

DIARY

Book 656

August 13-17, 1943

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Book 656

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August 18, 1943

MEMORANDUM FOR THE SECRETARY:

Roy Blough, Carl Shoup, Stanley Surrey and I discussed at some length yesterday the questions which you suggested should be formulated for next Thursday's meeting with the other agencies. We decided that much confusion would be avoided and that it was vital as a basis for such questions, and for further consideration by you of the tax program to be submitted to Congress in September, to take a poll of Treasury opinion on a number of detailed points. I enclose herewith a questionnaire, marked "A", designed to secure answers from Treasury people on various important questions. For the moment at least it is contemplated that the questions in this questionnaire should not be circulated outside the Department.

I have circulated this questionnaire among some Treasury people at a meeting held by Dan Bell this afternoon. I hope to have filled-out questionnaires from almost everybody by Monday morning.

We have also prepared a questionnaire for use at the Thursday meeting. These questions are designed to elicit information and opinion from the various agencies who will be represented at the meeting on points as to which the Treasury should have information and guidance in the formulation of the tax program. The questionnaire, which is enclosed and marked "B", has been carefully revised in a meeting in Dan Bell's office this afternoon, attended by Mr. Gaston, D. W. Bell, Harry White, Henry Murphy, Carl Shoup, Louis Shere, Stanley Surrey, Commissioner Helvering and Timothy Mooney.

This last-mentioned questionnaire is being sent to the heads of the agencies invited to the meeting next Thursday. A copy of a typical transmittal letter is enclosed herewith.

*Randolph Paul*

A

Questions on the tax program 1/

1. Are you in favor of submitting to the Congress a tax program consisting only of orthodox revenue sources such as the individual income tax, corporation taxes, estate tax, and excises? Yes  No

2. If answer to Question 1 is "No," then indicate by check mark which of the following anti-inflation measures you would recommend, either by itself or in conjunction with a tax program.

Spending tax

Spending tax with graduated

exemptions (Smith Plan)

Progressive sales tax

Compulsory loans

Extension of specific rationing

Expenditure rationing

Compulsory saving

---

1/ Questions should be answered in the light of what you would advise the Secretary to include in his statement to Congress.

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3. Should the Secretary recommend the expansion of Social Security as part of his Statement on the tax program?

(a) The Wagner Bill? Yes  No

(b) Part of the Wagner Bill or some other modification thereof? Yes  No

(c) General approval of expansion of Social Security without specifying details? Yes  No

4. Should the Secretary oppose the Vandenberg amendment that would maintain the existing old age payroll tax at the 1 percent rate? Yes  No

5. On the tax program should the Secretary adhere to the announced amount of \$12 billion annual rate effective January 1944? Yes  No

(a) A smaller tax program? Yes  No

Specify amount \$ \_\_\_\_\_

(b) A larger tax program? Yes  No

6. Is the amount specified in answer to Question 5 exclusive or inclusive of the amount that you would wish to see raised by an expansion of the present Social Security program?

Exclusive of Social Security

Inclusive of Social Security

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7. Would you include any of the following in the program:

General retail sales tax? Yes  No

Tax on increases in individual incomes? Yes  No

(a) Tax increases on all types

of income? Yes  No

(b) Limit the tax on income increases to proprietorships & partnerships?

Yes  No

Any other new form of tax \_\_\_\_\_ (Specify)

8. Do you favor a special 10 percent tax on all organizations now exempt under Section 101 including labor unions, chambers of commerce, business leagues but not including religious, educational, charitable institutions.

(Suggested by Mr. Stam)

Yes  No

9. Individual income tax.

(a) Do you agree that in the program recommended the individual income tax should account for approximately three-quarters of the increase asked for? Yes  No

If "No," specify what the fraction should be

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## 9. Individual income tax. (Continued)

(b) Should the present exemptions of the individual income tax be retained? Yes  No

If not, should the exemptions be lowered to \$500, \$1,000, and \$250? Yes  No

If these lower exemptions are not to be recommended, specify the exemptions that you prefer.

(c) In framing the rate schedule on what income groups would you place most of the additional burden? \_\_\_\_\_

(d) Should part of the increase in individual income tax be in the form of a refundable tax? Yes  No

Should the refundable part of the tax be confined to the lower income levels? Yes  No

(e) Do you favor an effective ceiling on incomes above \$25,000:

(1) By special supertax method? Yes  No

(2) By steepness of rate schedule? Yes  No

(f) Do you favor some relief provision for:

(1) Individuals with fixed commitments for insurance, home indebtedness, etc.? Yes  No

(2) Individuals whose incomes have been fixed or relatively fixed since 1941? Yes  No

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## 9. Individual income tax. (Continued)

(g) Do you favor vigorous prosecution of recommendations in loopholes?

Joint returns

Percentage depletion

Tax-exempt securities

## 10. Corporation taxes.

(a) Should the total amount of additional revenue from corporations be \$1 billion? Yes  No

More? Yes  No

Less? Yes  No

Specify amount \$ \_\_\_\_\_

(b) Are you in favor of increasing the excess profits tax rate above the present 90%? Yes  No

(c) If you favor increasing the excess profits tax, should part or all of the increase be in the form of post-war credit? Yes  No

(d) Do you favor extending the post-war credit now used in the excess profits tax to the regular income tax? Yes  No

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## 10. Corporation taxes. (Continued)

(e) Should we make specific recommendations designed to help the small corporation? Yes  No

## 11. Estate tax.

(a) Should the total amount of additional revenue be \$300 million? Yes  No

More? Yes  No

Less? Yes  No

Specify amount \$ \_\_\_\_\_

(b) Should the specific exemption be reduced from the present \$60,000? Yes  No

12. Excises. Are you opposed to heavy increases on?  
(Specify)

Liquor

Communications

Beer

Transportation of  
persons

Cigarettes

Admissions

Tobacco

Others

13. Do you favor a tax to prevent speculation?

(a) On rural real estate? Yes  No

(b) On urban real estate? Yes  No

(c) On stock prices? Yes  No

**B**

GENERAL QUESTIONS ON THE SECRETARY'S TAX  
STATEMENT TO THE CONGRESS

A. Inflation

1. Would it make an important difference in the effectiveness of price control if the forthcoming revenue measure were to supply only a few billion (perhaps \$4 billion or \$5 billion) instead of \$12 billion, or substantially more than \$12 billion, in added taxes? Would the difference involve the abandonment of general maximum price regulation? What would supplant general maximum price regulation, and how effective would it be?
2. Is there likely to be so heavy a volume of consumer buying that wholesale and retail inventories will be depleted below the minimum safe point within the next year if the forthcoming revenue measure supplies~~s~~
  - (a) only a few billion (perhaps \$4 billion or \$5 billion) in added taxes?
  - (b) \$12 billion in added taxes?
  - (c) substantially more than \$12 billion in added taxes?
3. Are black markets in the necessities of life (assuming that these necessities must be kept subject to price control in any event) likely to develop to very serious proportions within the next year if
  - (a) there is no additional revenue?

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(b) the forthcoming revenue measure supplies only a few billions (perhaps \$4 billion or \$5 billion) in added taxes?

(c) it supplies \$12 billion in added taxes?

(d) it supplies substantially more than \$12 billion in added taxes?

4. In general, will it be necessary to have an additional revenue program substantially greater than the announced \$12 billion tax goal to keep the general price level from advancing sharply over the next year? If the answer is yes, approximately how much revenue should be asked for in order to prevent such a rise?
5. What tax programs, if any, would cause a serious wave of consumer purchases in anticipation of the taxation?
6. Is it desirable to grant some relief from increased taxation to individuals who increase their rate of saving, in whatever form, to a level decidedly above normal?
7. Is there substantial danger that a general retail sales tax would result in effective demands for higher wage rates? Does the same danger exist to a greater or lesser degree with any further increase in individual income tax rates? Any other taxes you would care to mention?

B. Effect on Production

8. Is there evidence that the present tax system is
  - (a) discouraging over-time work?
  - (b) increasing absenteeism or otherwise decreasing the volume of work by those who already have jobs?

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(c) discouraging potential workers from taking jobs, especially women?

9. (a) Can you suggest how much farther it will be possible to go in taxation without incurring substantial dangers of the type listed in No. 8 above (as an illustration, would an initial income tax rate of 30 percent create such dangers)?
- (b) Are there relief provisions which could be used to overcome these dangers?
10. (a) Is the present tax system bearing so harshly on the low income groups that they are unable to maintain the standard of consumption necessary for efficient working capacity?
- (b) If the answer to question 10 (a) is no, do we still have substantial leeway for added taxes on these groups before that danger becomes important? (By low income groups is meant those families with annual gross incomes of approximately \$2,000 or less.)
11. Does the present system induce an appreciable degree of waste of manpower and materials by business management owing to the height of
- (a) the normal and surtax rates?
- (b) the excess profits tax rate?

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C. Equity

12. Is it very important, either for purposes of general morale or simply from considerations of equity, to grant some relief from increased taxation to persons who have
- (a) entered into contractual commitments for savings (mortgaged homes, insurance policies, etc.) that would be disrupted by heavier taxes?
  - (b) incurred expenses that may denote special burdens or hardship, like the cost of moving to war jobs, increased living costs in crowded war production centers, cost of special equipment for work, burial expenses, and so on?
13. Should the increase in taxation be kept deliberately at a fairly small amount on the grounds that final settlement of how the cost of the war is to be distributed among individuals at various income levels, etc., should be to a considerable degree postponed until after the war? To put the matter another way, is there danger of loading too much of the burden of the war on the low-income groups if a drastic tax program is undertaken now (and a correspondingly lighter tax program is to be made possible after the war), instead of having the wartime increase somewhat less and consequently the level of post-war taxation somewhat higher than it otherwise would be?
14. Should another attempt be made to hold the net income available after income tax to an approximate maximum of, say, \$25,000 (or some other figure)?

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15. (a) Is it important to place special taxes on increases in individual incomes (i) on only a few types of increase and larger incomes, or (ii) on almost all types of increase, exempting, however, increases in the very low income groups?
- (b) Would it be desirable to have merely a relief provision for those who have had no increase in incomes?
- (i) If so should the relief be merely in the form of immediate availability of a postwar credit (restricted to the low-income groups)?

D. Post-War Considerations

16. In deciding how much additional tax revenue to raise, to what extent are post-war considerations important? Specifically --
- (a) Should we be concerned over the difference in the size of the post-war interest burden that is implied by the difference between:
- (i) no additional revenue
  - (ii) additional revenue of \$4 billion or \$5 billion
  - (iii) additional revenue of \$12 billion
  - (iv) additional revenue of substantially more than \$12 billion?
- (b) Is keeping down the growth in the volume of bank deposits and currency an important reason for imposing further taxes?
- (c) In general is it an important consideration in framing our present tax program to be sure to have greatly lower tax rates after the war?

sample letter

Sample

August 14, 1943

Dear Judge Vinson:

In connection with the series of conferences which the Secretary initiated on August 10, I am forwarding for your examination a list of general questions on which the Secretary will need information in formulating his statement to the Congress on the tax program. Whatever information you may supply on the topics covered by these questions will be very helpful.

The enclosed questions will be the subject of informal discussion at the meeting next Thursday. They are being sent to you now in order to give you an advance opportunity to consider them.

In addition to the comments which you may make at the conference, it would be helpful to have memoranda covering such phases of the issues raised in the enclosed questions as fall peculiarly in the jurisdiction of your agency.

It is, of course, important that the enclosed material be treated as highly confidential.

Sincerely yours,

/s/ Randolph Paul

General Counsel

Honorable Fred M. Vinson,  
Director of Economic Stabilization,  
Room 1206 Federal Reserve Bldg.,  
Washington, D. C.

AUG 13 1943

My dear Mr. Attorney General:

Under the provisions of the Act of June 30, 1914, 38 Stat. 399, set forth in U.S.C., title 34, sec. 568 and under Executive Order No. 9177, emergency purchases of war material may be entered free of duty. Some question has arisen whether Collectors of Customs should determine independently whether importations made thereunder are, in fact, importations of war material or whether the Collectors may rely entirely on a certificate, made in accordance with Section 2 of Executive Order No. 9177, that the articles being imported are emergency purchases of war material.

Your opinion on this matter is respectfully requested.

Sincerely yours,

(Signed) Herbert E. Gaston  
Acting Secretary of the Treasury.

The Honorable Francis Biddle  
Attorney General of the United States  
Washington, D.C.

## MEMORANDUM FOR THE SECRETARY

August 13, 1943

Mail Report

Tax mail continues heavy, but the receipts of this past week showed a shift of emphasis in the opinions expressed. While the withholding tax brought some protests and a number of questions as to its application, it would seem that our correspondents are now fairly well reconciled to this particular tax. They remain decidedly unreconciled, however, to any suggestion of higher taxes. The mail has contained increasing opposition -- increasing both in number and in vehemence -- to all such suggestions. We have received many copies of the cartoon, "Nearing the Limit," (showing the Secretary wringing revenue from the unhappy taxpayer). Almost all of these were sent anonymously, and there were also a number of abusive anonymous cards or letters -- something noticeably lacking during the past weeks until taxes again took the limelight.

There were also a number of vigorous criticisms of the recently issued charts comparing the taxes of the United States, Canada, and Britain. Comments include criticism of the omission of figures showing State taxes, etc., in addition to the Federal, and other details which various writers believe gave a wrong impression. Opinions pro and con the sales tax were about equally divided, and excess profits tax on the income of individuals brought an occasional endorsement and no definite opposition.

Bond mail continued much as usual with many ideas submitted for the Third War Loan Campaign. There were further requests that wire clips be omitted from the new small size Bonds in order to avoid damage to typewriter platens. Only 47 Bonds were submitted to

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Memorandum for the Secretary.

August 13, 1943

the Secretary for redemption, and there were only 3 references to unwarranted cashing of Bonds in various areas. For the third consecutive week, complaints about delayed Bonds from the War Department personnel remained at about 40. These also continue to apply largely to 1942 deliveries, with comments to the effect that current Bonds are being received in reasonable time.

The flareup that has resulted from the announcement of the release of invasion money in Sicily closely resembles the one that followed the release of \$660,000,000 in Federal Reserve greenbacks a few months ago. A number of Members of the Congress have forwarded letters from their constituents asking investigation or information regarding invasion money.

Government economy is still foremost in the public mind, and several letters this past week were inspired by newspaper reports that Army trucks had dumped tons of potatoes on a trash heap in Vincennes, Indiana. The steel pennies also still have their indignant opponents, usually individuals who have lost 9¢ in accepting one as a dime. So far no word has been uttered in their defense, although correspondence indicates that letters of explanation have somewhat soothed those who wrote indignantly in the first place.

Hubert E. Forbush

General Comments

Maxwell J. Welch, Consulting Engineer, Los Angeles, California. Current News items report that the present iron pennies will remain, for the reason that after a given length of time they will tarnish and will not be taken, by mistake, for dimes. After one week's treatment in water and air, alternately, I have been able to produce the sample enclosed. Honestly, Henry, do you think that "Old Abe Lincoln" was ever half as black as these new pennies make him out? Suggestion -- would it be too expensive to copper-plate the new pennies?

John H. Perry, President, Grayson County State Bank, Sherman, Tex. We have your letter, addressed to Ferdinand Moore, Chairman of the Board of this bank, asking for a lot of detailed information relative to our holding of Government Bonds, and asking a report on same monthly. Wish to state that we are not going to make any such report. It looks like Washington has gone absolutely crazy, and your office is no exception. It takes about two persons now to make reports to the Government on various things that do not do any good, except to muddle everything up. We had an examination of this bank by the FDIC on July 10, 1943, and he has a complete record of all our securities, and if you want this information you can get it from him as we do not have time to make these useless reports and do not intend to make them. I hope you can understand what I mean.

Senator Downey (Virginia) sends letter he has received from Mrs. D. V. Ponder, Staunton, Va. I am enclosing a copy of a letter I sent to the Foreign Funds Control of the Treasury. It has been three weeks and I have not received a reply. August 31 is the deadline on filing this report. I am writing to you as our Senator to see if you can get them to send the information I need. (The following is the letter addressed by Mrs. Ponder to the Foreign Funds Control.)

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I wrote to the Riggs National Bank for form to fill out for census of property in foreign countries which I own. I received Form TFR 500, and abridged instructions, and after reading them I couldn't understand them well enough to know what I should do. I went to the Trust Department of the Bank in Staunton that I have an account with, and they couldn't tell me how to fill it out, and suggested I go to the Post Office or to the Bureau of Internal Revenue for help. I went there and they couldn't understand the instructions either. \* \* \*

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Favorable Comments on Bonds

H. D. Wiese, Secretary, Mutual Building and Loan Association, North Platte, Nebraska. I haven't any idea just how near your desk this letter will get and my only hope is that it will fall into the hands of an official with power to grant my request. Please send me fifty copies of "The Story of America's Greatest War Loan," a Report by H. Morgenthau, Jr., Secretary of the Treasury, May 25, 1943. I have about fifty local speakers who have agreed to prepare and deliver five or ten minute radio talks during the Third War Loan Campaign and they are crying for material to help them in their preparation. This little pamphlet contains most interesting and useful information.

\* \* \*

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Unfavorable Comments on Bonds

Ralph M. McCarthy, Member Post 47, American Legion, Ft. Wayne, Ind. I have just recently written you in regard to Bonds purchased by me and all the rest of the employees here at William Northern Field, Tullahoma, Tennessee. You in turn referred me to the Chicago Office which is the old runaround, in other words, passing the buck. I purchase a Bond every payday, and in return get a Bond whenever they feel like giving me one. What I want to know from you is when do we get our Bonds, or when is some action going to be taken to see that we get what we pay for? Awaiting your early reply, which will be posted on the bulletin boards for the enlightenment of the entire shop and office.

C. T. Dougherty, The Canton Malleable Iron Co., Canton, Ohio. \* \* \* On March 24 our company sent a check to the Peoples Bank of this city for some Bonds for some of our employees. The bank handled its part of the transaction satisfactorily and mailed the Bonds to us within a few days from their receipt of our check, but the Bonds never reached us. They went astray in the mail, and have never turned up, nor has anything been heard of them at all. The matter was reported to the Federal Reserve Bank in Cleveland. They stated that it would be necessary to wait perhaps 30 days before new Bonds could be issued to take the place of those lost, which was perfectly satisfactory and understandable. However, four full months have now passed and there have been no substitute Bonds issued. The individuals for whom the Bonds were bought are becoming very impatient, and I think with justification. They feel they should either have the new Bonds issued to them immediately, or their money should be refunded. This sort of thing doesn't tend to make one anxious to put savings into Government Bonds, nor, I am sure, does it help to build up the morale of those at home. It strikes me, Mr. Secretary, that some action should be taken from your office to see that this situation is straightened out.

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R. A. Long, (R. A. Long's Bookkeeping Service), Orlando, Fla. I have a client who operates a taxi business with approximately 35 employees. To stimulate business he wanted to give a \$50 War Bond each month to the employee who turned in the largest amount of fares. I have just been advised by Regional War Labor Board that they cannot permit him to give these Bonds. They have sent us a long questionnaire to be filled out and it does not apply at all in a case of this kind. It seems to me that all of this red tape does not encourage the purchase of Bonds. Our client is perfectly willing to buy these Bonds and the Government is benefited by the purchase of them. In turn, the employees' salary is increased, as well as the employer's by this stimulation. In cases of this kind it would seem to be a simpler procedure if the Regional Director would give his approval of this plan and not force the employer to file a mass of documentary evidence. \* \* \*

Charles B. Panzik, N.Y.C. I am writing this letter to you to tell you that there is gossip going on among our defense workers. Gossip that is making them believe they are paying \$22.50 for a Defense Savings Bond that is selling for \$18.75. They are told that they are paying \$3.75 income tax on the \$18.75 - this makes the Defense Savings Bond cost them \$22.50. Many defense workers are believing this gossip and are saying they are going to quit buying them. Please explain to them that this is not true. If you don't, I am afraid there will be a drop in the sales of the Defense Savings Bonds.

Mrs. Russell Savage, Osage, W. Va. Joseph Stewart, Manager of the Pursglove Coal Company of Pursglove, W. Va., is holding a \$50 War Bond of ours -- has been holding it since February, 1943. He says he is holding it to insure him my husband will go back to work for

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them when the mines start up again. If you recall, the No. 15 mine caught fire in January. My husband is working for DuPont de Nemours Company of Morgantown, W. Va. He might be transferred to their new Plant that is being built in the State of Washington. So if there is anything you can do to help us get the Bond, it will be appreciated very much.

W. L. Peterson, President, The State National Bank of Denison, Denison, Texas. May I take this opportunity of registering in a humble way my protest against long telegrams of the enclosed type, which, in my opinion, are uselessly being sent from time-to-time under your direction. In both of the specimen cases, I believe that letters would have served just as well as the long telegrams. No doubt the same telegrams were sent all over the United States; thus involving thousands of dollars of expense. In addition to the expense, thousands of long telegrams, in my judgment, waste a lot of manpower. School children are being asked to buy War Savings Stamps, and we civilians are gladly buying Bonds to help win the war. I want to tell you, however, that it is certainly discouraging to observe a lot of the extravagance that is being practiced by many of our Government officials. \* \* \*

George H. Greenwood, President, The Pacific National Bank of Seattle, Seattle, Wash. It has just been brought to my attention that in the forthcoming War Loan Drive it is apparently not going to be possible for the subscriptions of national corporations to be allocated to any other point than the head office. In the past, in both War Loan Drives and other campaigns for funds, allocations of this type have been made without too much difficulty, and it has seemed to be a fair method. \* \* \* It does not seem fair, for instance, that New York should receive full credit for a subscription made by a national corporation with perhaps a dozen branches extending as far west as the Pacific Coast, but if this is to be the case, then

- 7 -

certainly the quotas for various sections of the country should be materially changed. Those of communities where national corporations maintain their head offices should be substantially raised and the outlying communities should be correspondingly reduced.

Charles E. Foster, Attorney and Counsellor at Law, Omaha, Nebraska. I purchased a \$100 Bond through the U. S. National Bank of Omaha. This application was referred to and acted upon by the Federal Reserve Bank of Kansas City. I asked that the Omaha Masonic Home for Boys, a corporation, be made beneficiary. This privilege was refused me by the Federal Reserve Bank. The Omaha Masonic Home for Boys is a charitable corporation with a perpetual charter, organized under the laws of the State of Nebraska. Its object is for the care of homeless boys. I am a member of the Board of Trustees of this corporation. It is my desire, and as indicated by numerous others, to make this charitable institution beneficiary in any Bonds which we might purchase in the Series named above. Speaking for myself only, I have no members of my immediate family living. The denial of this right denies some very worthy organizations and churches from receiving what you may term just and proper contributions to their work. I do not believe that it is the object of our Government to in any way hamper charitable work. I would like to have a ruling upon this question as it arises almost daily, not only in my legal practice, but in several charitable organizations of which I happen to be a member or on the Board. \* \* \*

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Unfavorable Comments on Taxation

Harry R. Sullivan, Kansas City, Kan. With reference to the payroll withholding tax, I would appreciate some information which I have been unable to obtain elsewhere. \* \* \* As an example, those having a taxable income of about \$500 per year ordinarily paid about \$100 total income tax. Under this plan of deducting at the source, about \$7 per week would be deducted, making a total of \$364 per year on the same income. Some of our legislators in Washington say we will obtain a rebate above the six and thirteen cent brackets. Others in the same position state no refund will ever be made. Now the information I would like to have -- will a rebate be made when you have paid more than you owe? I cannot understand how money can be withheld beyond what you actually owe. I would appreciate a letter clearing this situation.

Charles V. Snedeker, Babylon, N. Y. \* \* \* Due to a complicated family legal entanglement, I was forced out of business for over three years. On January 1, 1942, this status was remedied by agreement between my creditor and myself. There was owing a tax lien of about \$1,500, which was unpayable due to my inability to have any earning power whatsoever during this period. In September, 1941, I loaned, for the duration, a power cruiser to the U. S. Coast Guard. This boat had no marketable value and has none now. The Coast Guard used this boat until April, 1943, when it was turned back to me in a condition so damaged that a Board of Inquiry of that Service awarded me \$2,200 for damages -- earmarked for the repair of this particular vessel. In January, 1943, I submitted to the Treasury Department an offer in compromise for the unpaid tax lien. This offer is now rejected because your technical staff -- learning of the damage award by the Coast Guard, demand a settlement in full from

- 9 -

this payment. I feel that this is a discriminatory course of procedure, because in loaning the U. S. Government this vessel, I was only doing what any American citizen would be proud and happy to do -- help the war effort. The result, however, is that I have a damaged boat with no means of repairing same, although the U. S. Coast Guard in its original contract with me promised "to restore same to the owner in the same condition as when received". The Coast Guard Auxiliary, through its local Flotilla, is desirous now of using this ship, and I cannot fulfill this contract either because of its damaged condition. \* \* \*

Charles Tomage, Sidney, Ohio. I hear you are contemplating on imposing more tax on the laboring class of people, as I am one among that class, we stood for the 20 per cent, but are not going to stand for any more at the low wages we are receiving and high cost of living. I know the sentiment and feeling of the laboring class of people, and am letting you know their feeling toward standing for any more taxes taken out of their pay envelope each week, what are you trying to cause? A revolt of labor. \* \* \* I have a family of 5 and it now hustles me to get by, and I put every cent into my family, and there are thousand of others. \* \* \* We now have a state tax of 10 per cent on the dollar, or a penny on every dime worth one buys, tax on realstate. When all summed up one is now paying 50 cts. out every dollar earned including a federal tax also on some articles. For God's sake don't impose no more tax. \* \* \*

Louis R. Roth, Public Accountant, Miami, Fla. I learned from the radio yesterday that you were attempting to get Congress to simplify the income tax return. I was under the impression that this was a duty of your Department, and it is certainly high time that the great mass of individuals be relieved of the expenses forced on them by the Treasury Department in its complicated tax form. \* \* \*

- 10 -

Thomas W. Rivirs, Portland, Oregon. I have written once and was not shown the courtesy of a reply from either your office or the Internal Revenue Collector's office here, in reference to interest charged me in payment of my 1942 income tax. I will state again that I am First Assistant Engineer on an Oil Tanker which is chartered by the U. S. Navy. I was out of the United States from January 9 to July 24, 1943, and have due proof signed by the U. S. Shipping Commissioner. I could not file my return before March 15, and wrote the Collector of Internal Revenue at Austin, Texas, where I usually file, and explained the situation to him. This from a foreign port. Being in the Merchant Marine and carrying oil for the Navy, I consider that I am due some consideration, but when you are informed that you don't have to pay the penalty for failure to file on time by some clerk who acts as if he were doing you a favor, and then you are required to pay interest to the extent of \$18.00, well it made me mad and I'm still mad. \* \* \*

AUG 13 1943

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

The contents of this cable is to be considered secret.

1. Various American newspapers, including the New York Times, on Thursday, August 12 carried U. P. dispatch from Chungking, dated August 9 which dealt with, among other things, the 1941 Stabilization Agreement, the special 30 to 1 exchange rate, and the sale of U. S. dollar certificates.

2. This dispatch reported that, according to "informed sources", what is described as the "Chinese-British-American Tripartite currency stabilization program" will not be renewed. Considerable detail was given regarding the history of the Stabilization Board including the fact that U. S. \$50 million contribution has remained "virtually untouched."

3. With regard to the U. S. dollar certificates, the dispatch contained the information that profiteers were taking advantage of the program through recourse to the black market, and that "the Chinese and American Governments were footing the bill."

4. The Treasury would appreciate having immediately any information, comments, and views which you may have regarding this dispatch including the source of information and its significance.

ISF:ff  
8-13-43

PARAPHRASE OF TELEGRAM SENT

TO: AMERICAN EMBASSY, Chungking.  
DATED: August 13, 1943, 9 p.m.  
NUMBER: 1102

This is a message for Adler from the Secretary of the Treasury.

The contents of this cable are to be considered secret.

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HULL  
(FL)

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTEL NO. 266

Information received up to 10 a.m., 13th August, 1943.

1. MILITARY

SICILY. Enemy continues to withdraw in Northern Sector. Signs that they are having difficulties in maintaining supplies of ammunition. Aerial reconnaissance shows increasing concentration of landing craft in MESSINA area, but reports of a large scale evacuation not repeat not confirmed.

8th Army. 12th. In Coastal Sector U.K. troops captured RIPOSTO. In centre MALETTO clear of enemy who were still resisting strongly on high ground further east.

7th Army. On 11th, a U.S. Battalion made a successful landing East of CAPE ORLANDO. 12th. Troops advanced to within 2 miles of RANDAZZO, captured FLORESTA and also reached PATTI.

2. AIR OPERATIONS

WESTERN FRONT. 12th. 335 Fortresses (B17) despatched against targets in North GERMANY. Attacks were made by 87 on 2 synthetic oil plants on GELSENKIRCHEN, by 27 on another plant near COLOGNE and by 89 on a precision instrument factory at BONN. Bombing at GELSENKIRCHEN reported as "good" and on other 2 localities as "fair to poor". 541 tons dropped on these and other targets of opportunity. 25 Fortresses missing, provisional enemy casualties 22, 17, 6. Escorted Marauders (B.26) dropped 36 tons on POIX airfield and escorted Typhoon bombers attacked airfields at COURTRAI and MERVILLE. Enemy casualties - 4.2.8., ours - nil.

12th/13th. Aircraft despatched: MILAN - 505 (3 missing, 10 outstanding), TURIN - 152 (4 missing), BERLIN - 7 (1 missing), Sea-mining - 24 (2 missing), Leaflets - 9, Intruders - 42, Anti-shipping - 12. At MILAN and TURIN, weather good, bombing well concentrated. 2 enemy aircraft dropped bombs in East SUFFOLK. Damage slight.

SICILY and SOUTH ITALY. 10th/11th. Wellingtons dropped 174 tons on beaches in MESSINA area. 11th. 116 Medium bombers and fighters attacked bridges in toe of ITALY.

ITALY. 11th. 40 Fortresses (B17) (1 missing) attacked TERNI (45 miles North of ROMA). Severe damage to railway buildings, repair shops and town.

R. W. Coyne

War Finance Division

Expenses of Loans

August 14, 1943.

BOOK OF FIFTY-ONE, NAMES ATTACHED

THE SEPTEMBER DRIVE FOR FIVE BILLION DOLLARS FROM INDIVIDUALS CAN ONLY BE A SUCCESS IF A LARGE PORTION OF THIS FIGURE IS RAISED BY THE SALE OF EXTRA BONDS TO WORKERS ON PAYROLLS. PLANT QUOTAS SHOULD BE SET AVERAGING AT LEAST TWO WEEKS' SALARY IN EXTRA BONDS, OR AN EXTRA \$100 BOND PURCHASED DURING SEPTEMBER. I WILL WIRE THE HEADS OF EVERY FIRM EMPLOYING 100 OR MORE PERSONS NEXT WEEK SUPPORTING YOUR EFFORTS. PLEASE GIVE ME ASSURANCE AS SOON AS POSSIBLE THAT YOU ARE ESTABLISHING PLANT QUOTAS AND THAT YOUR GOOD EFFORTS WILL PROVIDE FOR EXTRA BONDS BEING SOLD FOR CASH AT THE PLANT LEVEL DURING THE DRIVE. WE HAVE ONLY 25 DAYS LEFT IN WHICH TO PREPARE FOR THIS VITALLY IMPORTANT HOME FRONT JOB.

HENRY MORENTHAU, JR.



TRG:MC:dwb

Ed Leigh McMillan  
Chairman, War Finance Committee  
1525 Comer Building,  
Birmingham, Alabama

Walter R. Bimson  
Chairman, War Finance Committee  
Post Office Building  
Phoenix, Arizona

W. W. Campbell  
Chairman, War Finance Committee  
Eaker First Floor  
Radio Center  
Little Rock, Arkansas

Charles R. Page  
Chairman, War Finance Committee  
733 Monadnock Building,  
San Francisco, California

Robert H. Moulton  
Chairman, War Finance Committee  
621 South Spring Street  
Los Angeles, California

Clarence H. Adams  
Chairman, War Finance Committee  
302 Colorado Building  
Denver, Colorado

Thomas Hewes, Chairman, War Finance Committee  
36 Pearl Street, Room 523  
Hartford, Connecticut

Donald P. Ross,  
Executive Vice Chairman, War Finance Committee  
1064 duPont Hotel Building  
Wilmington, Delaware

John A. Reilly,  
Chairman, War Finance Committee  
852 Washington Building  
Washington, D. C.

W. W. McEachern  
Chairman, War Finance Committee  
404 Federal Building  
Jacksonville, Florida

Charles A. Stair  
Chairman, War Finance Committee  
1202 C & S National Bank Building  
Atlanta, Georgia

John A. Schoonover  
Chairman, War Finance Committee  
423 First National Bank Building  
Boise, Idaho

Harold H. Swift  
Chairman, War Finance Committee  
300 Bankers Building,  
105 West Adams Street  
Chicago, Illinois

Eugene C. Pulliam  
Chairman, War Finance Committee  
816 Illinois Building  
Indianapolis, Indiana

Vernon L. Clark  
Chairman, War Finance Committee  
800 Walnut Building  
Des Moines, Iowa

W. Laird Dean  
Chairman, War Finance Committee  
208 Federal Building  
Topeka, Kansas

Ben Williamson, Jr.,  
Chairman, War Finance Division  
808 Second National Bank Building  
Ashland, Kentucky

S. Albert Phillips  
Chairman, War Finance Committee  
510 Republic Building,  
Louisville, Kentucky

Leon G. Tujague  
Chairman, War Finance Committee  
512 Pan American Building  
Camp and Poydras Streets  
New Orleans, Louisiana

H. Nelson McDougall  
Chairman, War Finance Committee  
Federal Building  
Augusta, Maine

Hooper S. Miles  
Chairman, War Finance Committee  
Salvest Building 601 Md. Trust Bldg.  
Fayette and St. Paul Streets,  
Baltimore, Maryland

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Albert Everts  
Chairman, War Finance Committee  
79 Milk Street  
Boston, Massachusetts

Frank N. Isbey  
Chairman, War Finance Committee  
600 Union Guardian Building  
Detroit, Michigan

O. J. Arnold  
Chairman, War Finance Committee  
570 Northwestern Bank Building  
Minneapolis, Minnesota

Rex I. Brown  
Chairman, War Finance Committee  
1005 Lampton Building  
R Jackson, Mississippi

Walter W. Head  
Chairman, War Finance Committee  
200 Federal Commerce Trust Building  
208 North Broadway  
St. Louis, Missouri

A. T. Hibbard  
Chairman, War Finance Committee  
302 Federal Building  
Great Falls, Montana

W. Dale Clark  
War Finance Committee Chairman  
636 World Herald Building  
Omaha, Nebraska

Forest Lovelock  
Chairman, War Finance Committee  
35 East 4th Street  
Reno, Nevada

Winthrop L. Carter  
Chairman, War Finance Committee  
Bell Building  
922 Elm Street  
Manchester, New Hampshire

Franklin D'Olier  
Chairman, War Finance Committee  
Post Office Building,  
Newark, New Jersey

Cale W. Carson  
Chairman, War Finance Committee  
101 Federal Building  
Albuquerque, New Mexico

Hevil Ford  
Executive Manager, War Finance Committee  
1270 Sixth Avenue  
New York City

Clarence T. Leinbach  
Chairman, War Finance Committee  
Federal Building  
Greensboro

F. L. Conklin  
Chairman, War Finance Committee  
Heirling Block  
Jamestown, North Dakota

Roy D. Moore  
Chairman, War Finance Committee  
693 Union Commerce Building  
Cleveland, Ohio

A. E. Bradshaw  
Chairman, War Finance Committee  
203 Drew Building  
Tulsa, Oklahoma

E. C. Sammons  
Chairman, War Finance Committee  
330 American Bank Building  
Portland, Oregon

Ellsworth A. Roberts  
~~1200~~  
Chairman, War Finance Committee  
12 South 12th Street  
Philadelphia, Pennsylvania

G. Burton Hibbert  
Chairman, War Finance Committee  
1812 Industrial Trust Building  
Providence, Rhode Island

Christie Benet  
Chairman, War Finance Committee  
Federal Land Bank  
Columbia, South Carolina

- 3 -

Walter H. Burke  
Chairman, War Finance Committee  
Post Office Building  
Sioux Falls, South Dakota

Cecil Woods  
Chairman, War Finance Committee  
Third National Bank Building  
170 Fourth Avenue  
Nashville, Tennessee

Judson S. James Jr.  
Executive Manager, War Finance Committee  
Dallas Power & Light Building  
Dallas, Texas

Charles L. Smith  
Chairman, War Finance Committee  
Union Pacific Building  
Salt Lake City, Utah

Levi P. Smith  
Chairman, War Finance Committee  
Hotel Van Ness  
Burlington, Vermont

Francis P. Gines  
Chairman, War Finance Committee  
214 North Fifth Street  
Richmond, Virginia

Reno Odlin  
Chairman, War Finance Committee  
209 Federal Building  
Seattle, Washington

A. C. Spurr  
Chairman, War Finance Committee  
608 Security Building  
Charleston, West Virginia

Walter Kasten  
Chairman, War Finance Committee  
First Wisconsin National Bank  
Sixth Floor  
Milwaukee, Wisconsin

Fred W. Marble, Chairman, War Finance Committee  
307 Federal Building  
Cheyenne, Wyoming

R. W. Coyne

War Finance Division

Expenses of Loans

August 14, 1943.

BOOK OF TWO - VIA NAVY RADIO

Governor Ernest H. Gruening,  
Chairman, War Finance Committee,  
Post Office Box 110,  
Juneau, Alaska.

Mr. Fred H. Kanne,  
Chairman, War Finance Committee,  
Young Hotel Building, 1055 Bishop Street,  
Honolulu, T. H.

