New York, should be licensed to carry on certain transactions with enemy territory. An integral part of these transactions was the import from enemy territory by Standard Telephone and Radio Company, Zurich, of materials which were processed in Switzerland by that company and returned to Germany in the form of radio telephone transmitters for trucks, for German military use. In spite of the fact that these transactions require licenses under the Trading with the enemy Act, the American Legation in Switzerland had permitted the company to continue to engage in these transactions since May 1, 1942, pending a decision as to whether a license would be issued. Foreign Funds Control considered the continuation of such unlicensed transactions highly undesirable and had long endeavored to have State transmit the necessary instructions to the American Legation in Switzerland which would result in the termination of such transactions.

You will be interested to know that the continued efforts of Foreign Funds Control, recently supported by BEW (now OEW), resulted in the transmission by State on July 17, 1943, of an instruction to be relayed by the American Embassy in London to the American Legation in Switzerland, ordering the company under penalty of appropriate sanctions by this Government to cease at once the delivery of such radio transmitters to Germany, subject to the British authorities or the American Embassy in London having no serious or compelling objections to such discontinuance. Further, this instruction indicates that, if the Swiss Government questions the discontinuance of such transactions by the Standard Telephone and Radio Company, Zurich, and reveals an inclination

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to interfere with their discontinance, State would be willing to exercise such pressure on the Swiss as may be feasible in the light of this Government's over-all economic warfare program in order to obtain the acquiescence of the Swiss Government in the abandonment by the company of the transmitter transactions.

In connection with this matter you will be interested in the text of a cable sent at this Government's request to Colonel Sosthenes Behn, Chairman of the Board of the International Standard Electric Corporation, to the managing director of Standard Telephone and Radio, Zurich, through State Department communication facilities, in connection with the manufacture of such radio telephone transmitters for delivery to Germany:

"Referring to your message of June 17, we are again informed that you are delivering radio transmitters to Germany. You are instructed to cease immediately any and all deliveries of radio equipment as such equipment is understood to be for ultimate use by the German army. We cannot under any circumstances consent to Standard sending equipment to the Axis to be used against the United States, and it must stop at once regardless of any other considerations." ~~---~~

AUG 12 1943

My dear Mr. President:

Mr. Crowley has brought up a matter which was settled when you issued the Executive Order defining the respective fields for the Treasury and the Alien Property Custodian. Judge Rosenman spent months and months on this and I would appreciate it if you would refer this matter again to Judge Rosenman who is entirely familiar with it and who I understand would be glad to go into it.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,

The White House.

Delivered by S.S. 8/12.

JUT *MSD* *W.*

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copy sent to Major Gen. J. H. Burns
by Messenger Manus 4:08 8/12/43

SECRET

AUG 12 1943

My dear Mr. President:

There is attached a report of Lend-Lease purchases made by the Treasury Procurement Division for the Soviet government indicating the availability of cargo for August.

The inventory of materials in storage as of August 1st was 543,985 tons or 25,085 tons less than the July 1st inventory. Production scheduled for August shows an increase of 9,334 tons as compared with July.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President

The White House

Delivered by S.S. 8/12

W.G.P. H.M. W.S. J.M.

TREASURY DEPARTMENT - U. S. S. R.

