

DIARY

Book 661

September 1-3, 1943

- A -

Africa, French  
See Occupied Territories  
Arthurdale, West Virginia  
See Procurement Division

Book Page

- C -

Churchill, Winston  
See Financing, Government: War Savings Bonds  
(3rd War Loan Drive)

Correspondence  
Mrs. Forbush's mail report - 9/3/43..... 661 217

- D -

Drug, Cosmetic, and Allied Industries Committee  
See Financing, Government: War Savings Bonds  
(3rd War Loan Drive)

- E -

Elliott, Harriet  
See Financing, Government: War Savings Bonds  
Engraving and Printing, Bureau of  
Cafeteria investigation requested of Thompson or Bell -  
9/3/43..... 237  
a) Report by Thompson - 9/6/43: See Book 662, page 81

- F -

Financing, Government  
War Savings Bonds:  
3rd War Loan Drive:  
Churchill purchase of \$25 bond discussed by HMJr and  
Gamble - 9/1/43..... 51  
a) HMJr's letter to Churchill - 9/2/43..... 130  
b) Churchill and HMJr's statements at time of  
purchase - 9/3/43..... 211  
Publicity expense discussed in Congressman Taber-HMJr  
correspondence - 9/1/43..... 79  
a) For non-delivery of bonds to service men  
correspondence see Book 662, page 150  
FDR's launching of drive described in Treasury press  
release - 9/2/43..... 180  
Miss Elliott's suggestions for HMJr's speeches - 9/2/43.. 187  
Drug, Cosmetic, and Allied Industries Committee thanked  
for book showing record on advertising support -  
9/3/43..... 212

- F - (Continued)

	Book	Page
Foreign Funds Control		
McDaniel, Charles B., Jr.: London funds - release of Discussed in		
McDaniel-Navy-State-Treasury correspondence - 9/3/43..	661	238
Jesse Jones-Treasury correspondence: See Book <u>666</u> , page 176		
State Department-Jesse Jones-Navy-Treasury correspondence - 10/14/43: Book <u>670</u> , page 210		
French Africa		
See Occupied Territories		

- J -

Joint Committee on Taxation		
See Revenue Revision		

- L -

Lend-Lease		
United Kingdom: Federal Reserve Bank of New York statement showing dollar disbursements, week ending August 25, 1943 - 9/3/43.....		250

- M -

McConnell, R. E.		
See Post-War Planning		
McDaniel, Charles B., Jr.		
See Foreign Funds Control		

- N -

National Youth Administration		
For surplus property disposal see Procurement Division		

- O -

Occupied Territories		
French Africa: "Recent developments of Treasury interest" - White memorandum - 9/1/43.....		93

- P -

Post-War Planning		
"Government V-Day Problems":		
McConnell's preliminary outline of - 9/2/43.....		203
"    second preliminary outline "Post-Armistice Interdepartmental Council" - 9/27/43: See Book <u>667</u> , page 118		
a) Chart: Book <u>667</u> , page 119		
McConnell-O'Connell-Rosenman conference described in McConnell memorandum - 9/28/43: Book <u>668</u> , page 21		
Byrnes' reaction to plan reported by Bell - 11/1/43: Book <u>672</u> , page 5		

- P - (Continued)

	Book	Page
Procurement Division		
Arthurdale, West Virginia: Surplus National Youth Administration property discussed in Arthurdale-White House-Treasury correspondence - 9/2/43.....	661	198

- R -

Revenue Revision

Joint Committee on Taxation

See also Book 655

Transmission of material through Office of Under Secretary of Treasury discussed in Treasury-Stam correspondence - 9/2/43.....		172
a) Procedure explained to Helvering and Wenchel, of Internal Revenue.....		177
b) Discussion of letter to Stam by HMJr, Paul, Gaston, Sullivan, and Brodsky - 9/7/43: See Book 662, page 120		
1) Revised draft of letter: Book 662, page 126		
c) Sullivan's letter to Senator George: Book 662, pages 131 and 289		
d) HMJr's letter to Senator George: Book 662, pages 133 and 294		
e) Summary of discussions and exchange of information to date: Book 662, page 135		
f) Revised letter (page 206) discussed by HMJr, Paul, Gaston, and Sullivan - 9/8/43: Book 662, page 204		
g) Stam reply reiterating all that has gone before - 9/10/43: Book 663, page 103		
Withholding Tax: Gallup Poll on taxpayers' reaction after two months - 9/1/43.....		77

- S -

Stam, Colin

See Revenue Revision: Joint Committee on Taxation

- T -

Taber, John (Congressman, New York)

See Financing, Government: War Savings Bonds  
(3rd War Loan Drive)

- W -

War Savings Bonds

See Financing, Government

Withholding Tax

See Revenue Revision

Worms Bank

PM article concerning - 9/3/43..... 206

September 1, 1943  
9:20 a.m.

TAXES

- Present: Mr. Paul
- Mr. Gaston
- Mr. White
- Mr. Sullivan
- Mr. Smith
- Mr. Blough
- Mr. Haas
- Mr. Surrey
- Mrs. Klotz

H.M.JR: Let's get down to business.

MR. PAUL: Roy has a set of tables and charts, but it seems to me one has to consider the basic questions here rather than get into those details. We don't have very much time. I think we ought to recanvass what we discussed yesterday and see just what are the implications.