THE SEPTEMBER DRIVE FOR FIVE BILLION DOLLARS FROM INDIVIDUALS CAN ONLY BE A SUCCESS IF A LARGE PORTION OF THIS FIGURE IS RAISED BY THE SALE OF EXTRA BONDS TO WORKERS ON PAYROLLS. PLANT QUOTAS SHOULD BE SET AVERAGING AT LEAST TWO WEEKS' SALARY IN EXTRA BONDS, OR AN EXTRA \$100 BOND PURCHASED DURING SEPTEMBER. I WILL WIRE THE HEADS OF EVERY FIRM EMPLOYING 100 OR MORE PERSONS NEXT WEEK SUPPORTING YOUR EFFORTS. PLEASE GIVE ME ASSURANCE AS SOON AS POSSIBLE THAT YOU ARE ESTABLISHING PLANT QUOTAS AND THAT YOUR GOOD EFFORTS WILL PROVIDE FOR EXTRA BONDS BEING SOLD FOR CASH AT THE PLANT LEVEL DURING THE DRIVE. WE HAVE ONLY 25 DAYS LEFT IN WHICH TO PREPARE FOR THIS VITALLY IMPORTANT HOME FRONT JOB.

HENRY MORGENTHAU, JR.

*Handwritten initials: HMC*

TRG:HWC:dwb

August 14, 1943

Mr. Gamble

Fred Smith

On our trip to Buffalo, the Secretary made the following suggestions to be passed on to you:

- (1) Please see that as many Senators and Congressmen as possible are tied into the opening of the Third War Loan Drive in the various states.
- (2) Have Miss Elliott organize a "testing" process for Third War Loan promotion so that we can pre-test its effects on women working in war plants. I discussed this with you this morning. Dr. Likert or an expert to be secured through the Council can help set up an intelligent testing method so the results will be reasonably reliable.
- (3) The Secretary notes that there are a lot of old posters hanging around going way back to the Minute Man days. He would like to have these cleared out of circulation and destroyed before the Third War Loan. He suggests this would be a good job for the Boy Scouts. He suggests that it be done before any new Third War Loan posters are distributed, rather than at the same time. This makes a double assignment for the Boy Scouts, but they don't have very much to do anyway and everything will look fresh when the new War Loan posters are put in.
- (4) You know what happened at the Wright plant about payroll savings. Will you check to see if Credit Unions are handling this anywhere else and if so let everyone know that the regulations of the Union are to be changed to allow, in case of termination, the Union to turn the money directly over to the employer. I will remind the Secretary on Tuesday to get in touch with the Farm Credit Administration on this.
- (5) There are a lot of old ten percent announcements still on the air; also many appeals which we have dropped long since. The Secretary would like to clean these up by having our office or the C.W.I. get word to the local stations. We should also make sure that neither our office nor the C.W.I. are still using the old announcements themselves. Everything should be turned

- 2 -

to the "support the war" theme, even if the "Back the Attack" stuff is not yet ready.

- (6) Curtis Wright wants a telegram from the Secretary asking everyone to buy an extra \$100 Bond in the Third War Loan. They want to blow it up for posting through the plant.

Shall I prepare the telegram?

FS:gr  
8-14-43

Cc: Mrs. Klotz, for the Secretary.

BRITISH EMBASSY  
WASHINGTON, D. C.

August 14th, 1943

My dear Mr. Morgenthau,

I very much regret to say that I have just received the following message which the Chancellor of the Exchequer has asked me to transmit to you:-

"You will be sorry to hear that Sir Frederick Phillips died suddenly this morning."

He will be a great loss to us all.

Yours sincerely,

*R. I. Campbell*

The Honourable

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

August 14, 1943

To Winant from the Secretary of the Treasury

Please transmit the following message to the Chancellor of the Exchequer:

"I am grieved to learn of the death of Sir Frederick Phillips. In the three years of close association with Sir Frederick, I and the other officials of the United States Treasury came to have a high regard for his character and a great respect for his ability. His death will deprive the British Treasury of an able civil servant and the United States Treasury of an esteemed friend and colleague. The close cooperation between the British Treasury and the United States Treasury is in no small part due to the efforts of Sir Frederick.

Henry Morgenthau, Jr.  
Secretary of the Treasury."

Signed by Mr. Bell  
Cleared with Mr. Gaston

*E. M. B.*

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Saturday, August 14, 1943.

Press Service  
No. 38-8

Secretary Morgenthau expressed his deep regret today when informed of the death of Sir Frederick Phillips, Second Secretary of the British Treasury.

"I feel the death of Sir Frederick as a deep personal loss," Mr. Morgenthau said.

Observing that since 1940 Sir Frederick had been the British Treasury representative in Washington, Secretary Morgenthau recalled that during these difficult years Sir Frederick worked in close and harmonious cooperation with him and with other officials of the Treasury staff.

"His long experience and excellent judgment were of great help in the solution of many of the difficult war-time problems of finance," Mr. Morgenthau said. "His death will deprive Britain and the United Nations of an able advisor.

"Sir Frederick will be remembered by his colleagues and innumerable friends in the United States as a man who represented the best traditions of the British Treasury and the British Civil Service."

-oOo-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 10, 1943

TO Secretary Morgenthau

FROM Mr. White

Subject: Current Economic Conditions in France.

Treasury representatives in French Africa have submitted a report on economic and monetary conditions in France prepared by interrogations of refugees recently escaped from France.

Of special interest is the lack of confidence in the future value of the franc. Without exception the French refugees felt that the franc will be practically worthless after the war. Some refugees reported that the French people regard the Bank of France notes now as simply German "ersatz" currency.

There is little hoarding of notes. Most of the workers have to spend all they earn to keep alive. The few with surplus cash are putting it into tangible commodities or foreign currencies.

~~The~~ lessening purchasing power of the franc is demonstrated by an increase of 400 percent in the actual cost of living since the fall of France. One-half of this increase has taken place in the past year. This increased cost of living is not reflected in legal prices, which have not increased a great deal since the Armistice, but in prices on the black market where the people purchase nearly all their consumer goods.

The Germans themselves are the biggest patrons of the black market, finding this channel, with the unlimited francs available to them, an effective means of draining the area of its available goods.

The refugees indicated that the Germans never come into direct contact with the French people, the economic and financial pressures being always applied by French authorities. Thus in the field of banking the Germans use the French banks to restrict credit to firms not producing directly for the German war effort. In this way the firms are forced out of business and their workers become available to be sent to Germany.

*Tues*

RCC  
This telegram must be  
paraphrased before being  
communicated to anyone  
other than a Governmental  
agency. (BR)

Bombay  
Dated August 14, 1943  
Rec'd 2:38 p.m.

Secretary of State  
Washington

AUG 15 1943  
COMMERCIAL ATTACHÉ

546, August 14, 5 p.m.  
Your 13, January 12, and my 513, August 2.  
FOR THE TREASURY DEPARTMENT.

I. General working class index Bombay, year ended  
June 1934 represents 100: Month ended June 30, 1943  
index number is 235, for prices Bombay month ended June  
15 index, number is 253 same base year.

L. Imports from British Empire and foreign countries  
respectively millions of rupees 1943 April 38.4 and  
55.3; 1942 April 39.2 and 48.3 Exports 1943 April 78 and  
78.3 1942 April 116 and 61.9.

DONOVAN

LMS

Recd 0932  
8/16/43  
Price Gressde.  
12/7

44

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET  
U.S. SECRET

COPY NO. 13

OPTEL NO. 267

Information received up to 10 a.m. 14th August, 1943.

1. NAVAL

Mediterranean. One of H.M. Submarines overdue and considered lost.

2. MILITARY

Sicily. 13th. 8th Army. Forward troops reached Fiume Freddo. Progress hindered by mortars and deep gullies. Prisoners now being taken very tired and depressed.

7th Army. Randazzo occupied 0935 a.m. British Infantry subsequently entered from South. U.S. Troops pressing on to Francavilla, in the centre the area 4 miles E. of Ucria.

Russia. Vyasma Sector. Russia. New Russian offensive some 80 miles N. of Bryansk has made progress in the neighbourhood of Spass Demensk 50 miles of Vyasma.

Kharkov Sector. Russians have made further slight advance and beaten off enemy counter attack in area Akhtyrka (60 miles W. of Kharkov).

3. AIR OPERATIONS

Western Front. 12th/13th. 1247 tons on Milan and 240 tons on Turin. Amended casualty figures at Milan 4 missing 2 crashed Turin 2 missing.

BRITISH MOST SECRET  
U.S. SECRET

OPTEL No. 270

Following is supplementary resume of operational events covering the period 7th to 14th August, 1943.

1. NAVAL

HOME WATERS. 10th. SCHEER reported left COPENHAGEN southbound. Russian visual air report indicated 2 warships, probably TIRPITZ and LUTZOW in ALTENFJORD.

MEDITERRANEAN. Out of 948 British and 776 U.S. landing craft used in initial landing on SICILY, 11 British and 125 U.S. craft were lost by enemy action and weather. Photographic reconnaissance GENOA showed 1 Littorio battleship in dry dock. Littorio is being renamed ITALIA.

SUBMARINE WARFARE. Estimated number of U-boats now at sea in ATLANTIC and INDIAN OCEANS has dropped to 65.

SUMMARY OF ANTI-SUBMARINE ATTACKS FOR AUGUST REPORTED UP TO NOON 14th

Number of attacks by:		Sunk and probably sunk by:	
Shore based aircraft	20	Aircraft	7
Carrier-borne aircraft	5	Warships	2
Warships	18	Possibly sunk by:	
Probably damaged by:		Aircraft	1
Aircraft	2	Warships	1
		Possibly damaged by:	
		Aircraft	1

With a few notable exceptions U-boat morale recently reported showing marked decline attributable to heavy losses and deterioration of morale at home.

SHIPPING CASUALTIES. From 7th to 13th 4 ships reported torpedoed: 1 British, 1 Greek sunk in INDIAN OCEAN; 1 Norwegian torpedoed S.W. of FRESTOWN; 1 British sunk off BONE. 1 British ship sunk by aircraft in TIMOR SEA. 1 U.S. ship overdue from FREMANTLE to COLOMBO early July, probably sunk by raider. Norwegian tanker reported last week damaged by Human torpedo at GIBRALTAR became total loss. U.S. tanker reported mined off CAPE BON arrived in port. Despite scale of Sicilian operations, shipping losses in July, all theatres, reported to date at 351,000, were only slightly above average for previous 6 months; May U-boats accounted for 245,000 tons and aircraft for 106,000 tons, chiefly in MEDITERRANEAN. Only about one-fifty of total lost in North ATLANTIC. 28 ocean convoys arrived destinations without loss.

TRADE. Imports in convoy into UNITED KINGDOM week ending 7th - 1,063,000 tons, including 278,000 oil. By 1st August, HAMBURG had been cleared of about 200,000 tons of shipping, leaving about 59,000 tons damaged, laid up or under repair.

2. MILITARY

ITALY. German divisions believed disposed approximately as follows:  
Toe and heel of Italy, each 1 Division  
NAPLES area, part 1 division  
ROME-SIENA area, 1 - 2 divisions.

Many reports of troop movements from FRANCE to Italian-occupied zone and to North Italy, which lead to the conclusion that there are possibly 3 - 4 German divisions in the former and 1 in the latter area.

BURMA. Some indications that Japanese intend raids in Southern CHIN HILLS. In ARAKAN, natives and coolies being driven away by Japanese from MAUNGDAW and Northern coastal areas, possibly indicating supply shortage.

3. AIR OPERATIONS

WESTERN FRONT. Night. Out of 2,224 sorties, 37 aircraft are missing. Heavy attacks on MANNHEIM believed very successful and NUREMBERG believed moderately successful. In other raids on GENOA, MILAN twice, TURIN twice, bombing very well concentrated. Note that German claims of Allied aircraft lost in recent raids on ESSEN, HAMBURG and REMSCHIED widely exaggerated.

MEDITERRANEAN. Besides very heavy and successful raid on ROME railway centres, docks and railways at NAPLES bombed, as well as airfields and communications in Southern ITALY. In SICILY, MESSINA and adjacent beaches chief target. In 6 major raids, 859 tons bombs dropped. Bombers and fighters maintained intensive close support of Allied land forces, attacking enemy sea, road and rail communications, as well as enemy positions and M.T. concentrations. German long-range bombing showed marked decline, consisting of only 3 night operations against PALEERMO, AUGUSTA and BIZERTA respectively. Very small effort for long-range bomber force available in Central MEDITERRANEAN and failure to keep up operations is noteworthy. Raid on BIZERTA was complete failure. Inefficiency of the considerable German long-range bomber force in MEDITERRANEAN is its main characteristic.

RUSSIA. Russian Air Force strongly supported their ground forces in BRYANSK and KHARKOV sectors and are periodically in superior strength in the area of their offensives.

German air force is probably suffering from lack of reserves and is compelled to move about its air formations to threatened sectors.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS OF ALLIED AIR ATTACKS

MANNHEIM. 9th/10th August. Passenger and goods stations both heavily damaged and still burning next day. Railway authorities at BASLE asked to send all available passenger coaches for evacuation purposes.

HAMBURG. Swedish ships have been forbidden by Germans to enter the port and have been diverted to BREMEN. German ships and coal traffic by rail also diverted to BREMEN, which is reported congested.

WARNEMUNDE. In Arado Aircraft Factory, 18 buildings out of 27 have been hit, 7 of them being badly damaged.

VILLACOUBLAY. U.S. day attack reported very successful. Many aircraft, including F.W. fighters, burnt and large quantity of spares destroyed. Casualties among skilled German mechanics and technicians.

HEROYA. All 4 sections of chemical works heavily hit and certain plants vital to the operation of the works have been damaged.

NAPLES. Attacks 14th/15th, 15th and 17th July. Very heavy damage to marshalling yards and central station, and in industrial areas and fuel installations. Much damage to war industry, e.g. Royal Arsenal, Breda Works, Torpedo Works, etc.

5. HOME SECURITY

No civilian casualties during period.

OFFICE  
SECRETARY OF TREASURY  
1943 AUG 18 11 22  
TREASURY DEPARTMENT

472

OFFICE  
SECRETARY OF TREASURY

NOT TO BE RE-TRANSMITTED  
1943 AUG 16 PM 1 12

TREASURY DEPARTMENT COPY NO.     

BRITISH MOST SECRET  
U.S. SECRET

OPTTL No. 268

Information received up to 10 A.M., 15th August, 1943.

1. NAVAL

On 10th/11th Destroyers operated off the Calabrian and East Sicilian Coasts and in the Straits of MESSINA, no enemy surface units met.

On 11th/12th 3 U.S. Destroyers operated in the Gulf of POICASTRO and on the following night Cruisers and Destroyers carried out sweeps off the East and West Coasts of the Toe of Italy. No enemy surface units were met.

On 12th One of H.M. Cruisers and one of H.M. Monitors with Destroyers and a Dutch Gun Boat engaged objectives on the right flank of the 8th Army.

2. MILITARY

SICILY. 8th Army. Our troops are now astride the FIUME FREDDO - RANDAZZO Road and are pressing on towards TAORMINA. They have captured LINGUAGLOSSA.

7th Army. U.S. troops are making for NOVARA and further north French Moroccan troops are mopping up. The advance as a whole both inland and on the coast is being seriously delayed by mines, demolitions and obstacles.

3. AIR OPERATIONS

WESTERN FRONT: 14th/15th. 176 aircraft sent out - MILAN 140 Lancasters (2 missing), BERLIN 7 Mosquitoes, Intruders 25 (1 enemy aircraft destroyed) anti-shipping 4 (1 enemy aircraft and 1 E-boat destroyed).

Preliminary Reports - MILAN. Attack concentrated and successful. Fires from previous attack still burning. Defences light, no searchlights. Some bombs seen to fall in the centre of Broda Armament Works.

BERLIN. All aircraft attacked in clear weather. There was no anti-aircraft fire, searchlights or enemy aircraft.

ITALY. 13th. ROME. A total of 274 Fortress, Marauders and Mitchells with Lightning escort dropped 450 tons on railway centres. Preliminary photographic interpretation shows much damage to trucks and rolling stock and hits on buildings and bridges in the target area. No apparent damage to major historic buildings. Casualties - enemy 5, nil, 4. 2 Marauders missing.

AUSTRIA. 13th. 122 Liberators bombed an aircraft factory and aircraft assembly plant at VIENNA, NEUSTADT, 20 miles south of VIENNA. Incomplete reports indicate that a Liberator alighted in the sea off SCUTARI and the remainder landed safely.

RUMANIA. Photographs of FLOESTI 3rd show heavy damage to oil plants and storage tanks in U.S. attack on 1st.

RUSSIA. 12th/13th. Russian long range bombers attacked railway junctions at POLTAVA for the third successive night and KRASNODRAB for the second night. Both objectives were left burning.

COPY

WU 11 39 GOVT NL COLLECT

TDWD BEACON NY AUG 15 43

THEODORE GAMBEL

OFFICE OF SECY OF TREASURY

SUGGEST THAT THE LUNCHEON GROUP ON WEDNESDAY MEET WITH YOU AT  
TWELVE OCLOCK SO THAT YOU CAN EXPLAIN TO THEM OUR PROMOTION  
PROGRAM THEN THEY CAN MEET WITH ME AT ONE OCLOCK FOR LUNCH.

COPY TO MRS KLOTZ

HENRY MORGENTHAU JR

8L3A AUG 16

COPY

49

WU12 60 GOVT NL COLLECT

POUGHKEEPSIE NY AUG 15 1943

THEODORE GAMBEL

OFFICE OF THE SECY OF THE TREASURY

WOULD LIKE YOU TO BRING TO WASHINGTON WEDNESDAY THE MAN WHO IS  
IN CHARGE FOR GENERAL MOTORS OF PROMOTING THE SALE OF WAR  
BONDS TO THEIR EMPLOYEES. IF ANY OTHER COMPANIES ARE DOING AN  
OUTSTANDING JOB PLEASE BRING TWO OR THREE MORE MEN TO TOWN SO  
THAT THEY CAN MAKE SUGGESTION TO US ON WEDNESDAY. COPY TO  
MRS KLOTZ.MEM

HENRY MORGENTHAU KR •

815A AUG 16

Matters discussed with the Secretary  
at his home in New York  
on August 16, 1943.

1. I informed the Secretary that Mr. Dunn had telephoned on Friday to say that he had received an aide memoire from the British Government presenting the British view to send to Washington not later than the first half of September a delegation of senior officials capable of dealing with economic matters covered by Article 7 including monetary policy, international investment, the regulation of primary products and commercial policy and asking whether there would be any objection on the part of the United States Government to their proposal. Mr. Dunn said that Mr. Hull wanted him to clear his reply with Secretary Morgenthau. Mr. Dunn quoted Mr. Hull as saying that he would want the British to continue their monetary discussions with the Treasury and that he would want the Treasury represented on the committee that would discuss the commercial policy and regulation of primary products. Mr. Hull said that he hoped that Mr. White would be able to represent the Treasury on these matters. Mr. Dunn said that the matter was urgent and hoped that they would be able to clear it over the week-end. The Secretary read the proposed reply and wanted the phrase "at least in the first instance" deleted from the last sentence of the third paragraph. (Copy of the aide memoire and the reply is appended.)

Upon my return I informed Mr. Dunn over the telephone that the Secretary approved it with the deletion of that phrase. Mr. Dunn said that would be perfectly all right and the phrase would be deleted and the answer would go forth.

2. Lend-Leasing of 100 million ounce portion of silver to India.

I informed the Secretary that Sir Cecil Kisch, Economic Adviser to India was pressing us to get a decision on the 100 million ounces of silver. I said that the reports indicated that the price of silver in India had fallen substantially during the last couple of months and that therefore the situation was different than when we appeared before the Special Silver Committee to get their approval on the transaction. I suggested that we might wait and see what happens to the silver market before doing anything further. The Secretary said that we ought not to give them the silver if the price of silver was falling. He said that we should wait and see what develops.

3. Lend-Leasing of silver to Ethiopia.

I informed the Secretary of the discussions which have been going forward with the State Department and Lend-Lease with respect to lend-leasing of silver to Ethiopia. I said that the State Department was

- 2 -

very desirous of our agreeing to lend-lease the silver for political reasons. I informed the Secretary that Ethiopia did need the silver and that on economic grounds the lend-lease of the silver was justified though Ethiopia wasn't particularly a good risk. I asked the Secretary if we were to receive a formal letter from the State Department requesting us to agree to the lend-lease of silver if it would be satisfactory to him and he replied yes that if the State Department wanted it and we agreed that Ethiopia needed the silver coins we should go ahead.

4. I reported that Iraq wanted to lend-lease silver and that as in the case of Ethiopia the State Department was eager to have us go ahead with it. The Secretary replied that if the State Department wrote us to that effect and the amount was reasonable we should go ahead. I explained to the Secretary that the risk in this case was even greater than in Ethiopia but he replied that if the State Department wanted it for political reasons and if Lend-Lease was satisfied to make it then the Treasury ought to recommend it. I told the Secretary that Mr. Cunter was on his way and would see the King of Iraq at the request of the State Department and would discuss the silver matter with him.

5. I spoke to the Secretary again about sending Adler to India for a few weeks to report on the silver and gold situation and he said all right go ahead.

6. I informed the Secretary about the increasing pressure from Lend-Lease and State to reexamine the old question of the British dollar position since both those agencies appeared to be in favor of letting the British have more gold and dollar balances. I asked him whether he thought it might not be desirable with the President's approval to bring the matter up before the Congressional Committee inasmuch as I felt that his commitments to the Committee precluded any more liberal grants of dollar aid to the British without Congressional consent.

The Secretary replied that the President had already agreed to the policy recommended by the various Cabinet members and that we should stick to that memorandum. If the State Department now objected to the agreed upon policy then it was up to the State Department to raise the issue in such way as would be necessary for the President to settle it. Until they raised the issue in that manner we should continue to abide by the President's memorandum. I pointed out that it would be very difficult to reduce the dollar assets to the level that the President's memorandum indicated if the reciprocal lend-lease finally granted by the British on the raw material purchases were to be no greater than appeared to be the case at this time. The Secretary replied that we should do our best to keep the dollar balances down.

- 3 -

7. I informed the Secretary that the Dutch Government wanted to borrow 47 million ounces of silver for coinage purposes so that they would have silver coins ready at the time of the invasion. I told him that the Army said that they favored that move if it would tend to increase the morale of the Dutch during our operations there. The Secretary said that he did not see the wisdom at this time of making any commitment on that matter and we should just wait until the Dutch pressed harder. Then we could reexamine it.

8. I spoke to the Secretary again about the loan to Iran. I said we had spoken previously about making an arrangement with the Iranian Government with gold as collateral so that we would not be taking any risk and that we had now cleared it with the State Department who were very eager to have us make such an arrangement. The Secretary asked how much they had asked for. I said they had first asked for 30 million and then 50 and then 65 million and the Secretary said "Well let's give them as little as we have to, 30 or 40 million with the understanding that we should have gold as collateral against the rials which we had to buy." I told him I was not certain the Iranian Government would accept the arrangement when they understood all the details but I thought they might and we would go ahead with the negotiations. I told the Secretary that the State Department was eager to improve our relations with Iran because of the oil resources in Iran.

9. We spent some time in going over the revised proposal for the international stabilization fund. I spoke of the Secretary's seeing the Congressional Committees after Congress convened and the Secretary said yes that he would want to do that. I also suggested that we call a meeting of Eccles, Jones and possibly Crowley to inform them about the proposed publication of the revised draft and to get their approval to go ahead with a technical study of some agency to provide long-term credit. The Secretary told me to call a meeting for Wednesday morning in his office.

I told him that I had been invited to speak before the Federal Reserve Bank directors of the Middle West in Chicago with some Canadian and British speakers on the stabilization plan. He expressed the thought that I should surely go.

H. D. White

STRICTLY CONFIDENTIALDEPARTMENT OF STATE  
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## MEMORANDUM OF CONVERSATION

DATE: August 4, 1943

SUBJECT: PROPOSED EXPLORATORY TALKS BETWEEN U.S. AND BRITISH  
OFFICIALSPARTICIPANTS: SECRETARY OF STATE HULL AND THE BRITISH AMBASSADOR,  
LORD HALIFAX

COPIES TO:

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The British Ambassador called at his request. He handed me an aide-memoire, of which the attached is a copy. I thanked him and without intimating any attitude said the matter would be given early and earnest attention.

C.H.

S CH:MA

SECRET AND CONFIDENTIAL

A I D E - M E M O I R E

In November 1942 the United States Government informed His Majesty's Government through the United States Ambassador in London that they looked forward to informal and exploratory talks with representatives of Great Britain and other powers in accordance with Article VII of the Mutual Aid Agreement, and invited His Majesty's Government either to send a delegate for the purpose or to nominate some member of the British Embassy in Washington to represent them. His Majesty's Government at the time nominated Sir Frederick Phillips and Mr. Opie for this purpose but did not otherwise pursue the United States suggestion as discussions of some parts of the ground covered by Article VII viz. monetary policy, were already in progress while other parts were felt by His Majesty's Government to require some preliminary study on their part.

Having now been able to carry further their examination of the various topics, His Majesty's Government feel that the moment has come to initiate with the United States Government informal and exploratory talks on the whole field covered by Article VII and that it is important for these talks to start without delay. They are strengthened in this view by the repeated requests made by some of the Allied Governments in exile for a lead by the United States and United Kingdom. They see great advantage in handling the essentially inter-related matters covered by Article VII as a coherent whole. In pursuance therefore of the United States suggestion mentioned in the preceding paragraph, they intend, if the United States Government see no objection, to send to Washington not later than the first half of September a delegation of senior officials, led by a Parliamentary Under-Secretary of State, which would be capable of dealing with all these subjects and in particular monetary policy, international investment, the regulation of primary products and commercial policy. His Majesty's Government suggest that the first object of such talks should be to obtain broad United States-United Kingdom agreement on an orderly agenda for the discussion of Article VII. His Majesty's Government continue as in the past to regard as of the greatest importance the attainment of prior agreement on such matters between the United States and United Kingdom Governments before they are discussed in a wide international field. The proposed delegation would also be in a position to push further the talks on

monetary

-2-

monetary policy which have already begun so as to pave the way for a general monetary conference which might be followed by further international conferences on other postwar monetary and economic problems which call for solution.

His Majesty's Government would be glad to know whether this suggestion would be open to any objection on the part of the United States Government. If not, they would proceed to nominate their delegation forthwith.

Washington, D.C.  
August 4th, 1943

## AIDE-MEMOIRE

Careful consideration has been given to the Aide Memoire which Viscount Halifax left with Secretary Hull on August 4, 1943 in regard to the proposal of His Majesty's Government and the United Kingdom to send to Washington not later than the first half of September a delegation of senior officials to initiate with officials of the United States Government informal and exploratory talks envisaged by Article VII of the Lend-Lease Agreement of February 23, 1942.

It is noted that the British Government suggests that the first object of such conversations should be to obtain broad agreement between the two Governments on an orderly agenda for the discussion of Article VII. The American Government is in accord with this suggestion, and it likewise shares the view of the British Government

concerning

Department of State,

Washington,

- 2 -

concerning the great importance of the attainment of prior agreement on such matters between the American and the United Kingdom Governments before they are discussed in a wide international field.

It is the view of the American Government that it would be preferable that the conversations on monetary policy continue in the existing channel; that is, in the United States Treasury Department between representatives primarily of the two treasuries. It is also felt that the Treasury representatives should deal at least in the first instance with the subject of international investments.

The American Government is making the necessary arrangements for conversations on commercial policy, the regulation of primary products and related topics to take place in the Department of State and will await with pleasure the arrival of the British representatives.

PA/D:JCD  
Eu:HICKERSON:EJD:ACK  
SA:Mr. Pasvolsky 8-13-43

- (1) Suggestion that all newscasters abroad use material in their daily round-up regarding boys' in the service participation in the war bond program has been requested -- the suggestion was made that we mention this to the heads of the broadcasting companies when they are here on Thursday.
- (2) Posters on the President's billboard will start on September 1st.
- (3) These boards will be sent abroad and pictures will be taken of them being erected in foreign theatres of war and returned here for use during the drive -- also pictures will be taken showing soldiers at the front actually buying bonds.
- (4) The Army has tentatively approved the airplane schedule for September.
- (5) For the Wednesday luncheon Mark O'Dea, representative of the Maritime Commission, H. L. Quinn, head of War Production Labor Management Drive, representing War Production Board, Col. Dupee, the Army's Chief Incentive Officer will represent the Army and the Army Air Force. Capt. Reed-Hill will represent the Coast Guard and Chester LaRoche representing the Advertising Council and Palmer Hoyt of OWI have all accepted.
- (6) Check Hoover wire.
- (7) First answers to Secretary's wire on plant quotas.
- (8) Transcriptions have been made on Senator's and Congressmen's speeches for use in their home states during the Third War Loan.

August 16, 1943

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 16, 1943

TO Secretary Morgenthau  
FROM Mr. McConnell

Attached is a list of fifteen names, most of which were selected from the panel which I sent you with my memorandum of August 11, 1943.

The list has been sent to Mr. D. W. Bell and Mr. Harry White. I showed it to Mr. Baruch and Mr. Lehman. Mr. Baruch knew all but two or three of the men, and thought they were able and would be helpful. He suggested Mr. James Bell, Chairman of General Mills. Mr. James Bell was on the list attached to my memorandum of August 6, and could be substituted for Mr. Moffett or Mr. Adams, who are also concerned with food processing and distribution. Mr. Baruch thought that Adams and Moffett were equally good. Mr. Lehman knew three of the men and thought well of them.

If convenient, I should like to see you for a few minutes Tuesday.

*Left Tues. PM.*

Attachment

## TREASURY ADVISORY COMMITTEE

James Adams - Pres. Standard Brands	N. Y.
Hugh Baillie - Pres. United Press	N. Y.
M. J. Cleary - Pres. N. W. Mutual Life	Wis.
Don David - Pres. Harvard Business School	Mass.
E. L. deGolyer - Oil Producer	Texas
Walter Gifford - Pres. A.T. & T.	N. Y.
K. T. Keller - Pres. Chrysler Corp.	Mich.
R. E. McConnell - Treasury	Va.
George Moffett - Chm. Corn Products	Md.
Bayard Pope - Stone, Webster & Blodget	N. Y.
Carlton Proctor - Consulting Engineer	N. Y.
Harry Rogers - Pres. Brooklyn Poly.	Brooklyn
E. C. Sammons - Pres. Iron Fireman Mfg.	Ore.
Emil Schram - Pres. N. Y. Stock Exchange	N. Y.
Tom Smith - Pres. Boatmen's National Bank	Mo.

August 16, 1943

MEMORANDUM FOR THE SECRETARY

Subject: Financial condition of the Bell Aircraft Corporation.

Mr. Sperry of the Bell Aircraft Corporation said that the company faces two threats to its continued financial solvency:

(1) The risk between now and the end of the war that certain items of expense incurred by the company in the expectation that they will be reimbursed by the War Department may be denied reimbursement.

(2) The risk that when contracts are terminated at the end of the war, the working capital of the company will be exhausted long before the amount of reimbursement is decided upon and paid by the Government.

In support of the first point, Mr. Sperry said that the company's volume of business is now running at the rate of \$200,000,000 annually. Its net equity working capital is \$3,000,000, of which one-half may be taken away by renegotiation. Mr. Sperry presented the view that contingencies of various kinds, including the disallowance of interest on debts and of certain other items, might wipe out this working capital. In 1942 nearly \$800,000 of expenditure items were disallowed.

In support of the second point, Mr. Sperry said that under a War Labor Board ruling the company must pay a ten-day dismissal wage, the ten days being the period during which the method of lay-off is to be determined. The accruals of amounts necessary to pay this dismissal wage are not allowed as tax deductions or as proper charges under War Department contracts. In addition the company might be forced to meet other parts of its \$61,000,000 of current liabilities. The total fixed and the working capital of the company is \$13,000,000, of which about \$2,800,000 is in fixed assets, \$5,000,000 in deferred charges of various kinds, and the balance in current assets. Mr. Sperry said the

- 2 -

company should not have been obliged to carry the deferred charges out of its own capital. He even seemed to think it regrettable, although necessary, that the company have any fixed assets in its own capital.

Mr. Sperry did not complain about the earning situation of the company. The company's earnings before taxes in 1942 were \$23,000,000 and amounted to \$5,400,000 after taxes. In 1941 the profits before taxes were \$11,000,000 and the profits after taxes were \$3,000,000. The capital of the company on January 1, 1940, was approximately \$5,000,000 which has been increased to \$13,000,000 out of earnings, while \$700,000 were paid in dividends in 1941 and 1942 with \$350,000 being paid thus far in 1943. The business of the company in 1940 totalled \$3,000,000 or \$4,000,000 as compared with \$46,000,000 in 1941, \$130,000,000 in 1942, and a rate of \$200,000,000 at the present time. The War Department considers the 1942 profits too high and is asking for a return of \$8,000,000 before taxes which amounts to \$1,600,000 after taxes. The net profits after taxes and renegotiation thus amounts to approximately 3 percent of sales.

Most of the buildings and equipment being used by the Bell Company are the property of the Federal Government. All of the airplane contracts and some of the other contracts are on a cost plus fixed-fee basis.

Mr. Sperry said that the prospects for the company after the war lie in four directions:

- (1) Military planes.
- (2) A helicopter which he said is about as far advanced as the Sikorsky helicopter.
- (3) Armor such as the machine gun mount.
- (4) A bomber which it is producing at the Atlanta plant.

I am not clear whether or not he had in mind transforming the bomber into a commercial airplane.

- 3 -

On the record, the Bell Aircraft Corporation has prospered very well during the war despite the excess profits taxes. The company was incorporated in 1935 and apparently made little money until the war. During the war it has increased its capital greatly while paying substantial dividends and has relatively little fixed capital of its own to incumber it after the war. On the other hand, the company is operating on a relatively small equity and is peculiarly subject to the risk of a large volume of business. I was not impressed by the risks that are likely to be run between now and the termination of contracts, but believe that Mr. Sperry is right in indicating that the company could, through no fault of its own, become insolvent in a very short space of time unless some system of terminating contracts is developed which will permit the retention of working capital by the company. I doubt if this is a tax problem in any considerable degree, but we are studying this general problem to see if anything can be done to improve the postwar prospects of a company in this type of situation.

Roy Blough

64 ✓  
5/16/43-

REPORT TO THE SECRETARY  
ON MANPOWER IN BUFFALO

Lawrence Bell, of Bell Aircraft in Buffalo, reports that his production is falling off because he is losing workers at the rate of 800 a month, and is not permitted by the local Manpower Commissioner to hire any replacements, except over-aged, crippled, or otherwise rejected workers. There is a limited number of these, and there are few production jobs they can do.

He points out that he is now 800 men short in the Niagara Falls plant alone. By December 31st the Bell organization will lack 5,000 of having men enough to MAINTAIN present production schedules. The army has asked them to increase production, and if you figure on the production increase, Bell will be 10,000 men short by December 31st.

Bell Aircraft has fewer employees today than they had two months ago. To help this situation, Bell is moving one of its major operations to New England, but now the local Manpower Commission is endeavoring to make Bell give up those employees who have been working on this operation, instead of letting them fill other vital jobs at Bell.

The same situation exists in the Buffalo Curtis Wright plant. They report that they will lose 3,500 young boys to Schools in September, and there is no way of replacing them. Curtis Wright will be at least 3,000 men short by the end of the year if they are to maintain present schedules. To step up schedules according to their instructions, they will need 6,000 men. Figuring turnover and the draft, this means, they report, that they should hire approximately 15,000 people to get the 6,000 steady workers, but at present it is illegal to hire any.

Mr. Bell says the problem is caused by the fact that the local Manpower Commission has dropped the aircraft manufacturers off the priority list, and they will not be permitted to hire anyone until the local foundries get all the help they need. Aircraft manufacturers have priority on the national lists, but not on the local Buffalo list. Bell states that the local committee who makes the rules for Buffalo has no aircraft representative.

Bell says that the war effort is actually losing a great many people through this ruling, since he can get hundreds of local people to work full or part time on aircraft work but

- 2 -

these people obviously will not work in a foundry. When these people are told by the United States Employment Service they must work in the foundry, they simply return home and work nowhere. Bell also states that people who are not strong enough to be hired by the foundries are not released to aircraft. They may actually be rejected by the foundries and are not able to get other jobs.

WAR BOND FACTSBELL AIRCRAFT NIAGARA FRONTIER DIVISION

8/16/43 ✓

<u>Plant</u>	<u>Total No. Employees</u>	<u>No. Enrolled in Payroll Savings Plan</u>	<u>Total % of Employees Subscribing</u>	<u>Deductions as a % of Total Base Payroll</u>
Experimental	1,730	1,636	94.6	10.5
Elmwood	18,402	17,615	95.7	10.2
Niagara Falls Assembly Plant	10,877	7,510	70.0	8.4
Total Base Payroll for the Niagara Frontier Division				\$5,568,100.00
Total Deductions for Month of July				\$ 545,125.00
Deductions Percent of Payroll				9.81

The Experimental Plant received the "T" flag on August 2, 1943.  
 The Elmwood Plant will receive the "T" flag on August 16, 1943.  
 An active campaign is now in progress at the Niagara Falls Plant which should qualify it for the "T" award within the next month.

August 16, 1943.

Dear Jimmie:

Referring to the Secretary's letter of last week forwarding a memorandum from Preston Delano, Comptroller of the Currency, on the Detroit bank situation, I am enclosing for your information a clipping from the Detroit Free Press of August 14th which carries a story about graft in the Legislature, together with copy of a letter of the same date to Mr. Delano from W. P. Lovett of the Detroit Citizens League.

Sincerely yours,

(Signed) D. W. BELL

Honorable James F. Byrnes  
Office of Economic Stabilization  
The White House  
Washington, D. C.

Enclosures.

DWB:ew

C O P Y

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DETROIT CITIZENS LEAGUE  
DETROIT, MICHIGAN

August 14, 1943

Mr. Preston Delano  
The Comptroller of the Currency  
Washington 25, D. C.

Dear Mr. Delano:

Since I received your letter of July 26, it has developed that our investigations in Michigan, as we feared, forced upon us some admission of our undertakings. As a result, the newspapers of Detroit today are disclosing the fact that these investigations have been made and that further official action, if justified by our present evidence, must rest with the Attorney General of Michigan. I am enclosing a copy of the Detroit Free Press article, published today.