MATERIALS AVAILABLE FROM STORAGE AND PRODUCTION DURING AUGUST, 1943

<u>COMMODITY</u>	<u>STORAGE AUGUST 1, 1943</u>	<u>PRODUCTION DURING AUGUST</u>	<u>TOTAL AVAILABLE</u>	<u>PRIORITY CARGOES TO PORT AREAS SPECIFIED TO DATE FOR AUGUST</u>
AGRICULTURAL MACHINERY AND IMPLEMENTS		17	17	
ALUMINUM	357	7,143	7,500	7,500
AUTOMOTIVE EQUIPMENT AND PARTS		129	129	
BEARINGS	334	747	1,081	150
BRASS AND BRONZE	17,565	1,059	18,644	
CHEMICALS	5,175	381	5,556	5,000
CLOTHING AND TEXTILES		4	4	
CONSTRUCTION MACHINERY		4,140	4,140	
COFFER IN VARIOUS FORMS	61,197	9,550	70,747	3,520
FERRO-ALLOYS	5,735		5,735	
GRAPHITE PRODUCTS	1,530	264	1,784	
HAND AND CUTTING TOOLS		2,403	2,403	100
INDUSTRIAL MACHINERY AND EQUIPMENT	134,194	23,573	157,867	33,688*
LEAD AND LEAD ALLOYS	35		35	
LEATHER AND LEATHER PRODUCTS		11	11	
MEDICAL SUPPLIES		21	21	
NICKEL AND NICKEL PRODUCTS	424	7	431	150

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<u>COMMODITY</u>	<u>STORAGE</u>	<u>PRODUCTION</u>	<u>TOTAL AVAILABLE</u>	<u>PRIORITY CARGOES</u>
	<u>AUGUST 1, 1943</u>	<u>DURING AUGUST</u>		<u>TO PORT AREAS</u>
				<u>DATE FOR AUGUST</u>
NON-FERROUS METALS,				
OTHER	154	617	771	687
PAPER AND PAPER PRODUCTS	2,856		2,856	
PLASTICS	7,120		7,120	
RUBBER AND RUBBER				
PRODUCTS	10,221	8,274	18,495	6,670
STEEL, ALLOY AND SPECIAL	68,471	11,167	79,638	1,890
STEEL, CARBON	129,780	14,030	143,810	4,834
STEEL, PIPES AND TUBES	90,915	4,364	95,279	1,000
STEEL, RAILS	5,939	10,000	15,939	15,939
TIN PLATE	1,973	987	2,960	500
ZINC		1,000	1,000	1,000
TOTAL	543,965	99,978	643,943	82,638

* In addition, all available tonnage applicable to the Oil Refinery Program is classed as priority cargo for prompt shipment to ports.

SECRET

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TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

August 12, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended August 4, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

EMB

FEDERAL RESERVE BANK
OF NEW YORK

August 11, 1943.

CONFIDENTIAL

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

I am enclosing our compilation for the week ended August 4, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ Robert G. Rouse

Robert G. Rouse,
Vice President.

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

Enclosure

COPY

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

Strictly
Week Ended August 4, 1941. Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)									BANK OF FRANCE			
	D E B I T S				C R E D I T S					Net Incr.(+) or Decr.(-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Transfers from Official Australian Account	Other Credits (c)				
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+ 125.9	18.5	4.4	- 14.1
1941													
Sept. 3 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	27.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
1942													
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	- 109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-
Apr. 1 - Apr. 28	37.0	16.3	-	20.7	87.4	-	-	15.1	72.5	+ 50.4	-	-	-
Apr. 29 - June 2	90.4	74.3	-	16.1	103.4	-	-	19.0	84.4	+ 13.0	-	-	-
June 3 - June 30	31.6	11.6	-	20.0	130.7	-	-	20.0	110.7	+ 99.1	-	-	-
July 1 - July 28	33.0	18.2	-	14.8	100.5	-	-	16.0	84.5	+ 67.5	-	-	-
WEEK ENDED:													
July 13	9.2	5.3	-	3.9	30.3	-	-	6.0	24.3	+ 21.1	-	-	-
21	9.4	4.9	-	4.5	23.5	-	-	3.0	20.6	+ 14.2	-	-	-
28	9.3	5.1	-	4.2	28.4	-	-	-	28.4	+ 19.1	-	-	-
Aug. 4	8.5	5.1	-	3.4	14.0(j)	-	-	1.0	13.0(j)	+ 5.5	-	-	-

Average Weekly Expenditures Since Outbreak of War
 France (through June 19, 1940) \$19.6 million
 England (through June 19, 1940) \$27.6 million
 England (June 20, 1940 to March 12, 1941) \$54.9 million
 England (since March 12, 1941) 21.6 million

See attached sheet for footnotes.