We have had prepared a short memorandum which shows four alternatives. I think we might go over that.

(Memorandum handed to the Secretary, copy attached.)

MR. PAUL: It seems to me that we have here four alternative courses of action, and we ought to have very sharply and thoroughly in mind what they are. We prepared this after a great deal of conversation after our meeting yesterday.

The first one is the one toward which you seemed, to me, but not to Roy after we canvassed it, to lean yesterday morning. (Reading) "The Administration recommends that a Social Security program be considered first, with the

- 2 -

remaining part of the fiscal program, i.e., the purely tax matters, to be considered second. This involves the probability that the individual income tax and the corporation tax will not be increased at all, since Social Security hearings and discussions may carry on into 1944 and make it difficult to enact tax increases for political and technical reasons. This course of action therefore recognizes that our main goal - perhaps our only goal - is a Social Security program, and that the burden of presenting the bill falls largely on other shoulders."

H.M.JR: No.

MR. WHITE: That was not my impression at all.

MR. PAUL: Then that shows we have to canvass it, because our minds haven't been meeting.

H.M.JR: I don't see how you could get anything like that.

MR. WHITE: My impression was--

MR. BLOUGH: Get all four and then see.

MR. PAUL: "The Administration recommends that the purely tax part of the fiscal program be considered first, and that the Social Security part be considered immediately thereafter. As respects individual income taxes, we recommend a schedule which raises an amount of money obtained by subtracting contemplated Social Security collections from the total amount we suggested be obtained from individuals. This will produce a lop-sided income tax schedule, since the bottom is being left open for Social Security." That is another possibility.

MR. BLOUGH: That is the one I thought the Secretary was talking about.

MR. WHITE: It is closer to it.

- 3 -

MR. PAUL: The third one is, "The Administration recommends a purely tax program. However, the individual income tax would contain a post-war credit roughly equal in amount to the sum which would be collected through an increased Social Security program. The post-war credit would contain a proviso that it could be used currently if a Social Security program were enacted next year or later by allowing individuals a credit for increased Social Security contributions."

That is somewhat similar to what we called the second line of defense yesterday.

"The Administration recommends a purely tax program. It may or may not contain a post-war credit. It would be stated that of course if in the future a new Social Security program were to be enacted, the individual income tax rates would have to be reexamined and probably readjusted in the light of the additional burden under the new Social Security program."

H.M.JR: Are these alternatives what you people thought I said?

MR. PAUL: No. These are alternatives that we really have to face if we are dealing with the Social Security emphasis in the program.

H.M.JR: Let me ask Harry what his impression was when he left here yesterday of where I stood.

MR. WHITE: It was closer to two than to any of the others.

I gather that the difference of opinion is between one and two, and possibly two on page two. But I thought

- 4 -

what might be more clearly your thought, as I understood it, is that you would go before Congress to say that you are going to raise so much. I have forgotten whether it was a total of eight billion - eight to nine billion dollars - and that of that there was to be, I think, three and a half billion coming from excise, corporations, and income - maybe four billion dollars; it doesn't matter - and that you were to have a definite schedule prepared to raise that amount, but that that schedule would be drawn up with the understanding or with the recommendation that the remainder be obtained by a Social Security program.

The emphasis, so far as your personal appearance, would be on the tax part of the program, which was to come first, but that you were to make it clear that both were equal parts of your recommendation, although the burden of carrying out the discussions and the hearings on the Social Security part would - the main responsibility presumably would be Social Security with the Treasury going along supporting them because of its inter-relationship with the tax program.

But you would put your emphasis on the hearings in the tax part of the program - your emphasis in the general program - both - and this was to be part of a general program, and taxes was to be part of that general program.

(The Secretary held a telephone conversation with Judge Rosenman.)

MR. WHITE: I can give you some information about Currie.

Currie had been doing some work for Byrnes and others, and Crowley is finding the relationship between OEW and the various other departments becoming more complex

September 1, 1943  
9:30 a.m.

5

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Operator: Mr. Secretary, Judge Rosenman, sir.

Judge  
Rosenman: Hello.

Operator: Secretary Morgenthau.

HMJr: Hello.

R: Henry?

HMJr: How's your back?

R: My back is all right. I think you have a filthy  
mind.

HMJr: I don't know what you mean.

R: (Laughs) Well, you're cracked if you wouldn't ask  
me what's the matter while Dorothy isn't around.

HMJr: Oh, oh!

R: Henry, may I make a discreet inquiry as to whether  
you are going up this week-end?

HMJr: Uh....

R: And if so, when?

(Portion of conversation not recorded.)

9:32 a.m.

R: I think I'll be coming down about the end of the  
month.

HMJr: Oh, you would? You're going - you're going to  
resign?

- 2 -

R: Yes, sure.

HMJr: I see.

R: I don't know what I'm going to live on but....

HMJr: Well, I'll be glad to have you here.

R: Oh, thanks very much.

HMJr: Tell me what's the significance of this move of Currie's?

R: Of whose?

HMJr: Lauch Currie.

R: I haven't heard of any move. What is it?

HMJr: Well, I just read in the paper that he's Executive Secretary of the Office of Economic Warfare.

R: Oh, he's - he's left the....

HMJr: Yeah. Don't you read the papers?

R: What is it? Today's?

HMJr: Yeah.

R: I haven't read it yet. You mean he's resigned as an Executive Assistant?