Mr. Rushton sent a member of his legal staff to my office some days ago, and in our conversation he stated that he would spend some time in checking on the statements and reports already submitted to the Attorney General, in order to discover whether a formal Grand Jury investigation should be undertaken.

Because of the Detroit race riots and many other controversial issues now pending in Michigan, the Office of the Attorney General is overwhelmed with activities, therefore I assume that the definite answer to our questions may not be forthcoming immediately. Entirely apart from these press reports or newspaper statements, there may be further developments of interest and importance, and if so, I will be glad to keep you informed.

Very sincerely yours,

/s/ W. P. Lovett

W. P. Lovett

THE DETROIT FREE PRESS

August 14, 1943

# Detroit Citizens Charge Graft in Legislature

## Rushton Is Petitioned to Call Grand-Jury

*Funds Paid to Buy Support for Anti-Chain Bank Bill, Group Claims*

BY KENNETH McCORMICK

*Free Press Staff Writer*

Attorney General Herbert J. Rushton has been informally petitioned to call a grand jury to investigate charges that certain members of the State Legislature had been accepting graft, it was announced Friday by William P. Lovett, secretary of the Detroit Citizens League.

Lovett said that the petition—filed by six members of the league acting as individuals—was backed by sufficient evidence, in his opinion, to merit the calling of a grand-jury immediately.

### INVOLVES BANKING BILL

"We are convinced," said Lovett, "after a careful investigation for six months, that graft was paid to certain members of the Legislature to defeat the anti-Chain Banking Bill, which prohibits the establishment of any more chain banks in Michigan.

"Individual members of the league have become disturbed and worried over the increased reports of graft in the Legislature. During the last three sessions there have been reports about the buying and selling of votes to defeat this bill.

"One high State official told me that a barrel of money has been spent to defeat it. So with all these reports we decided to investigate as we always do when we get these reports.

"As a result, we were able to submit voluminous reports in writing with facts, figures and overt acts of corruption to Attorney General Rushton.

"Our committee suggested that

a one-man grand-jury would be more effective, but that would be up to the attorney general."

Lovett recalled that a similar committee of the Citizens League was responsible for bringing into being the Ferguson-O'Hara grand jury which cleaned up graft and corruption in City and County official circles. He asserted that the present committee was acting in a similar capacity.

### WON'T REVEAL NAMES

Lovett refused to reveal the names of the petitioners, explaining that the individuals preferred to remain anonymous for obvious reasons.

"We are not interested in the anti-banking act," Lovett asserted. "But we are interested in good government, including the State Legislature—some from Wayne County—who have been involved in these reports that there has been payoffs in connection with this bill."

Lovett declared that Rushton had preferred to make his own investigation before acting on the petition, but promised to comply with the request of the petitioners if the results of his own probe indicated that a grand-jury would be necessary.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 16, 1943

TO Secretary Morgenthau  
 Prepared by: Mr. Daseit, Mr. Murphy and Miss Michener  
 FROM  
 Subject: The Business Situation,  
 Week ending August 14, 1943.

Summary

Cost of living: The roll-back of meat prices and a seasonal decline in prices of fresh fruits and vegetables resulted in an 0.8 percent drop in the ELS cost-of-living index in July, the first substantial decline in the index since Pearl Harbor. With this decrease following the slight reduction in June, the index is now 1 percent below the May peak, but is still 5 percent above the September 1942 level, which is the announced roll-back objective of the CPA and organized labor.

Commodity prices: Following a downward tendency for seven weeks, the ELS all-commodity index rose 0.2 percent in the week ended August 7. Last week the basic commodity index was unchanged as commodity prices moved irregularly.

Crop prospects: Crop prospects improved during July, and as of August 1 were 3 percent higher than a month earlier. While the crop outlook is still 6 percent below last year's record production, total food production (including livestock products) will be the largest in history.

Farm income: Cash farm income in the first half of 1943 rose 32 percent above year-earlier levels. The Department of Agriculture estimates that farm income from marketings during 1943 will rise to a record high of about \$19 billions as compared to \$15.5 billions in 1942.

Retail inventories: Department store stocks increased moderately in May and June after declining almost without interruption from last summer's record peak. Inventories of retail stores in the aggregate, however, have continued to decline, and at the end of June stood 23 percent below last year's level.

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- 2 -

### Cost of living declines

Living costs were somewhat lower in July, with the BLS cost-of-living index registering a drop of 0.8 percent from mid-June to mid-July, the first substantial decline since Pearl Harbor. The index rose almost continuously from November 1940 to May 1943, but then declined slightly in June. Although the index is now 1 percent below the May peak, it is still about 5 percent above the September 1942 level, the announced objective of both the OPA and the labor unions.

The roll-back in butter and meat prices, and seasonally lower prices for fresh fruits and vegetables, were responsible for the recent downturn of the cost-of-living index. (Wholesale prices of fruits and vegetables have more recently turned upward which may affect the retail food index in August.) The food component is now 2.8 percent below the peak reached in May, having dropped 2.0 percent in the last month. Despite this decline, however, the food index is still 9.8 percent above the September 1942 level.

Reference to Chart 1 will show that those food prices which have had the largest increase since September 1942 have generally had the largest decrease in the past two months. Prices of fresh fruits and vegetables have fallen almost 6 percent since mid-May, although they are still about 49 percent above the levels of September 1942. The most outstanding recent decreases in fresh fruit and vegetable prices are: cabbage, 43 percent; lettuce, 18 percent; and potatoes, 23 percent. The decline in vegetable prices is due in part to larger commercial supplies and to victory garden produce. Lower butter prices under the roll-back program have been responsible for the decline in prices of dairy products during the past two months. Moreover, as a result of the meat price roll-back, the average price of meats is at about the same level as in September 1942. Egg prices, however, have shown a seasonal rise of 8 percent.

All items of the cost-of-living index other than foods either increased slightly or were unchanged in July. (See Chart 2.) Clothing prices on the average were up about 0.5 percent, mainly because of the substitution of higher priced lines. Higher costs of medical, beauty and barber shop, and laundry services caused a slight rise in the miscellaneous group.

### All-commodity index rises

Following a downward tendency for seven weeks, the BLS all-commodity index rose 0.2 percent in the week ending August 7. At 103.0 the index is still 1 percent below the peak reached late in May but is 37.3 percent above the pre-war level of

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August 1939. Higher prices for agricultural commodities, together with the OPA's action in raising ceiling prices on southern pine lumber, largely accounted for the rise in the index. Egg prices scored a sharp seasonal advance permitted by the flexible ceiling regulation. Fresh fruit and vegetable prices rose somewhat, with potato prices moving higher in New York and Chicago.

Basic commodity prices moved irregularly last week in relatively quiet markets. The BLS index of 28 basic commodities was unchanged at 177.1 percent of the August 1939 base. (See Chart 3.) Wheat prices were off moderately, partly in response to the favorable Government crop report, but barley prices rose noticeably. With marketings slackening seasonally, hog prices rose 2.2 percent to the highest point in three months. They are now above the \$14.75 level at which it was announced a ceiling would be imposed some time this month. Cotton prices declined moderately, as the New York Cotton Exchange estimated that cotton consumption in July was considerably lower. Rosin prices were somewhat lower, after rising for seven consecutive weeks.

#### Crop prospects improve

An encouraging development in the nation's food supply picture was the improvement in crop prospects during July. Crop prospects as of August 1 were about 3 percent higher than a month earlier, due largely to the rapid growth of late-planted corn in northern states, an increase in the wheat crop forecast, and an exceptionally favorable start of the cotton crop. Although aggregate crop production may fall about 6 percent short of the record levels of last year, it is expected to be 5 percent higher than in the highest previous year. Moreover, after allowing for the record livestock output this year, total food production will probably be the largest in the country's history.

The corn crop, which was off to a late start due to floods and a cold rainy spring, improved considerably in July and is now estimated at 2,875 million bushels. This forecast is 168 million bushels above expectations a month ago, and indicates prospects for the second largest corn crop in 10 years, although 300 million bushels less than in 1942. While rain is needed in some sections, hot weather has stimulated growth and the danger of frost damage to large areas of late-planted corn has been materially reduced. The improvement in corn prospects has undoubtedly contributed to the increase in

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corn marketings during the past month, which has tended to relieve the tight supply situation for industrial processors.

Prospects for oats and barley deteriorated during July, but a large crop of sorghum for grain is indicated. The combined production of these feed grains, together with corn, is now expected to total more than 111 million tons, a total which has been exceeded only twice but which would be 10 percent below last year's production. Despite this favorable prospect, however, it is very unlikely that sufficient feed will be produced to meet the requirements of the record livestock and poultry population, which is about 10 percent above that of last year. Farmers will probably have to utilize feed reserves on hand, market their hogs at lighter weights, and possibly reduce the number of hogs and poultry in feed-deficit areas.

The wheat crop improved noticeably last month and is now forecast at 835 million bushels, 6 percent above expectations a month ago. Prospects for flaxseed, peas, potatoes and beans, which are regarded as war crops, also improved. On the other hand, prospects for rye and sweet potatoes declined.

While citrus fruit crops are making good progress and are expected to equal the high levels of last year, aggregate production of deciduous fruits is estimated to be about 17 percent smaller than in 1942. The production of commercial apples is now forecast at only 93 million bushels, as compared to about 129 million in 1942 and the 8-year (1934-41) average of about 122 million bushels. A peach crop 36 percent below that of last year is indicated, but a large crop of grapes is in prospect.

#### Farm employment down seasonally

Farm employment declined by the usual seasonal amount from July 1 to August 1, at which time the number employed was about 11 million persons. This is 2 percent less than on the corresponding date last year and about 3 percent less than the 5-year (1938-42) average employment for August.

The relatively small difference in the number of farm workers this year as compared with earlier years does not reflect the actual change in the farm labor situation. Many of the able-bodied experienced workers have gone into war plants or into the armed forces. A large proportion of the farm labor force now consists of women, children and high school boys from the city. Also at the end of last month

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more than 30 thousand Mexicans, nearly 9 thousand Jamaicans, and over 4 thousand Bahamians, plus many Japanese evacuees, soldiers on leave, townspeople, and others not normally part of the farm labor force, were working on farms. Consequently, while there may be nearly as many "hands" on farms as formerly, the skill and capacity of many of the present workers are not equal to those employed on farms in the past.

Although the farm labor situation has been tight, farmers in most sections appear to have successfully met their work requirements thus far. A limited labor supply in New England, however, has retarded haying operations, with a deterioration in quality and the prospect that some hay may remain uncut. Moreover, Food Administration officials warned last week that harvesting operations for various crops may suffer unless steps to meet farm labor shortages are speeded up. The War Department was reported to have ordered 5,100 soldiers sent to North Dakota to help with the grain harvesting.

#### Plans considered for 1944 food production

Enlargement of the Government price support program to attain the 1944 food goals is reported to be under consideration by the War Food Administration. Congress may be asked for at least \$1 billion to finance the operations, according to press reports, which state that tentative recommendations for funds to be used by the Commodity Credit Corporation for this purpose are being prepared by the WFA for submission to Congress next month. Because of rising production costs and the elimination of AAA benefit payments by Congress for the 1944 crop year, it may be necessary to raise price supports or minimum price guarantees on a number of farm products in order to assure sufficient production. Moreover, in order to get farmers to shift from commodities with which they are familiar to certain war crops with which they are less familiar and for which their facilities are less adapted, the assurance of higher prices may be necessary.

In cases where the support prices are out of line with ceiling prices, the CCC may extend its purchase and resale program, if funds are available, to enable ceilings to be maintained. Such a practice has been followed under this year's program for peanuts for processing into vegetable oils, for the major canning crops, sugar beets, fluid milk in some cities, and cheese. Officials believe, according to

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the press, that only a portion of the farm commodities need be supported at levels involving purchase and resale at a loss. Commodities likely to fall into this category, however, are eggs, poultry, all dairy products, vegetable oil crops, and vegetables for processing.

Although plans are going forward in Washington for the 1944 crop program, Food Administrator Jones made it clear last week that farmers, livestock growers, and every producer, including victory gardeners, must be relied upon for success in meeting the food goals. He indicated that no crop controls except on tobacco are planned--no acreage allotments, no marketing quotas and no benefit payments for compliance with control.

#### Farm income substantially higher in first half of 1943

Cash income from farm marketings (including Government payments) decreased moderately in June and the gain over year-earlier levels narrowed to 27 percent. (See Chart 4, upper section.) Receipts from livestock marketings dropped less than seasonally during the month, but this was more than offset by a contra-seasonal decrease in returns from crop marketings.

Despite the slightly less favorable showing in June, cash farm income in the first half of 1943 totalled \$8,202 millions, as compared to \$6,215 millions in the corresponding period of 1942--an increase of 32 percent. Government payments of \$400 millions during the first half of this year were 7 percent less than in the first half of 1942, but cash income from crops was 45 percent higher while income from livestock and livestock products rose 31 percent.

#### Farm income gain expected to slacken later in year

The sharp year-to-year gain in cash farm income shown thus far in 1943 is expected to moderate somewhat in the latter half of the year, as comparisons will have to be made with the unusually good results of the summer and fall of 1942. In that period exceptionally large crops were being harvested and prices of farm products were rising steadily. Nevertheless, the Department of Agriculture estimated recently that cash income from farm marketings in 1943 will rise to a record high of about \$19 billions as compared to \$15.5 billions in 1942. Despite increased costs and smaller Government payments, the Department estimates that the net income of farm operators in 1943 will be nearly one-third larger than last year.

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In the face of the large gain in farm income in the first half of 1943, aggregate rural sales of general merchandise increased only 4 percent, with sales in May actually falling below last year's levels, and June sales showing a gain of less than 1 percent. (Refer to Chart 4, lower section.) This gap between farmers' incomes and retail purchases doubtless accounts in part for the relatively good showing of many farm states in war bond sales.

Complete results for July are not yet available, but Montgomery Ward's sales during the month dropped nearly 2 percent under the 1942 level, while Sears' sales decreased about 1 percent. The tendency of rural retail sales to lag behind farm income is largely accounted for by the war-time production ban on many items, such as tires, refrigerators, radios, etc., which are normally sold in heavy volume by the leading mail order houses.

#### Retail inventories cut by heavy sales volume

Due partly to the relatively greater availability of soft goods, which make up a large proportion of the sales of department stores, the FRB index of department store sales in the first half of 1943 averaged 15 percent above last year's levels. This compares with the increase of only 4 percent in rural sales of general merchandise, and with an actual decline of 7 percent in Sears' sales.

In reflection of the heavy sales volume and the tightening supply situation, department store stocks declined steadily from last summer's record peak until the end of April. Stocks later increased moderately, and by the end of June the FRB adjusted index of stocks was up 13 percent from the April low. (See Chart 5.) Nevertheless, department store stocks at the end of June were still 28 percent below year-earlier levels.

Figures just released by the Department of Commerce reveal that the moderate gain in department store stocks in June was contrary to the general trend of retail inventories as a whole. Thus inventories of all retail stores showed a further decline in June of nearly \$210 millions, or 4 percent, thereby reducing total stocks at the end of the month to \$5.7 billions, as compared with the May 1942 peak of \$7.6 billions.

#### Department store sales declined less than seasonally in July

On the basis of results thus far available, the introduction of the withholding tax last month does not appear to have seriously affected retail sales volume in that month. Department store sales in July actually showed less than the usual seasonal decline, although the increase over last year's levels narrowed to 22 percent from 24 percent in June.

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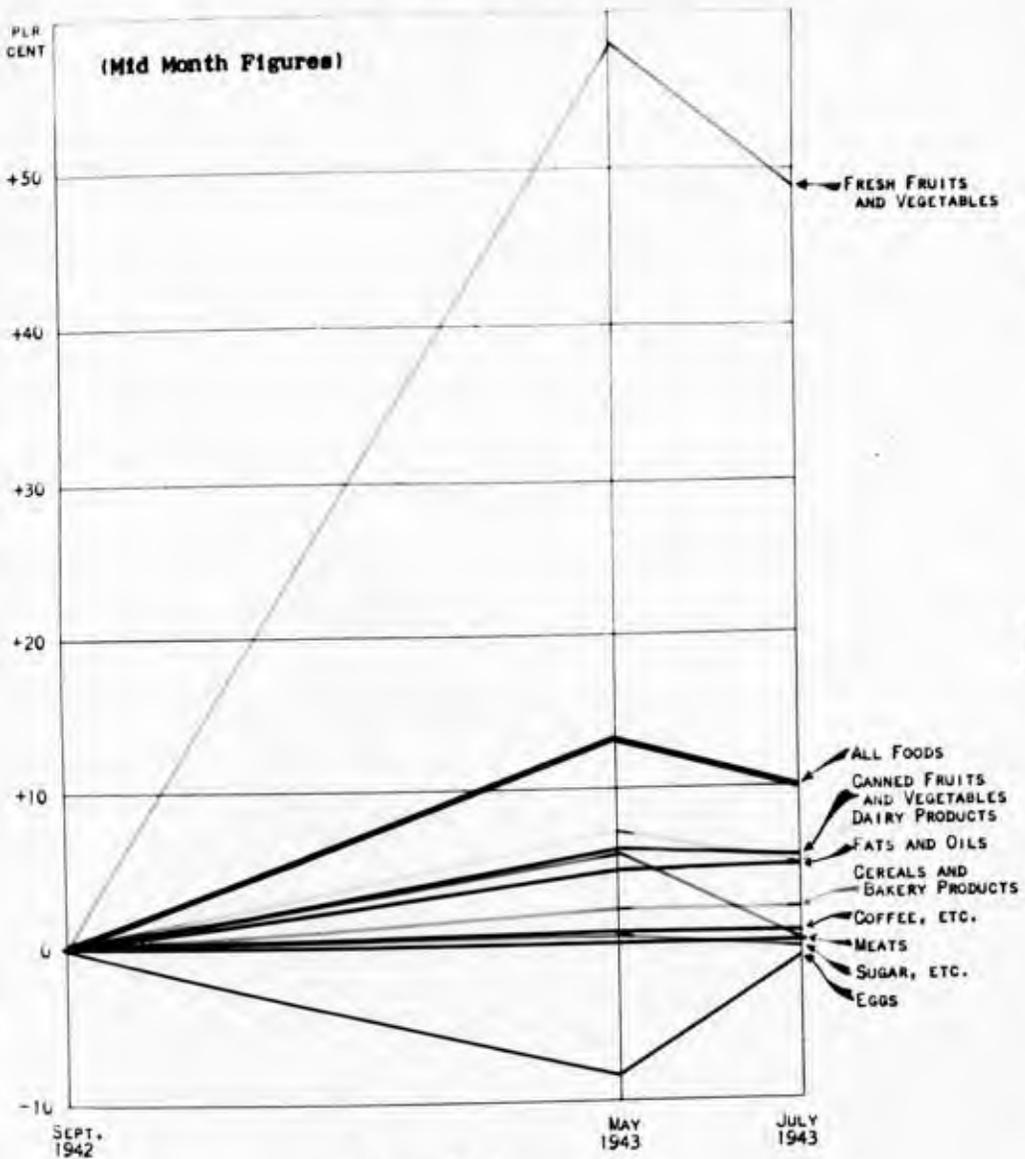
However, during the first week in August the gain in department store sales over the corresponding period last year dropped to 6 percent, while Dun and Bradstreet reported that retail trade in general moved at a slightly slower pace last week, partly attributed to the hot weather. It is still too early to determine whether the recent slower sales pace is due to purely temporary factors, such as weather conditions, or to more fundamental causes such as the recently inaugurated WPB drive against undue sales promotional activity, declining stocks, or the effects of the withholding tax.

Stock prices improve slightly as trading activity declines

Following the declines of the previous 2 weeks, stock prices strengthened moderately last week as trading volume continued to dwindle. The net advance in prices for the period averaged about 2 percent, while daily average trading volume of about 540,000 shares was the lowest since the week ended September 19, 1942. Stock prices in London last week declined slightly, thus continuing to move opposite to the trend in New York.

All major stock groups shared in last week's moderate improvement in prices on the New York Exchange, and no really significant divergence occurred in the action of "war" and "peace" stocks. Nevertheless, the latter group was a trifle more buoyant than the former and as a result our ratio as of Friday's close showed a further slight improvement in the relative position of "peace" stocks, which recently has been the most favorable since September 1939. (See Chart 6.)

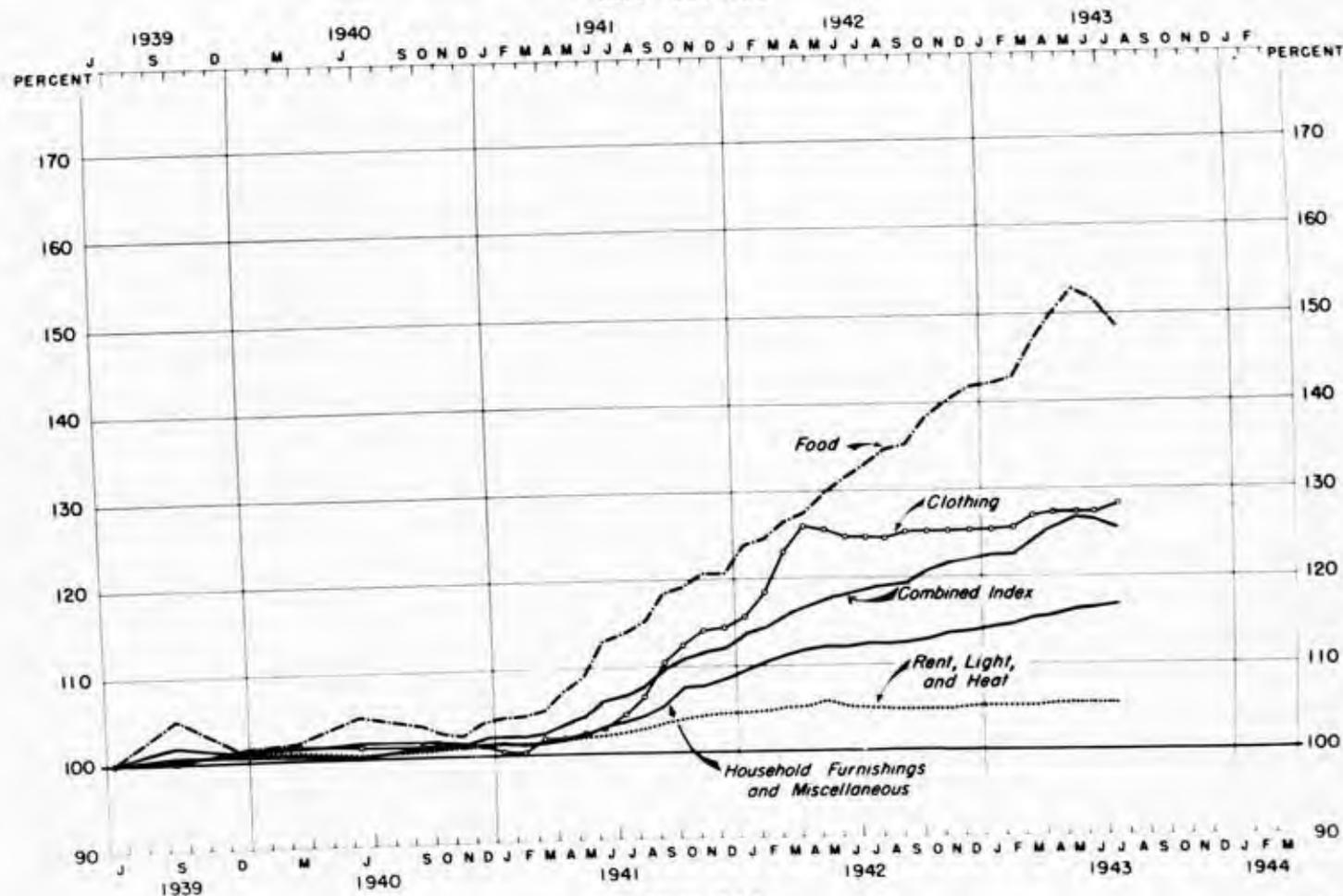
**RETAIL FOOD PRICES BY MAJOR GROUPS**  
**Percentage Change Sept. 1942 to May 1943 and to July 1943**



SOURCE: B.L.S.

# COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



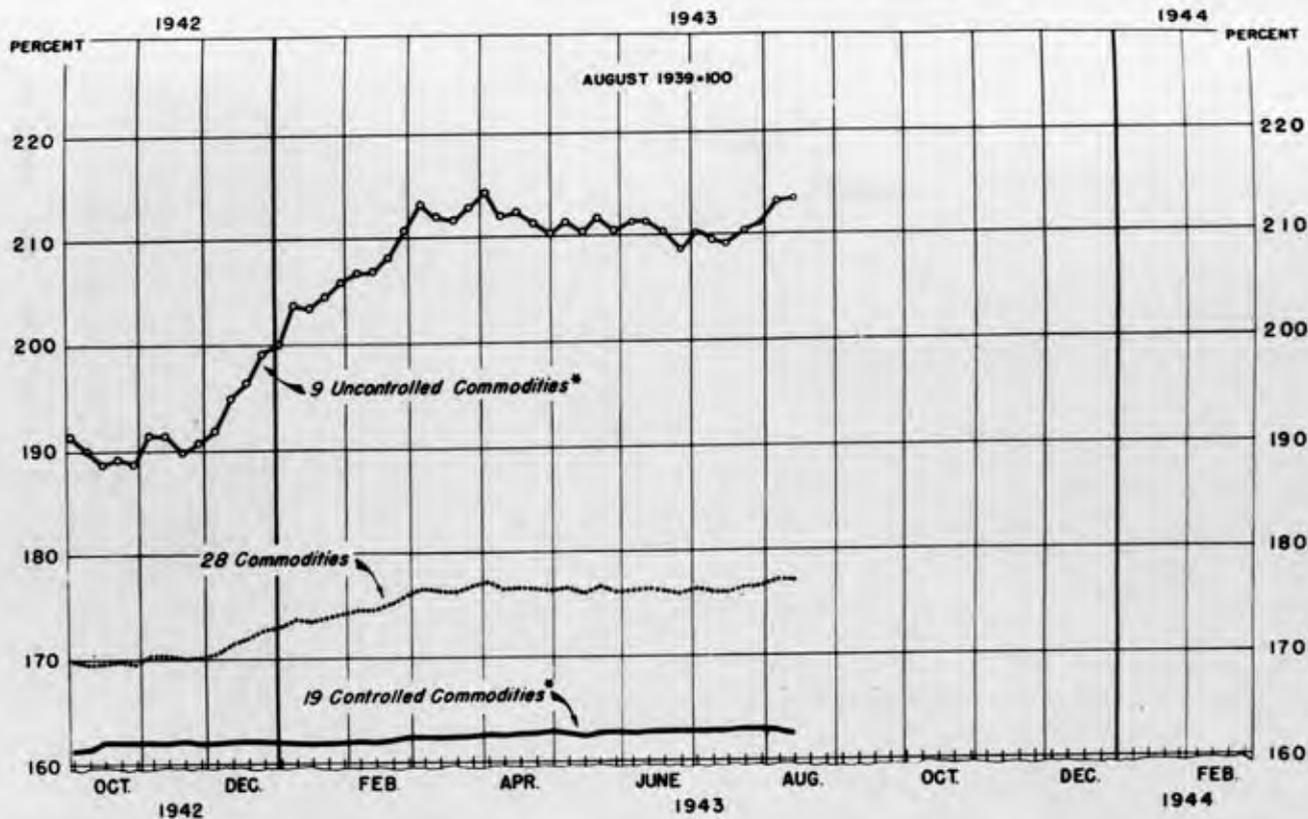
Office of the Secretary of the Treasury  
Division of Research and Statistics

Source: B L S

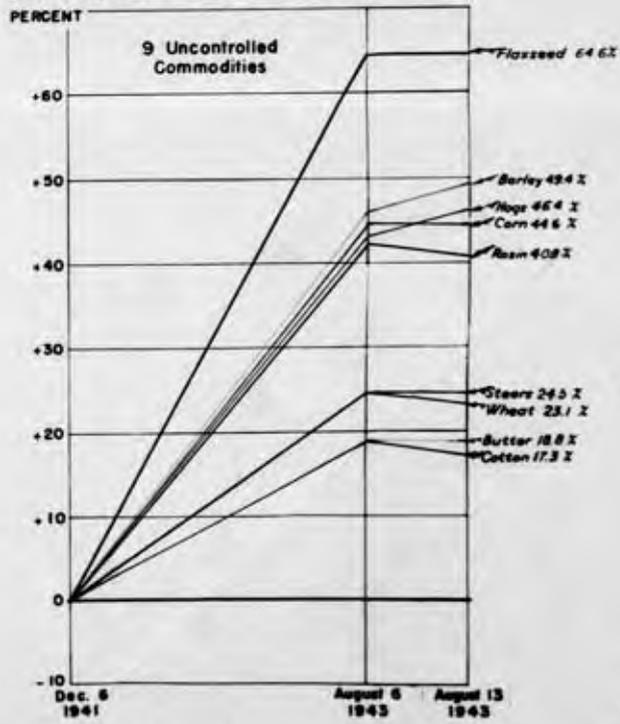
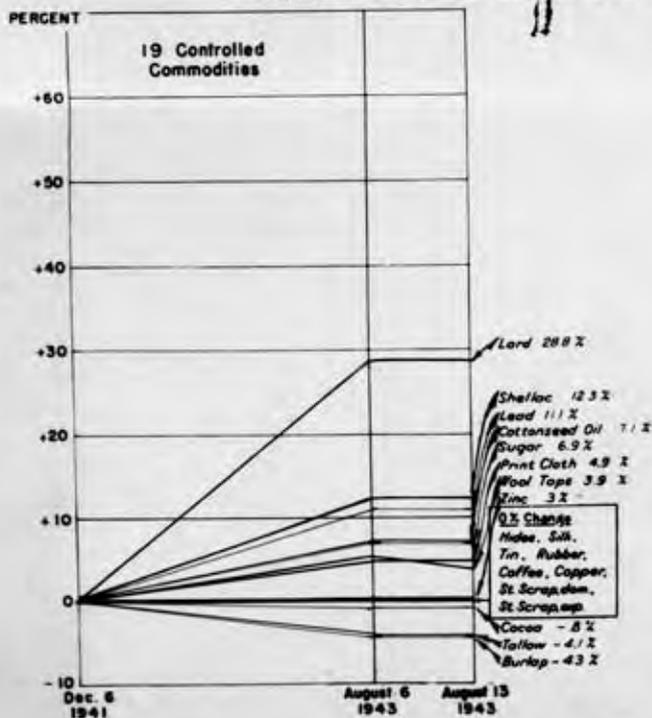
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# MOVEMENT OF BASIC COMMODITY PRICES



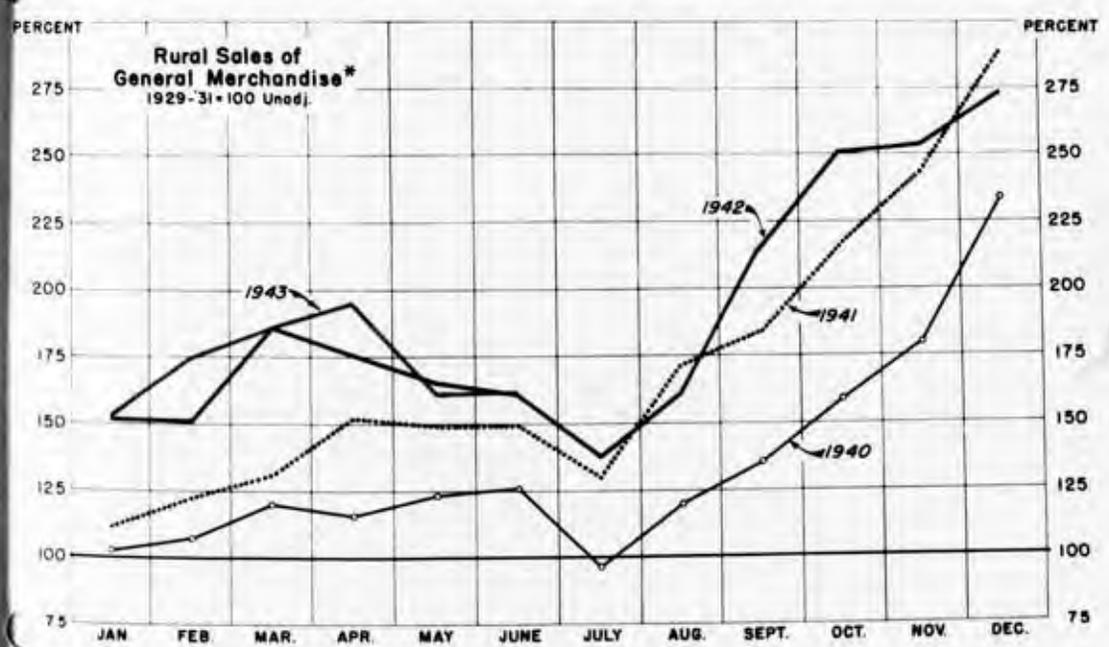
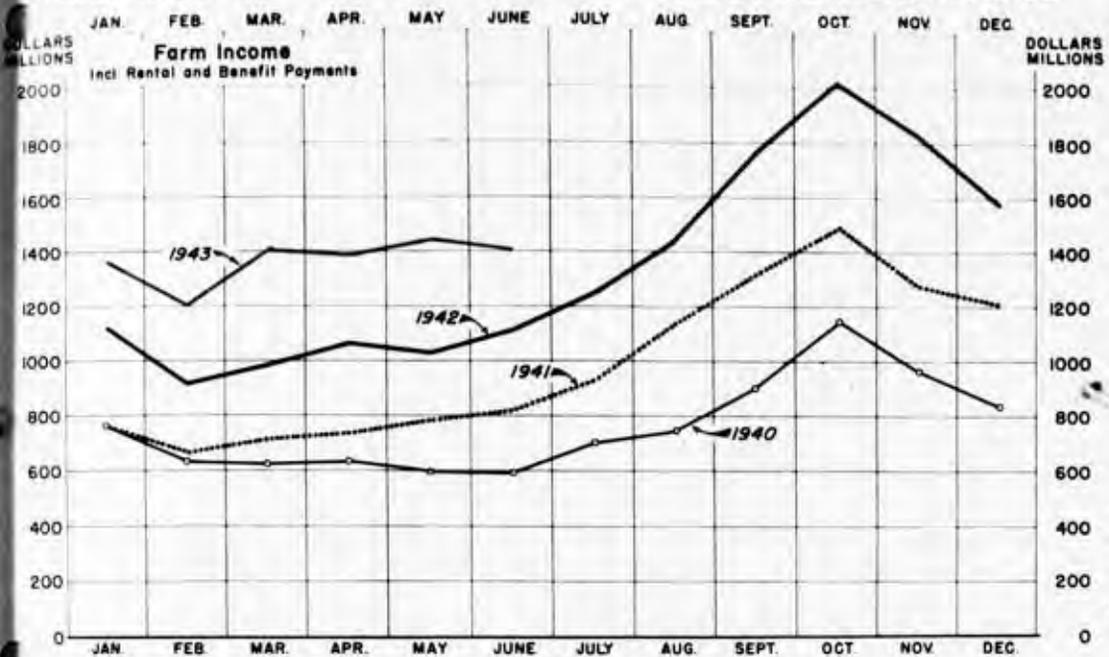
PERCENTAGE CHANGE DEC 6, 1941 TO AUGUST 6, AND AUGUST 13, 1943



\* 20 Controlled & Uncontrolled previous to June 28, 1942

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## FARM INCOME AND RURAL SALES OF GENERAL MERCHANDISE

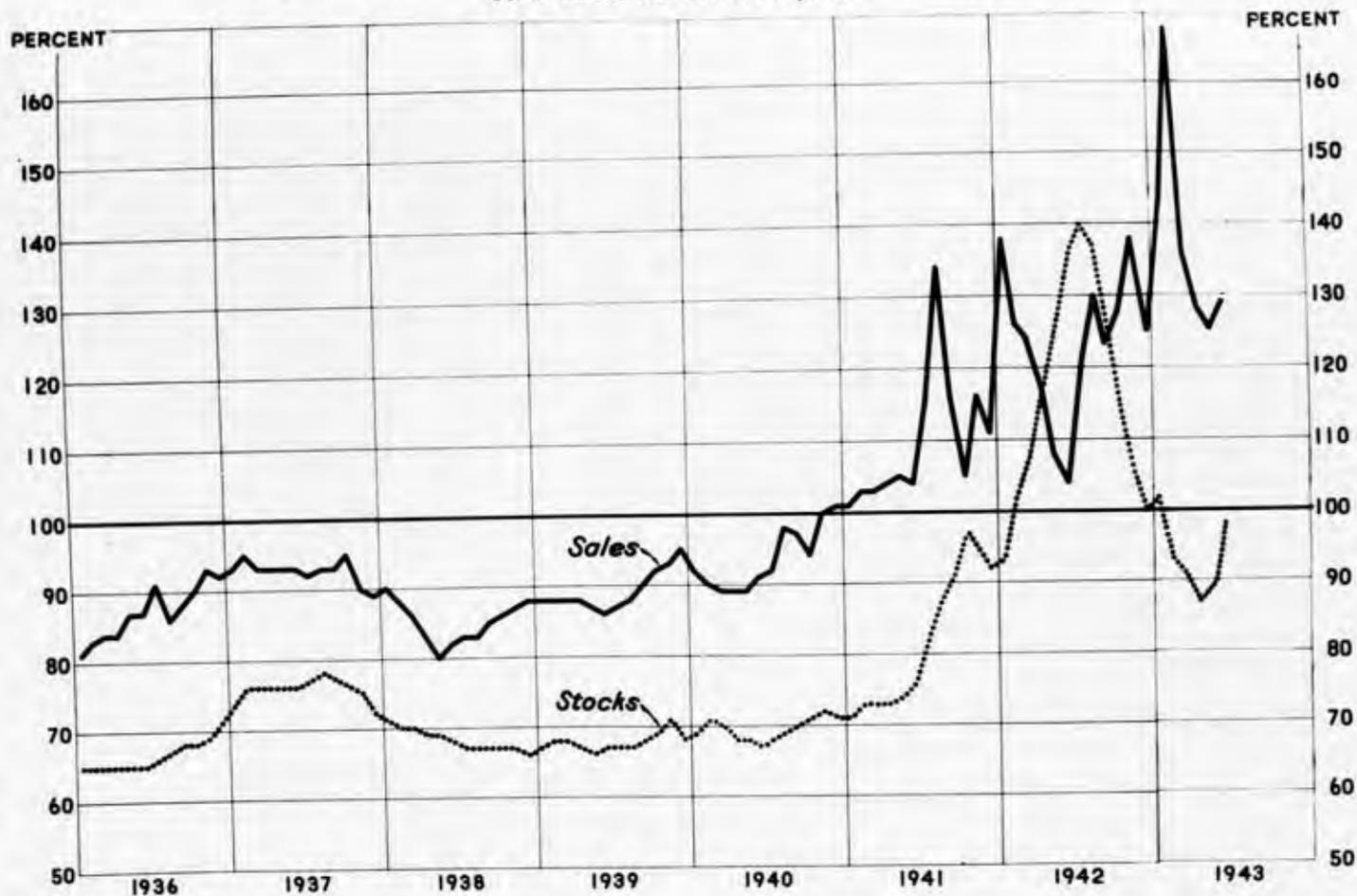


\* Dept. of Commerce index of dollar sales of general merchandise in small towns and rural areas.