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

Week Ended August 4, 1943.

Strictly
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds (d)	Total Debits	Transfers to Official British A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds (d)
First year of war (a)	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
war period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.3
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	- 0.4
Apr. 1 - Apr. 28	29.0	-	29.0	39.6	-	-	-	39.6	+ 10.6	16.4	15.1	5.3	19.3	-	19.3	+ 2.9
Apr. 29 - June 2	79.9	-	79.9	95.8	-	-	-	95.8	+ 15.9	21.8	19.0	2.8	20.1	-	20.1	- 1.7
June 3 - June 30	53.8	-	53.8	77.2	-	-	-	77.2	+ 23.4	20.0	20.0	-	27.3	-	27.3	+ 7.3
July 1 - July 28	102.1	-	102.1	61.8	-	-	-	61.8	- 40.3	19.2	16.0	3.2	12.5	-	12.5	- 6.7
WEEK ENDED:																
July 14	68.5	-	68.5	8.9	-	-	-	8.9	- 59.6	7.8	6.0	1.8	0.5	-	0.5	- 7.3
21	11.4	-	11.4	25.0	-	-	-	25.0	+ 13.6	3.0	3.0	-	0.1	-	0.1	- 2.9
28	6.5	-	6.5	9.3	-	-	-	9.3	+ 2.8	0.1	-	0.1	0.3	-	0.3	+ 0.2
Aug. 4	6.1 (n)	-	6.1	15.9 (e)	-	-	-	15.9 (f)	+ 9.8	2.3	1.0	1.3	10.5 (g)	-	10.5 (g)	+ 8.2

Average Weekly Expenditures

First year of war	6.2 million.
Second year of war	8.9 million.
Third year of war	10.1 million.
Fourth year of war (through August 4, 1943)	9.2 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.
- (b) For monthly breakdown see tabulations prior to October 8, 1941.
- (c) For monthly breakdown see tabulations prior to October 11, 1942.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Does not reflect transactions in short term U. S. securities.
- (f) Includes \$ 4.2 million deposited by War Supplies, Ltd. and \$10.1 million received from N. Y. accounts of Canadian Chartered Banks.
- (g) Includes \$10.0 million held in accounts of U. S. banks.

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Includes: \$4.2 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports.
\$3.0 million to be held for the credit of the U. S. Army.

OFFICE
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BRITISH MOST SECRET
U.S. SECRET

TREASURY DEPARTMENT

OPTEL NO. 265

Information received up to 10 a.m., 12th August, 1943.

1. MILITARY

RUSSIA. 11th. KHARKOV SECTOR. Further Russian advance cut railway between KHARKOV and POLTAVA about thirty miles West of KHARKOV. In BRYANSK-OREL Sector further advances of 4 - 6 miles.

2. AIR OPERATIONS

WESTERN FRONT. 10th/11th. 1608 tons dropped at NURNBERG. 11th. Whirlwind bombers and Spitfires destroyed 4 E-boats and an armed trawler North of BREST.

11th/12th. Aircraft despatched: COLOGNE - 4, DUISBURG - 4, Mine laying - 23 (1 missing), Leaflets - 19 (1 in sea), Intruders - 16, Anti-shipping - 7.

PLYMOUTH attacked by H.E. and incendiary bombs from 20 aircraft. 45 fires started. Considerable damage to house property but little to Public Utilities. Casualties reported: 20 killed, 79 seriously injured.

BOURNEMOUTH attacked by H.E. bombs from 15 aircraft. Residential property damaged. Casualties: 6 killed, 14 seriously injured. Other minor incidents on scattered points on South Coast. 1 JU 88 destroyed by 8 fighters.

PACIFIC. 8th. 11 tons dropped on SALAMAUA and adjacent villages. 65 escorted bombers attacked BAIROKO Harbour and Vila.