HMJr: No, I don't think so.

R: I don't know. I'd have to find out.

HMJr: Yeah.

R: I'll go to work on that.

HMJr: Do that. Okay.

R: All right, Henry. In case - I'll get in touch with you....

HMJr: All right.

R: ....as early as I can.

HMJr: Thank you.

as he gets closer to it, and Byrnes likewise is having considerable difficulty in attempting to decide what the appropriate lines of demarcation of each agency should be.

So they have decided to ask the President to borrow Currie for a couple of months to examine the whole situation and see what recommendations he might make with respect to clarifying the problem.

H.M.JR: Those things which come under Crowley - did he confine it to that field?

MR. WHITE: It is OEW, but Crowley's outfit touches Lend-Lease, Lehman's outfit, the State Department, and Foreign Funds to some extent. He said that he didn't intend to go into that at all.

H.M.JR: Leave Jones' outfit alone?

MR. WHITE: No, Foreign Funds.

H.M.JR: Certainly the publicity doesn't say that.

Let me, so that other people don't put ideas or words into my mouth - and I think I am in accord with practically everybody with the exception of you (Paul)--

MR. BLOUGH: On the understanding of what you said yesterday - is that what you mean?

H.M.JR: Yes. You people have woven all kinds of things into this.

MR. BLOUGH: These four are not intended to be what you were interpreted as saying yesterday, only the two on the first page.

H.M.JR: If you don't mind, I don't like any of it. I haven't changed one bit from where I was yesterday. That is this, I would like to go to the President of the

United States with a Treasury recommendation that the next bill that Ways and Means takes up is a bill which will add to the present income tax schedule the present victory tax - abolish the victory tax - and then on top of that would come something approaching the Wagner Bill on Social Security. Then on top of that would come the excise taxes, increased corporation taxes, and the increased income taxes.

Now, the income taxes - we are going to say somewhere between eight, seven on the high and a lower level, depending on how it looks. This would be an Administration program. Certainly some kind of introduction should be given to it to the Congress by the President.

Then what I thought the discussion was - I thought we had agreement on that thing. The discussion was, should we have a second line of defense? And if so, what should it be?

Now, Herbert, you are a pretty good reporter. Am I saying anything different this morning than I said yesterday?

MR. GASTON: As to the desirable objective, we were all agreed that we would like to have the President come out strongly for a Social Security program. We would like to have tax schedules enacted which would finance Social Security. The increases in the lower income brackets would be primarily for the purpose of financing Social Security.

Of course, that does raise questions of strategy that we hadn't fully met. Congress may decline to consider a Social Security tax scheme until action has been taken on a Social Security law.

What Randolph is pointing out here is that if we are to consider a Social Security tax as an integral part of a general tax scheme, they may either divert their whole inquiry into the question of Social Security taxes, or they may want to throw the Social Security tax out and

- 7 -

discuss a tax scheme without regard to Social Security.

H.M.JR: Yes, but that is in the realm of surmise, and also I know what the President would say. If he agrees on this thing, he would say, "Now, Randolph is worrying whether they will take up Social Security first or taxes first." Well, that is something for Congress to decide, and I don't see why we should--

MR. PAUL: They won't want to take them up together. They will want to have separate hearings, whichever is first.

MR. BLOUGH: They don't consider them in the same category at all.

MR. GASTON: Of course they are part of the tax scheme.

H.M.JR: What I am trying to do is formulate and present a program to the President which will take care of the present situation, anti-inflation and a social standpoint, and this doesn't.

Now, the way I feel today is, I am not going to go any further than that. I am not going to try to look upon all the arguments they can give against it. I want to get it to the President. I want to get it to this crowd and see if they like it.

The way I feel this morning, I don't want to weaken my position by immediately saying, "If this doesn't go I have another one up my sleeve." There is time enough to give them an alternative when the President turns us down.

I would like to go to the President - the President is a pretty good strategist - and have him say, "All right, we will go down the line on this."

MR. GASTON: I think we have to remember this, if they decide on Social Security, sooner or later it will upset

- 8 -

any tax scheme that you have evolved and you will have to go over the whole tax schedule again in order to work a Social Security tax scheme into the general tax scheme. Anything that you will have done in advance on taxes is thrown out the window - has got to be thrown out the window if you adopt the Social Security plan. I think it is vital to face that Social Security issue first.

MR. WHITE: Why is that so, Herbert?

MR. GASTON: We can't draft a tax scheme which will have the necessary counter-inflationary effect in the low levels whether it is forced lending or a tax scheme, or whatever it is. You can't adopt such a scheme and then superimpose heavy Social Security taxes on top of that.

MR. WHITE: Nobody is suggesting that. You are suggesting the very opposite of that, as I understand it. What you are suggesting doing is by making a recommendation - the President making a recommendation that both things be adopted. Your portion of the responsibility of drafting the tax proposal is drawn with the assumption - with the understanding that it is a part of the program, and hence you draft the tax part in the knowledge that the Social Security part follows a certain pattern. You are able to get that pattern either from the Social Security people or from your own ideas.

That doesn't mean that Congress will end up by accepting either the pattern which you give as taxes or the pattern they give as Social Security; but as far as the thing you present is concerned, you present an integrated plan.

MR. GASTON: That is exactly my position, Harry.

H.M.JR: That is my position.