Wise of the Secretary of the Treasury's  
Division of Research and Statistics

# DEPARTMENT STORE SALES AND STOCKS

Dollar Values, 1923-25 = 100, Adjusted

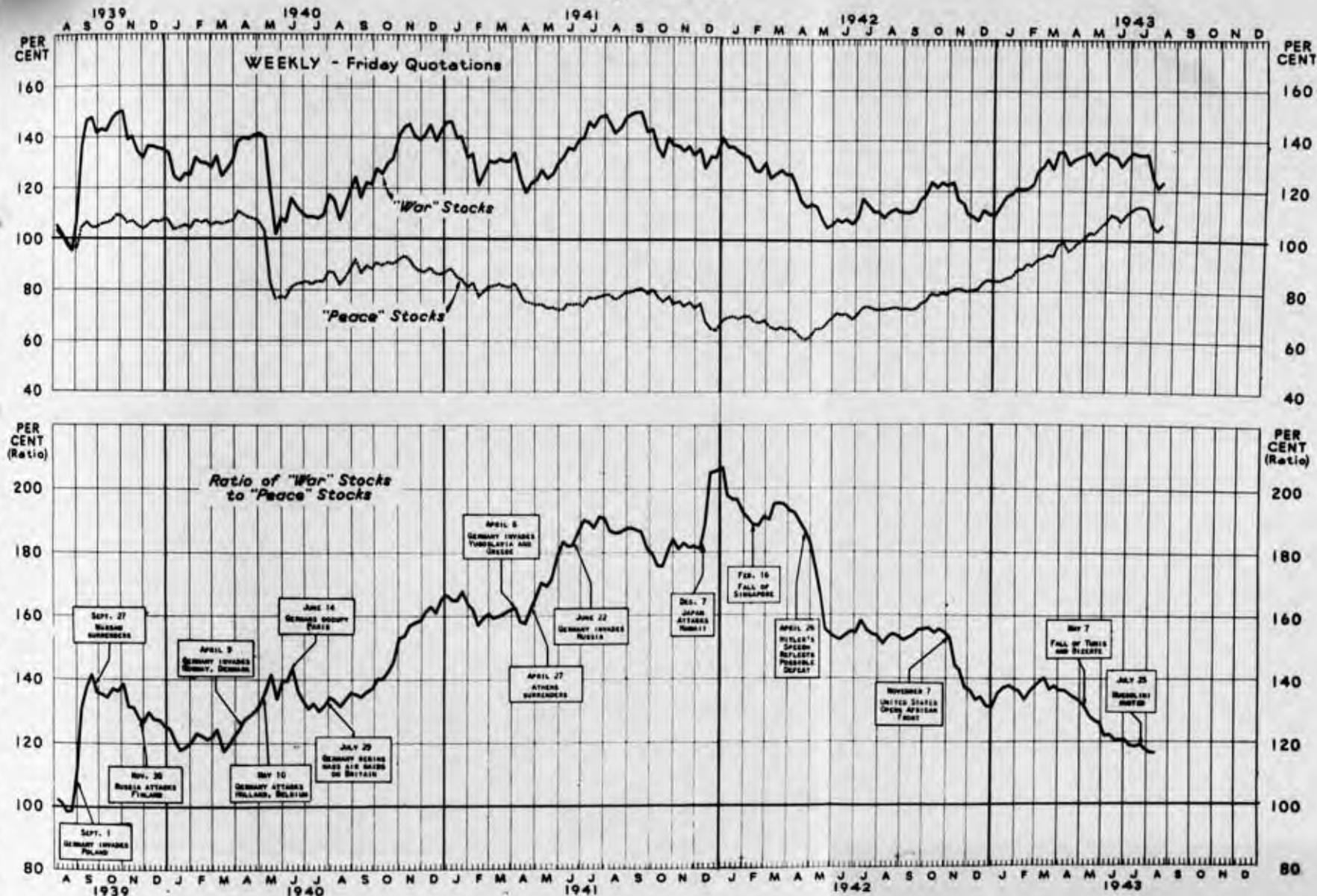


Source: Federal Reserve Board

# COMPARISON OF PRICE MOVEMENTS OF 20 "WAR" STOCKS AND 20 "PEACE" STOCKS\*

August 1939=100

Chart 6



\* Stocks selected on basis of relative benefits from prolonged war vs. early peace  
Indices are weighted averages of price relatives

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HAROLD THOMAS HYMAN, M. D.  
340 PARK AVENUE  
NEW YORK CITY

August 16th, 1943.

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

Dear Henry:

I hope I am not taking advantage of your good offices by this letter, which is to contain some more on the syphilis situation.

In the first place, on the political side, Dr. Moore has gotten himself appointed Consultant to the Secretary of War on Venereal Diseases. Apparently, he figures that now we have gotten out of the hands of the National Research Council, he will get himself upstairs to badger and harrass us further. I am sure that Secretary Stimson cannot know of these petty machinations and I am equally sure that by now I am pretty well considered a "pain in the neck" to everybody so that a protest from me would be a boost for anyone I complained about.

I should not bother you with this were it not for the fact that it may be that this is interfering with our work. As I told you, Bill Leifer, with the rank of Captain, was sent to Fort Bragg to work under Dr. Worth Daniels. He has treated the first group of patients ever to be treated in the U.S. Army by five-day-method, but they have made his life pretty miserable down there and Bill is in the frame of mind that can do his work no good. Apparently, the Chiefs there have been so frightened by someone (and I suppose that someone is Moore) that Bill is never permitted out of the Hospital and is on twenty-four hour duty. That, of course, is no way to practice medicine and carry on an arduous research. Nor is Bill's lot too happy when he knows that everyone around him is in a state of anxiety and that he is more or less on trial.

I do not know how to tackle this matter since my methods are always direct and seem always to come to grief. Apparently, the Army group does not want meddling by a civilian, which is more or less understandable.

Page No. 2  
Mr. Henry Morgenthau, Jr.  
The Secretary of the Treasury

August 16th, 1943.

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My purpose in writing to you is to ask you to see what you can do to help me straighten out this situation. I am inclined to believe that the two problems have a common denominator and, throwing all caution and humility aside, I believe that they could be rectified if Mr. Stimson appointed me to the same rank and position as Moore. I could then, perhaps, enter this situation, help Bill out and cease the obstruction to a piece of work that can, if it succeeds, wipe out syphilis in our Country within a generation.

With my kindest regards,

Ever sincerely,



Harold Thomas Hyman, M.D.

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SECRET 86



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

August 16, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of August 9, 1943, the purchases against the African Program from August 9, 1943, to August 15, 1943, totaled \$611,357.38 or a total of purchases for the program thus far of \$55,000,761.40.

Attached is report giving status of shipping against these purchases.

A handwritten signature in cursive script, appearing to read "A. J. Walsh".

A. J. Walsh  
Acting Director of Procurement



SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Agric. Mach. & Implements	1451.31	40.41	550.87	217.2
Automotive Eqpt. & Parts	754.96		110.9	71.53
Batteries	113.17	8.	18.75	7
Bearings	1.95	.02	3.01	
Brass & Bronze	288.4	2.5	137.6	
Brushes & Brooms	.8	.15		
Bldg. Hardware & Material	187.7	28.9	210.86	121.1
Chemicals	16390.31	596.9	5385.51	5033.5
Clothing, Notions & Textiles	15409.8	186.45	2471.84	4826.95
Construction Machinery				.07
Copper in Various Forms	232.89	19.43	108.44	7.43 *
Elec. Eqpt. & Supplies	66.52	4	5.29	44.09
Explosives	14.15			
Ferro - Alloys	66.44	2.06		
Food & Food Products	6032.25			
Furniture & Office Eqpt.	.1	.5	.01	
Glass	99.6	60	78	95.3
Graphite Products	22.68		109.96	
Hand & Cutting Tools	701.68	103	454.47	449.16
Industrial Machinery	44.3	65.69	47.67	76.26
Iron	145	410	425.6	95.4
Jute Bags	857.47		535	
Lead & Lead Alloys	73.18		102.5	
Medical Supplies	58.12	1	23	
Non-Ferrous Metals, Other	386	24	44	.75
Paper & Paper Products	3513.94	1868.69	876.8	3132.43
Rope & Twine	247.75	34.75	14	12
Rubber	690.81	40.5	299.78	364.9
Shoes & Boots	316.68	5.34	199.79	320.5
Steel, Alloy & Carbon	3535.38	471.7	5036.99	4240.54

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Steel, Pipe & Tubing	220.94	21.5	17.97	56.5
Tin Plate	845			1000
Zinc			28.	2
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	55,786.38	3,995.49	17,356.49	20,774.61

\* - Shipping instructions for 51 tons cancelled.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE  
WASHINGTON, D. C.

TELEPHONE HOBART 9000

QUOTE

REFERENCE NO.....

With the compliments of British Air Commission  
who enclose Statement No. 98 — Aircraft Despatched  
— for week ended August 10, 1943.

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

August 16, 1943.

MOST SECRETSTATEMENT NO. 98

Aircraft Despatched from the United States  
 Week Ended August 10th, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Liberator III	India	India		1	
Liberator GR V	U.K.	U.K.		2	
<u>CURTISS</u>					
Kittyhawk	N. Zealand	Auckland	1		
Seamew	U.K.	U.K.	2		
<u>DOUGLAS</u>					
Dakota III	M.E.	M.E.		3	
<u>BEECHCRAFT</u>					
Beechcraft	N. Zealand	Auckland	1		
<u>GLENN MARTIN</u>					
Baltimore V	M.E.	M.E.		23	
Mariner GR I	U.K.	U.K.		1	
<u>NORTH AMERICAN</u>					
Harvard	M.E.	Port Sudan	2		
Harvard	India	Karachi	8		
<u>GRUMMAN</u>					
Martlet V	U.K.	U.K.	3		
<u>VULTURE</u>					
Vengeance	India	Karachi	2		
<u>VEGA</u>					
Ventura GR V	M.E.	M.E.		1	
Ventura GR V	U.K.	U.K.		1	9
Ventura GR V	Canada	Canada			
			Total	<u>19</u>	<u>32</u>
					<u>9</u>

Movements Division  
 British Air Commission

August 14, 1943

JT:mah

Regraded Unclassified

COPY NO. 13OFFICE  
SECRETARY OF TREASURY

1943 AUG 17 PM 2

TREASURY DEPARTMENT

BRITISH MOST SECRET  
U.S. SECRETOPTEL NO. 269

Information received up to 10 a.m., 16th August, 1943.

1. NAVAL

On 13th/14th, two of H.M. Cruisers with destroyers carried out a sweep off the West Coast of ITALY and bombed the harbour of VIBO VALENTIA. Destroyers have been patrolling off the <sup>C</sup>BALABRIAN Coast and light craft to within 3 miles of MESSINA. One of H.M. Destroyers was torpedoed by an E-boat off CATANIA yesterday evening. No further details known. One of H.M. Submarines sank a 7,000 ton inward bound ship off BRINDISI on the 11th. Yesterday evening a South bound convoy was attacked by 18 Focke Wulf 200's Northwest of CAPE ST. VINCENT. One ship was sunk and two others damaged. 2 ships torpedoed by aircraft East of GIBRALTAR on 13th have reached GIBRALTAR in tow.

2. MILITARY

SICILY. The Eighth Army captured TAORMINA on the morning of the 15th and are continuing their advance in spite of heavy demolitions. Further inland CASHIGLIONE has been occupied without contact with the enemy. U.S. Forces have entered FRANCAVILLA and on the Northern Coastal Road have captured BARCELLONA and SPADAFORA. Their advance elements are within 15 miles of MESSINA. The evacuation of SICILY is being hastened and touch has been lost temporarily with enemy in both Coastal Sectors. The Germans are trying to fortify a perimeter at MESSINA and it is estimated that it will take another 4 days to clear the island. A total of 32,000 Germans and Italians have been evacuated since the 7th under cover of about 500 anti-aircraft guns mostly on the mainland.

3. AIR OPERATIONS

WESTERN FRONT. 14th/15th. MILAN. 403 tons were dropped. One bomber missing not 2. 15th. 327 Fortresses were sent in the evening to attack airfields in Northern FRANCE and the Low Countries. 366 tons were dropped in good weather conditions. 2 Fortresses missing. A total of 57 Marauders attacked ST. OMER airfield and ABBEVILLE Railway centre. Fighters escorted the bombers and on other operations destroyed 5 German aircraft. 5 Fighters missing.

15th/16th. 351 aircraft despatched: MILAN - 199 (7 missing), Sea-mining - 63 (3 missing), BERLIN - 8, Leaflets Northern FRANCE - 16, Intruders - 56, Anti-shiping - 9. 24 enemy aircraft crossed the South Coast. Fighters destroyed 4 of them.

SICILY. Throughout the 14th and 15th, the beaches along both sides of the Straits were heavily attacked.

4. HOME SECURITY 15th.16th. PORTSMOUTH. During a sharp attack several fires were started. One H.E. bomb fell in the dockyard causing 9 casualties. 23 fatal casualties so far reported.

Regraded Unclassified

August 17, 1943  
9:00 a.m.

TAXES

Present: Mr. Bell  
Mr. Paul  
Mr. Gaston  
Mr. Smith  
Mr. White  
Mr. Sullivan  
Mr. Currie ✓  
Mr. Haas  
Mr. Gamble  
Mr. Blough  
Mr. Murphy  
Mr. Shere  
Mr. Shoup  
Mr. Surrey  
Mrs. Klotz

H.M.JR: My apologies to Gaston and Haas, but I am sure they didn't want us to arrive at a tax policy without voting. As soon as this meeting is over, you can go back on your holiday again, but it is so important I thought you should have a chance to express yourselves.

Go ahead, Professor.

MR. PAUL: You have been referring to me as a professor - that is one thing I am not - well, I guess maybe I am.

H.M.JR: Didn't you teach up at Yale? In the Treasury we honor them. (Laughter)

MR. PAUL: How do you want me to present it?

H.M.JR: Well, my thought was this, that you have some very good questions here, and you can appoint one of your assistants there to tell us, so to speak--

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MR. PAUL: I have a sheet here for that.

H.M.JR: If these people don't want you - if you are afraid they may be influenced, we can have it question by question, or by raising of hands. The thing is not to put me on the spot, but put you on the spot so I can make up my mind.

If Currie doesn't want to vote publicly--

MR. CURRIE: Will we have the privilege of a secret ballot?

H.M.JR: You can do it any way you want. It is strictly a Treasury meeting.

Go ahead, Paul, do your stuff.

MR. PAUL: Let's have an answer to question one. We have some of the answers, so I will--

H.M.JR: Do you mind reading the question out loud?

MR. PAUL: "Are you in favor of submitting to the Congress a tax program consisting only of orthodox revenue sources such as the individual income tax, corporation taxes, estate tax, and excises?" We have no vote from Bell on that.

MR. BELL: They have been prodding me for three days now to get this thing filled out. My answer to that is, yes, I will take any tax program you can get through in three months.

MR. PAUL: Let's have White.

MR. WHITE: No, if I can have what I want; if I can't have what I want, yes. (Laughter) You can't answer these no or yes without that thing.

(Mr. Gamble left the conference.)

MR. PAUL: Smith?

MR. SMITH: Let me say that I think you ought to have something other than regular revenue. My answer is no.

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MR. BLOUGH: Probably we ought to have a line for other.

MR. PAUL: Now, let's take the three that answered no, White, Smith - Smith, you are for your own plan, are you?

MR. SMITH: I am just presenting it to see if it will work. (Laughter)

MR. WHITE: Compulsory loan or saving - whatever you want to call that particular tax--

MR. PAUL: Currie, what are you for?

MR. CURRIE: Compulsory loans over my second choice of refundable income tax - refundable in the lower brackets.

MR. WHITE: That is a later question.

MR. CURRIE: I mean in the way of an alternative - that is one of the disadvantage of the yes and no.

H.M.JR: I would like to get - say it again.

MR. CURRIE: I think from my point of view, either compulsory loan or refundable income taxes, pretty much the same--

H.M.JR: Post-war?

MR. CURRIE: Yes. You step up your income tax, but you make part of it refundable in the post-war period, which is pretty much the same thing as compulsory loans.

MR. WHITE: I think that vote on the first question would have to be considered in the light of the second. In other words, if compulsory loans or savings are out, then I wouldn't want to substitute any of the others, I would go to the only - that is why we have these qualifications.

MR. PAUL: I was voting yes on the first. I would be in favor of making part of that twelve billion compulsory loans, which comes in a later question.

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Now, we have the Social Security line of questions, "Should the Secretary recommend the expansion of Social Security as part of his statement on the tax program?" Specifically, should it be the Wagner Bill, part of the Wagner Bill, or some other modification or general approval of expansion of Social Security without specifying details? Those are the three parts of that question? Bell is the first one who hasn't answered.

MR. BELL: My answer is yes to C because I don't know what the Wagner Bill is all about.

MR. WHITE: How much does the Wagner Bill amount to, Roy, roughly?

MR. BLOUGH: The first year would be something over six billion dollars. That would not be the net increase every year.

MR. WHITE: It would increase?

MR. BLOUGH: After the first year you give out payments which would cut its effectiveness to about three billion two.

MR. WHITE: It would go to three billion?

MR. BLOUGH: The increase the first year would be about six or seven billion net.

MR. PAUL: How do you feel on that?

MR. WHITE: No - I am for the Wagner Bill strongly.

MR. PAUL: Smith?

MR. SMITH: General approval.

MR. PAUL: Blough?

MR. BLOUGH: I don't know what I am for, either A or C. If the Administration is for the Wagner Bill, I am for the Wagner Bill. If that hasn't been determined, I am for C. Better put it C then.

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MR. PAUL: George?

MR. HAAS: Yes on "C." I think you would hold up the whole tax program if you tried to put the other on. I favor expansion of Social Security, but I vote yes on "C" in connection with the tax recommendation.

MR. PAUL: Murphy?

MR. MURPHY: Yes on "C."

MR. SHERE: I have yes on "C."

MR. SHOUP: Yes.

MR. PAUL: How do you feel Currie?

MR. CURRIE: "C."

MR. SULLIVAN: Mine should be yes instead of no on that "C."

MR. PAUL: That means we have a unanimous vote on that question.

MR. BELL: Harry didn't vote there.

MR. BLOUGH: Harry is stronger than the rest of us.

MR. WHITE: The disadvantage of general approval - I am afraid it is apt to become innocuous.

MR. SULLIVAN: That is what question three means, whether we are coming out and state what we mean and make a fight for it.

MR. SURREY: The starting point to hold hearings on would be to use the Wagner Bill so the approach to the hearings would be soft. We won't necessarily have to endorse every provision of the Wagner Bill.

MR. WHITE: That is right, because the Wagner Bill has reached further than a general increase in Social Security.

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MR. PAUL: That was pretty unanimous in favor of general approval - practically everybody - Harry was a little stronger.

"Should the Secretary oppose the Vandenberg Amendment that would maintain the existing old age payroll tax at the one percent rate?"

MR. BELL: Yes.

MR. PAUL: White?

MR. WHITE: Unfortunately I am not familiar with that. If Vandenberg is for it, I would oppose it, but I don't know much about it. (Laughter)

MR. SMITH: I don't know anything about it.

MR. BELL: The expansion of Social Security - you have to oppose it.

MR. BLOUGH: The original Social Security Act called for an automatic rise in the rate of pay roll taxes on employers and employees in 1940; and in 1939 the Secretary of the Treasury suggested letting that go over and having the rise come in January 1943. Last year Senator Vandenberg got through an amendment to prevent that rise from taking place January 1, 1943. He has now gone through all the preliminaries again for putting through an amendment to prevent the rise in 1944.

The question is, are we for the rise from one to one and one half percent as provided in the original Social Security Act?

MR. WHITE: I had forgotten that.

MR. BELL: How can you vote against this if you vote yes for three?

MR. BLOUGH: Only if you want to give the world away with a ribbon around it without taking anything back.

MR. PAUL: Voting no on "3-C" is opposite of voting yes here.

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MR. BELL: Everybody is voting yes on 3-C, expansion of the Social Security Act. How are you going to vote with Vandenberg if you vote in favor of the other?

MR. WHITE: You could do that, because you could be in favor of the outgoing without voting for an increase.

MR. SULLIVAN: It isn't outgoing, Harry.

MR. BELL: That isn't what my vote meant.

MR. PAUL: Blough, what is your vote?

MR. BLOUGH: Yes.

MR. PAUL: Haas?

MR. HAAS: Yes.

MR. SULLIVAN: Yes.

MR. MURPHY: Yes.

MR. SHERE: Yes.

MR. SHOUP: Yes.

MR. PAUL: Everybody feels you should oppose the Vandenberg Amendment. That ought to await his presentation of the amendment and the presentation of the bill.

Now, the next question is, "Should the Secretary adhere to the announced amount of \$12 billion annual rate effective January 1944?"

H.M. JR: Just a second on that - this Byrnes statement got me off. Before you leave the room, write on my letter to Byrnes that I want to talk about this question of the combined victory tax and withholding. So before they come to get you (Smith) remember to put that in before you leave.

Excuse me, Randolph.

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MR. PAUL: This is a very important question, should the Secretary adhere to the announced amount of twelve billion effective January 1944? Now, that is an annual rate basis; it isn't a fiscal year yield of twelve billion. The question is, should we adhere to that or go lower or higher?

Dan, you haven't voted on that.

MR. BELL: I have some doubts about that question. The Secretary has announced it as a goal, and I think he should stick with it. I would much prefer to see an agreement between the Executive and the Congressional leaders on the amount of taxes that are to be gotten through and stick to that amount, but that has never been the policy.

MR. PAUL: You brought that up in one of our meetings. You can't get an agreement, because they can't deliver it.

MR. GASTON: I brought that up.

MR. BELL: I question going out with an amount of taxes you know you can't get, and then you have the headlines, "The Treasury is licked again."

MR. PAUL: Then your answer is really no, except you are bound by this.

MR. BELL: I think if the Secretary announces it he will probably have to stick to it, unless he can get an agreement with the leaders and say, "We will come to an agreement and then stick to that amount."

MR. PAUL: Well, we can qualify your vote.

Harry?

MR. WHITE: The answer is definitely no, but I would like to qualify that by saying how much I would be in favor of depends on the tax, the lower the tax the less the amount, in my opinion - the lower the amount, from my point of view, the less the tax should be. In other words,

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if you are going to have a refundable provision in the lower brackets, I would be in favor of a higher tax.

MR. PAUL: Do you say no because you think it ought to be higher?

MR. WHITE: No, it ought to be lower.

MR. PAUL: The tax part of it?

MR. WHITE: Yes. If you want to go into the reasons - but I take it we are not discussing the reasons.

MR. PAUL: I think we had better get a vote on that.

Mr. Smith?

MR. SMITH: Not necessarily.

MR. PAUL: We will write down a no vote.

MR. SMITH: All right.

MR. PAUL: Blough:

MR. BLOUGH: Yes, it ought to be higher under the circumstances. I feel the way Danny does, we shouldn't get licked again, but it ought to be higher.

MR. HAAS: The twelve has been given out as a figure because it is fifty percent of the expenditures.

MR. PAUL: No, the Secretary used it because it was a previous announcement of the President's.

MR. HAAS: I think we should recommend that.

H.M.JR: What I said last time as between the President and myself - we were for an increase of a billion dollars a month.

MR. HAAS: It just makes fifty percent of the expenditures covered by taxes. I would be for that, but I don't

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think there is any chance of getting it through. I think as the Secretary's recommendation I will vote yes on that.

MR. GASTON: You defined that adhere, didn't you, up to the time he makes his recommendation to the Committee - the Ways and Means Committee - that is, he should not cut anything off until he has made his recommendation to the Ways and Means Committee?

MR. PAUL: Adhere means, make a recommendation to the Committee at the opening of the session; it doesn't bind him later not to make some deal. (Laughter)

H.M.JR: That is a hot one. Will you put that in your next textbook? (Laughter)

MR. SULLIVAN: Make that a footnote. (Laughter)

MR. PAUL: Murphy?

MR. MURPHY: Yes.

MR. SHERE: Yes.

MR. SHOUP: I vote no, higher.

H.M.JR: You think it should be higher than twelve?

MR. SHOUP: Yes.

MR. PAUL: Plus Gaston's Social Security?

MR. SHOUP: Let me add that I don't think the Treasury should be concerned whether it is licked or not. The chief point is what the Treasury thinks ought to be done. If it gets licked, it would be too bad, but, after all, it is wartime.

MR. PAUL: Lauch, how are you on that?

MR. CURRIE: Well, the way the question is framed, I think the Secretary should adhere to what he has announced. I assume, as you do, that this doesn't bar acceptance of

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a modification later. If you got more, for instance, from the compulsory loan, then you can lower the taxes, but for your opening statement I certainly think it should go through.

MR. PAUL: You feel pretty much as Dan does?

MR. CURRIE: Yes.

MR. PAUL: Except your modification covers compulsory loans?

MR. CURRIE: Yes.

MR. PAUL: I think if you have your twelve you are bound to get both the sales tax and forced loans.

MR. SULLIVAN: If they decide to play along with you and give you anything like the twelve--

MR. PAUL: Most of the answers to that are yes. There are three no's because it ought to be lower and one no because it ought to be higher.

H.M.JR: Which are the three that think it ought to be lower?

MR. PAUL: Smith, Sullivan, and White.

I voted yes on that because of the form of the question. I would like to see some compulsory saving put in that twelve billion.

MR. BELL: You wouldn't have much choice, would you? You wouldn't really have much choice, would you, on a twelve billion dollar rate?

MR. PAUL: That is just why I went along, Dan.

MR. CURRIE: It might be more meaningful if you frame the question, do you favor such and such, and then list them.

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MR. PAUL: Let's put in another question here. This seems to be so confusing the way the question is put. How would you suggest we cover that to get a compulsory saving element in it? Maybe we had better go back to the latter circumstances as the amount specified in answer to five. That is the question we just had.

"Is the amount specified in answer to Question 5 exclusive or inclusive of the amount that you wish to see raised by an expansion of the present Social Security Program?"

Dan, exclusive or inclusive?

MR. BELL: I think expansion of any Social Security should be separate and distinct from any tax program, exclusive and not considered Social Security revenue at all.

MR. PAUL: White?

MR. WHITE: Exclusive?

MR. PAUL: Smith?

MR. SMITH: I think exclusive.

MR. PAUL: Exclusive.

MR. HAAS: Exclusive.

MR. MURPHY: Exclusive

MR. SHERE: Exclusive.

MR. SHOUP: I guess I am inclusive.

MR. PAUL: All but two are exclusive. That means that Social Security ought to be a different matter; you ought to raise twelve billion dollars or whatever it is without taking into consideration Social Security. You shouldn't include any Social Security in the amount that you have specified.

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MR. SULLIVAN: It is limiting the sources from which you get the twelve billion.

MR. WHITE: If the conclusion is that the Secretary should try to ask for twelve and in addition to that get six billion in Social Security, I certainly would want to change my vote. I think that is absurd.

MR. GASTON: Our vote on Social Security was not for the Wagner plan; it was for a general favoring and expansion of Social Security. It did not include a six billion dollar revenue plan.

MR. WHITE: Let's put it this way, that the tax program ought to be designed with a view to the amount of income which is going to be obtained from the expansion of Social Security. You ought to keep that in mind in the formulation--

MR. PAUL: You do have it in mind - you have it in mind that you get nothing from Social Security. I agree with you that if you are going to get a lot more Social Security you should reduce your tax.

MR. WHITE: If everybody is convinced that you are not going to get any Social Security it shouldn't be in here at all, but I think there may be a chance to get Social Security.

MR. PAUL: There isn't a chance in the world in this Congress.

H.M.JR: May I make a comment - I want to say that your definition of adhere to the twelve billion dollars would be much easier for me to adhere to, due to the fact that that included Social Security.

MR. WHITE: That would be an excellent out. I would go along with that twelve billion dollars, too.

H.M.JR: You would adhere to it?

MR. WHITE: Yes, if six of it would be Social Security.

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MR. SULLIVAN: About four.

MR. BELL: If we got twelve billion dollars in taxes, Harry would be in favor of forced sales. (Laughter)

MR. WHITE: Twelve billion in taxes would certainly - I am in favor of some provision in the lower brackets for forced saving in addition.

MR. BELL: No, you would not. (Laughter)

MR. PAUL: Now, the next question is, "Would you include any of the following in the program?" Let's take first the sales tax - general retail sales tax.

Dan?

(Mr. Blough left the conference.)

MR. BELL: No, I wouldn't include it in your recommendation.

MR. SULLIVAN: I voted no.

MR. PAUL: White?

MR. WHITE: No.

MR. PAUL: Smith?

MR. SMITH: No.

MR. PAUL: Blough is not here.

MR. SURREY: No.

MR. PAUL: I vote no.

George?

MR. HAAS: No.

MR. PAUL: You three (Murphy, Shere, and Shoup) are all against it?

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(Mr. Murphy, Mr. Shere, and Mr. Shoup all indicated against.)

MR. PAUL: That is completely unanimous - no sales tax according to this group.

Now, a tax on the increases of individuals, in other words, an individual excess profits tax - in this question there are two types of this tax, tax increases on all types of income, or increases to proprietorships and partnerships. How do you feel about it, Dan? Do you favor it?

MR. BELL: I don't know as I know enough about it, but I think no is the answer.

MR. PAUL: Sullivan, you didn't answer that.

MR. SULLIVAN: I voted no on that.

MR. PAUL: Harry?

MR. WHITE: No.

MR. SMITH: No.

MR. SURREY: No.

(Mr. Blough reentered the conference.)

MR. PAUL: You three (Mr. Murphy, Mr. Shere, and Mr. Shoup)?

(Mr. Murphy, Mr. Shere, and Mr. Shoup all voted no.)

MR. PAUL: That is unanimous.

H.M. JR: I just want to stop for three minutes. I would like to have Smith, Gaston, and Mrs. Klotz come in the other room just a minute.

(The Secretary, Mr. Gaston, Mr. Smith, and Mrs. Klotz left the conference.)

MR. PAUL: I think we should go back to some of these questions, especially one and five.

MR. CURRIE: I would like to have that over-all - I would like to have a little bit of information.

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MR. PAUL: Let's go back to that question, that is number five. I want to go back to that one because I think there are refinements there - one and five.

MR. BLOUGH: What do you suppose the Commissioner has in mind? He is in favor of increased taxes in income.

MR. SURREY: He is the only one who voted yes; he is the only one who voted for it.

Let's take this next question; we will make a little time. We can tell the Secretary. I am pretty sure how the vote is going to go on this. The reason we put this question in is because Stam suggested that tax on all exempt organizations and labor unions. He realizes that if you tax labor unions you have to also tax business leagues and Chambers of Commerce, but Stam is ready to pull down the pillars of the capitol.

What the net income would be is a leading question - dues, or income. I imagine we would get a pretty preponderate vote of no on this, but what is your vote, Dan?

MR. BELL: I think I am against that.

MR. PAUL: You are not very sure?

MR. BELL: I would like something to control unions, but I don't think you can do that.

MR. PAUL: Mr. Sullivan?

MR. SULLIVAN: I voted on all of these.

MR. PAUL: I am sorry, we just got some of these.

Harry?

MR. WHITE: No.

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MR. PAUL: Smith is out.

Blough?

MR. BLOUGH: No.

MR. PAUL: George?

MR. HAAS: No. This is number eight?

MR. PAUL: Yes.

MR. MURPHY: No.

MR. SHERE: No.

MR. SHOUP: No.

MR. PAUL: We have all no's there, except Dan's.

MR. BELL: Well, I will make it unanimous. We have to do something to control unions.

MR. PAUL: The only vote we haven't got is Smith's.

MR. WHITE: Why has the expansion of Social Security so poor a chance? Public sentiment seems to be for it.

MR. PAUL: Doughton told the Secretary and me at lunch one day that they couldn't get one vote in his Committee even for consideration of the bill, not to mention--

MR. BLOUGH: Suppose he is one thousand percent wrong what is a thousand percent of zero?

MR. PAUL: I don't think he would get more than two or three votes.

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MR. BLOUGH: 1944 is coming along.

MR. SHOUP: If you got it out of Committee, I think it would go right through.

MR. WHITE: Suppose this amount of money had to be gotten, and it is either Social Security or taxes, would that help it?

MR. PAUL: I don't know, because they are emotional about it and opposed to it. They think it is crackpot.

(The Secretary, Mr. Gaston, Mr. Smith reentered the conference.)

H.M.JR: While we have you here, I want to take a leaf out of Mr. Beardsley Ruml's book and come out publicly for something that is popular - I can't go as far as he did - and that is to come out publicly for combining the victory tax and the withholding tax into one tax - simplification.

Now, in order to do that - the thing I got as a result of my trip to Buffalo - I would send out maybe five hundred telegrams. That would cover eight million employees - five hundred telegrams - one for every five thousand or over - I would send out five hundred telegrams asking them what it means to them in saving of man-hours if the withholding tax and victory tax were combined, a rough estimate of how many man-hours this would save.

MR. SULLIVAN: A year?

H.M.JR: A year. If the two things were combined - and then base my statement on that information. I know the arguments, George isn't going to like it, and Doughton isn't going to like it, but if the country is going to like it, I don't see--

MR. PAUL: I don't think you can put the question that way from the standpoint of these questionnaires, because it is combined now with the withholding tax.

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MR. GASTON: In their tables, yes.

MR. SURREY: The tax is combined in the tables for all other employees. It involves a question of whether you have the twenty percent or the three percent.

H.M.JR: Look, there is going to be an argument - let it go - after this is over if I am right to combine the two, we will save many man-hours in bookkeeping - am I right or wrong?

MR. SURREY: It will save some, but what you have now is withholding of twenty percent and a three percent rate. It might be a result of things here that we have to have withholding - twenty percent rate and ten percent rate - which will be the same situation.

H.M.JR: Will you (Smith) get to work, and as soon as you are ready with that work let me know?

MR. PAUL: While you were out of the room, in order to save time we took a vote on the question eight, which is a form of taxes suggested by Stam, a tax really - you could call it a tax read into Stam's mind - a tax on labor unions of ten percent - a moderate tax on labor unions.

H.M.JR: Anybody for that?

MR. PAUL: They were unanimous against it.

Now we come to question nine, "Do you agree that in the program recommended the individual income tax should account for approximately three-quarters of the increase asked for?" That refers to the sum of eight billion seven that was in the tentative provision we lined up which is approximately three quarters of twelve. That left the rest of the program excises, corporate income taxes, and a small amount of estate taxes. In other words, the real question is, did you think the preponderate large bulk of increase should be individual income taxes?

What is your vote on that, Dan?

MR. BELL: I don't have any opinion on it; I don't know what it should be, but all you can get. (Laughter)

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MR. PAUL: He refuses to vote.

MR. BELL: I don't know whether it should be two-thirds or not.

MR. BLOUGH: You mean you approve the eight point seven level of individual income taxes?

MR. PAUL: Well, in relationship to the twelve billion, do you approve the eight point seven?

MR. BELL: I don't know whether it is right or not.

MR. PAUL: You just can't get a vote out of him. Let's get Harry.

MR. WHITE: I think the preponderate should be from income taxes, and I think eight seven is preposterously too high. It is too high, but I think whatever tax program you have should come preponderately out of income.

MR. SURREY: And if you asked for twelve, you would ask for eight on the income.

MR. PAUL: I think Harry's answer is yes on that, with certainly a footnote that that is too much.

Sullivan?

MR. SULLIVAN: My answer related to my other recommendation in the amount to be raised, three-quarters of that, which would be six.

MR. PAUL: In other words, your total was nine.

MR. SULLIVAN: My total was eight, and three-quarters of that in individual income taxes is O.K. with me.

MR. PAUL: Blough?

MR. BLOUGH: Yes.

MR. PAUL: Haas?

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MR. HAAS: Yes.

MR. PAUL: Murphy?

MR. MURPHY: Yes.

MR. PAUL: Louis?

MR. SHERE: Yes.

MR. SHOUP: Yes.

MR. PAUL: Currie?

MR. CURRIE: Yes, with the same qualifications that were introduced.

MR. PAUL: We will have to go back to that aggregate amount, but in terms of relationship your answer is yes?

MR. CURRIE: Yes.

H.M.JR: Maybe Bell wants to revise his answer.

MR. BELL: I don't know what the total tax should be.

MR. PAUL: In relation to the excess profits tax--

MR. BELL: Well, I think the preponderate should be in the income tax, but whether it should be seventy-five percent or sixty percent, I don't know.

MR. BLOUGH: That is really what the whole question means.

MR. BELL: I think it has got to be.