MR. GASTON: We are exactly in agreement.

H.M.JR: That is mine, and we could sit here from now until the first of the year and say which should go first, this, or that. The President gets these two fellows

- 9 -

together, and the thing moves like chain lightning, and all the plans we make go overboard, but that doesn't mean that we haven't presented an integrated plan to the President.

Once we get Doughton and George in the room, or Vinson and Byrnes, all I am going to attempt to do is to have an integrated plan which is based on sound economics.

MR. PAUL: I think - I am sorry - I agree that we should have a sound plan based on integrated economics, but I think we have to be prepared for a lot of eventualities. The President may call George and Doughton in and they may say, "Mr. President, we don't want to take up Social Security," or they may say, "All right, if you request us we will take up Social Security, but then we will have to put off the tax," or they may say, "We would like to take the tax first."

H.M.JR: But Randolph, neither you nor I are going to have a chance to pass on those things.

MR. PAUL: But I don't want to be caught off base and be completely unprepared.

H.M.JR: The first time we go we will see the President without these people, see. We will go and see him without them. Then he will raise these various questions and we will go over the whole thing. I have no objection to raising them with him.

MR. PAUL: Of course I want to raise them with you first, because I want you to see where all these--

H.M.JR: You pointed out to me - and you did last night over the phone - I think that is possibly what got you wrong. I realize perfectly - let's say that this may mean - "All right," they will say, "we will show them. We will stall this whole thing and just do Social Security for six months and no taxes." Or they may say, "We will do taxes, promise to get that through and then promise

- 10 -

to take up Social Security." All of those things are within the realms of possibility over which nobody in this room will have any control.

Now, all I feel is this - this is the way I feel, that it is up to the Treasury to give the President an integrated plan which he can look at by himself and say, "I like it," or "I don't like this part. I want this in." Then he will say, "All right, it suits me." And if you want to point out the hurdles - if you feel that is part of your responsibility to point them out to the President the way you have to me, I certainly won't object. But if you don't mind my saying it, I think it is a futile effort on my part - I mean, I don't feel as though I were going into a court and was going to have the District Attorney there raising all kinds of objections for my evidence and all the rest of the stuff.

All I have to do to fulfill my responsibility is to give the President a complete plan.

MR. GASTON: I think this question of alternatives is in the very highest levels. In other words, I think that the President needs to canvass the situation and get some agreement with leaders that they will or will not take up an integrated plan.

Then if they won't - if there is absolute resistance against it - I think that is in his hands. And if there is absolute resistance and they won't consider it, we will need to be prepared with some alternatives.

MR. PAUL: That is right. Things may move very fast. I agree exactly with what you say, Herbert. These questions are not subsidiary questions. They are on the very highest level.

I don't think the President should consider - first the Secretary should consider going ahead on this plan, which I would like to see if it could be put through generally without considering what may happen about it in the practical world up there on the Hill.

- 11 -

MR. WHITE: I don't understand the force of that position. There are two approaches; one is what you and your technical staff do. Obviously, they must be prepared for contingencies. You can't do in a week or two what should take a month to prepare.

I presume your staff already has, or is in the process of - I am sure they already have or are in the process of preparing what you regard as a second and possibly a third alternative. The research staff - the technical staff has got to be prepared for contingencies because you cannot prepare that in a brief time. That is an aspect no one disagrees with.

There is quite another aspect of that, and that is what decision will be made on political grounds, and I assure you that the decision will be made wholly on political considerations. You prepare a program for the President; the President says, "This looks good to me," and he calls the leaders. The leaders say they don't like it for this, that, and the other reason. The President either changes his mind, or he doesn't change his mind. He says, "This is what I want. You fellows go ahead and do what you want." He goes to the public on it, in which case you also go ahead in the way you originally intended.

Now, if on the other hand, the President, after talking with them, says, "I guess we can't get them to go along; we will have to adopt other tactics. What shall we do?" you come to him with another plan. It doesn't take more than a day to talk over what that shall be. You will at least have a day. It has nothing to do with your technical preparation. I don't understand your (Paul's) concern about being ready.

MR. PAUL: It is not my concern about being ready; it is my concern that the Secretary make up his mind on the basis of what may actually happen, and not completely be--

H.M.JR: May I answer you as to why I can't? If it were my sole responsibility, then it would be right to

- 12 -

press me on this. It isn't, and I don't envisage my responsibility beyond giving the President a plan. Then it is his responsibility to decide what he is going to do with it.

I agree it is our responsibility to be ready if he says, "I want this or that," to have the answers. But I am not going to make up my mind beyond that I like the plan.

MR. PAUL: That is just my point, that I don't think you can intelligently make up your mind without considering all the alternatives.

H.M.JR: That is where I differ with you.

MR. GASTON: Can't this be done, Randolph, the Secretary presents this integrated plan and says, "Now, Mr. President, if you find on canvassing the leaders and so on that it is impractical - that we can't do that - of course we will have alternatives to give you later"?

MR. WHITE: You don't have to say that. The President knows always that there are alternatives. He has always had to resort to them.

H.M.JR: Look, Herbert, you come in with me - I don't care what it is - on any complicated front and you have taken six months to study the thing - now before I even get to read it you say, "O.K., if you don't like it, I have another one." It distracts me.

My whole argument is, all the time these people give me alternative memoranda. I say, "Tell me what you want; don't give me alternative memoranda."

The President would have a perfect right to say to me, "Henry, do you or don't you like this?"

I hate personally - maybe that is the trouble - I hate these alternative memoranda. I like my staff to come

- 13 -

in and say, "Here is a thing, and here is a letter of transmittal. Now, this is what we recommend."

MR. WHITE: The only time alternative memoranda are justified is when we don't want something you want, so we give you what you want and say, "We don't like it; we have something we want." (Laughter)

MR. GASTON: That is exactly what I was suggesting the Secretary say to the President. Of course he won't need to say it. The President will know that if he can't get away with this he will have to call for alternatives.

MR. WHITE: He doesn't have to say that because the Secretary is recommending that. When Randolph says he can't make an intelligent decision - Randolph said this was a complete plan. Apparently he has made a decision.

MR. PAUL: That is in an ideal world. You have to decide when you present this integrated plan if you are considering - you have got to consider the alternative; that may mean no tax program at all.

MR. WHITE: It seems to me you are arguing against the recommendation. I don't see how you can stand on two positions. Either you think it is the best tactics, to present this program, taking whatever other alternatives you have in your mind, or up your sleeve; but either you believe it is the best tactics to recommend this plan, in which case you stop talking about alternatives, or you don't believe it is the best program, and introduce the question of alternatives through the back door.

MR. PAUL: I did not say that I considered it the best tactics. I said that I would consider it the best plan if it could be adopted.

MR. WHITE: That is a weasel; you know that. It is a weasel because we are always up against a position - we all have a million good plans that are not practical. I hold that a plan that is not practical is not a good plan.

- 14 -

MR. BLOUGH: It is ten to one that this one isn't practical.

MR. WHITE: Then if you feel - it is not a question as to whether it is practicable in the sense of being worked out.

MR. BLOUGH: I don't mean that. It is practical in that sense entirely. I mean, politically.

MR. WHITE: There is one simple decision, whether the Administration ought to come out in the first instance with a program of this kind. If you believe that it should, that is the alpha and omega of the practicability of it. It is not a question of what happens after that.

Now, if you believe that this is a desirable program for the President to come out with, you stop there. You will make that recommendation. If there are doubts in your mind that the President ought not to come out with it - mind you, not because he may not be successful - that is not for your concern, that is his concern--

MR. BLOUGH: You have always taken the other position.

MR. WHITE: No, I don't think I have.

MR. BLOUGH: Your position has always been we should assess the possibilities of success.

MR. WHITE: Sometimes, but there are other factors which you are considering here. One of the very important factors you are considering here which you can't leave out, except by distorting the whole thing, is the political value of coming out with a plan of this character.

H.M.JR: Harry likes my plan; after all, he can change his basis. (Laughter)

MR. WHITE: Why should I be consistent? (Laughter)

H.M.JR: The other times he didn't like it. (Laughter)  
This time he likes it.

MR. HAAS: Let's discuss one of the main worries, that Social Security may be taken up first. If you are to go over this program as outlined and pick out that phase most effective on inflation, you would pick out the Social Security tax part. What if that did come first and was enacted? From a political consideration then they would feel bound to go in and put some more taxes on. They wouldn't leave them just on the low side - Social Security, or otherwise. So it seems to me if it takes its natural course--

H.M.JR: ... Social Security comes first.

MR. SURREY: I am not sure you would ever get to the second part.

MR. HAAS: I am not a politician.

H.M.JR: Well, look, gentlemen, you might just as well stop arguing, because I have listened to this thing. I have had plenty of time to think about it, and I would like to present this to the people coming in at ten as a Treasury plan unless you don't want me to do that.

MR. PAUL: Not at all. We have the plan ready.

H.M.JR: All right, we will present it as an integrated Treasury plan and we will hear their objections. And tomorrow afternoon again at four o'clock we will present it as a Treasury plan and we will hear their objections.

Next week I will ask for an appointment at the earliest possible time that the President can see us to present it to him.

Now, we have a number of hurdles to cross. We have to see Senator Wagner, and we have this one at ten, and another one - as we go along I would like to go on the basis - I am perfectly willing to be accused of being a star-gazer, and so forth, and so on. You talk about Congress not wanting it; Congress, after all, in the final analysis listens to people. They are much more sensitive

- 16 -

to it than some people are, like Drew Pearson's column, if that is possible. If they hear that a number of their constituents want it, then they get interested. I don't know whether we can make North Carolina interested, or Georgia.

MR. PAUL: Or George, not Georgia.

H.M.JR: I mean Georgia.

But I would like to go through this thing in all sincerity up to the point of presenting it to the President. Then let's hear what he has to say.

MR. PAUL: If you want to present it, I think you should, and I am all for presenting it. I simply don't want you to make any decisions on things without seeing what you are going up against.

H.M.JR: That is all right. I am perfectly conscious of what we are going up against. I said there might not be a chance for nine years, and Sullivan said I was taking a defeatist attitude, and he was perfectly within his rights to say that.

MR. WHITE: I am not so charitable to Randolph. I can't understand Randolph's view; and because he is in charge of taxes, I think it needs to be further clarified.

MR. SULLIVAN: I can get it, his view. Here is the situation, Harry: Here we have a plan which we think is the best thing in sight and the best thing for the country. There are two obstacles that Randolph recognizes, and which I appreciate, although I think that one at least is artificial. It so happens that Social Security is not administered by the Treasury Department. It also happens that there is a traditional dislike for increases in Social Security in the tax committees.