MR. PAUL: Yes, it has got to be. The answer to that question is pretty much - it is unanimous that the preponderate ought to be in increased individual income taxes. Some of the answers don't go along with the

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total twelve, and, therefore, they don't go up to the eight seven, or nine, but whatever the total is everybody agreed that the preponderate amount ought to be from the individual income tax.

Now, I would like to go back later to the question of amount. These other questions develop your thoughts a little more.

The next question is, "Do you favor vigorous prosecution of recommendations in loopholes."

MR. BLOUGH: You skipped the meat of this thing.

MR. PAUL: Oh, I am sorry. "Should the present exemptions of the individual income tax be retained?"

H.M.JR: What page are you on?

MR. BLOUGH: Four.

MR. PAUL: Should the present exemptions be retained, or should they be reduced to five hundred, a thousand, and two fifty?

Dan?

MR. BELL: I think possibly they have to be lowered in order to get your money. I would be in favor of lowering them if it isn't necessary to give refundable taxes. I think we ought to eliminate those if we can.

H.M.JR: I don't know what you said - what about refundable taxes?

MR. BELL: I assumed that it is going to be argued that if you lower the exemptions you are going to have to give refundable taxes, and there is a question on that latter. I think we ought to avoid refundable taxes if we can.

MR. PAUL: Your answer is that they should be lower?

MR. BELL: Yes, you have got to get the revenue.

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MR. SULLIVAN: I think they should not be retained, they should be increased, because of the present cost of living. It is impossible for a single person to live on five hundred dollars a year in parts of this country. My answer is that they should be raised.

MR. PAUL: The question is, "Should they be retained?" You answer is no, they should be increased.

MR. SULLIVAN: That is right.

MR. PAUL: White?

MR. WHITE: They should not be lowered. My answer is no.

MR. SMITH: Yes.

MR. BLOUGH: Smith's answer is yes.

My answer is no - they should be lowered.

MR. PAUL: My answer is no, with the qualification that my no is coupled with an elimination of the victory tax and a possible reframing of lower rates.

MR. BLOUGH: Well, I would like to put that in.

H.M.JR: Give me the benefit of what Gaston said.

MR. PAUL: Gaston voted to lower them; no, they shouldn't be retained.

MR. GASTON: It would be interesting for those who voted to retain them - whether they want to retain the exemptions just as they are - maybe they want to change them a little bit from the present five hundred, twelve hundred and three fifty.

MR. PAUL: John does indicate in his answer--

MR. SULLIVAN: Yes, I want to put the single one up to six.

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MR. GASTON: There is the relationship between the married and the single man - is that right or not, the five hundred dollars and the twelve hundred?

MR. PAUL: The single should be half the married, and the dependent should be half the single. It makes the withholding tables much simpler.

MR. GASTON: Would you leave the five hundred and twelve hundred, or as John suggested, raise the five hundred to six hundred?

MR. WHITE: I thought it was twelve hundred, six hundred, and three fifty.

MR. GASTON: It is twelve hundred and five hundred. There is a differential there.

MR. SULLIVAN: They can't do it.

MR. WHITE: I think there would be an advantage to raising it. But I think there are additional objections to raising it back which outweigh the advantage, so I would be inclined to leave them as they are, not lower them, but not raise them either.

MR. PAUL: Let's give the Secretary the benefit of the vote on that.

MR. HAAS: My answer would be no, because I voted for the twelve billion. I don't see how you could raise that sum.

MR. MURPHY: No on retaining them, yes on the changes.

MR. SHERE: I voted for five hundred, one thousand, and two fifty.

MR. SHOUP: I voted no on retaining them. I think probably we would have to have nine hundred, four fifty and three fifty. I want dependents left untouched.

MR. PAUL: Currie, what would you do?

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MR. CURRIE: I would like the dependents left untouched. It seems your worst position is married men without children.

MR. SHOUP: If you want to go to eight hundred, four hundred, and - in other words, the dependent one is the one that stays, I think.

MR. PAUL: Your vote is leave the dependents, but lower the single and married. I vote for that, too.

MR. MURPHY: I wouldn't reduce the single.

MR. PAUL: Well, we didn't propose to reduce the single.

MR. MURPHY: I thought you said your vote would be to keep the dependent but reduce the single and married.

MR. PAUL: Reduce the married without dependents.

Well now, let's see if we can summarize the vote there.

MR. SURREY: The ~~summary~~ summary here is that they should be lowered, but some have distinct doubts about reducing the dependent exemption very far at all.

MR. PAUL: There is one vote that they should be retained - that is John's vote - and one vote that they should be reduced even below those first we proposed.

MR. GASTON: John's vote, I take it, was to increase the single man to six hundred, not to retain it there at five hundred.

MR. BELL: In other words, you are in favor of one thousand five hundred and two fifty?

MR. GASTON: No, six hundred, three hundred and twelve hundred is what John wants.

MR. SULLIVAN: I doubt very much if we would show a net profit of single people between six hundred and five hundred dollars.

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MR. PAUL: The next question is a hard one to answer, but the answer to the question depends on how you construct - the structural rate schedule depends on the answer to the question, so you have to get some sort of general answer in framing the rate schedule.

"In framing the rate schedule on what income groups would you place most of the additional burden?" The answer would have to be in the lower, middle, or higher, or some general terms like that.

How do you feel about that, Dan?

MR. BELL: Again I don't know, frankly. I just don't know what should be had.

MR. PAUL: Gaston voted low and middle.

H.M.JR: Put me down for medium rare. (Laughter)

MR. SULLIVAN: Five to twenty thousand, I think.

MR. PAUL: How do you vote, Harry?

MR. WHITE: Three to twenty, low and middle.

MR. GASTON: That is about my idea, because I was voting pretty much on the line of this tentative income tax schedule that Roy had, which is in the lower and middle.

MR. PAUL: Smith certainly got out of this.

MR. BLOUGH: I would say low and middle, but I think you would have to go pretty heavy from two thousand and up because I just don't think the money is available if you don't go below three.

MR. PAUL: I am for two thousand up.

MR. HAAS: Low middle, approximately.

MR. PAUL: What do you mean by approximately?

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MR. HAAS: I think that calls for a qualification. You have to go in the middle area, but if you want to get the twelve you may have to go down into the lower group.

MR. PAUL: How do you feel, Murphy?

MR. MURPHY: Low and middle. You have to get most of the money below twenty thousand, perhaps two thousand and five thousand.

MR. PAUL: You say two to five, or two to twenty?

MR. MURPHY: Not much above ten.

MR. BLOUGH: It doesn't mean that you won't try, but you won't get it.

MR. PAUL: Louis?

MR. SHERE: Under ten.

MR. PAUL: That certainly is a safe answer.

MR. SHOUP: Twenty-five hundred to five thousand.

MR. PAUL: How about you, Lauch?

MR. CURRIE: Low or middle.

MR. PAUL: They are all - the answers are really all about the same. They are all dictated by the necessity rising from where the money is available and the amount of the appropriation.

MR. BELL: What is high in this, anything above twenty?

MR. PAUL: There is no money there.

MR. GASTON: You are really asking where you want to get the bulk of the money, and, obviously, I want to get it where it is.

MR. BLOUGH: Yes, but protect as well as you can the very low group.

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MR. PAUL: Now, we have the refundable question - "Should part of the increase in individual income tax be in the form of a refundable tax?" That question is partly related to giving relief in the lower brackets, making increases in the lower brackets refundable.

One of the chief reasons is not entirely to induce compulsory saving, but rather to give relief to incomes which are stationary, or which have been subjected to some particular strain like sickness, heavy burial expenses, or some misfortune during the year. But if you just gave relief generally to debtors and such people, you would be discriminating against non-debtors. You can avoid that discrimination by making the tax refundable in part, and allow those in need of relief to get the refundable part of their tax.

MR. BELL: Wouldn't this be a terrible administrative problem?

MR. SULLIVAN: Frightful.

MR. PAUL: It won't be any greater problem than a compulsory tax.

MR. GASTON: I don't think my answer was very clear on that. My thought on that was that if have to make concessions when we finally get before the Committee, I would prefer a concession in that area, especially in the low income groups, rather than greater cuts in the whole income tax schedule.

MR. PAUL: Dan, what is your answer?

MR. BELL: My first answer would be no, but I think maybe after seeing the cases and the situations - the rates - I might say yes. But my first answer would be no.

MR. PAUL: John, we don't have your answer. Do you--

MR. SULLIVAN: I voted no.

MR. PAUL: Harry?

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MR. WHITE: It probably would depend on how low your rate schedule goes, but I would be inclined to say yes, part refundable.

MR. BLOUGH: Yes, restrict it to the lower people, the lower income group.

MR. PAUL: Haas?

MR. HAAS: My first answer is no, but I agree one hundred percent with Herbert.

MR. PAUL: Murphy?

MR. MURPHY: No, with Mr. Gaston's qualifications.

MR. SHERE: I vote yes.

MR. SHOUP: Yes.

MR. PAUL: Lauch, how do you feel?

MR. CURRIE: Yes.

MR. PAUL: The majority is yes, part of the increase ought to be refundable. Those who voted no, I think, have the qualification that they would rather have this included in the tax proposal than have that twelve billion reduced.

MR. GASTON: It would reduce it.

MR. BLOUGH: I am a yes voter, but I think your best strategy is, as the no's said, use that as a bargaining tool.

MR. GASTON: That is pretty good - close to my idea.

MR. PAUL: If you want to use the Ruml idea, that would be right down the alley.

MR. SULLIVAN: I mean, refundable--

MR. PAUL: As Harold Smith says in a letter I was going to produce, it is "Compulsory savings by another name."

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MR. BELL: Is that the first report on your questions?

MR. PAUL: This came in before the questions, Dan. Smith is going to report on that.

Have you seen this letter.

H.M.JR: No, I haven't

MR. PAUL: It came in yesterday while you were away.

H.M.JR: Addressed to whom?

MR. PAUL: To you.

H.M.JR: What is in it?

MR. PAUL: I would like to read it.

H.M.JR: Whatever you think.

MR. PAUL: The next question would be, "Do you favor an effective ceiling on incomes above \$25,000?" That question is divided--

MR. BLOUGH: You skipped part of D there.

MR. PAUL: Pardon me - "Should the refundable part of the tax be confined to the lower levels?"

Dan?

MR. BELL: Yes.

MR. PAUL: I think everybody agrees.

"Do you favor an effective ceiling on incomes above \$25,000 by the special supertax method," or "by steepness of rate schedule" - a practical limitation of twenty-five thousand dollars?

Dan?

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MR. BELL: I am not in favor of having a ceiling at all as such; I am in favor of raising the rates, but I don't think we ought to start out to limit income above twenty-five thousand.

MR. PAUL: Then you vote no on the first part - by the special supertax - and yes on the steepness of rate.

MR. BLOUGH: Except, he may not want to raise it steep enough to make that.

MR. BELL: I think I would be no on both of those, but I think you ought to, for the purpose of eliminating income--

MR. PAUL: Gaston voted no.

MR. SULLIVAN: No.

MR. WHITE: I voted yes on that. I voted yes on two.

MR. BLOUGH: Technically speaking yes on both, but it depends on what you mean by practical ceiling. It may be a steep increase in rates.

MR. GASTON: I agree with that, Roy.

MR. SURREY: That doesn't answer the question.

MR. BLOUGH: Then the answer is no. I don't believe in setting a twenty-five thousand dollar ceiling. I vote no on the first and yes on the second.

MR. PAUL: George?

MR. HAAS: I would do it that way, but I wouldn't be particular whether it was twenty-five or twenty-six.

MR. BLOUGH: I understand George - whatever you record for him, record for me.

MR. SURREY: I think that if your rates are so designed that you reach a ceiling - maybe not twenty-five,

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maybe thirty or thirty-five - but you announce that as your purpose--

MR. BLOUGH: I would have no ceiling for the purpose of getting that.

MR. PAUL: How do you vote on that?

MR. MURPHY: I would like to see the ceiling and less tax exemption in general, but I would like to see it done by the supertax method, because that is the only method that would do it.

MR. SHERE: I vote no on the first one and yes on the second one, and I wouldn't worry even if it went below twenty-five thousand.

MR. SHOUP: No on the first and yes on the second.

MR. PAUL: Lauch?

MR. CURRIE: No and yes.

MR. PAUL: There is a pretty complete unanimity that we shouldn't indicate any ceiling. There is some division of opinion about whether we should make the rate schedule so stiff that we accomplish the ceiling - the second question, the steepness of the rate schedule.

MR. SURREY: The yes's are in the majority on that.

MR. PAUL: In other words, the yes's are slightly in the majority that you should accomplish a practical limitation of income by having a very stiff income tax, which means that you practically in no case can earn after taxes more than twenty-five thousand dollars.

H.M.JR: Would you just summarize again the part about refundable lower income levels?

MR. PAUL: That is nine-D. The majority is in favor of the refundable part of the tax in the lower

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income levels - that we should make part of the tax in those levels refundable. Those opposed to it--

MR. GASTON: That is in special cases of hardship and so on, isn't it?

MR. BELL: It all depends on the rate structure.

MR. PAUL: I don't think the answer is tied up to that, because we have a couple of questions later which will bring that in.

MR. GASTON: How is the question asked, Randolph, should part--

MR. PAUL: "Should part of the increase in individual income tax be in the form of a refundable tax?" The majority say yes. Those who say no are Bell, Gaston, Sullivan, and Haas. But most of those who say no - certainly you (Gaston) and Haas - admit that if you have to reduce your twelve billion it would be advisable to take that.

MR. GASTON: Yes, but I was speaking of some special concessions in the form of a straight general refundable tax, special concessions to meet certain situations as indicated later on in the questionnaire.

MR. SHOUP: You would pretty well have to make it general without making those concessions. Most of those concessions are in the form of immediate relief.

MR. PAUL: The only purpose of those concessions is to give immediate relief, anticipating post-war refunds that the other people would get.

MR. GASTON: That is right.

H.M.JR: Are we keeping you too long?

MR. CURRIE: No.

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MR. PAUL: The majority is distinctly in favor of making part of the increase refundable. I will tell you who voted for that: White, Blough, Surrey, Paul, Shere, Shoup, and Currie.

H.M.JR: Now, just for my own information, is that same group that you read off also for forced lending? Let's take a vote on that.

MR. PAUL: Might we not take that up in connection with the Smith letter.

H.M.JR: Just do it now - I don't want - let's take those people who voted for that just for fun.

MR. PAUL: I would like to make a note of it while we are doing it.

H.M.JR: I would just like to see.

MR. PAUL: We will take the people who voted yes on that - White--

MR. BLOUGH: I prefer this as the only form of forced lending, unless you can get very substantially more than you can get through income taxes, in which case I would be in favor of it generally.

MR. SHOUP: Say that again.

MR. BLOUGH: I prefer this form only unless the Congressional situation is such that you can get very much more through forced savings than through the income tax, in which case I am in favor of it generally.

MR. PAUL: What is your answer on that?

MR. SHOUP: I am in favor of it; I agree with Blough.

MR. PAUL: My answer is yes on that.

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MR. CURRIE: I think on the whole I would prefer the refundable in favor of forced loans because it would cause less disturbance to your voluntary loans.

MR. SHERE: I wouldn't be against compulsory lending of a moderate amount. Essentially, I am in the same position as Blough.

MR. PAUL: In a nutshell he is for forced savings if you got a big program, but he is not for a small amount.

H.M.JR: All I say is that it is a good way to ease into it.

MR. SHERE: I am against the easing in technique of starting with these and then going to twelve or some such figure.

MR. BELL: If you could get fifteen or twenty through first--

MR. SHERE: If you could get a net anti-inflation amount - a substantial amount--

MR. PAUL: He is exactly the same as Blough.

MR. GASTON: I don't know whether you have my position as yet. In the first place I am in favor of adhering to the twelve billion program up to the point where we have to make some concessions. I believe those concessions ought to be in the area of some relief. That refundable tax would apply to people who needed immediate relief.

MR. PAUL: Well, I think you are quite clear on that. You are really for a yes answer to the question, should part of the increase in individual income tax be in the form of a refundable tax, if that is the only tax we can get.

MR. GASTON: If you have to make some concessions, I would make them in that area.

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MR. PAUL: But a no answer?

MR. GASTON: Yes, very much a no answer to, should we adopt forced savings?

MR. PAUL: Then to clarify your answer, would you start refundable taxes, or would you rather have something less and not start refundable taxes?

MR. GASTON: I would rather have the twelve billion and refundable taxes in a limited area to relieve hardships in the lower income groups.

MR. PAUL: How do you vote on this question of the Secretary's, "Are you in favor more generally of having forced savings?"

MR. CURRIE: Well, it is difficult to give a straight answer because it is forced lending. There is a different variety. It is difficult to give a straight answer because this is forced lending, but it is a different approach, and I think I now prefer a program involving less disturbance and interruption to your voluntary program than an announced compulsory loan. This is a way ~~of~~ getting forced lending without interfering with your voluntary program.

MR. WHITE: You can get higher taxes because of this.

MR. PAUL: That is one point.

MR. WHITE: But it really isn't taxes; it is savings or lending.

MR. CURRIE: It costs the same as forced lending, but it makes money available later in the post-war period for people who need it.

MR. WHITE: The longer voluntary savings goes and the longer in the war effort you go, the more difficult and the less justification you have for a completely new program. I think that is Blough's position.

MR. BLOUGH: Yes.

MR. PAUL: I don't know how to summarize this last group.

MR. SURREY: Do you change your position, Carl?

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MR. SHOUP: I am not in favor of a larged forced lending program.

MR. PAUL: Say that again.

MR. SHOUP: I am not in favor of a very large forced lending program.

MR. PAUL: Your answer is no then.

MR. SHOUP: I am in favor of refunding part of the tax in the lower levels.

H.M.JR: You stick around. I don't know whether I agree with you or not, but at least you have a more original point of view than most of the people around here. I mean, you are for more taxes than anybody else. You want to lower the exemptions further than anybody else and you are against forced savings - an original combination.

MR. SHOUP: Yes, I want to give back all of that tax on the bottom after the war.

MR. PAUL: He is for forced lending - the refundable part, the bottom.

There is not a question in my mind that the majority here is in favor of making the increase refundable in the lower brackets.

MR. SULLIVAN: You will never hold it there, Randolph.

MR. BLOUGH: They held it in Great Britain, and they have held it pretty substantially in Canada. There has been no tendency in either country to extend--

H.M.JR: But both of those countries are much more liberal than we are in their tax thinking. They are about ten years ahead of us - both countries.

MR. PAUL: The next is, "Do you favor some relief provision for (1) Individuals with fixed commitments for insurance, home indebtedness, etc.?"

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Dan?

MR. CURRIE: That is assuming that you have the very steep rate schedule - doesn't it follow on from the previous question?

MR. PAUL: It is not intended to, not necessarily, Lauch.

Dan, how do you feel about that?

MR. BELL: I suppose as your tax load gets heavier and heavier you have to have some relief provision, but I would hate to see these exceptions get into the income tax. And I am not so sure that people who own homes and take out life insurance should have any exceptions made in their favor. But I suppose as it gets heavier and heavier you are going to have to do it.

MR. PAUL: Reluctant yes.

BELL: Yes.

MR. PAUL: Sullivan, how did you answer that?

MR. SULLIVAN: No.

MR. WHITE: Unless some one can show me the impossibility of people with insurance and mortgages being able to raise more money, my answer is no. They can borrow on their insurance policies. They can readjust in most cases - slow down their mortgages. If there is going to be any relief, I would like to see it in the form that was suggested by somebody at the last meeting where there is unusual expenditures for medical services and things of that character, but for the purpose of meeting commitments on contract, my answer would be no.

MR. BLOUGH: Only to the extent that you have a refundable element in there tied up with that so there is no permanent discrimination.

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MR. WHITE: You mean to say that somebody could borrow on that if they needed part of it?

MR. GASTON: Where one man gets relief on account of his heavy liabilities, the other fellow gets a post-war refund in accumulated sum.

MR. HAAS: I agree with Roy.

MR. MURPHY: I agree with Roy, except I wouldn't have a refund element in taxes, unless it was proved that the relief provision would only come if there was a tax and a possible compromise after--

MR. PAUL: Louis?

MR. SHERE: I favor Mr. Blough's point of meditation.

MR. PAUL: Mr. Shoup?

MR. SHOUP: Same.

MR. PAUL: Lauch?

MR. CURRIE: No.

MR. SURREY: I would limit it strictly to cases where there was a very large amount of fixed commitments.

MR. CURRIE: In these two cases these people are adding to their equity - the principal - I don't see why we should give relief to anybody who is adding to their principal.

MR. PAUL: The idea is that a man doesn't have to forfeit all of his life insurance or lose his home.

MR. GASTON: The problem here is, Lauch, you set a certain area - a certain amount of refundable taxes - the man who has this desperate situation can gamble an immediate credit against that; he wouldn't wait for post-war refund. So it leaves him in practically the same ultimate situation, only he gets the benefit now instead of waiting.

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MR. CURRIE: This class wouldn't qualify for post-war refund?

MR. BLOUGH: If they are up high they won't get any.

MR. CURRIE: In the higher brackets - there isn't any post-war refund for them?

MR. GASTON: This whole situation is in the lower brackets.

MR. CURRIE: It wouldn't apply in the higher brackets?

MR. PAUL: You are right, Lauch, the limitation - the post-war refund would not apply in the upper brackets - they get practically no relief.

MR. GASTON: It would amount to, in effect, lowering the rates in the lower brackets.

MR. PAUL: Take the second part of the question, would you apply this relief to persons whose incomes have been fixed or relatively fixed since 1941?

Dan?

MR. BELL: No, I don't believe I would distinguish between those.

MR. GASTON: No.

MR. SULLIVAN: No.

MR. PAUL: White?

MR. WHITE: No.

MR. BLOUGH: Yes, I would tie it in just like the previous one in the refundable tax, if there is such an amount, which would mean limiting it in the lower brackets.

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MR. PAUL: Haas?

MR. HAAS: I would start with the lower, but I wouldn't mind compromising along the line.

MR. MURPHY: I would vote no and compromise high.

MR. SHERE: I would vote yes.

MR. SHOUP: Yes.

MR. PAUL: Lauch?

MR. CURRIE: No.

MR. PAUL: Would you give relief--

MR. CURRIE: I wouldn't give relief for either of these cases you mentioned; I would for very abnormal medical expenses or something of the like, but not for anybody adding to his capital.

H.M.JR: Are you through? May I have a minute?

MR. PAUL: Yes.

(The Secretary left the conference temporarily.)

(Discussion off the record.)

MR. PAUL: All right, the next question is, "Do you favor vigorous prosecution of recommendations in loopholes?" The question there is not whether we favor eliminating those loopholes, but whether we favor vigorous prosecution of things of this nature. The three things mentioned are joint returns, percentage depletion, and tax-exempt securities. Can you give me your answer on that, taking the whole?

MR. BELL: My answer is no.

MR. PAUL: You mention in this that you are still in favor of them but you are not recommending them at this time in this program.

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MR. PAUL: All right, Gaston?

MR. GASTON: Yes, on all of them.

MR. SULLIVAN: I don't think there is a chance of doing it in three months.

MR. WHITE: I would like to see a strong statement made. In other words, when you say you are in favor of them I would like to see an expression of that. It isn't quite clear that you favor them, by virtue of the excise taxes that have become more urgent, if possible, in your estimation.

MR. PAUL: I think you are no. I think you ought to be consistent with the past.

MR. BLOUGH: No, except I think in the case of joint returns they offer the committee a couple of more acceptable programs - more acceptable methods of handling that community income problem, but I wouldn't make a big fight on either matter.

MR. SURREY: Only joint returns.

MR. PAUL: I'd say only joint returns in the case of community property.

MR. HAAS: I said no, with the same comments Harry made.

MR. PAUL: That is really a no.

MR. MURPHY: Same.

MR. SHERE: No.

MR. SHOUP: I would say no on the first two and yes on tax-exempt securities.

MR. PAUL: Well, he is keeping original.

H.M.JR: If he agreed with them he wouldn't have to come down.

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MR. BLOUGH: I am rather hoping that this tax-exemption would be clarified before another Congress rolls around - maybe if it is clarified constitutionally we will have a better chance.

H.M.JR: Do you have another question there, Randolph?

MR. PAUL: The next question is, "Should the total amount of additional revenue from corporations be \$1 billion, more, " or, "less?" "Specify the rate. Specify the amount." To get one billion you need about fifty percent of normal and surtax and some increase in the excess profits - maybe ninety-two and a half percent.

What is your answer on that, Dan?

MR. BELL: I again don't know if the proportion should go one way or the other. I am in favor of getting all you can from that. (Laughter)

MR. PAUL: Would you be in favor of a fifty percent normal surtax?

MR. BELL: Yes. I think that is reasonable.

MR. PAUL: Gaston is yes.

Where are you, John?

MR. SULLIVAN: No. I wouldn't raise them at all. I think you are so high now you are inviting all kinds of waste and extravagance. Furthermore, I think if it is increased it is going to complicate further a plan that we will not be able to administer on an equitable basis for all corporations.

MR. WHITE: I think they could stand another billion. I don't think it should be much more than that.

MR. BLOUGH: I am somewhat reluctant - somewhat different from John. I think there is going to be pressure for these other things anyway, and if you don't ask for substantial increases, you will probably lose a lot of money.

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MR. SULLIVAN: You mean they would be delighted if we didn't get anywhere with the House.

MR. PAUL: I would like to get somewhere with the House.

MR. BELL: You can go up and ask for additional income taxes.

MR. HAAS: I would raise the normal and surtax to fifty percent and get as much of that as you could. I wouldn't do the ninety.

MR. MURPHY: I would say yes.

MR. SHOUP: Yes on a billion.

MR. SHERE: Yes.

MR. PAUL: Lauch?

MR. CURRIE: Yes.

MR. PAUL: There is pretty general agreement there that we ought to try to get the billion. There are a couple of qualifications - Surrey and one or two others think that we should get whatever the fifty percent rate would bring - possibly a billion, I think. Practically everybody feels that we ought to get that much, and most people feel we ought to get the whole billion if we have to increase the excess profits tax rate.

The next question has really been covered, "Are you in favor of increasing the excess profits tax rate above the present 90%?" I think we have your answer on that already.

MR. SHOUP: There are some other possibilities there. You might want to try to fight for more.

MR. SULLIVAN: What is that?

MR. SHOUP: Lower your percentages for the base period and make a try for some of those things.

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MR. PAUL: "If you favor increasing the excess profits tax, should part or all of the increase be in the form of post-war credit?"

MR. BELL: I am not in favor of increasing.

MR. PAUL: If you favor - in other words, should that be a tax or a post-war credit - if you favor increasing the ninety to ninety-two and a half?

MR. BELL: Say everybody was against increasing the ninety--

MR. GASTON: No, that is implied in your billion dollar increase.

MR. BELL: I will accept the qualification then.

MR. PAUL: Let's take - let's go through and be clear about that.

Are you in favor, Dan, of increasing the excess profits tax above ninety-percent?

MR. BELL: No, that is high enough now.

MR. SURREY: You change your answer to the first one then.

MR. BELL: Yes.

MR. PAUL: John?

MR. SULLIVAN: No.

MR. PAUL: Herbert?

MR. WHITE: Up to ninety-two, not more than that.

MR. PAUL: Your answer is yes.

MR. BLOUGH: Only if you get it back in post-war credit.

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MR. PAUL: Then you answered C yes.

MR. SURREY: No.

MR. PAUL: Yes.

MR. GASTON: I don't see much advantage in raising the rate and giving it back on a post-war credit. You can get the money; you can borrow it through corporations and through the bank if you want the temporary use of money. But putting on that added rate and then giving it back after the war is just an unnecessary complicated way of borrowing the money.

MR. BLOUGH: I think the corporate ought to be protected itself, and I'd like to see a very much quicker--

MR. PAUL: I don't see much difference between ninety-two and ninety.

MR. CURRIE: You had some good reason for increasing the ninety to ninety-two?

MR. PAUL: It is a good way to fight some of the renegotiations - changes they are trying to make on us, and generally along the line it is the best defense we have. I would go for the tax at ninety-two and a half.

MR. CURRIE: How would that fight with renegotiations?

H.M.JR: You are only one and a half below the statement I made, and I was damned from one end of the country to the other.

MR. PAUL: Yours was placed on capital.

H.M.JR: Pardon me, I didn't mean to interrupt. I am sorry.

MR. CURRIE: I don't quite see why Randolph's raising that to ninety-two would help you.

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MR. PAUL: Because they would be apt to say, "You give up the ninety-two and we will give up some of our ideas."

MR. BLOUGH: Or if you get the ninety-two and a half, what is the use of us fighting for renegotiations? We won't have anything anyway.

MR. SULLIVAN: Well, two and one half percent is going to make them change their view on that.

MR. PAUL: The next question is, "Should we make specific recommendations designed to help the small corporations?"

H.M.JR: Paul just voted that bunch off back there.

MR. BLOUGH: I wonder how Carl voted on that.

MR. SHOUP: "10-D" - I voted no.

MR. SULLIVAN: I think the question is phrased improperly.

MR. PAUL: Dan, what about "10-D?"

MR. BELL: I am not in favor of post-war credit or anything we can get away from.

MR. SULLIVAN: No.

MR. PAUL: Harry?

MR. WHITE: I take it this doesn't apply to low income brackets, which we already answered in "9-D."

MR. BLOUGH: This is corporations only.

MR. WHITE: On corporations, no, definitely.

MR. PAUL: Yes - no, I guess it is.

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George?

MR. HAAS: No.

MR. PAUL: Murphy?

MR. MURPHY: No.

MR. SHERE: No.

MR. SHOUP: No.

MR. PAUL: Will you make it unanimous?

MR. CURRIE: Yes.

MR. PAUL: Now, "Should we make specific recommendations designed to help the small corporation?" That is "10-E."

MR. BLOUGH: First state your specific recommendations.

MR. PAUL: Well, of course--

MR. BELL: Isn't there some exemption now for income - five thousand?

MR. PAUL: Yes, five thousand, but in addition the rate is lower in those brackets.

MR. BLOUGH: I think we can throw a few things in their direction without breaking things up. I don't think we can very well answer that question until we have specific recommendations.

MR. PAUL: Let's take the estate tax and see if we can't do it - "11-A and B." "Should the total amount of additional revenue be \$300 million?" And, "Should the specific exemption be reduced from the present \$60,000" - to what, forty?

How do you feel about that?

MR. BELL: Where does the rate go on three hundred million, just roughly?

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MR. BLOUGH: Well, we had a rate which started - lowered the exemptions to fifty thousand dollars - to forty thousand dollars from the present sixty. Instead of starting at three percent, it started at five percent at the hundred thousand dollar taxable level, or above one hundred thousand if was forty instead of thirty. The million dollar level was seventy-eight instead of thirty-nine.

MR. SHOUP: Are these effective rates?

MR. BLOUGH: No, these are bracket rates. That amounts to a very high schedule at the top, although you can't compromise much.

MR. PAUL: Take your tax, Roy.

MR. BLOUGH: Well, there is an exemption of sixty thousand. Now, under that two hundred thousand there is - the present law - a tax of thirty-two thousand seven hundred. Under this three hundred million dollar schedule it would be fifty-one thousand compared to thirty-two out of two hundred thousand.

The present law is three hundred three, and this would go to five hundred forty. I want to point out that out of a million dollar estate--

MR. BELL: Three hundred - you take over half of it.

MR. BLOUGH: This goes way above the British and Canadian; I think you ought to know that.

MR. SULLIVAN: This is just like a loophole.

MR. BLOUGH: I am not sure to what extent this could be moved down. These high rates could be moved down a little ways.

MR. BELL: I think those rates are too high. The three hundred million dollars is too much. You might try to get some additional revenue out of estate taxes. I don't think the sixty thousand ought to be lowered.

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MR. SULLIVAN: I am with Dan.

MR. PAUL: You didn't answer that, Gaston. It isn't noted here. What is your answer on the estate tax?

MR. GASTON: No.

MR. PAUL: It is no?

MR. GASTON: It is, yes; I am not sure about the exact rates.

MR. PAUL: Would you reduce the exemptions?

MR. GASTON: Yes.

MR. PAUL: Sullivan?

MR. SULLIVAN: I am with Dan.

MR. WHITE: I would reduce the exemptions and increase the rates. If you could get four hundred million, I would try for that.

MR. PAUL: Blough?

MR. BLOUGH: Yes, but I am not entirely satisfied with the rate schedules, and I think they should be adjusted.

MR. SURREY: Yes.

MR. HAAS: Yes on both.

MR. MURPHY: I would set the rates a little above what Harry says.

MR. PAUL: Louis?

MR. SHERE: Yes.

MR. PAUL: Carl?

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MR. SHOUP: I would vote yes on both; I would like to get five hundred million.

MR. PAUL: Lauch?

MR. CURRIE: Yes on both. Now, I don't know wheter we can take--

MR. PAUL: I think the exemptions - we might have just a general question and then get over to this letter. Could we have a general answer to this question twelve. Are you opposed to heavy increases on those commodities mentioned, Dan, heavy increases?

MR. BELL: No, I am not opposed to them. I would go way up on admissions to theaters and fur coats and things like that. I question much heavier taxes on communications and transportation. Those are the only two I have any doubt about.

MR. PAUL: Gaston answered that. You didn't specify--

MR. GASTON: I am in favor of heavier increases on liquor, beer, cigarettes, tobacco, communications, transportation of persons, admissions, and would probably pick out some others, but I haven't listed them.

MR. PAUL: Well, these are the leading revenue producers.

MR. SULLIVAN: I am a little bit light with Dan on communications, but I think the others ought to be doubled.

MR. BELL: Including transportation?

MR. SULLIVAN: Yes.

MR. WHITE: I am in favor of that. Would that make beer fifteen cents a glass? I don't think it should go beyond ten. (Laughter) That probably depends upon the glass.

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MR. SULLIVAN: It isn't any good anyway. They are not putting anything in it.

MR. WHITE: I mean, it won't be so high.

MR. SULLIVAN: The stuff they put in doesn't cost them half of what it used to. They won't even drink it themselves.

MR. BLOUGH: I am in favor of having an increase - in favor, except--

MR. PAUL: I don't know whether we should take thirteen at the moment - prevent speculation - it is still in a very tentative state.

MR. BLOUGH: It is not a tax matter.

MR. BELL: I am opposed to it.

MR. PAUL: I would like to go back now to questions one and five, revising the answers in the light of the whole discussion, and I would like to raise two points as a basis for that discussion.

The first point is that I am getting very dubious - at least I as a mere lawyer and not an economist am getting very dubious about my premises in respect to the inflation situation. It is obvious from your meeting last week that we are not going to make anywhere near the hundred billion program of expenditures. Gilbert told me yesterday that he thought the civilian expenditures we've been using of around eighty to eighty-five are going to be too low.

The WPB controls have been too loose, and there are really more civilian goods and services available than we thought. I want to canvass our whole production situation, and that is one question I think we have got to go into.

The other question is raised by Smith in this letter which is somewhat long; but do you want me to read it?

H.M.JR: Yes, read it by all means.

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(Letter from Harold Smith addressed to the Secretary read by Mr. Paul, copy attached)

H.M.JR: It is a very good letter - it is a very good article for compulsory savings, but as far as I am concerned there is nothing new in it. He states his case extremely well.

MR. SULLIVAN: That is exactly right.

MR. GASTON: I agree with that summary of it.

H.M.JR: Very, very good, but there is nothing new in it as far as I am concerned.

Could I do this, just to save time - how much more time do you have, Lauch?

MR. CURRIE: It is at your disposal.

H.M.JR: I would like to - after having listened to this thing, maybe you people would like to hear from me. There are certain things I could clear up very rapidly as far as I am concerned, and some of the things I can't, but before doing that I would like to make a little introductory statement.

Incidentally, do you want me to make an appointment for what's-his-name?

MR. PAUL: Dick Gilbert.

(Ensign Westwater entered the conference.)

H.M.JR: Tell Mr. Dick Gilbert of OPA that I would like to see him at three-thirty.

ENSIGN WESTWATER: Yes, sir.

(Ensign Westwater left the conference.)

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H.M.JR: Do you (Paul) want to be here at that time?

MR. PAUL: No, he just didn't want to come out in a big meeting without talking to you first. I think Mr. Blough might be here.

MR. BLOUGH: All right.

H.M.JR: What I want to say is simply this - I mean, there are a number of cross currents here, but one kind of offsets the other. I think my position on taxes and loopholes has been well enough established that I don't have to go before Congress and try to let people know where I stand.

I also feel that you can be both practical and political at this time, and I don't see much sense in going up and asking for something that you know you can't get in advance.

Now, the President told us about a week or ten days ago - just in the room here - he gave me the date of the 24th, and from then on he would be ready to discuss the tax program with me.

We can't settle - we can argue here between now and the 24th, but I don't think you can get anything like twelve - the last thing he said was to have a program of eighteen billion and then let them select out of that what they want.

Now, I am going to have to go a little bit around the line on that, but I went on this trip - and after all, stuff is very sceptical - I am not at all sure that this so-called inflation is going to take the route that everybody seems to think it is, and I think that we are going to make a much wider survey of family budgets other than what we got a year ago. There is nothing fresh on it. I sat down with these people who are making this examination, and I think the people have forgotten that during the last war we had in '14, '15, and '16 - we had three years of prosperity before we went into the last war, and the amount of civilian goods was very much higher than they are now. They had the twenty-five dollar silk shirt era, which they don't think we are going to go through this time, and which we

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are not, I am sure. Certainly these girls who have been talking to families who earn fifteen hundred, three thousand, and five thousand couldn't find the luxury spending. They spent twice as much and didn't get as much to eat. They didn't find the luxury spending that people think we have. I would be interested to hear what they have to say.

Personally, I would say the thing publicly, that I am with the President. I can't say - if the President asks for twelve billion dollars in taxes or savings, I can't say I am for eight, or I am for six, or something like that, until I know where he is at.

I mean, what Byrnes said just knocked the props out from under me, and I dictated an answer on my machine this morning. He came out with increased taxes and enforced savings right on the eve of the Third War Loan Drive. I guess he is supposed to talk for the President. He just comes out and torpedoes us on the eve of our drive. It is an outrageous thing for him to do. Incidentally, he never cleared it with OWI; I suppose he is above that.