From now on, with the rates we have, you just can't treat Social Security and taxes separately. They have a tremendous effect on each other.

- 17 -

Now, what I say is this, that with the situation the country is in now and with the tremendous need for a program of the kind the Secretary has proposed, it is time to do away with this distinction between the Treasury and Social Security and work together on it. It is time for some real heat to be put on the Congress to get over this idea that they can always put Social Security ahead another eighteen months. And if there is enough drive, I think it can be done.

MR. WHITE: I agree with you wholly, but I think it is quite irrelevant to what Randolph's position is.

H.M.JR: Let White get it off his chest.

MR. WHITE: What I am saying is this, it seems to me, Randolph, you are for this plan, you are for this recommendation to the President, but you say you want the Secretary to thoroughly understand the alternatives because of the excellent chance - if not almost a certainty - that you will be confronted with the necessity for making alternatives.

Now, why are you so insistent on having the Secretary understand the alternatives at this stage of the game unless there is in the back of your mind the feeling that because of the alternatives that is not the best plan to recommend; and if that is in the back of your mind, why not say you don't agree this is the best plan to recommend - if I am interpreting what is going on in your mind correctly.

MR. SURREY: I wouldn't say that was Randolph's position. I think I know--

MR. WHITE: If I can interpret his mind, he is entitled to it. (Laughter)

MR. PAUL: I think I need a lawyer. (Laughter)

MR. SURREY: I think the confusion of alternatives - what Randolph wants to know, to use the Secretary's metaphor, is just exactly what star the Secretary is gazing at. Randolph wants to indicate, as I see it, that this program involves with it the implication that you may have no taxes at all.

- 18 -

Now, as long as you realize that, you still may be for the program - and that is the first thing to be decided, is what Randolph is saying--

MR. SULLIVAN: I am voting on that right now. If it is a question between trying for what the Secretary wants and losing it, or getting an extra three billion dollars in taxes, I will go with the Secretary and not get anything at all.

MR. SURREY: That is all right. That is what Randolph is trying to get across.

H.M. JR: I don't know whether it was a poet or who it was, but somebody said, "Hitch your chariot to a star." See, that is me. (Laughter)

MR. WHITE: Somebody else said, "Don't have your head in the clouds." (Laughter)

MR. GASTON: What we are talking about is purely a question of strategy. It is perfectly clear in my mind that what should be presented to the President now is this integrated plan. Of course it needs to be made clear to the President - or I don't know whether it needs to be or not, that this is a movement that has to be taken on all fronts, an Administration movement in which we are demanding Social Security legislation and integrating a tax plan with it.

MR. WHITE: Right. But unless Randolph believes this implicitly - if he doesn't believe it, now is the time for him to say so. If he does, he should have no reservations.

MR. PAUL: I will give you a memorandum on what I believe.

MR. WHITE: You mean you don't think you made it clear? (Laughter)

MR. GASTON: Of course in the shop we will have alternatives ready for presentation if the President

- 19 -

tells us we can't get to first base - that it can't be done.

H.M.JR: What White should so is give Paul a questionnaire. (Laughter)

MR. PAUL: I will give you a memorandum later in the day on what I believe, and I will--

MR. WHITE: No swear words in it. (Laughter)

MR. PAUL: I will quote from a French poet, using the star metaphor. (Laughter) I will give it to you later. I don't want to conceal anything.

H.M.JR: Again using sort of a metaphor example, I don't think we want to lose sight of the tree on account of the forest. I think you (Paul) are seeing so many possible objections through your highly technical training that possibly you lose sight of the tree.

MR. SMITH: Aren't those objections all going to be taken care of abruptly when the President calls in Mr. Byrnes?

H.M.JR: Of course.

MR. SMITH: Mr. Byrnes is going to say, "That is a fine schedule, only we ought to have compulsory savings instead of this." Then the President makes up his mind one way or the other, and everybody is together. (Laughter)

H.M.JR: As long as Harry has been so frank - I can't be as frank as Harry, or as forceful-- (Laughter)

MR. WHITE: Randolph wouldn't recognize me if I weren't frank. (Laughter)

H.M.JR: I like your frankness. You have helped me out a lot this morning.

The point that I am making - I come in and say this thing, "Here is my second line of defense," and then Mr. Byrnes has his second line of defense, and Mr. Vinson has

- 20 -

his second line of defense, and we have half a dozen alibis, why we shouldn't have this.

MR. SMITH: Your second line is going to be awfully close to Byrnes'.

MR. SULLIVAN: You mean the one that was suggested yesterday? I don't know as that is the Secretary's yet.

MR. SMITH: I mean any--

H.M.JR: My own feeling is, I don't think that is necessary. The thing is going to move so fast. I am repeating myself, but I think Paul and his staff should have all the answers to whatever the President may raise.

MR. WHITE: Did you get that - "all?" (Laughter)

MR. BLOUGH: "All" the answers. (Laughter)

H.M.JR: Well, I haven't seen those schedules. We might as well show them when McNutt comes in.

MR. BLOUGH: As you wish. I have got them.

H.M.JR: Now, who ought to stay? Paul, how much of this staff do you want?

MR. PAUL: Roy should stay, because he has all the schedules. That is all I think we need.

Four alternative courses of action appear under consideration (For the rest of this memorandum it is unimportant what is the overall figure for individual collections - it is merely assumed that the same overall amount is used in each case):

A. The Social Security and purely tax aspects integrated and prompt action presupposed on Social Security:

- (1) The Administration recommends that a Social Security program be considered first, with the remaining part of the fiscal program, i.e., the purely tax matters, to be considered second. This involves the probability that the individual income tax and the corporation tax will not be increased at all, since Social Security hearings and discussions may carry on into 1944 and make it difficult to enact tax increases for political and technical reasons. This course of action therefore recognizes that our main goal - perhaps our only goal - is a Social Security program, and that the burden of presenting the bill falls largely on other shoulders.
- (2) The Administration recommends that the purely tax part of the fiscal program be considered first, and that the Social Security part be considered immediately thereafter. As respects individual income taxes, we recommend a schedule which raises an amount of money obtained by subtracting contemplated Social Security collections from the total amount we suggest be obtained from individuals. This will produce a lop-sided income tax schedule, since the bottom is being left open for Social Security.

- 2 -

B. Tax program with future consideration of Social Security indefinite;

- (1) The Administration recommends a purely tax program. However, the individual income tax would contain a post-war credit roughly equal in amount to the sum which would be collected through an increased Social Security program. The post-war credit would contain a proviso that it could be used currently if a Social Security program were enacted next year or later by allowing individuals a credit for increased Social Security contributions.
- (2) The Administration recommends a purely tax program. It may or may not contain a post-war credit. It would be stated that of course if in the future a new Social Security program were to be enacted, the individual income tax rates would have to be reexamined and probably readjusted in the light of the additional burden under the new Social Security program.

September 1, 1943  
10:05 a.m.

TAXES

Present: Mr. Gaston  
Mr. Paul  
Mr. Blough  
Mr. McNutt  
Mr. Altmeyer  
Mr. Maggs

H.M.JR: The reason I asked you to come over was this. As you may know, we have been trying to prepare an anti-inflation, social program for the President; and we think we have one now which we would like to tell you about. I very briefly outlined it for the President over the week end, and he liked it.

Very briefly - and you can ask these people questions - we are talking about taking out present tax structure, consolidating into that the Victory tax; then for the lower income group, the three thousand or under, we want to build into this Administration program something like the Wagner bill on Social Security. Then we would start our income tax increases at levels from three thousand dollars up. Social Security will take the place of that at three thousand and below.

Then we are talking about an increase of about a billion dollars in corporation taxes and about two billion dollars in excise taxes.

Now, I might as well say here what we feel, that it is a good anti-inflation measure, it is good on the social front, it is good politically, and it is good postwar.

MR. McNUTT: I will take the last three. I think the first you had better not put the emphasis on.

- 2 -

H.M.JR: Anti-inflation?

MR. McNUTT: Yes.

H.M.JR: Well, our people around here differ because they feel that it will take a little time to get the thing started; that if they went to the six percent in the Wagner bill it would be somewhere around seven billion dollars and take about a year and a half to two years before it could be effective, before the money would begin to flow out again.

MR. McNUTT: The point I am getting at is, place the emphasis on the benefits for these people.

H.M.JR: Rather than--

MR. McNUTT: That is the proper sales program.

H.M.JR: What we are trying to do is this, to build a complete program which I hope the President will take the leadership on, you see, because it includes Social Security, and he might say this is what he wants.

Now, in talking with him he said to me that he had been groping for something and this seemed to fit him like a glove for what he wanted. Of course he would have to support the thing because immediately - and he would have to do the talking with George and Doughton because Doughton just doesn't want to take up Social Security.

MR. McNUTT: I know he doesn't.

H.M.JR: And I can't tell all the angles it will take once it gets to the President. I mean, you know he will have his own ideas, but I didn't want to move on this thing and present this tomorrow afternoon at four o'clock without first talking with you people alone and find out what - you might say, "Well, look, under no circumstances do we want you to do this." Then that would be something else.

- 3 -

MR. McNUTT: I think I can state our position very briefly. We believe in the Social Security program, the thing that has been worked out, both for present and post-war purposes.

I think it should be sold on its merits and that there should be no attempt to sell it as an anti-inflationary measure. In other words, you will get a better return from the public itself if you show them that this thing is sound fundamentally, and it is.

Of course they haven't wanted to touch it up there, and it has been on account of pressures from the other side. But it is sound, and I think we can make a very good case. But I do believe we should leave off the part that it is an anti-inflation measure - and I am against inflation.

MR. GASTON: Governor, we are bound to consider the possibility of Social Security levies in connection with anything we do on taxation because the impact of any scheme of pay-roll taxes and other taxes on Social Security is going to be so heavy, especially in the low levels, that if we attempt to consider a general tax measure without considering the question of whether a Social Security plan is going to be enacted we are working in a vacuum. We will have all of our work to do over again.

MR. McNUTT: I quite agree.

MR. GASTON: If Social Security is not to be enacted, we are going to have to supply anti-inflationary taxes in the low level to form a part of a general tax scheme.

It is perfectly useless for us to go up before Congress and propose a tax bill in which we ignore Social Security prospects because you are talking about raising funds in the quantities of six billions of dollars. It would be absurd to talk about overlaying them onto something we had planned for revenue purposes

- 4 -

and for counter-inflationary purposes and then overlaying that, with its immense impact on the low levels, on top of that scheme. So we have got to consider it as one problem.