But anyway, the combination of my hesitance of putting on an increase of fifty percent on personal income taxes for people who still haven't gotten out of a ten-year depression, plus - I still believe that we never put the lower third on their feet. They never have gotten sufficient food, decent housing or decent clothing. We haven't done that for them, and now to say that we are going to take these personal incomes and put this additional burden on them - I want to be sure about it before I put my name on it. As I say, the number these girls got is very small. Certainly the sample I got failed to show anything extravagant on the part of people in those three classifications.

What I am inclined to do is, after I have seen the President, sit down with George and Doughton. If they can't deliver, at least they can deliver themselves. - We will try to come to an understanding of what they will stand for, and try to drive a bargain. If they are unreasonable, well, at least we will have made an honest effort to arrive at a bargain with them, and the President

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will most likely participate.

The President said he wanted to see me, which all leads up to the fact - in the room here - that he isn't ready to go out for twelve billion. I'm not willing to lower the exemptions on the working people more than they are now. I don't see any reason for lowering them and having them go through the mental torture and then say, "We will give you a post-war credit." I can't see it.

Now, the other thing - I am personally very much worried about the attitude of management and labor at the present. The President asked me after my trip through Bell Aircraft and Curtiss-Wright. I said, "You don't want it now because Churchill is present." This was Saturday. He said, "Yes." Well, the fact is I had to embarrass him in front of Churchill and tell him he was wrong. The President gives the Army secret orders to have a plan to convert plants from war to peace, but they must not discuss it with anybody because he is afraid if it gets out it is going to hurt production.

The thing I found in Buffalo is that these men are so worried - management - they are spending half of the time worrying about what is going to happen to them. They say that. Take Bell - they have no post-war credit. They have practically no capital compared to the volume of business they are doing.

MR. BLOUGH: Two hundred billion of business and thirteen million dollars of capital.

H.M.JR: They can see at the end of the war - they are employing thirty or forty thousand people, and nobody has any plans, so Mr. Bell, who is a very forthright fellow, just worries. His employees - two hundred and fifty a week - are finding jobs which they think will be safe when peace comes.

So I said to the President, "If you would make a speech for management and labor which would correspond to what you said to the soldiers, they would settle down and go to work." That way I think it will be settled. They feel that the

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longer they make this thing last the longer they will have jobs. I think the President is a hundred percent wrong, and I had to tell him that. It all comes back to the thing that Bell - he is right - I mean, the post war credits which Congress has built up for Ford and General Motors - they can go ahead on the airplanes and leave people like Bell Aircraft with thirteen million and no post-war credit--

MR. BLOUGH: They have a post war credit.

H.M.JR: How much?

MR. BLOUGH: One million eight.

H.M.JR: That would last them one week. I mean, I am talking roughly. Well, anyway, Ford, and General Motors learned how to make airplanes, and these twenty-five small independent corporations will go right up against the wall, and the whole thing will land in the hands of Ford and General Motors, and Chrysler. Therefore, one of the things that I would like to do is, I would like to come right out with this Social Security thing. Now, besides the President nobody has done it. I don't know what is the matter with McNutt and Frances Perkins. I would like to go with a Social Security program, something so that at least you could give these people six months to turn around in after the war is over.

Are there sixty million people on the payrolls?

MR. WHITE: Fifty-five, not counting the Army - excluding the Army. Sixty-four with the Army.

H.M.JR: Half of them will be without jobs.

MR. WHITE: It is a little high.

H.M.JR: I didn't think so - not the first six months, Harry. You are going to have thirty-one or thirty-two, and it may not be bloodless. I want to give you my philosophy of what I feel. I think all of this stuff is fine, increase taxes on fur coats and so on. Go the

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limit; just go as far as you can - inheritance tax, sure, O.K., all of those things. But I think the guts of this thing so that you can get the people back to work is to give the President something so that the laboring man will feel that when this war is over he will have a chance to turn around. Tie that in with Social Security so that at least at the end of twelve years Mr. Roosevelt will have something to point to for the lower third of this country. To me that is much more important than all the rest of this stuff. I can't get excited about all the rest of this, but I would like to have a part in making the fight. I am ready to go down on that kind of a fight. This is at least worth while. I can get excited about this.

The last bill I present to Congress would be that, because this is apt to be the last bill, and I would like to have something on that. Excuse me ladies, but Coe said, "It is too damned bad if Mr. Doughton doesn't want to take up a Social Security bill." He said, "It is just too damned bad that he listens to those people."

I am coming back to the fact that - I mean, Byrnes made the very peculiar speech about tightening up the belt on a long war, but there is going to be more civilian goods. If it is true, and if Dick Gilbert has something, we certainly ought to know it. And if they are going to have - in the room - eighty-five billion dollars' worth of goods in the nation and one hundred and twenty-five billion to spend, allowing twenty billion for savings - then if they increase civilian goods by fifteen or twenty-five billion dollars, there is your gap.

MR. SULLIVAN: Yes, there is your gap.

H.M. JR: And until somebody comes to me and rubs my nose in it and shows me there really is inflation in the offing - I don't believe they can show it - I will go out and meet anybody in any town. There is nothing, as I understand it, in this town which is less than a year and a half old. That is the way I feel. You can all shoot at me from every direction, but that is my present frame

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of mind. That isn't deciding anything, but at least that is the way I feel.

Now, one other thing, and I am through. If the President will only give me a chance, I want to demonstrate what we can do in this Third War Loan Drive. I think we can surprise everybody with what we are going to do, and at least we should be given a chance.

They will know by the first of October what we have done, and we won't be so far along in the tax bill that we can't change our position. I am not going to change my position at this time, and if we can get what we think we can get, then I think the people who are interested in the welfare of the country should keep their minds and eyes open, but if a person like Jimmy Byrnes comes out and makes a statement that he is for forced savings - but I am not going to change my position until the first of October. If I am wrong, I will admit it; I have told the President that for two years. We have been getting steadily and steadily more. We have set an almost impossible goal for ourselves, but our people think they will get it, sell three billion in E bonds and get a total of five billion dollars of individual savings, and get it from the right people. They think we are going to sell between fifty and sixty million bonds.

MR. BELL: Sixty million pieces of bonds - just double what they did last time.

H.M.JR: All I am going to ask for is to have the President get out a proclamation and give me a chance to demonstrate. If we fail, I don't have to admit it; everybody will know we have failed.

So I am not at this time going to change my position, and I am going to ask the Treasury people to go along with me as a matter of policy. Everybody in the room is entitled to express themselves, but toward the public I want to back up the President's proclamation for the Third War Loan with all the power we can.

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I would be glad to answer any questions - have an open discussion, but I am not laying down any edict now; I would like to keep this thing fluid.

MR. PAUL: You will have--

H.M.JR: Anybody can fire at me any way they want to.

MR. PAUL: You will have six or eight days, the most important days of your drive, before you go up on the Hill, anyway.

H.M.JR: I would like to go a round the room. Dan, would you give me your honest opinion whether you differ with me or not?

MR. BELL: I agree, but--

H.M.JR: Altogether, even to the Social Security?

MR. BELL: Yes. I am in favor of going at Social Security.

H.M.JR: Harry?

MR. WHITE: I think I am wholly in your corner, setting aside the question of compulsory saving and others, but so far as the amount of taxes, so far as the Social Security, so far as the danger of inflation, so far as the need for preparation for post-war adjustment - give that assurance to both management and labor - I feel you are wholly right in the matter. I don't know whether you should dismiss the other ideas. The question of protection is one which you should subscribe to after a good deal of study with the people who are working on it.

H.M.JR: Technical advisors.

MR. BELL: That is an expansion of the Social Security program.

MR. WHITE: That should be Federal, and there should be a lot of other changes.

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MR. PAUL: I think on the question of compulsory savings I am pretty much along with Harry, that we have to follow all of these problems, and I think we have to keep a little bit fluid until we get more. I have a feeling that - I am sure the twelve billion is more than we can get in individual taxes, so I am strong for Social Security. I think I am in general agreement with your philosophy as I understand it.

I don't - I think we ought to consider compulsory savings, certainly if we don't get a good response for this drive, and I think we ought to be careful not to get ourselves into a position where we can't make a retreat gracefully.

H.M.JR: I don't disagree with you, but it is like everything else; if you want to win a race, you have got to run like hell, and you can't be turning around. All I want to say is, I want to run like Hell and see if I can't win this race.

MR. WHITE: Do you think it will be so clear in the drive, the--

H.M.JR: They are going to go way over the top, or go way under. I mean, from the talks I have had it will be either one or the other. It will be a great success, or it will be a terrific flop. In any case, it is already the middle of August - the drive begins in September. I mean, there is no sense at this stage in muddying the water by any general discussions of the merits, since there will be ample time - I wholly agree with you on that score. However, I am not as--

MR. SURREY: I agree very strongly on Social Security. I mean, if there is anything to fight for in the next tax bill, I think it should be Social Security. I would go along concentrating as heavily as possible on that. I think we should avoid a Congressional fight if possible, if it doesn't mean giving up too much. Now, on management I would agree with you.

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H.M.JR: George:

MR. HAAS: I agree with you on everything except one point. I don't know how far you have changed your position in regard to inflation. You were the first to be apprehensive about it.

H.M.JR: Two-thirds apprehensive. (Laughter)

MR. HAAS: I think you should continue that. You have had plenty of it already; indications show it. The real test will come probably after the war, and I think you as Secretary of the Treasury shouldn't have any let-down in that field at all. I don't know what you got at Buffalo, but I think it is too small a situation. I know you are not drawing any definite conclusion on it, but you did get an impression.

H.M.JR: All I did was get an impression, and I want to spread into half a dozen cities. You can have inflation - it doesn't have to confine itself to luxuries. Talk to your man who was there.

Henry?

MR. MURPHY: I would like to comment on two points. The first is that I don't think there is any qualitative distinction of expenditures as far as inflation is concerned, it is all a matter of quantities. There is a scarcity of goods and services.

MR. WHITE: Who cares whether the price of fur coats rises to seven hundred dollars? It is a matter of excise taxes, a question of whether we want to tax - we can get the money.

MR. MURPHY: If we had inflation due to extravagance and it pushes up the price of fur coats, it isn't so bad, but if we have inflation due to the purchase of commodities considered necessities and it pushes up the price of necessities, it is worse. However, the survey should indicate that much of the spending was along the line of necessities. Of course, if the war ends suddenly, the bets are off. However, if all trends continue, it seems to me that the people, instead of buying silk

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shirts are buying woolen underdrawers - supposing woolen underdrawers are something people ought to have--

MR. WHITE: Do you mind making it woolen shirts?  
(Laughter)

H.M.JR: State the color. (Laughter)

MR. MURPHY: It makes a strain on goods and services.

The second point I would like to mention is on the matter of compulsory savings. I don't believe that the results of the drive will be conclusive enough in the sense of clarifying things. I think the results of the drive will probably have pro's and con's, and it seems to me it would be very unfortunate if we should consider that the oncoming of compulsory savings, if it should come, is the result of failure of the voluntary plan. I think we should feel that there is plenty of room for both. We want to do it all the voluntary way if we can, but we shouldn't create a state of mind in which the coming of compulsory means the failure of the voluntary way; it merely means another horse has been hooked on to pull; it doesn't mean that the old horse has failed; it is just too heavy.

H.M.JR: You know our boys don't agree.

MR. MURPHY: That is because they built the wrong psychology.

H.M.JR: Well, anyway--

MR. SHERE: I favor some of your main points, and am in disagreement with others. I think it would be advisable to stress Social Security, but not to substitute it as the main point on the inflation front. I am in agreement with your present philosophy on compulsory lending. That is, I would oppose it at this time. However, on the main point as to what the size of the program should be - twelve billion or some other figure, having an examination of the basic facts, which we still need to do - on the information

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that is presently available to you, there is ample indication that the twelve billion program we have is well within the limits of what we need.

Now, if it should turn out that the income payments were likely to level off or to decline - if it should turn out that the reconversion to peace is about to proceed at a fairly rapid rate so that the amount of goods available - civilian - and despite the apparent situation which is likely to increase, we would, of course, need to change the figure on the size of the tax program that we recommend to Congress. But, we would have to reexamine very carefully the evidence - the new evidence that is to come before us - and I think it would be regrettable to lift the emphasis before the Congress - in your statement before Congress on the Social Security part of it if the facts - the new facts that are yet to be submitted to us - continue to show that there is great danger on the inflation front, as Mr. Haas pointed out. The cost of living and other indications show that we have inflation, and we have only the promise of the officials that are in control that the cost of living will slacken down and will decline, and all of that, but whether they can deliver depends on the basic facts which still have to be examined.

H.M.JR: That is right.

MR. SHOUP: I am completely in agreement with very much of what you said, especially in general philosophical background which you expressed. I find myself somewhat more apprehensive of inflation.

I have been surprised to hear these figures stated today on the increase in consumer goods, and I am surprised to hear the decrease in expenditures, though I had heard rumors of that before. Our tax goals must, of course, be adjusted concretely in the light of those figures; and if those figures are proven to be hard figures, I certainly want to readjust my own thoughts.

One more point - I am in a way much more concerned about the post-war situation in respect to inflation in

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the next few months during this war, and that is one added reason why I tend to lean toward a heavier tax program.

H.M.JR: Could I just ask you this? Could through Social Security - after all, Social Security and all of those are more or less post-war, and you are building up in the Treasury reserves, building up under very well regulated plans, and that is why I like Social Security. I think it will give you a cushion for the post-war period, which, I am sure, we need.

MR. SHOUP: By all means. I would much rather do it through Social Security than I would to lower the income brackets to a lower level and then give them this refund. I prefer to do it through the income tax, but I think it depends too heavily on pay-roll taxes. I favor a large amount of general taxation instead of Social Security, and some pay roll increases, but not extremely drastic.

H.M.JR: Those figures I gave you are all guess figures.

MR. SHOUP: I understand.

H.M.JR: Roy?

MR. BLOUGH: I think all the economists are standing together very nobly this morning, even Harry. (Laughter)

MR. GASTON: He stands together all by himself.

MR. WHITE: In other words, I really fall apart; that is what you mean.

MR. BLOUGH: By that I mean this, that speaking for myself, at any rate, I am very strongly in favor of the general philosophy you expressed, and I don't recall any point at which I feel in disagreement with it. I don't think the war is over; I don't think it is nearly over. I think we have a long tough fight ahead. I think the inflation situation, despite the somewhat hopeful present

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signs, is going to get worse, and not better. I think a very strong fiscal program is economically the thing the country would probably have. Politically I am of the opinion that they would rather have inflation than the fiscal program necessary to avoid it.

In deciding what the Administration is going to do with Congress, I think they would have to go beyond what the economists have said about inflation and see what the people think about it.

Speaking from the economic point of view I am very much depressed about the prospects and feel that from that point of view it would be most unfortunate, the weakening of the fiscal program below what we have been talking about.

H.M.JR: That is your idea of my position?

MR. BLOUGH: No.

MR. WHITE: Excuse me, I thought we were standing together.

MR. BLOUGH: I mean even you were sticking to many of the points.

H.M.JR: Well, I don't quite get it. You are standing by the twelve billion and eight billion of income tax.

MR. BLOUGH: From the point of view of economy, but not from the point of view of what the people of the country may want--

MR. BELL: From a practical angle, I think he is on your side.

MR. BLOUGH: I don't know, I am not a politician, and I don't want to try to decide that. It is a matter of alternatives.

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MR. WHITE: Everybody says he agrees with the Secretary except on one of the major issues. I mean, assuming - you say we are all in agreement and yet when it comes to the question of whether you can ask for twelve billion dollars in taxes - or what I thought was the Secretary's position, twelve billion or a little less - in other words, a substantial curtailment of tax revenues supplemented by expanding Social Security. On that issue I am not nearly as certain then that your agreement comprehends--

MR. BLOUGH: I didn't understand the second position - what my understanding of his position to be was this, that he was in somewhat uncertain frame of mind regarding the inflation prospects and that if the inflation prospects are less than they have seemed to be, there would be good justification for a smaller program.

H.M.JR: No, that is narrowing it down.

MR. BLOUGH: But on Social Security, on compulsory lending - those are the things I meant to say I am strong with you on.

H.M.JR: I don't want to go over the whole thing again, but I want to give you what is influencing me to go slowly and reexamine this whole thing and also to try - I don't call it trying to be a politician - did you mean that I meant to be a politician? I used the term, trying to be practical. There is a difference in trying to be practical, and I think we could make an honest effort in trying to get together the Democratic majority in the Senate and House and see what we could get. Then if we can't get anything, if the President would support us, I think we ought to fashion a program that we want along the lines I talked about with you. I mean, a strong Social Security program, having Social Security for management and labor to tide them over this extremely difficult period after we have an armistice.

MR. BLOUGH: If I may say just one more word--

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H.M.JR: You can say two more words.

MR. BLOUGH: Perhaps I will say a hundred. It comes down to this, that the fiscal policies adopted will have an affect on what happens in this country. There are two basic reasons for disagreement which may be present. One is, what is going to happen if you have this fiscal policy or that fiscal policy?

The second is, what do you want to happen?

Now, I am not sure that the people of the United States, or the Congress of the United States, want a maintained price level on all commodities or a maintained income level. We are talking about a fiscal program to get that degree of stability. I am not sure that the people would rather have some price rises and some inflation rather than the pressure of the taxes; though that is one side of it.

The other side of it is the question, is the inflation situation at a point where you need a heavy tax program to prevent rises in price? It seems to me there is a possible difference in facts. There is a possible difference in objectives.

H.M.JR: Currie?

MR. CURRIE: I am not at all sure in my own mind as to what we should aim at now, additional taxes or Social Security. I haven't reviewed the over-all situation.

It may be that your military expenditures have reached a plateau and that future contemplated expenditures for airplanes perhaps would be offset. If so, that situation combined with the future increase in the yield from existing taxes, which you may expect, may tide us over.

I am not worried about the building up of demand liabilities, liabilities which everybody over night is going to demand. I don't think they ever do behave that way. I don't think the tendency of the cutbacks in the program now will have a tendency to husband their tax resources, but I would like

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to review the over-all picture before I commit myself.

H.M.JR: Did you get - all of us haven't gotten the analysis of the Wagner Bill.

MR. BLOUGH: Yes, we have such an analysis.

H.M.JR: I would like to have one.

MR. GASTON: I know very little about it, and I would like to see a copy.

MR. CURRIE: The second point is, I thoroughly agree that this is no time for a public change on compulsory lending. I think, as Harry remarked earlier, the further we go along the easier it is to reduce compulsory lending. That is one reason why I suggested working into it in a different way, a refundable tax, but certainly I wouldn't talk about that at the moment.

The third point is, I am a little embarrassed because I - although I agree heartily with the necessity of a good Social Security program, I am not sure you are the person who ought to carry the load on that. I think it is so important, so essentially a part of post-war planning, that it ought to be the President. I think if you do it it will be connected with taxes, and--

H.M.JR: Why are you embarrassed?

MR. CURRIE: You said you would like to go up with Social Security as your final statement. You mean you want your final act to be Social Security?

H.M.JR: The only reason I say that is, for some reason McNutt and Frances Perkins haven't carried the banner. I agree with you, let the President say who should carry it.

MR. CURRIE: The President would have to get behind it and make a good play for it.

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MR. WHITE: Isn't that what the Secretary said, that the President ought to make a statement or announce a program that would be in the field of labor and business adjustment similar to what he has already done with respect to the Army. He starts the ball off, and from then on it is carried.

H.M.JR: What I said to the President on Saturday was that if he would make the same kind of statement to management and labor on the post-war planning that he made to the soldiers I am positive that production would immediately go up in those industries that he wants it to. I am positive of that.

MR. CURRIE: Yes.

MR. WHITE: It is also possible that that statement will tend to discourage savings to some extent, but I think it is less important than the advantage, because one of the reasons for saving which Lauch mentioned, I think, is the grave uncertainty coupled with their past experience. If you remove some of that uncertainty, to that extent will you get more spending, but I don't think it is a decisive factor.

MR. SULLIVAN: I voted in accordance with every specific point you mentioned, except Social Security. I think the most important thing is an agreement with these leaders.

I think the situation on the Hill is going to be very much more political from now on than it has up to now, and we will have to have a very strong agreement that is approved by the President.

Now, I agree with everything else you said, except Social Security. The reason why I voted no was because every time Social Security has been mentioned, there has been a stone wall up there, and what looked to me as complete apathy at this end of the Avenue.

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Now, if you and the President are to talk as forcibly to the leaders as you talked to this group this morning and that fight is to be followed through, I am for it in addition to whatever it is - whether it is six or seven or eight billion dollars - you can get without completely demoralizing the low income people of this country. Put your Social Security on top of that, and I think by that time you will have gotten out of people in the lower brackets all they can safely give up.

On top of that you are giving some protection in the period when the war is over and factories are being recon-verted, and I think you will have a very rounded program. I think if you can get George and Doughton to agree to seven or eight billion and your Social Security on top of that you have a program that will last you whether you have a tax bill or not, and I think that will carry you through.

H.M.JR: Herbert?

MR. GASTON: There are two or three points here. I think that is a very sound thing, to reexamine the program from the standpoint of post-war effect and also from the standpoint of inflation protection.

Then there is the third proposition which is the matter of tactics in reaching the goal that you want to reach.

As to the general inflation situation affecting the volume of taxes that we ought to get, I still feel in the absence of any good evidence to the contrary that we need substantial additional taxes. If you were to combine a twelve billion dollar program with a six billion dollar Social Security taxation program coming out of pay rolls, I think it would probably be too heavy. I think it would be unrealistic. I don't think we would get it. I doubt if we would even get a total tax program along the orthodox lines we had proposed plus Social Security to the total amount of twelve billion dollars, but that is a question of tactics.

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You have committed yourself to a program of twelve billion dollars. Include in that twelve billion dollars six billion dollars of Social Security taxes if you want to and make a total of twelve billion, and then adhere to it.

I would be guided pretty much by Colmand the people who are accustomed to going up on the Hill. I don't think the leaders feel a need of additional taxation to the extent that we feel. It ought to be opposed.

Most of the people here in the Treasury, I think - practically everybody in the Treasury feels we might be better off from a bargaining standpoint to go up there with a stiff tax program.

Now, as to your Social Security program, I would want to say two things. I feel somewhat as Lauch does, that from the Social Security aspect it is really the responsibility of somebody else to recommend it. That program should stay on the post-war and on the Social Security foundation rather than as a means to get additional revenue to combat inflation. I think you are licked if you make it a counter-inflation device. I feel also that in 1939 we pretty well gave away a case for putting anything we do in the line of Social Security extension or the existing Social Security program on an actuarial basis of accumulated fund. I think we--

MR. WHITE: I hope you don't regret that.

MR. GASTON: I do, yes. I think it was a mistake, but I think in any event whether it was a mistake or not we are stopped. And in the present situation I would agree with Carl Shoup that new Social Security devices probably cannot be financed by pay roll levies and matching employer levies to meet them. Therefore, we should rely more on the general income tax for that purpose. I am inclined to think that - of course, if we could get a deal with these people whereby we would get a substantial increase in revenue, also a substantial increase in income taxes, such as - great as we are now proposing - and we know

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they would go through with it, then I think it might be a good thing to deal on that basis.

But I think this post-war employment situation goes far beyond any question of any Social Security provision that we can make. We have to realize that we are only touching a minor angle when we talk of Governmental Social Security devices to meet the unemployment problem.

MR. WHITE: They have quite a good Federal unemployment insurance program.

MR. BELL: More than forty million people covered.

MR. GASTON: The major problem is to - what I am saying is we should create employment in the transition period and not to palliate unemployment.

H.M.JR: Aside from everything else, I think it is a swell platform for whoever is going to run on the Democratic ticket. I don't have a better one.

MR. PAUL: I will settle for six billion of Social Security.

H.M.JR: Well, you have changed, young fellow.

MR. PAUL: What was that?

H.M.JR: You have changed.

MR. PAUL: Six and six - six from Social Security.

MR. GASTON: I think we will be willing to settle for a total of twelve, but nobody thinks we can get it.

H.M.JR: Do you feel that way as of today?

MR. PAUL: Last week I was ruling Social Security more out of it. It is because I have been converted to the practicability of Social Security a little bit more than I was last week.

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H.M.JR: This has been a very peaceful conference. I don't know what Paul has in mind, but I think that he ought, in view of what happened here - we are pretty much in agreement more or less, it seems to me, on how we should approach the President.

MR. PAUL: One thing there - I think you should - remember we are going to have a meeting tomorrow, and I don't think you should plan to see the President until late next week.

H.M.JR: He gave us the date of the 25th, you see. He said any time after the 24th. You want another meeting of this group tomorrow morning to plan for the afternoon meeting? Do you want to meet at ten o'clock to tell us what you are putting up for the big meeting in the afternoon?

MR. PAUL: Well, we were planning to put those other questions up to the big meeting - that other questionnaire.

H.M.JR: I have to stop now. I would like to meet with you all again at ten o'clock tomorrow.

MR. PAUL: Have you seen the list of questions?

H.M.JR: I haven't seen it, no.

MR. SHERE: Wouldn't it be important to concentrate on these new factors - the effects of them on the inflationary situation?

H.M.JR: I would like Paul to take his own people and go over the thing in his room and then give me the benefit at ten o'clock tomorrow.

MR. WHITE: There is a possibility that this meeting might run to beyond tomorrow.

H.M.JR: Can you stick with us tomorrow?

MR. CURRIE: Yes, I will see you through.

H.M.JR: Ten o'clock to ten thirty. I want Gaston and Bell to stay, please.

Questions on the tax program ✓

1. Are you in favor of submitting to the Congress a tax program consisting only of orthodox revenue sources such as the individual income tax, corporation taxes, estate tax, and excises? Yes  No

2. If answer to Question 1 is "No," then indicate by check mark which of the following anti-inflation measures you would recommend, either by itself or in conjunction with a tax program.

- Spending tax
- Spending tax with graduated  
exemptions (Smith Plan)
- Progressive sales tax
- Compulsory loans
- Extension of specific rationing
- Expenditure rationing
- Compulsory saving
- Other

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✓ Questions should be answered in the light of what you would advise the Secretary to include in his statement to Congress.

- - -

3. Should the Secretary recommend the expansion of Social Security as part of his Statement on the tax program?

(a) The Wagner Bill? Yes  No

(b) Part of the Wagner Bill or some other modification thereof? Yes  No

(c) General approval of expansion of Social Security without specifying details? Yes  No

4. Should the Secretary oppose the Vandenberg amendment that would maintain the existing old age payroll tax at the 1 percent rate? Yes  No

5. On the tax program should the Secretary adhere to the announced amount of \$12 billion annual rate effective January 1944? Yes  No

(a) A smaller tax program? Yes  No

Specify amount \$ \_\_\_\_\_

(b) A larger tax program? Yes  No

Specify amount \$ \_\_\_\_\_

6. Is the amount specified in answer to Question 5 exclusive or inclusive of the amount that you would wish to see raised by an expansion of the present Social Security program?

Exclusive of Social Security

Inclusive of Social Security

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7. Would you include any of the following in the program:

General retail sales tax? Yes  No

Tax on increases in individual

incomes? Yes  No

(a) Tax increases on all types

of income? Yes  No

(b) Limit the tax on income increases to

proprietorships & partnerships?

Yes  No

Any other new form of tax \_\_\_\_\_ (Specify)

8. Do you favor a special 10 percent tax on all organizations now exempt under Section 101 including labor unions, chambers of commerce, business leagues but not including religious, educational, charitable institutions.

(Suggested by Mr. Stam)

Yes  No

9. Individual income tax.

(a) Do you agree that in the program recommended the individual income tax should account for approximately three-quarters of the increase asked for? Yes  No

In "No," specify what the fraction should be.

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## 9. Individual income tax. (Continued)

(b) Should the present exemptions of the individual income tax be retained? Yes  No

If not, should the exemptions be lowered to \$500, \$1,000, and \$250? Yes  No

If these lower exemptions are not to be recommended, specify the exemptions that you prefer.

(c) In framing the rate schedule on what income groups would you place most of the additional burden? \_\_\_\_\_

(d) Should part of the increase in individual income tax be in the form of a refundable tax? Yes  No

Should the refundable part of the tax be confined to the lower income levels? Yes  No

(e) Do you favor an effective ceiling on incomes above \$25,000:

(1) By special supertax method? Yes  No

(2) By steepness of rate schedule? Yes  No

(f) Do you favor some relief provision for:

(1) Individuals with fixed commitments for insurance, home indebtedness, etc.? Yes  No

(2) Individuals whose incomes have been fixed or relatively fixed since 1941? Yes  No

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## 9. Individual income tax. (Continued)

(g) Do you favor vigorous prosecution of recommendations in loopholes?

Joint returns

Percentage depletion

Tax-exempt securities

## 10. Corporation taxes.

(a) Should the total amount of additional revenue from corporations be \$1 billion? Yes  No

More? Yes  No

Less? Yes  No

Specify amount \$ \_\_\_\_\_

(b) Are you in favor of increasing the excess profits tax rate above the present 90%? Yes  No

(c) If you favor increasing the excess profits tax, should part or all of the increase be in the form of post-war credit? Yes  No

(d) Do you favor extending the post-war credit now used in the excess profits tax to the regular income tax? Yes  No

## 10. Corporation taxes. (Continued)

(e) Should we make specific recommendations designed to help the small corporation? Yes  No .

## 11. Estate tax.

(a) Should the total amount of additional revenue be \$300 million? Yes  No

More? Yes  No

Less? Yes  No

Specify amount \$ \_\_\_\_\_

(b) Should the specific exemption be reduced from the present \$60,000? Yes  No

12. Excises. Are you opposed to heavy increases on?  
(Specify)

Liquor

Communications

Beer

Transportation  
of persons

Cigarettes

Admissions

Tobacco

Others

13. Do you favor a tax to prevent speculation?

(a) On rural real estate? Yes  No

(b) On urban real estate? Yes  No

(c) On stock prices? Yes  No

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EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
WASHINGTON, D. C.

AUG 13 1943

My dear Mr. Secretary:

In response to your invitation, I am taking this opportunity to comment on some implications of the \$12 billion tax program which you presented August 10.

I share with you the desire to obtain maximum tax revenues, including an increase in individual income taxes. In my opinion, however, the proposed increases in the individual income tax yielding over \$8.5 billion, nearly three-quarters of the total program, go far beyond anything Congress is likely to adopt. I fear that a program is rather unrealistic if its major component has little or no chance of adoption by Congress. By proposing a program of such a nature we are inviting failure in achieving the goals of the President's program.

Some remarks of Mr. Paul at the conference on August 10 seem to indicate that the Treasury considers making some part of the increase in the individual income tax "refundable." If that is done, we shall in fact have compulsory savings by another name. But by adopting compulsory savings in that manner we shall not realize anything like its full possibilities, nor shall we avoid the possible drawbacks of a shift to compulsory savings.

I propose therefore that the program which you plan to submit to Congress include a more moderate increase in the personal income tax and a compulsory savings plan of considerable magnitude.

A \$10 or \$12 billion compulsory savings plan, it is true, might cut voluntary purchases by \$5 or \$6 billion. Surely additional income taxes of over \$8.5 billion, refundable or not, will have a similar effect. We must face candidly the fact that any compulsory fiscal measures—whether taxes, refundable taxes, or outright compulsory loans—will interfere with war bond sales in the income brackets affected by the measures. But war bond sales are merely a means to an end. The crucial question is: What combination of measures—taxation and savings—will absorb the greatest volume of the dollars that need to be absorbed—the inflationary dollars? Certainly, no compulsory savings plan likely to be adopted would completely supplant the voluntary savings program. No less certainly, a given amount raised by compulsion will have a greater anti-inflationary effect than an equal amount voluntarily subscribed. The greater hardship of the compulsory plan is sufficient proof of this.

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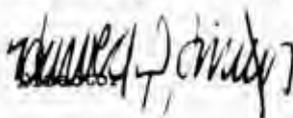
A compulsory savings program at this time need not add to the payments of those who are already fully participating in the voluntary savings program. It would merely exact an approximately equal payment from the half of the working population which is not now fully participating in the voluntary plan. In this respect the plan would appeal to at least one-half of the people and would be much more acceptable than an equally drastic tax measure. It would be fairer to all those who have voluntarily curtailed their consumption in order to meet war bond quotas but who may suspect their neighbors of making merely token purchases while carrying on consumption as usual.

In the absence of either adequate taxes or compulsory saving, we shall have to rely even more heavily upon voluntary bond purchases to finance the war. Since such bonds can be cashed at a moment's notice, fiscal control of purchasing power may become much more difficult. Piling up demand obligations at the rate of \$12 to \$18 billion a year--or even a higher rate if the Treasury's goals are reached--holds a constant threat to price stabilization during the war and an even greater threat immediately after the war. Weak fiscal controls now will necessitate more direct controls such as price fixing and rationing. After the war, direct controls will become even more unpopular than during the war, and there will be real danger of an inflationary price development of major proportions. Compulsory savings can be frozen until such time after the war when they can be safely used for consumption without inflationary results.

A uniform compulsory savings requirement--like a uniform increase in tax rates--would impose unequal sacrifices upon people whose incomes have increased and upon people whose incomes have remained relatively stable. The chief inequities, however, can be avoided in the case of compulsory saving by relief provisions for persons with stable or decreased incomes as well as possibly for those with high fixed obligations. Similar relief provisions in an income tax, as you know, would be objectionable. Thus flexibility is possible without leaving the requirements wide open to evasion by those who have no genuine reason for failing to participate in the savings program to the full. Thus also Congressional and public pressure for relief for the "forgotten men" of the wartime economy can be satisfied without endangering the whole income tax system.

For all these reasons I feel that the Administration should agree upon a program combining the utmost practicable in genuine income taxes (without refunds) and genuine compulsory savings.

Sincerely yours,



The Honorable

The Secretary of the Treasury

Conference in Secretary Morgenthau's Office  
Tuesday, August 17, 1943

Present: Secretary Morgenthau  
General Hildring  
Mr. D. W. Bell  
Mr. White

The conference was called at the General's request. Secretary Morgenthau stated that he had wanted to discuss something with General Hildring and that he would have called the General if he had not asked for the appointment.

The General began by saying he would like to explain what was contemplated in the way of a planning organization in London, inasmuch as he felt there was some misunderstanding about the plans. He said that the Army had strenuously insisted upon keeping the making of the policy decisions in Washington and that the group that was to be set up in London was merely to do the preliminary planning and possibly keep in close touch with the people in the field when they were operating in Europe, but that any plans or policies were to be finally determined in Washington. The Combined Chiefs of Staff had finally agreed on that procedure. Therefore, the General said, the man whom they were thinking of sending to London to represent the United States Army on monetary and fiscal matters was of less importance than would be the case if the decisions were not to be made in Washington. He stated that in the making of these policies and decisions in Washington that the Treasury Department was represented on the committee, and that the views of the Treasury Department on monetary and fiscal matters were, so far as he was concerned, decisive and definitive.

General Hildring said that he felt that all matters that related to foreign policy was, in his opinion, the prime responsibility of the State Department and their view should prevail and that likewise on all matters touching fiscal and exchange problems they should accept the Treasury's decision and that Treasury decision should be final on such matters.

The Secretary said he was glad to hear that because he had misunderstood what had been contemplated and was glad to know exactly what the situation was. The Secretary added however, that he would like to take up another matter. He said that he gathered from Mr. Bell and Mr. White that there was misunderstanding with respect to the post which Col. Foley was to fill. He said that he understood that the Treasury had been asked to recommend a man to fill the top financial and fiscal post in Italy under the Army and that on that basis we had recommended Col. Foley after having indicated that

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Mr. Burgess would not be available for that task. The Secretary said that it now appeared that the task which they were going to assign Col. Foley was one in a lower echelon and one which could be filled by any of several of Treasury persons already in the field. The Secretary said that he did not understand what had happened or what the situation was.

The Secretary stated that this Administration and President Roosevelt had consistently opposed any control over monetary and banking policy by the Wall Street group; that this Administration had moved the money center from New York to Washington, and that they had every intention of it remaining there so long as the Administration was in power. He went on to say that most of the bankers and brokers in New York were not in sympathy with what this Administration was trying to do and could not properly carry out its policy either here or abroad. Yet the Army concerned with military government abroad was filled with vice presidents of the Guaranty Trust and the National City Bank and the big brokerage houses most of whom had little understanding of broader monetary and fiscal problems and very few of whom were in sympathy with this Administration's policies. The Secretary thought that the President would object strenuously if he knew about that just as he objected to the Charlottesville school.

The Secretary went on to say that if the Army wanted men of that caliber to run the monetary and fiscal affairs in the occupied territories then the Treasury could not name any such man. They did not know of any such men they would care to recommend. However, if the Army wanted men to carry out the Administration's policy, the Treasury could recommend men who though possibly less well known in financial circles, the Secretary of the Treasury was confident could with the proper staff do a fine job for the Army and carry out the Administration's policy. He went on to say that Col. Foley, who was our General Counsel, was such a man and we could, if requested, recommend others for other areas. Furthermore, we could place at Col. Foley's disposal former Treasury men who are now in uniform who could assist him in carrying out his duties as top financial man.

General Hildring replied by saying he was surprised at learning that they contemplated using Army men for financial posts not recommended by the Treasury. He had assumed that the men who had been recommended for the financial jobs, a Mr. Starella (?) of General Motors Company and another man (Fox or Fish?) had been approved by the Treasury Department. He said that he had left these matters to Colonel Haskell and had assumed that these men were satisfactory to the Treasury Department.

Division of Monetary  
Research

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The Secretary said he had never even heard of them and Mr. Bell and Mr. White said they had never heard of them.

General Hilldring said he would not think of using anyone in such capacity unless they were satisfactory to the Treasury, and that the man whom the Treasury wanted would be the man who he, General Hilldring, would want on that job.

The Secretary stated that the man who we were recommending was Col. Foley and further that it was essential that Col. Foley, if appointed, have to assist him in the task of that importance and magnitude Treasury technicians most of whom were available and already in uniform. Possibly one or two whom we might recommend were not in uniform.

General Hilldring said he did not quite understand what had happened but that fortunately both men, he referred to, who had been recommended had not yet been given a commission and that he would stop that, and that the men who were satisfactory to the Treasury would get their appointment.

The Secretary replied that we did not know the men he referred to and that judging from their position and background, that the Treasury did not favor the appointment of such men for the job of the character which General Hilldring had outlined in their earlier discussion. General Hilldring said that in that event they would definitely stop the appointment.

The Secretary then asked what about Foley and General Hilldring said that since the Treasury desired Foley, Foley would be appointed. He added, however, that he would have to get clearance from General Eisenhower, who, of course, had the final say on persons assigned to that area in that capacity.

General Hilldring told the Secretary that he was glad to work closely with Treasury in matters connected with monetary policy and he had found Treasury cooperation quite satisfactory. Secretary Morgenthau replied he was glad he felt that way and was glad to cooperate in every way with General Hilldring.

H. D. White

August 17, 1943.  
2:45 p.m.

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Operator: Go ahead.

HMJr: Hello.

Samuel  
Rosenman: Henry?

HMJr: In person.

R: How are you?

HMJr: Fine.

R: Is Elinor all right?

HMJr: She's getting along nicely, thank you.

R: Good. Good. When are you going up, Henry?

HMJr: (Laughs) I see. Well, I don't think I am this week.  
I think I'm going up to New York to see Bob.

R: Well, I'm sorry. Henry, that isn't really what I  
called you about. You wrote the President a memo  
on August 12th....

HMJr: Yeah.

R: ....about these various departments working on con-  
version of industry from war to peace.

HMJr: Yeah.

R: Well, I've been sort of working on that with him  
and he sent this memo to me....

HMJr: Yes.

R: ....saying that, "I agree with Morgenthau" and that  
we should somehow tie in the 57 different varieties  
of work.

HMJr: Good.

R: Well, what - what views did you have on it, Henry?

HMJr: Oh, well, gee - I couldn't do that on the phone,  
Sam. Well, we've spent days on that thing. I'd love  
to sit down with you.

R: All right.

HMJr: At your pleasure. But....

R: What time tomorrow?

HMJr: Oh, you're a tough guy aren't you?

R: (Laughs)

HMJr: Let me just see - I've got that big tax conference - Boy, oh boy, oh boy.

R: I'll be here Thursday, too.

HMJr: You will be?

R: Yes.

HMJr: Well, how early in the morning can you start?

R: Are you kidding?

HMJr: Yeah. No, I'm not kidding.

R: 9:30.

HMJr: No, I've got Press at 10:30. That wouldn't take more than an hour. Would it?

R: What time is your Press?

HMJr: 10:30.

R: Well, I can meet you over there at 9:30.

HMJr: 9:30?

R: Yeah. Or if you'd rather make it at 11:00 it's all right. I'm free all day Thursday.

HMJr: That - that's - will you be awake by then? 9:30?

R: Yeah.

HMJr: All right. I'd love to sit down and I'll have some of my people here who have been working on it.

R: 9:30?

HMJr: Yeah.

R: Okay. I'll be over at your office.

HMJr: Are you over at the White House now?

R: Yeah.

HMJr: Will you be there all afternoon?

R: Yeah.

HMJr: Well, I may - I may give you a call later on.

R: All right.

HMJr: Thank you.

R: Bye.

# Byrnes' Broadcast to Country on the War Situation

**By The Associated Press**  
**WASHINGTON, Aug. 16.**—The prepared text of the address by Charles E. Byrnes, United States Ambassador to Great Britain, was published here today.

Mr. Byrnes spoke for more than an hour in outlining to British audiences the war situation in the Atlantic and the Pacific. He said that the United States is now fighting men who are not only on the battlefield but also in the streets of our cities and in the homes of our neighbors.

A great measure upon the belief that the British no longer possess the will to fight. That cannot be said either of the Germans or the Japanese. And as the Nazis and the Japs read of our industrial production, they are not discouraged. They may think that the American people no longer have the will to fight, but they are wrong. They know that the war will not end until we have won the last battle. And the last battle will not be fought until we have won the last battle.

**22 per cent of our total output is steel and machinery, and almost 50 per cent of our transportation equipment.**

But I do not wish to convey the idea that, because we have such a high percentage of our total output in such fields, we cannot do anything about it.

**Steel Trade Shortage**

What that can do, or should do, is to show the Americans and the British that we are not only producing more steel, but we are also producing it more efficiently. We are not only producing more steel, but we are also producing it more efficiently.

the means of any one of us, but to safeguard the liberties of all of us.

We must abandon the belief that the war will end when we have won the last battle. We must also abandon the belief that the war will end when we have won the last battle.

and now that they did before Pearl Harbor, within the American States it is the duty of every citizen to stand in the line of our own people.

Our Government can be more effective in the future if we have a more unified and more efficient system of production. We must also have a more efficient system of production.

Since we have begun to win some real and decisive battles on the fighting front, there has, unfortunately, been a tendency to slow down our production and to start worrying among ourselves. This may be just a relaxation of the nerves that we have, but it may also be a sign that we are not yet fully mobilized for the fight.

The price-fixer who stands a little behind the scenes and does not immediately act according to the order to produce how much more to get the war to win and how he will spend it. When in the winter he doesn't control with his hands, and he spends do not start quarrelling among themselves.

The Government of our all-out mobilization has not been a success. We have not produced as much as we should have. We have not produced as much as we should have.

It does not mean that we are not doing our best. It means that we are not doing our best. It means that we are not doing our best.

When we look at our war effort, we see that we are not doing our best. We see that we are not doing our best. We see that we are not doing our best.

Our British Commonwealth allies have been fighting against approximately 60 per cent of the enemy's total strength. The enemy has been using less than half the combat divisions in actual battle. In the European area, the strategic results of these victories are of such a nature that some of our people have given up the idea that the objective is to destroy the enemy's war capacity with great forces.

Moreover, the existing facilities in the United States are such that we can produce more than we are now producing. We can produce more than we are now producing.

It is not only the fact that we are not doing our best, but it is also the fact that we are not doing our best. It is also the fact that we are not doing our best.

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**The Use of Minority of Men**

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**TREASURY DEPARTMENT**

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**INTER OFFICE COMMUNICATION****DATE**

August 17, 1943

**TO** Mr. Fred Smith.  
**FROM** The Secretary.

On the radio I hear that Jimmy Byrnes announced increased taxes or enforced savings or both. First, check that with his press release or his newspaper statement to be sure he said it. Then, check what the President said in his budget message in January and in the budget review again here recently in which I think he said increased taxes or savings or both - not enforced savings. If he said it and if I am correct in what the President said, I want you to write a letter something along these lines: "Dear Jimmy: I was shocked to hear that you came out publicly for enforced savings. In case you haven't seen it, I am sending you a copy of the President's proclamation for our Third War Loan. We are on the eve of that Third War Loan. We are rapidly organizing some five million volunteer workers to sell \$15 billion worth of government bonds to individuals. People will not and can not understand why there isn't team play here in Washington, particularly between the man holding the position of your responsibility and the Secretary of the Treasury, and last but not least the President. The President on two occasions, and quote them, has come out for increased taxes or savings, aside from the fact that you might show me the courtesey of showing me your statement in as much as it vitally affects us. It seems to me that anybody connected with the President, as you are, would make a statement which is in tune with what he has said

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publicly. Your statement on the eve of our drive will do us an enormous harm unless it is corrected. I can not believe that you willfully want to hurt our drive so that we will have to have enforced savings. The President ~~made a slip~~ <sup>was misunderstood</sup> in one of his Press Conferences in which he was interpreted as being in favor of enforced savings ~~and then so far as I know the first chance he corrected himself.~~ He corrected a statement like that at a Press Conference two days later. I am enclosing a confidential, verbatim report of what he said. In view of the seriousness of this situation, I don't think it is asking too much of you to do at least as much as the President did and promptly correct your statement the way he did, and get behind the Third War Loan as he has asked in his Proclamation. I would appreciate an early reply. Yours sincerely."

Somewhere in the letter I think I would say that we are not only trying to sell bonds but we are trying to mobilize industry and labor, increase production, etc., and so on - the way he evidently said in his speech, but I would like to say that this isn't just a job of trying to sell bonds, but we have been trying to lift the whole morale of the country through our War Bond sales along the lines that he spoke in his speech, but we can't do it if we threaten the people with enforced savings. The only way we can do it is through appealing to their interest to win this war and get it over with.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

August 17, 1943

TO Fred Smith  
FROM The Secretary.

In closing the letter to Jimmy Byrnes, say something like this: "In the light of the President's proclamation, the Third War Loan, I'd call on all members of the President's team to "Back the attack with War Bonds". It seems to me that it is time enough to call for forced savings if our Third War Loan fails, and it will only fail if all the members of the President's team fail to back up his proclamation."

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 17, 1943

TO Mr. Fred Smith  
FROM Charles Shaeffer



Last January in submitting the budget message for the present fiscal year, the President said: "I believe that we should strive to collect not less than 16 billion dollars of additional funds by taxation, savings, or both during the fiscal year 1944."

Again, on August 1 in his revised budget summation, the President said; "I recommended in my budget message last January a truly stiff program of additional taxes, savings, or both. I continue to support that program."

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August 17, 1943

Dear Jimmy:

I was shocked this morning to hear radio announcers quote you as having said that "for our own protection" we must have higher taxes "and enforced savings." I have checked your speech, which was definitely intended as a statement of policy, and in my estimation you leave little room for doubting that enforced savings now constitutes an Administration policy.

As far as I know, this is not a fact.

On several occasions the President has called for "increased taxes and savings, or both". He made this statement in his January budget message, and again in his revised budget message. He has never said "enforced savings".

Last June at a press conference he was misinterpreted as indicating that he backed enforced savings. At his next conference, he was asked:

"Mr. President, ... there seems to be some confusion as to what you said or intended in your last press conference about high taxes and compulsory savings, and I want to ask you do you intend to ask for compulsory savings in view ..."

At this point the President interrupted, and after some discussion said,

"I notice that Chairman George expressed himself as feeling after the Second War Loan, that compulsory savings will not be necessary, which we hope that it won't be. I never came out in favor of compulsory savings. I am sorry that I gave anybody the wrong idea."

Mr. Godwin then said: "You do not intend to ask for ..." and the President interrupted, saying: "No, certainly not."

People will not and cannot understand why there isn't team play here in Washington, particularly between a man holding your position and the President himself, not to mention the Secretary of the Treasury, and in justice to this feeling, I want to say that we have no right to go our separate ways in matters of such importance. This can irreparably wreck the very war mobilization you are trying to create.

There is an even more serious factor, a more immediate problem involved in your statement of last night.

We are on the eve of the Third War Loan. We are asking approximately five million volunteer workers to go out and sell fifteen billion dollars worth of Government Bonds. This is the biggest job that has ever been handed to any group of home front volunteers. These five million volunteer salesmen will have to work against tremendous unavoidable hurdles -- the complacency of the people, tax discussions on the hill, and the September 15 income tax installment for example -- which will make the job extremely difficult. To complicate matters even further, you have launched the controversial issue of compulsory savings, which we have tried diligently to keep under cover until the Third War Loan is successfully started. We know that discussion about compulsory savings greatly increases resistance to Bond purchases, since we have had a considerable number of letters from the field complaining of the almost unsurmountable sales problem presented by such discussion by high Government officials and newspapers.

Your statement, if left uncorrected, will therefore do the Third War Loan serious harm.

I am therefore asking you to make an immediate correction, to alleviate this damage insofar as possible.

I call your attention to the President's recent proclamation in which he said:

"As Commander-in-Chief, I hereby invoke every citizen to give all possible aid and support to this Third War Loan Drive, not only so that our financial goal may be reached, but to encourage and inspire those of our husbands, and fathers, and sons who are under fire on a dozen fronts all over the world."

In the light of this Proclamation, it seems to me only reasonable that every member of the President's team should agree to forget his personal prejudices for the time being and "Back the attack -- with War Bonds."

If, in spite of whole-hearted Governmental backing and team play, the Third War Loan should fail, then it is time enough to call for forced savings; and certainly there is no point in helping it to fail by indicating that there is disunity and confusion at the very top of the Government; nor by giving the public the impression that regardless of cooperation with War Loan Drives, they are going to have forced upon them a plan of compulsory lending -- which I am sure you know has been proved, by every public survey, to be one of the most unpopular ideas yet advanced.

If you have an intellectual disagreement with the idea of voluntary savings, I beseech you to forget it for the time being. Give us an opportunity, through this Third War Loan, not only to raise a substantial amount of money, but to do the morale job which comprises at least half the assets of our War Finance Program. Through Bonds we are doing much to mobilize industry and labor. We are bringing the War to the people. We are putting millions of people to work for the war on the Home Front on a voluntary, enthusiastic basis. We are, as a matter of fact, putting to practical purpose much of the discussion in your speech of last night. If we have not succeeded to your complete satisfaction, it is largely because we are attempting to do this job all alone, and we are doing it constantly against such hurdles as are created by confusion, disagreement and solo policy making on the top layer of Government.

May I say one thing more: all this might have been prevented if you had cleared your speech with the Office of War Information as the rest of us are required and willing to do. I am sure the OWI would have noticed this deviation from what is now accepted as Administration war policy, and would have called it to our attention. We could then have come to some agreement before the nation's editors were plunged, once again, into the question of whether or not the voluntary savings system has been officially repudiated.

I would appreciate an early reply.

Yours sincerely,

Honorable James F. Byrnes

Dear Jimmy:

I was shocked this morning to hear radio announcers quote you as having said that "for our own protection" we must have higher taxes "and enforced savings." This statement, coming from you, is going to cause our War Finance Committees more trouble than you can imagine.

I should like to call your attention to the President's recent proclamation, in which he said:

"As Commander-in-Chief, I hereby invoke every citizen to give all possible aid and support to this Third War Loan Drive, not only so that our financial goal may be reached, but to encourage and inspire those of our husbands, and fathers, and sons who are under fire on a dozen fronts all over the world."

In making this proclamation, the President indicated that the decks were being cleared for the largest voluntary savings drive in history. I am sure he meant to make it obvious to the public, to the newspapers, and to all Government Departments that the Administration policy was to back this voluntary loan to the limit.

In making your statement last night, I sincerely believe you have laid yourself open to the charge that you are out of agreement with the President and with the rest of the Administration; and possibly even that you are willing to jeopardize the Third War Loan in an effort to promote the compulsory savings idea.

It is possible that you do not fully realize the seriousness of calling for compulsory lending on the very eve of the Third War Loan Drive. Perhaps you do not realize the immensity of the job we are undertaking -- nor, for that matter, the job that our volunteer committees have done in the past. In April, we sold 33 million Bonds. In September, we are hoping to sell 80 million Bonds, and I believe we can do it if more hurdles are not thrown in the way of the approximately five million volunteer workers who are setting out on the biggest job that has ever been handed to any group

of Home Front volunteers. As it is, these patriotic people will have to work against tremendous unavoidable hazards -- the complacency of the people, tax discussions on the hill, and the September 15 income tax installment for example. Now, to complicate matters even further, the controversial issue of compulsory savings, has suddenly been launched and in all probability will be picked up, debated and discussed ad infinitum in the newspapers. We know that discussion of compulsory savings greatly increases resistance to War Bond purchases. We know from letters received from the field that a person anticipating compulsory savings, simply refuses to buy Bonds voluntarily.

Because of your responsible position, and because of the way in which your speech was reported both on the air and in the press, your statement, if left uncorrected, will certainly do the Third War Loan serious harm. You have, at the worst possible time, again brought up the question of whether or not the voluntary savings system has been officially repudiated. I therefore ask you to make an immediate correction to alleviate this damage in so far as possible.

If you have an intellectual disagreement with the idea of voluntary savings, I beseech you to forget it for the time being. Give us an opportunity, through this Third War Loan, not only to raise a substantial amount of money, but to do the morale job which comprises at least half the assets of our War Finance Program. Through Bonds we are doing much to mobilize industry and labor. We are bringing the War to the people. We are putting millions of people to work for the war on the Home Front on a voluntary, enthusiastic basis. We are, as a matter of fact, putting to practical purpose much of the discussion in your speech last night.

- 3 -

In asking you to amend your statement, I am only asking you to do what the President did last June. You may recall that he made a statement in a press conference which was misinterpreted as being an indication that he backed enforced savings. Since this seemed a distinct change of policy on his part, in view of the fact that he has consistently called for "increased taxes and savings, or both" but not "enforced" savings, his misinterpreted statement was widely publicized.

At his next press conference, the President was queried on compulsory savings, and he said:

"I notice that Chairman George expressed himself as feeling after the Second War Loan, that compulsory savings will not be necessary, which we hope that it won't be. I never came out in favor of compulsory savings. I am sorry that I gave anybody the wrong idea."

He was asked: "You do not intend to ask for ..." and the President interrupted, saying: "No, certainly not."

I should think you would be willing, in view of the jeopardy in which your statement may have put the Third War Loan, to do as much to keep the signals straight as the President did.

If, in spite of the whole-hearted Governmental backing and team play, the Third War Loan should fail, then it is time enough to call for forced savings. Certainly there is no point in helping it to fail by indicating that there is disunity and confusion at the very top of the Government on whether compulsion is necessary; nor by giving the public the impression that regardless of cooperation with War Loan Drives, they are going to have thrust upon them a plan of compulsory lending -- which I am sure you know has been proved, by every survey of public opinion to be a most unpopular idea.

May I say one thing more: all this might have been prevented if you had cleared your speech with the Office of War Information as the rest of us are required and willing to do. I am sure the OWI would have noticed this

deviation from what is now accepted as Administration war policy, and would have called it to our attention. We could then have come to some agreement before the nation's editors and Administration kibitzers were plunged, once again, into a debate on the virtues of the system by which we hope to get 15 billions of dollars.

I would appreciate an early reply.

Yours sincerely,

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August 17, 1943

Dear Jimmy:

I was shocked this morning to hear radio announcers quote you as having said that "for our own protection" we must have higher taxes "and enforced savings." This statement, coming from you, is going to cause our State War Finance Committees a great deal of trouble.

I should like to call your attention to the President's recent proclamation, in which he said:

"As Commander-in-Chief, I hereby invoke every citizen to give all possible aid and support to this Third War Loan Drive, not only so that our financial goal may be reached, but to encourage and inspire those of our husbands, and fathers, and sons who are under fire on a dozen fronts all over the world."

In making this proclamation, the President sought to clear the decks for the largest voluntary savings drive in history. I am sure he meant to make it obvious to the public, to the newspapers, and to his official family that the Administration policy was to back this voluntary loan to the limit.

In making your statement last night, I sincerely believe you have laid yourself open to the charge that you are not in agreement with the President's policy as set forth in his proclamation. I am sure that you would not intentionally jeopardize the Third War Loan Drive to promote the compulsory savings idea, but many people might get that impression from your remarks.

It is possible that you do not fully realize the seriousness of calling for compulsory lending on the very eve of the Third War Loan Drive. Perhaps you do not realize the immensity of the job we are undertaking -- nor, for that matter, the job that our volunteer committees have done in the past. In April, we sold

- 2 -

33 million of the "E" Bonds, alone. In September, we must sell Bonds to 50 million people, and I believe we can do it, if more obstacles are not thrown in the way of the approximately five million volunteer workers who are setting out on the biggest job that has ever been handed to any group of Home Front volunteers. As it is, these patriotic people will have to work against tremendous unavoidable handicaps -- for example, the complacency of the people, tax discussions on the hill, and the September 15 income tax installment. Now, to complicate matters even further, the controversial issue of compulsory savings has again suddenly been brought before the public by your statement and in all probability it will be picked up, debated and discussed at great length in the newspapers and on the radio. We know by experience that discussion of compulsory savings greatly increases resistance to War Bond purchases.

Because of your responsible position, and because of the way in which your speech was reported both on the air and in the press, your statement, if left uncorrected, will certainly do the Third War Loan serious harm. I therefore ask you to make an immediate correction to alleviate this damage in so far as possible.

In asking you to amend your statement, I am only asking you to do what the President did last June. You may recall that he made a statement in a press conference which was misinterpreted as being an indication that he backed enforced savings. Since this seemed a distinct change of policy on his part, his misinterpreted statement was widely publicized.

At his next press conference, the President was queried on compulsory savings, and according to a confidential transcript, he said:

"I notice that Chairman George expressed himself as feeling after the Second War Loan, that compulsory savings will not be necessary, which we hope that it won't be. I never came out in favor of compulsory savings. I am sorry that I gave anybody the wrong idea."

He was asked: "You do not intend to ask for..." and the President interrupted, saying: "No, certainly not."

- 3 -

I should think you would be willing, in view of the jeopardy in which your statement may have put the Third War Loan, to do as much as the President did and to publicly give the Third War Loan your wholehearted support.

If you will do this you will help us through this Third War Loan, not only to raise a substantial amount of money, but to do the morale job which constitutes in itself a valuable asset of our War Finance Program. Through the Bond program we are doing much to mobilize industry and labor. We are bringing the war to the people. We are putting millions of people to work for the war on the Home Front on a voluntary, enthusiastic basis. We are, as a matter of fact, putting into practical effect many of the ideas expressed in your speech last night.

If the Third War Loan should fail, then it will be time enough to consider forced savings. Certainly there is no point in helping it to fail by indicating that there is disunity and confusion at the very top of the Government on whether compulsion is necessary; not by giving the public the impression that regardless of cooperation with War Loan Drives, they are going to have thrust upon them a plan of compulsory lending -- which I am sure you know has been proved by every survey of public opinion to be a most unpopular idea.

The necessity for this letter might have been prevented if you had cleared your speech with the Office of War Information. I am quite sure the OWI would have noticed this deviation from what is now accepted as Administration fiscal policy, and would have called it to our attention.

In the interest of getting this Third War Loan off to a good start, I would appreciate an early reply.

Yours sincerely,

Honorable James F. Byrnes  
Director, Office of  
War Mobilization  
Washington, D. C.

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Director, Office of  
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Washington, D. C.

FS:gr

Final 197

August 17, 1943

Dear Jimmy:

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"As Commander-in-Chief, I hereby invoke every citizen to give all possible aid and support to this Third War Loan Drive, not only so that our financial goal may be reached, but to encourage and inspire those of our husbands, and fathers, and sons who are under fire on a dozen fronts all over the world."

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It is possible that you do not fully realize the seriousness of calling for compulsory lending on the very eve of the Third War Loan Drive. Perhaps you do not realize the immensity of the job we are undertaking -- nor, for that matter, the job that our volunteer committees have done in the past. In April, we sold

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If you will do this you will help us through this Third War Loan, not only to raise a substantial amount of money, but to do the morale job which constitutes in itself a valuable asset of our War Finance Program. Through the Bond program we are doing much to mobilize industry and labor. We are bringing the war to the people. We are putting millions of people to work for the war on the Home Front on a voluntary, enthusiastic basis. We are, as a matter of fact, putting into practical effect many of the ideas expressed in your speech last night.

If the Third War Loan should fail, then it will be time enough to consider forced savings. Certainly there is no point in helping it to fail by indicating that there is disunity and confusion at the very top of the Government on whether compulsion is necessary; nor by giving the public the impression that regardless of cooperation with War Loan Drives, they are going to have thrust upon them a plan of compulsory lending -- which I am sure you know has been proved by every survey of public opinion to be a most unpopular idea.

It seems to me highly important that all of us should cooperate in matters of common interest in this critical situation and I am deeply disappointed that you failed to consult me in advance as to the implications of your statement, so far as it pertains to fiscal matters.

In the interest of getting this Third War Loan off to a good start, I would appreciate an early reply.

Yours sincerely,

Honorable James F. Byrnes  
Director, Office of  
War Mobilization  
Washington, D. C.

FB:gr

August 17, 1943 200  
4:35 p.m.

HMJr: Hello.

Operator: Elmer Davis.

HMJr: Hello.

Elmer  
Davis: Hello.

HMJr: Henry Morgenthau.

D: Yes, how are you?

HMJr: Fine. Mr. Davis, I'm - for you confidentially - writing a letter to Jimmy Byrnes protesting about his speech last night where he came out for enforced savings....

D: Yeah.

HMJr: ....and in this thing I put in a paragraph in which I say if he had cleared this speech with OWI, I'm sure that you people would have caught it and we'd have had a chance to protest. Now, there's nothing - the President has never said that Jimmy Byrnes is excluded from submitting speeches to OWI has he?

D: Well, I don't know that we have ever had it explicitly. We have understood it - that famous speech of his down in Spartanburg, you know, where he went into a lot of military stuff that we didn't have - we have always understood that he is responsible to nobody but the President for his stuff. I don't think we have had that flatly stated but I understood that from the general tenor of his commissions.

HMJr: I see. Well, at least when I put this in he can't come back and show any order to me which has excluded him from this.

D: I don't think so. Uh - can I just check on that and call you back in a few minutes, Henry?

HMJr: Will you do that?

D: Yes. Fine.

HMJr: Will you do that?

D: Yeah.

HMJr: Thank you.

August 17, 1943  
4:45 p.m.

202

HMJr: Hello.

Operator: Elmer Davis.

HMJr: All right.

Operator: Go ahead.

HMJr: Hello.

Elmer  
Davis: Hello. Davis.

HMJr: Go ahead, Elmer.

D: We never had any formal notification that he was exempt from our jurisdiction but we assumed it from the general nature of his commissions that he was a sort of, as it seemed to us, an extension of the President within certain limited fields.

HMJr: I see.

D: And consequently we have never cleared any of his speeches. We assume that he clears them with the President.

HMJr: Well, this is what I'm going to write him "for better or worse" unless you ask me not to, see?

D: Yeah.

HMJr: I mean - I'm not trying to clear this with you, but I mean this is purely personal, see?

D: Yes.

HMJr: In the last paragraph I say, "The necessity for this letter might have been prevented if you had cleared your speech with the Office of War Information. I am quite sure OWI would have noticed the deviation from what is now accepted as administration fiscal policy."

D: Well, if we had noted that we would probably have assumed, I imagine, that Jimmy had cleared it with you....

HMJr: Yeah.

- D: ....uh - because, after all, I understand that within his special field, he does determine all conflicts of policy and we suppose that what comes from him then is all settled with the appropriate departments.
- HMJr: Well, your assumption would be incorrect.
- D: (Laughs) Well, I don't think we've got any authority to interfere with his speeches; as far as I can determine he's responsible solely to the President.
- HMJr: Yeah. Well, aren't we all?
- D: Well, yes, we all are but - uh....
- HMJr: Well, you don't object if I put in that paragraph?
- D: No, if you will accept that we - we do not claim any authority over his remarks - we haven't so far at least and as far as I see, we have no right by his - terms of his charter to claim them.
- HMJr: Well, do you think I'd better leave it out?
- D: Well - uh - I don't know. From the point of view of our interest it would probably be better if you'd leave it out. On the other hand, if you think the public interest would require you to leave it in, by all means do so.
- HMJr: Well, the way I feel he has - as a coordinator in a certain area he - he goes ahead and makes a speech contrary to the President's proclamation on the Third War Loan....
- D: Yeah.
- HMJr: ....and talks about enforced savings....
- D: Yeah.
- HMJr: ....and I just write him a three-page letter and I end up by saying if he had have cleared this with OWI, you fellows would have caught it.
- D: Well, if we had caught it, we probably would have supposed that he had cleared it with you before that - I mean, this is a hypothetical situation.

- 3 -

HMJr: Yeah.

D: However, leave it in by all means, Henry, if you want to.

HMJr: Well, I just think that in all these talks about coordinating it doesn't seem to me that as far as we are concerned he is doing a very good job....

D: I see.

HMJr: ....and he - he talks about team play and all the rest of it and then he goes off absolutely contrary to what the President has laid down as a fiscal policy. He doesn't show it - he doesn't show it to us.

D: Yeah. Well, leave it in then.

HMJr: What?

D: Leave it in.

HMJr: I mean - I'm not going to quote you, Elmer.

D: Yeah.

HMJr: I'm not going to say later, "Well, I called up Elmer Davis and he said, 'Leave it in' or 'Leave it out'". I'm not going to quote you, see?

D: Yeah. Sure. But I mean I actually don't think under the terms of his commission, we could claim any authority over his speeches.

HMJr: I see. Well, I think under those circumstances, I may take it out.

D: All right.

HMJr: Thank you.

Mr. George Haas  
The Secretary

August 17, 1943.

I want to see the most recent figures in chart form on Federal Expenditures. Even if it's in pencil, it will do but I'd like to have it by this afternoon. If I can have it - figures during the month of August on a weekly basis and at the end of August give it to me again on a monthly basis, and then during September on a weekly basis. In other words, I'd like to receive the thing once a week. If it is not clear ask me about what I want. Anyway let me have something this afternoon. -

*Murphy saw Hojiv 9:15-5/8 - with chart -*

TREASURY DEPARTMENT

206

INTER OFFICE COMMUNICATION

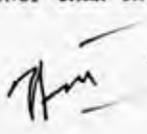
DATE August 17, 1943

TO Secretary Morgenthau

FROM Mr. Thompson

Respecting the printing of the Revenue forms and your letter, partial shipments of your letter have been made to all of the 64 Collectors' offices as of the close of business today. Instructions as of this date were shipped to 25 offices and the Form 1040ES to 46 offices.

The forms and instructions are thus holding up the mailing of your letter in many districts rather than the reverse as had been indicated would be the case!



AUG 17 1943

My dear Mr. Secretary:

Your letter of August 6 advising that additional captured enemy equipment is available is appreciated indeed.

Through the medium of our War Finance Division arrangements are being completed for the exhibition of this equipment at the major State Fairs scheduled for Fall showing in the Mississippi Valley area.

The enthusiasm which has already been engendered throughout that region is indicative of the splendid assistance this display will render to our War Bond program.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable

The Secretary of War

GSBOSSE:lr  
typed 8/12/43

WAR DEPARTMENT

1 War Savings Bonds  
43) OB-P-SPINT

WASHINGTON

AUG - 6 1943

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

This is in further reply to your letter of July 6, 1943, concerning the possibility of your Department's securing captured Axis equipment and materiel of our own Army which has been returned from fighting fronts for display purposes to stimulate interest in the purchase of War Savings Bonds.

By arrangement with Mr. Duffus of your department, one Pz Kw III medium German tank has already been shipped for exhibition at mid-west state fairs.

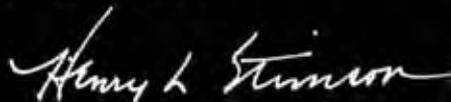
The following additional items are now available at the Ordnance Proving Grounds, Aberdeen, Maryland:

- 1 Pz Kw I German tank (body only)
- 1 Pz Kw II German tank
- 1 8 ton half-track personnel carrier, German
- 1 3 ton half-track personnel carrier, German
- 1 machine gun, MG 34 and tripod, German
- 1 Volkswagen, German
- 1 half-track motorcycle (less engine) German

It is requested that this Department be advised when the above-mentioned items of equipment have served their purpose. It is also requested that shipping addresses be furnished for the initial shipments.

In view of the necessity of utilizing all available shipping space and the urgent need for our own equipment in the active theaters of operation, I regret that it will not be feasible to return American equipment for display purposes.

Sincerely yours,



Secretary of War.



OFFICE OF  
THE COMPTROLLER OF THE CURRENCY

209

August 17, 1943

For Mr. Bell

From Mr. Delano

## 'IRREGULARITY' CHARGE MAY AFFECT BRANCH BANK MOVES

*Comptroller of Currency  
Withholds Comment  
On Allegations Relat-  
ing to Defeat of Anti-  
Chain Measure in  
Michigan.*

American Banker Bureau

Washington, D.C., Aug. 16.—

News that the Detroit Citizens League has petitioned the Attorney-General of Michigan to investigate charges that "irregularities" had occurred in connection with the defeat of the anti-chain branch banking bill in the last legislature, put a new angle on the moves of the Michigan National Bank of Lansing to get approval from the Comptroller of the Currency for branches in Bay City and Detroit which would round out its avowed objective of becoming a fully State-wide branch banking system.

At the office of the Comptroller of the Currency the custom is to withhold announcement of or comment on branch bank or bank charter applications, and accordingly there is no comment there. But it is obvious from the nature of the question which has been raised in Detroit and in the State capital that any proposals for further branches in Michigan will face a new hurdle.

The charges issued at Detroit of William P. Lovett, secretary of the Detroit Citizens League, which supported the fight for passage of the anti-chain branch banking bill (which also carried the full support of Independent Bankers Association), recall here earlier tension when former Senator Prentiss Brown and now OPA Administrator, defended the interpretation of the "loophole" in Michigan State law so as to allow branch banking on a state-wide basis.

The loophole was a State law provision that a bank might operate another bank as a branch if it be taken over in an emergency or other situation under

(Continued on page 2)

## 'Irregularity' Charge May Affect Branch Bank Moves

(Continued from page 1)

approval of the State Banking Department.

This loophole was made basis of application by the Michigan National people for national banking approval of their desire to convert a chain of banks owned into a branch banking system. The State Banking Department was opposed, holding that the emergency intent of the statute was plain and that the general provisions of Michigan law limiting branch banking to a county-wide or 25-mile radius should not be superseded. The Michigan Attorney-General, however, approved the loophole interpretation, and the Comptroller of the Currency chose to follow the Michigan Attorney-General, despite opposition by the State Banking Department, in which the Michigan Bankers Association and big Detroit banks joined. However, the Michigan National at the time did not get a Detroit office, and since then its intention to get approval for a branch in Detroit and some other cities has been patent.

At that time, Senator Vandenberg, senior Michigan senator, was among those who opposed the broadened interpretation of the law which the Michigan Attorney-General and Prentiss Brown supported. Recently, the OPA Administrator has continued to favor additional branches, while Mr. Brown's successor, Senator Ferguson, has opposed.

# The Detroit Free Press

On Guard for Over a Century  
AN INDEPENDENT NEWSPAPER

JOHN S. KNIGHT, PUBLISHER  
J. H. BARRY, GENERAL MANAGER

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Editorial, Advertising, Subscription, Etc.



MONDAY, AUGUST 16, 1943

## As We See It---

### Down to Three Gallons

EVIDENCE abounds as to the degree which the citizenry must take the word of Washington about the necessity for various wartime restrictions. The latest to come close home is the order reducing the value of gas coupons in the Midwest and Southwest from four gallons to three, beginning Monday. It need hardly be stressed that two effects will be radical revision of driving already curtailed, and an enormous added burden for rationing boards.

Here, though, as in other fields, there is nothing for it but to take the alteration with good grace. We all know where most of the gasoline is going. It is being consumed on the battlefronts in unprecedented quantities in the work of victory. It is the lifeblood of mechanized war. Noteworthy, too, is that the order still leaves the affected areas in much happier situation than the 12 Northeastern states where all pleasure driving long been banned. The best that can be offered there by the OPA is the "hope" that

## Graft in the Legislature?

THE REQUEST for a grand jury investigation of alleged bribe-passing in the Michigan Legislature arrives in aftermath of whispers that were heard as far back as three sessions ago. The petition comes from William P. Lovett, secretary of the Detroit Citizens League, speaking for six citizens of that body. Lovett has submitted "voluminous reports in writing with facts, figures and overt acts of corruption to Attorney General Rushton."

The measure in respect to which it is charged money was passed was the anti-chain banking bill. The measure, sponsored by State Treasurer D. Hale Brake when a member of the Legislature, would have prohibited the establishment of any more chain banks in Michigan. It was an issue in both the 1941 and 1943 Legislatures.

The serious nature of the charges cannot be stressed too strongly. The Legislature is the guardian of Michigan's laws, which are bone and sinew of the State's well-being. It proposes new laws and enacts or rejects them. It revises or repeals Acts proved to be inequitable. It derives its power directly from the people. Without integrity and rectitude it is nothing.

Moreover, when an issue of alleged wrongdoing is raised it does not, at first, hit at individual members. Inferentially it challenges the integrity of the whole membership. The grand jury request is, therefore, not only of deepest interest to the electorate; it is of acute personal concern to 132 Representatives and Senators. The investigation must be pushed until one of two conclusions is reached—until the grafters are exposed, tried and punished; or until the allegations are proved to be without foundation.

This is an event quite different from the Preston incident of 1941, when Rep. Loomis Preston, of Berrien County, told a Benton Harbor luncheon club that he had been offered "a roll of bills big enough to choke an ox" for his vote on pending legislation. Loomis later recanted. He called the story a myth, said he had made it up on the spur of the moment and that he did not know reporters were present when he made his charge. Interest subsequently died.

The new allegations are made by a group of responsible citizens after investigation and due consideration of all factors. They require a showdown at the earliest possible moment.

MR CHARLES BELMONT'S OFFICE TO

Long  
Possibly in stance  
turned over to  
by Min Channing  
you write away  
to Secretary  
me this letter  
with his trustee  
to show to you  
Sullivan and  
not his  
number with  
C-17  
you

TO:

Mr. Charles Bell

I believe this  
letter was  
answered  
several days  
ago TS

From MR. SULLIVAN

OFFICE OF  
THE ADMINISTRATIVE ASSISTANT  
TO THE SECRETARY OF THE TREASURY

Mr. Sullivan

Clipp. Tacked with  
the Secretary & this  
week was given a copy  
of this letter by me.

Perhaps we had  
better check him  
on the program he  
is making as the Secy  
wants not to go along  
with Public Health Council

CHARLES S. BELL

TELEPHONE 308

ROOM 208

August 17, 1943

Since Mr. Meck is out of town, I called the Property Utilization Branch of this Division relative to the subject matter of the attached letter. The two projects that the Public Health Service was most interested in have been transferred to them. These projects are located in St. Louis, Mo., and Durham, N. C.; I believe that the Public Health Service now has a ringside seat as to what is going on relative to this NYA property since they are now represented on the committee which the Bureau of the Budget has formed to study resident centers and complete shop units to determine the most urgent Federal need.

If there is anything further that you require along this line, you might call us again and we will be glad to look into it further.

E. Gholston  
Office of the Director.

EgH 625  
Res. Agreement



217  
Dear Mr. McNutt:

With further reference to your letter of July 22, 1943 concerning your need for certain property which has been declared surplus, due to the discontinuance of the National Youth Administration, I am informed that Mr. Clifton E. Mack, Director of Procurement, has been in communication with Doctors Sollins, Hohn and Honchett of the Public Health Service concerning this matter.

The procedure relative to the disposition of National Youth Administration property specified in the amendment to the Second Deficiency Appropriation Act, 1943, is being supplemented by the Bureau of the Budget through the formation of a committee to survey resident centers and complete shop units to determine the most urgent Federal need and I am advised that the Public Health Service is to be represented on that committee.

The Procurement Division will be responsible for the transfer and sale of personal property and I have requested Mr. Mack to cooperate with the Public Health Service to the utmost in effecting transfers immediately upon clearance to that Service by the Committee.

Sincerely yours,

/s/ Aug. 4, by Henry Morgenthau, Jr.

Secretary of the Treasury

Mr. Paul V. McNutt,  
Administrator,  
Federal Security Agency,  
Washington, D. C.

CEM:hth  
8-3-43

MR. CHARLES BELL'S OFFICE TO

Miss Stauden  
Ples let me have  
copy of my Mous  
letter to Paul  
McHutt to show  
the Secretary  
Bree

FEDERAL SECURITY AGENCY  
WASHINGTON

The Honorable  
The Secretary of the Treasury  
Washington 25, D.C.

Dear Mr. Secretary:

I am informed that the Procurement Division of your department has been placed in charge of the disposal of all equipment, material and supplies declared surplus upon discontinuance of the National Youth Administration. I therefore wish to indicate for your consideration the needs of the United States Public Health Service for many of these items.

For the past year the Public Health Service, in cooperation with State health departments and working closely with the Army and Navy, has been helping to establish isolation hospitals for the intensive treatment of syphilis and gonorrhea in persons who are sources of infection to the armed forces and to industrial workers. This program requires immediate expansion to care for additional areas and to provide treatment for deferred Selective Service registrants with syphilis. A final round-up of this group is now being organized by civilian health departments in cooperation with the Selective Service System and the Public Health Service.

Many of the portable buildings used as resident centers would be admirably suited for use as dormitories and infirmaries in this program of intensive treatment. Some of the shops and shop equipment would be most useful in providing an institutional work program that would give persons treated certain basic work skills, assist in holding them in the centers during the treatment period, and reduce the hazards of their again spreading venereal disease by aiding in the redirection of their activities.

There is certainly no other use to which these NYA resident centers might be put which would contribute more to the working and fighting effectiveness of the Nation's manpower.

I shall appreciate having every possible consideration given for this needed extension of United States Public Health Service activities, and I shall be grateful for any personal interest which you may wish to take in respect to this matter.

Sincerely yours,



Administrator



AUG 17 1943

Dear Mr. Nelson:

As requested in your letter of August 6, arrangements have been made for including the name of the manufacturer and site of product fabrication on future Daily Reports of Defense Aid Contracts, Form No. LL-14.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

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

WAR PRODUCTION BOARD

WASHINGTON, D. C.

August 6, 1943

IN REPLY REFER TO

Dear Mr. Morgenthau:

I am enclosing a photostat copy of a letter from Mr. Paul V. McNutt requesting that the attention of the several war procurement agencies be called to the improvement of contract reporting from the viewpoints of timeliness and of location of manufacture.

I am advised that there is no problem with respect to timeliness of reporting, since defense aid contracts of the Treasury Procurement Division are reported to the War Production Board within a short time after the award. However, as regards the name of manufacturer and the location of manufacture, there is no provision on the Daily Report of Defense Aid Contracts (Form LL 14) for reporting this information. Although the name and address of the contractor are given, these very frequently apply to an agent rather than the manufacturer or, in the event that contractor and manufacturer are identical, the address is the home office rather than the site of product fabrication.

For purposes of examining the extent to which the objectives of War Production Board Directive 2 are being achieved and appraising the effects of the application of this directive, you will agree, I am certain, that information as to manufacture of product is of primary importance. I shall appreciate it, therefore, if you will make the necessary arrangements to have this information shown on the daily report to the War Production Board.

Sincerely,



Donald M. Nelson  
Chairman

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

Enclosure

OFFICE FOR EMERGENCY MANAGEMENT  
WAR MANPOWER COMMISSION

WASHINGTON, D. C. 25

Chairman

PAUL V. McNUTT

FEDERAL SECURITY ADMINISTRATOR

APR 24 1943

Dear Mr. Nelson:

The War Production Board and the War Manpower Commission are in agreement that the manpower resources of our Nation must be utilized to the fullest extent if we are to reach our production goals. In furtherance of this policy the War Production Board has issued Directive 2, Amended, calling for the awarding of contracts to areas of adequate labor supply whenever alternate facilities are available.

In order to evaluate the effectiveness of this policy and program, it is important that the procurement agencies report more promptly and completely than at present contracts awarded. It has been called to our attention that some contracts are not reported to the War Production Board until many months after the date of awarding. Moreover, we note that the procurement services do not, in all cases, report the site of manufacture. We understand that such contracts amount to nearly 20 percent of the total dollar value of currently reported awards. You no doubt appreciate the importance of both prompt and accurate reporting of these items. I trust that you will bring this matter to the attention of the respective procurement agencies so that a more accurate appraisal of the program may be possible.

Sincerely yours,



Chairman

Mr. Donald M. Nelson  
War Production Board  
Washington, D.C.



ADDRESS REPLY TO  
HEADQUARTERS OF THE ARMY AIR FORCES  
WAR DEPARTMENT  
WASHINGTON, D. C.

WAR DEPARTMENT  
HEADQUARTERS OF THE ARMY AIR FORCES  
WASHINGTON

August 17, 1943

The Honorable  
The Secretary of the Treasury

Dear Mr. Morgenthau:

In response to your verbal request, the following brief personal notes set forth a summary of the labor situation in the Buffalo area:

Situation

1. December 1942 - "Replacement Schedules" were agreed upon with Major General Louis Hershey. These schedules provided for a freezing of key personnel and an orderly withdrawal of other personnel.

2. June 14, 1943 - Mr. Paul McNutt approved Mrs. Anna Rosenberg's "Referral Plan" in Buffalo. Essentially this plan provides for:

- a. Establishment of priorities of end-products by War Production Board.
- b. Assignment of priorities to plants by local committee.
- c. American Federation of Labor apparently opposed to plan because it results in movement of labor to lower pay industries.
- d. All male employment is through the U. S. Employment Service.

Under this "Referral Plan" the aircraft industry has fourth priority, which effectively results in the hiring of no new male employees over eighteen years of age. This means that the only sources of new labor supply are female labor and persons under eighteen years of age.

3. Under the "Replacement Schedule", a plan approved by General Hershey, the aircraft industry agreed to hire and train sufficient personnel to take care of subsequent withdrawals for military service. It is estimated that this loss for the Bell and Curtiss Companies for the period from July to December 1943 will be approximately 10,000 employees. In my opinion, this cannot be accomplished under the existing priorities of the "Referral Plan".



8-17-43

4. In addition to contemplated military separations, the turnover for these two plants will require approximately 12,000 new employees for Curtiss and a minimum of 8,000 for Bell.

5. Both of these companies have a large number of boys under eighteen at the present time; Curtiss 3,800 and Bell 2,500, most of which they will lose upon the re-opening of the schools next month and, of course, those attaining the age of eighteen are subject to the draft.

6. The Buffalo area has been designated as one of the most critical labor shortage areas in the country. Absenteeism is very high in Buffalo, especially in the Bell plant, which is partially due to the large proportion of female employees in that plant.

#### Action Required

1. Freezing of employees subject to the draft for a period of at least sixty days, such as is now in force on the West Coast. This should be continued until such time as the general situation can be alleviated.
2. Adjustment of priorities for employment, in accordance with the President's policy of highest priority for aircraft.
3. Exclusion of new contracts in the Buffalo area, other than aircraft.
4. Withdrawal of essential business, other than aircraft, from the Buffalo area.
5. Cessation of non-essential business wherever possible in the Buffalo area.
6. Extention of care of children of working mothers and similar measures which will enable female employees to stay on the job.

Sincerely yours,

B. E. MEYERS  
Brig. General, U. S. A.  
Deputy Ass't. Chief of Air  
Staff, M. M. & D.

Aug. 17, 1948

Harry White  
Secretary Morgenthau

Would you please let me have your comments  
on the attached letter from Secretary Jones to the  
President?

*Followed up with  
White 8/19-*

THE WHITE HOUSE  
WASHINGTON

226

August 16, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

FOR YOUR INFORMATION AND  
PLEASE RETURN FOR MY FILES.

F.D.F.

THE SECRETARY OF COMMERCE  
WASHINGTON

August 10, 1943

Dear Mr. President:

You will recall that I mentioned to you some time ago that the Dutch Government wanted to arrange for a loan of \$300,000,000, to be used in reconstruction of their country after the war.

When Mr. Van den Broek was in to see me I gave him a copy of our loan agreement under which we loaned the British Government \$425,000,000. Mr. Van den Broek later submitted a list of collateral and would like to arrange for the loan on the same general terms under which we made the British loan, the security to be United States investments entirely acceptable to us. The RFC would make the loan at 3½ interest, the money to be drawn after the war.

I am writing this letter because Mr. Van den Broek advised me he expected to discuss the matter with you tomorrow morning.

Sincerely yours,

*Henry C. Wallace*  
Secretary of Commerce

The President  
The White House

Dan Bell and Fred Smith  
The Secretary.

August 17, 1943

If you agree please send today copies of release on invasion currency to every member of Congress. If we are going to do it, we have to do it today. Let me know what you do.

Thank you.

Mr. Bell and Mr. White talked to the Secretary about this today, 8/17, and all three agreed it would be a bad thing to send this release to Congressmen.

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, August 17, 1943.

Press Service  
No. 38-10

The Treasury and War Departments today made public further details concerning the special currencies employed in the Sicilian operations:

Financial and military plans are so closely interrelated in modern warfare that it is necessary, for reasons of military security, to maintain secrecy regarding financial arrangements incident to military operations until the financial as well as strictly military aspects of the initial stages of the operation have unfolded. However, military secrecy ceases to exist regarding the financial measures effective for an operation when the relative decrees of the military commander are issued in the liberated area. Accordingly, the following information can now be released supplementing the story previously made public regarding the printing of Allied Military Currency by the Bureau of Engraving and Printing.

Measures to meet the currency problems incident to the Sicilian operation were taken jointly by the United States and British military authorities and insofar as American interests are concerned, under the guidance of and in consultation with the United States Treasury.

A distinction is to be drawn between the two kinds of currencies, namely, "spearhead" and "occupation," employed by the United States forces in these military operations. The "spearhead" currency was the "yellow seal" dollar which is a regular silver certificate of the United States Government, the yellow seal being used to distinguish it from ordinary United States currency. This distinctive

- 2 -

mark was adopted partly for security reasons to permit the isolation of the currency if it fell into enemy hands, partly to prevent the influx into the area of dollar currency already in the hands of the enemy, and partly to facilitate its entry into the United States by freeing it from present restrictions on ordinary U. S. currency. The yellow seal was first used by the United States military forces in North Africa and was again used as a spearhead currency in Sicily.

In connection with the use of yellow seal dollar by the United States forces, it is of interest to note that concurrently the British forces used the British Military Authority pound note. The B.M.A. note is a special currency and not the regular British pound note. The same exchange rate for conversion purposes was established in Sicily as in North Africa between the B.M.A. note and the yellow seal dollar - one B.M.A. pound equals four U. S. yellow seal dollars.

The occupation currency employed is the Allied Military Lira which was described in a previous joint press release by the Treasury and War Departments. This currency is being used jointly in the Sicilian operation by the Allied military forces to supplement supplies of local currency when and if necessary in order to meet the requirements of military operations. For obvious reasons it was desirable that the Allied forces should not continue to use pound and dollar currencies longer than was necessary and should move into currency denominated in terms of local units as quickly as the military situation would allow. It is not intended nor desired to replace the local currency with the Allied Military Lira Currency unless absolutely necessary from a military standpoint, but rather to use the Allied Military Lira to supplement the supply of local currency.

When the United States Army obtains Allied Military Lira for expenditures in Sicily for pay of troops, supplies and

- 3 -

other expenditures that would normally be charged to its appropriation, it will charge the relevant War Department appropriation for the dollar equivalent of such expenditure. The decreed rate of exchange is 100 lire to the dollar. This procedure, it was pointed out, marks no change in the customary control by the Congress over the size and nature of Army appropriations. Congress retains its jurisdiction over such army expenditures. The British military forces are following a parallel procedure with a decreed rate of 400 lire to the British pound. In all cases complete records are being kept and a detailed accounting procedure has been set up in connection with the issuance and use of this currency. These complete records will also facilitate the adjustment of financial matters growing out of the military operations of the Allied Forces in the occupied area.

The Allied Military Lira has been made legal tender in Sicily and is interchangeable at par with local lire currency. It will be in every respect as acceptable as a medium of exchange as the local lire currency, both to the men of our fighting forces and to the local population. Insofar as our troops are concerned, arrangements have already been made so that they may remit all or any portion of their pay which they receive in lire to the United States against instant payment here in dollars. United States soldiers leaving the area may exchange lire currency held by them for dollar currency at the decreed rate of exchange.

On the other hand, for obvious reasons, War Department appropriations will not be charged for expenditures in Sicily by the Allied Military Government for local governmental operations whether financed from local taxes or revenue or through the use of Allied Military currency. Thus, for example, the Allied Military Government will not charge Army appropriations in connection with the maintenance of public schools, water systems, salaries of local officials and the like.

Officials emphasized the essential distinction between the regular issuance of currency within the United States and the issuance of a special currency by the military authorities within an area under military occupation such as Sicily. While the former is governed by the Constitution and the statutes of the United States, the rules governing the latter are those of the law of nations as established by international agreement and the usage of the world. Under international law, the Hague Conventions and the decisions of the Supreme Court of the United States, the Military Commander in areas occupied by the Forces under his command has all the powers necessary for the carrying out of governmental functions.

These powers include the right to provide for the currency needs of the area occupied. In fact, it is a fundamental principle of international law that an occupying authority has in addition to its powers, certain obligations to the inhabitants of the territory under its control. It must take whatever steps are necessary to secure public order. The latter cannot be maintained unless the continued operation of local trade and commerce is protected. This protection includes the establishment and maintenance of an adequate and effective circulating medium.

The Allied forces must be in a position to meet a variety of conditions which they may find in areas occupied by them. The enemy might, for example, adopt a "scorched earth" policy which, on the monetary side, may evidence itself in the withdrawal or destruction of currency stocks and the resulting depletion of the circulating medium of exchange of the area. On the other hand, the enemy might in its efforts to cause maximum difficulties to the occupying forces, flood the area to be occupied with local currency to such a point that it becomes practically worthless as a satisfactory medium of exchange; and may even resort to the use of counterfeit local currency.

- 5 -

Financial problems will vary in different areas freed by the forces of the United Nations. Although the basic principles underlying the authority of the Military Commander remain unchanged, the details of procedure must be adapted to the circumstances found to exist in liberated areas.

It should be noted that in contrast with Axis procedure, which is governed by a policy of exploitation or of outright destruction of the existing economy of a conquered area, Allied Military policy and procedure is governed by a spirit of liberation and a policy of rehabilitation and fair dealing with the liberated peoples.

-000-

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

TO Secretary Morgenthau  
FROM Randolph Paul

DATE

AUG 17 1943

For your information:

On Thursday, August 12, 1943, there was a meeting held in my office with a group headed by Judge Pecora. This meeting had been arranged at the request of the State Department. Judge Pecora was accompanied by several Italian-Americans, including Gene Pope, Luigi Antonini, Ernest Cuneo, and Samuel Shores.

Judge Pecora explained that he and a number of other American citizens of Italian descent had decided to form an organization, the purpose of which would be to raise funds for the relief of the Italian population. More particularly, the activities of the organization would provide a basis for effective propaganda among the Italian population to the effect that the Italians in the United States are anxious to provide relief, clothing, food, and other necessary articles to the Italian population as soon as they are out of the war.

- 2 -

Judge Pecora said that he had discussed this matter at some length with Mr. Welles and that Mr. Welles was very sympathetic and had asked him to discuss the matter further with Governor Lehman's organization, War, and Treasury. Pecora and his group had already had discussions with Mr. Sayre, Governor Lehman's assistant, and a representative of General Hildring's staff. Judge Pecora apparently is convinced that it would not be possible for any private organization to purchase supplies and transport them to Italy and indicated that it was the purpose of his group to raise funds and turn them over to the appropriate agencies of the Government for use. Pecora said that his committee was also meeting with representatives of the President's War Relief Board to obtain its permission to engage in the drive to raise funds. It was suggested to Judge Pecora that OWI would be very interested in this matter and should be consulted. Judge Pecora will probably also file, in due course, a request that Internal Revenue permit his organization to advise contributors that contributions may be deducted from income taxes.





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

August 17, 1943

SECRET 236

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended August 17.

The survey of the condition of Lend-Lease supplies in warehouses at the Northwestern Ports has been completed, and with minor exceptions, the material was found to be in good, usable condition.

A. J. Walsh  
Acting Director of Procurement



LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF AUGUST 11, 1943  
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous &amp; Undistributed</u>
Allocations	\$3874.0 (3874.0)	\$1931.8 (1931.8)	\$1557.0 (1557.0)	\$103.4 (103.4)	\$10.9 (10.9)	\$270.9 (270.9)
Purchase Authoriza- tions (Requisitions)	\$2943.5 (2954.8)	\$1584.0 (1574.9)	\$1202.2 (1222.9)	\$36.5 (38.4)	- -	\$120.6 (118.4)
Requisitions Cleared for Purchase	\$2892.8 (2897.0)	\$1556.1 (1540.9)	\$1183.0 (1202.5)	\$36.3 (38.3)	- -	\$117.4 (115.3)
Obligations (Purchases)	\$2770.3 (2763.0)	\$1517.8 (1512.4)	\$1115.5 (1115.0)	\$36.3 (38.3)	\$7.1 (7.1)	\$93.6 (90.2)
Deliveries to Foreign Governments at U. S. Ports*	\$1208.3 (1198.8)	\$832.0 (830.9)	\$344.5 (336.3)	\$18.5 (18.5)	- -	\$13.1 (13.0)

\*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 August 4, 1943.

## EXPLANATION OF DIFFERENCE.

The reduction in Purchase Authorizations and Requisitions Cleared for Purchases for Russia is a result of cancellation and amendments to Contracts.

The decrease in the China Columns is a result of transfers of materials in storage to the War Department.

~~SECRET~~

August 17, 1943

Dear Colonel Mendelsohn:

In the absence of the  
Secretary, I am acknowledging  
your letter of August 11.

I shall be glad to bring  
this to Mr. Morgenthau's at-  
tention upon his return to  
his office.

Sincerely,

Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Colonel Morris J. Mendelsohn  
President, The New Zionist  
Organization of America  
55 West 42nd Street  
New York, New York

GEM:mn

# The New Zionist Organization of America

Incorporated

55 WEST 42nd STREET  
New York, N. Y.

VLADIMIR JABOTINSKY  
Founder

Colonel JOHN H. PATTERSON, D.S.O.  
Honorary President

Colonel MORRIS J. MENDELSON  
President

August 11, 1943

Hon. Henry Morgenthau  
Secretary of Treasury  
Washington, D. C.

My dear Mr. Morgenthau:

The enclosed advertisement published by us in the "New York Times" and the "Washington Post" during the last visit of Britain's Prime Minister to America, presents our proposal that Britain relinquish the Mandate over Palestine and thus facilitate the restoration of the Jewish nation.

We believe this to be a wise and just proposal. Britain is obviously unhappy in her role of trustee in Palestine. Her conduct there has not enhanced her prestige, nor has it gained for her the confidence or the good-will of the enlightened world.

The marked failure of the British administration to fulfill its solemn obligation toward the Jews is a source of constant reproach to the British sense of honor, and increasingly fosters a feeling of embitterment towards the Empire among the Jewish masses. Nor has the policy of "buying" the Arab politicians by sacrificing the Jews gained for England the gratitude and cooperation of the Arab peoples. They remain cold and hostile towards Britain.

The British Colonial leaders claim - rightly or wrongly - that the interests of the Empire prevent England from antagonizing the Moslems for the sake of the Jews. At the same time, it is obvious that England does not cherish the idea of making the Jews her open enemies. The wisest way out of this unhappy dilemma would appear to be for Britain to relinquish to the United States her Mandate over Palestine. This would rid the Empire of an embarrassing task, guaranteeing to her at the same time free use of the strategic and commercial communication lines in the Middle East. England permitted us to set up bases in her Atlantic and Pacific possessions; she can certainly trust us to maintain a position in an international sense.

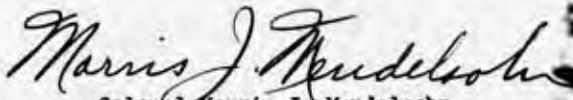
America's acceptance of the Mandate over the Holy Land would add to her prestige and strength in the world. The Jews would greet such acceptance as the beginning of a new era for their stricken and homeless people. Europe would welcome this as an assurance that the chronic and irritating Jewish problem would finally be solved. The Arabs, too, would realize that the game of political extortion is at an end, and that their opposition to Zionism can no longer be profitable.

Nor should we overlook the fact that American rule in Palestine would bring substantial material benefits to the United States. Palestine is not only one of the focal points of world strategy; it is also the key to the still dormant and undeveloped, yet vast and rich regions of the Middle East. Under American guardianship, Jewish Palestine would become an outpost of American products and ideals. It would bring to America new markets, wealth and influence in a region which will occupy a central position in the post-war world.

This letter is being addressed to a select group of American public leaders who are interested in international affairs, in American foreign policy and in post-war planning. Our aim is to determine the consensus of enlightened public opinion on this all-important issue. Your comment on our suggestion will be sincerely appreciated, and we assure you that it will have our most careful consideration.

Awaiting your early and valued expression of opinion, we are

Very sincerely yours,



Colonel Morris J. Mendelsohn  
President

MJM:RR .  
Enc.

# Mr. Churchill, DROP THE MANDATE!

Goebbels has proclaimed Nazi determination to "destroy the Jews without mercy." What was previously considered a "secret order" is now officially confirmed by Hitler's propaganda chief. The apostles of hate and terrorism have decided upon the total extermination of European Jewry.

The Jewish tragedy has reached its peak. But the United Nations do nothing to save the Jews. The impression is being fostered that even some of the democratic spokesmen would shed no tears if Hitler "solved" Europe's Jewish problem in his own way. This impression gains strength by Britain's policy with regard to Palestine.

Winston Churchill is now in Washington. Shortly before his arrival he announced Britain's intentions to uphold the White Paper of 1939. It is this White Paper which consigned the Jews of Palestine to a permanent minority status, the Jews of Europe to eternal homelessness, the Jews of the world to everlasting dispersion. It is this White Paper about which the same Mr. Churchill, in a speech in Parliament on May 23rd, 1939, said as follows:

**"What is that but the destruction of the Balfour Declaration? What is that but a breach of faith? What is it but a one-sided denunciation—a unilateral denunciation of an engagement?"**

Thus spoke Churchill, when he was one of the 602 Members of Parliament, and voted against the White Paper. Churchill, the Prime Minister, sticks to the White Paper. We do not believe that Mr. Churchill has become an enemy of the Jewish people. He is a man of firm convictions and deep insight, and it is not likely that he has changed his attitude toward the cause of the martyred people of Israel. What we do believe is that Mr. Churchill finds himself under the overpowering pressure of the die-hards of the Colonial Office who, even in the face of this global revelation, refuse to relinquish in the slightest degree their outworn imperialistic policies.

For twenty-five years the Colonial office has hampered and obstructed the Jewish effort in Palestine. It placed drastic restrictions on Jewish immigration. It barred the Jews from buying land. It denied them the right to self-defense. It handed over the Palestine administration to officials hostile to Zionist aspirations. In the words of Lord Josiah Wedgwood, one of Britain's most outspoken statesmen, broadcasting from London, last May:

**"The whole administration in Palestine, from the top to the police, are against the half million Jews of Palestine. They will never let them have arms, nor land, nor free immigration, nor a refuge, nor a home. Never!"**

This is strikingly evident now. If Winston Churchill can turn his eyes from an ocean of Jewish blood in Europe, if he can advocate in 1943 the "breach of faith," which he so sharply condemned in 1939—there is nothing the Jews can expect from Britain. The Jews and their friends in the free world are forced to the only possible conclusion:

## Britain Must Give Up The Mandate!

Palestine does not belong to Britain. It is an international trust in Britain's hands with a Mandate to establish a Jewish National Home, to "facilitate Jewish immigration and close settlement on the land." Britain has failed to discharge the trust. She must give it up.

The Jewish people has waited long enough. It can wait no longer. It can no longer entrust its fate to a mandatory which has violated all its pledges. It must follow the advice given by Lord Wedgwood, a year ago:

**"You must turn to America and take on the job yourselves. Ask no more from Britain. There is no longer any hope from any British administration.**

**"I have tried to save for my own countrymen the glory of rebuilding Jerusalem—of doing justice and caring for them. It's no use. They won't do it!"**

**"Seek to get America to act—to press for arms and justice—to accept the mandate—to build another free land with open doors and open hearts."**

We now follow Lord Wedgwood's advice, and say in all earnest:

## Mr. Churchill, Drop The Mandate!

Acceptance of the mandate by the United States would be greeted with enthusiasm by the Jews of the world over. All European nations concerned with the Jewish question would welcome an American Mandate over Palestine. Or, the Mandate might be turned over to a group of powers as recently suggested by Madame Chiang Kai-shek. If the system of mandates is to be abolished, the Jewish people will be ready to take upon itself the responsibility of governing and rebuilding the country. In either of these cases, Jews desperately in need of refuge would find there "a land with open doors and open hearts."

**THIS IS NOT ALONE A JEWISH PROBLEM. Certainly, it is not a British problem. It is a world problem that must be solved for the benefit of all the peoples of the world.**

In the name of countless Jewish martyrs, in the name of the common interests of humanity, in the name of all ideals for which millions are today shedding their blood—

## Mr. Churchill, Drop The Mandate!

### THE NEW ZIONIST ORGANIZATION OF AMERICA

COLONEL JOHN HENRY PATTERSON, D.S.G.  
Honorary President

COLONEL MORRIS J. MENDELSON  
President

22 W. 42 St., New York City

Phone: MU 2-2823

I am in full sympathy with your fight to save the persecuted and uprooted Jews of Europe through the foundation of a Jewish State in Palestine. To help you achieve this aim I am pleased to enclose my check in the amount of \_\_\_\_\_

NAME \_\_\_\_\_

ADDRESS \_\_\_\_\_

PLEASE SEND CHECK PAYABLE TO THE NEW ZIONIST ORGANIZATION OF AMERICA, 22 W. 42 ST., NEW YORK CITY

Registered Unclassified

AUG 17 1943

My dear Senator:

This is in reply to your letter of August 3, 1943, regarding the preliminary draft proposal for an international stabilization fund.

I am glad to note that you believe it is of primary importance to prevent the widespread breakdown of currencies after the war. In my opinion this can best be done through cooperation of the United Nations and the countries associated with them.

Soon after the Congress convenes, I intend to meet with the appropriate committees of the Senate and the House. In the meantime, we shall release to the public the revised draft of the tentative proposal. We are also arranging discussions with various groups of bankers and businessmen engaged in foreign trade.

I wish to express again my appreciation of your interest in the tentative proposal for international monetary stabilization. I look forward to discussing this tentative proposal with you and the Congressional Committee.

Sincerely yours,

(Signed) H. Mergenthal, Jr.

Secretary of the Treasury

Honorable Walter F. George,  
United States Senate,  
Washington, D. C.

WFB/jm 8/10/43



AUG 17 1943

My dear Mr. Norley:

This is in reply to your letter of August 16, 1943, regarding postwar monetary stabilization.

I appreciate your interest in the tentative proposal of the Treasury for an international stabilization fund of the United Nations and the countries associated with them. You may be sure that I shall keep you and other members of the appropriate Congressional Committees fully informed of the developments in connection with international monetary cooperation.

Sincerely yours,

(Signed) H. Mergenthau, Jr.

Secretary of the Treasury.

Honorable Ruggie Norley,  
House of Representatives,  
Washington, D. C.

By Messenger

Beard  
1.15 8/17

MSB:lr  
8/12/43

EUGENE WORLEY  
DALLAS, TEXAS  
EUGENE CLARK  
DALLAS, TEXAS

COMMITTEE 246

REGISTRATION AND REGISTRATION  
COMMISSION, WISCONSIN, AND MICHIGAN  
ELECTIONS OF PRESIDENT, VICE PRES-  
IDENT, AND REPRESENTATIVES IN  
CONGRESS  
LAW  
WAR CLAIMS

**Congress of the United States**  
**House of Representatives**  
**Washington, D. C.**

10 August 1943

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

Dear Mr. Morgenthau:

Thank you for your letter, with enclosure, regarding  
currency depreciation and stabilization after the war.

I am greatly interested in this matter and desire to  
keep in close touch with all plans and developments.

Sincerely yours,

*Eugene Worley*

AUG 17 1943

My dear Mr. Smith:

This is in reply to your letter of August 7, 1943, regarding the revised draft of the tentative proposal for an international stabilization fund.

As I stated in my letter, it is my intention to advise with the appropriate Committee of the Congress before an official conference is held. On previous occasions I have informed the Congressional Committee that any agreement for an international stabilization fund will be submitted to Congress for its approval.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Frederick C. Smith,  
House of Representatives,  
Washington, D. C.

RMB/jm  
8/13/43

By Messenger

Brown 1.15  
8/17

FREDERICK C. SMITH  
NINTH DISTRICT CLERK

SECRETARY:  
HARRY L. BROOKSHIRE

COMMITTEE:  
BUDGET AND CURRENCY

Congress of the United States  
House of Representatives  
Washington, D. C.

Marion, Ohio  
August 7, 1943

Hon. H. J. Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

Dear Mr. Secretary:

I have your letter of July 28th which I have noted with deep concern. In your last paragraph on page 1 you state the following:

"I shall keep the Congress fully informed of the progress we are making in your discussions on international monetary cooperation. When preliminary discussions have been completed and before an official conference is held, I intend to appear before the appropriate Committees of the Congress to advise with them on what is being done and what is proposed to be done to secure the cooperation of the United and Associated Nations in facilitating the stabilization of currencies and the restoration and balanced growth of international trade."

Please advise me as to just what you mean by the last phrase in this paragraph. Do you mean to indicate you intend to do no more than merely advise the appropriate committees of Congress on what you propose to do in carrying out the plan which you are formulating "to secure the cooperation of the United and Associated Nations in facilitating the stabilization of currencies and the restoration and balanced growth of international trade?"

Hon. H. J. Morgenthau, Jr.  
Page Two

August 7, 1943

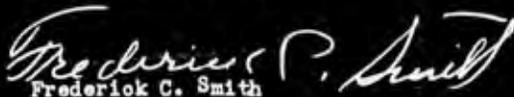
More specifically, do you mean by this phrase that you intend not to submit your proposition to the Congress of the United States for its deliberation and its definitive authority for you to carry out any plan you may see fit to propose?

I have not had time to study your revised draft but will do so at my first occasion. I have, however, carefully studied the draft you had worked out and which you told certain committees of the Senate and House about last April. I have also carefully studied numerous other analyses of that draft - notably the one by Benjamin M. Anderson. The analyses by Mr. Anderson undoubtedly lays bare what is involved in that draft and I agree with him fully.

The fundamental wrong in your first draft was that the United States should pledge its gold against the promises to pay of the bankrupted governments of the world.

I should like to have specific answers to the questions I have asked. It is my candid judgment you have no authority in law to carry out any proposal you might make to set up an international scheme to "stabilize" the currencies of the United States or any other nations, that in order for you to carry out such a scheme you must have the approval of the United States Congress.

Respectfully yours,

  
Frederick C. Smith

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, CHUNGKING  
TO: Secretary of State, Washington  
DATED: August 17, 1943  
NUMBER: 1494

CONFIDENTIAL

The following is sent on behalf of Fowler and should be brought to the attention of Rosenthal and Goldberg.

35.

With reference to your letter dated July 13, 1943, I have to report that I am convinced that we cannot expect the official rate of exchange to be changed to cover inland transportation charges or the purchase of strategic materials because after a frank and friendly conversation with the Minister of Finance which occurred on the 14th of August, during the course of which he read the aforementioned letter, he stated that he was certain that prices and costs would immediately double if the official rate should be changed to 40 to 1.

The only way to avoid payment for strategic materials at increasingly higher prices in my opinion is to purchase in the future at an airfield delivery price in United States dollars, to decide definitely that United States dollar costs cannot be increased to keep pace with the inflationary Chinese dollar, to inform the Chinese officials to this effect, and to urge that the Minister of Finance make available a subsidy to Chinese Government agencies handling commodities if required by them in order to cover increased costs resulting from inflation of the Chinese dollar. My foregoing conviction is based upon Washington's official attitude that these costs will not be covered under a reciprocal Lend-Lease agreement if and when consummated. During the past three months I have urged in all my conversations with Chinese officials that the foregoing be done; and I will continue to so urge, but if the objective is to be obtained, I believe that pressure must also be applied from your end.

If we had followed the suggestion, as contained in the Embassy's wire of May 8, 1943, no. 670, to the effect that we make a supplemental contract with the National Resources Commission to pay a transportation bonus of from 35¢ to 70¢ per pound (and which would have been payable at 20 to 1), we would have been expected to increase that bonus just as we are now being asked to do in the case of bristles so that inflationary costs may be met. We opposed that suggestion; but as I have already reported to you, tungsten kept moving, probably as the result of a subsidy having been granted.

I am reliably informed that the Minister of Finance on August 14 allotted a further sum of CN 120,000,000 as a subsidy for the National Resources Commission and the Ministry of Economics in order to meet deficits

caused by inflationary increases in transportation charges and in production costs.

A highway tax of CN 12 is included in the truck freight rate of CN 35.70 per ton kilometer so as to pay for the upkeep of the highways at inflationary wages. You are informed that the American Army is paying all these charges for its eastbound tonnage, which it states will increase monthly to from 2 to 3,000 tons; at 20 to 1. Consequently, in effect we are paying inflationary costs; and China is making no contribution towards supplying for the war effort the war supplies needed in her own front lines or those materials which the United Nations badly need.

Fooshing cannot lose if we pay them one United States dollar per each on 20 of their increasing inflationary cost of materials and transport charges. Fooshing possesses a certain sum on which to operate and they are not expected to lose or to make money. As regards transport charges, this was agreed to, thus making it more difficult under the terms of that agreement to urge a subsidy for cargo covered therein. We conferred with Fooshing on the 16th of August and showed them a copy of your letter dated July 13 which had not yet been received by them. Fooshing promised to recheck the cost and if possible to quote a lower figure for this year's cargo. As further regards transport costs, they also promised to confer with government officials although they were not optimistic of accomplishing much, if anything. Although Fooshing agreed to the reasonableness of our viewpoint, they are powerless themselves to do anything.

Will you kindly bring the foregoing to Currie's attention.

ATCHELSON

Copy:bj:8-23-43

OFFICE  
SECRETARY OF TREASURY

NOT TO BE ~~DISSEMINATED~~ <sup>18</sup> AUG 18 PM 12 22

TREASURY DEPARTMENT

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 271.

Information received up to 10 a.m., 17th August, 1943.

1. NAVAL

On 14th U.S. Cruiser and Destroyers bombarded MILAZZO to cover landing operations. H.M. Gunboats bombarded the Coast Road at TAORMINA.

On 14th/15th, 2 Cruisers bombarded SCALEA, Southeast of NAPLES.

2. MILITARY

SICILY. To 4 p.m., 16th. Enemy evacuation continues. Much shipping MESSINA STRAITS during 15th. Now considered figures given yesterday over-estimate and that evening 14th, only about 15,000 Germans had crossed to mainland.

Eighth Army. Contact with enemy last evening 15th, when leading troops reported nearing SANTA TERESA. Enemy counter-attack during night repulsed. Two Commandos landed successfully near SCALETTA 15th/16th.

Seventh Army. MILAZZO occupied 15th. U.S. Troops reached road junction Northeast of SPADAFORA and turned Southeast towards MESSINA whose defences were under Field Artillery fire by 3 a.m., 16th. Late news. U.S. Troops have entered MESSINA 8 p.m., 16th.

3. AIR OPERATIONS

15th/16th. MILAN. 567 tons dropped including 147 four thousand pound H.E. and 205 tons of incendiaries in 35 minutes. Good clear weather all the way and also over objective. Fires still burning. Bright moonlight, good visibility. Marker bombs accurate and bombing well concentrated round them. Numerous large fires started and all target area well alight by end of attack. Defences somewhat stronger and more accurate. Enemy Fighters negligible over MILAN but numerous over CHARTRES Area where two claimed shot down.

16th. Fortresses dropped 364 tons on LE BOURGET Airfield with "good" results. Fortresses, Marauders, Venturas and Typhoons dropped a total of 153 tons on 6 airfields in Northern FRANCE. 35 Bostons made an effective low-level attack on DENAIN Engineering Works where essential plant was hit from these operations in which 74 Squadrons of Fighters cooperated. 3 Fortresses, 6 Bostons, 1 Typhoon Bomber and 11 Fighters are missing. Enemy Casualties by Fighters 19. 2. 11. Of 3 enemy aircraft which reconnoitred the PORTSMOUTH Area, 1 was destroyed by Fighters and another by A/A.

16th/17th. Aircraft Sent Out. TURIN - 154 (5 missing), Intruders - 48 (1 JU 88 destroyed), Anti-shiping - 6. TURIN reports not yet available. 15 enemy fighter bombers of which 9 came inland operated over the THAMES ESTUARY and EAST KENT. Bombs were dropped in several districts but no serious damage reported.

BURMA. 13th. Liberators hit a merchant vessel near DIAMOND ISLAND and left it sinking.