MR. McNUTT: I agree you should.

MR. GASTON: Of course in presenting it we will have to say that if they don't have these Social Security levies we will have to have corresponding counter-inflationary taxes in that level.

MR. McNUTT: All right, I agree that you should consider it as a part of your over-all problem, but I am talking about what the effect is going to be on these people themselves. I am talking about the long-range Social Security program, in which I believe wholeheartedly.

H.M.JR: He thinks there is more advantage in stressing the benefits rather than the anti-inflation.

MR. McNUTT: Certainly you should take all of these things into consideration.

MR. GASTON: I understand. I am inclined to think that the people who benefit pretty well understand that. We get the reactions from the labor union people, and they tell us - they have told Mr. Paul, "We don't think there ought to be heavier taxes just as taxes in the levels below three thousand dollars, but Social Security, yes. We are willing to accept heavy pay-roll taxes in that area." They are already sold on that.

MR. McNUTT: All well and good, but I still go back to the point, which is a very practical one - and I have had some experience in it--

H.M.JR: Well, we don't have to argue. I mean, the whole purpose of this meeting was to get the benefit of your advice and see how you feel.

MR. McNUTT: We are for the program.

- 5 -

H.M.JR: If you have any objections to our moving forward on this front--

MR. McNUTT: Not at all. We are for the program but feel the emphasis, as far as Social Security is concerned, should be placed on the benefits to accrue therefrom.

I for one feel very deeply that we are going to need to do now several things that we couldn't do after this war is over and that the demands after the war will be such that we should have a base which will enable us to meet it without going through all of the terrors that we went through in 1932 and '33.

H.M.JR: All I can say on that point is I will certainly give it very careful consideration - I mean what you said. I would like to talk it over with my people.

MR. McNUTT: Arthur, do you agree with me?

MR. MAGGS: I was--

MR. ALTMeyer: Go ahead.

MR. MAGGS: I am afraid I may be taking it a bit afield. I was going to ask, could you give us some notion of the comparative impact on people whose incomes are under three thousand dollars of the two things.

H.M.JR: Mr. Blough has that.

MR. MAGGS: Would the Social Security, say, take twice as much money from them as the increases that you would put in the income tax for people below three thousand if you didn't have Social Security? Would it be twice as much, or three times, or seventy-five percent more?

MR. PAUL: It would be more.

- 6 -

H.M.JR: Roy Blough has that. What have you got, Roy?

MR. BLOUGH: It depends on the level. The income tax exemption at present for a married couple with two dependents, for example, amounts to nineteen hundred dollars of net income. If you had an increase beyond the scheduled two-percent rate on employees next year, of four percent, you would of course have that four percent right down to the bottom. For the family with nineteen hundred dollars of net income you would have an increase in Social Security taxes of approximately eighty dollars, with no increase in income taxes unless the exemptions are lowered.

MR. MAGGS: What I was driving at - I wondered if it would be a possible tactic to present alternative plans to Congress and the country, saying that we must pick up some of this money. Say, "One way to do it is income tax. The workers have nothing - they get no benefit out of it at the end. They have paid their income tax just as everyone else has paid it. It is absolutely essential from the point of view of inflation that the excess purchasing power be picked up."

"Now, an alternative way to do it is by going into the Social Security program, in which case the workers would not be called upon to add more to the income tax, but they would while paying more get these tremendous benefits," you could say.

H.M.JR: Well, Mr. Maggs, what I am hoping for - and some of the people in the Treasury accuse me of being too idealistic on this thing - what I hope we will do is the President might take this as a package and call it his package. Then if he does he should be confident of that and not have alternatives. As soon as he has alternatives, everybody has alternatives.

MR. MAGGS: A variant of my suggestion would be not to have alternatives but say, "This is what we are doing. The reason we haven't done that is" -- and then give the reasons.

- 7 -

Perhaps that comes too close to alternatives for you.

MR. McNUTT: As far as Social Security is concerned, sell it on its merits. Of course it works into your plan the other way. I understand that perfectly, and I agree that it should.

But I think you can sell it better as insurance for the worker than you can sell it to them as one of our hedges against inflation.

H.M.JR: On your side of the argument, when I made a statement here a year ago that we wanted to mop up the excess spending I got a terrific critical mail. They objected to my talking about mopping up their money.

MR. ALTMAYER: That is what I was going to say, that standing back of Governor McNutt's approach I think we have to be very careful in presenting Social Security to present it as Social Security on its merits.

When it comes from the Treasury, as it did a year and a half ago, as you say, they said, "What is the nigger in the woodpile?" They said, "Is this just a device to go and get some more money out of the taxpayers, for anti-inflation, or for paying the current expenses, or what-not, or is this really Social Security?"

Most of them said, "It isn't really Social Security that the Treasury is interested in."

I think we have to be very careful not to get that reaction again.

H.M.JR: That is all right. What I am trying to get - all of this is in the room here - the President, I thought, did a master stroke when he talked about what he was going to do for the returning soldiers. He got there first. And this would approach the same thing on the home front.

- 8 -

MR. McNUTT: That is right, but put it on that basis and not the anti-inflation.

H.M.JR: I think you are right. But, mind you, I am saying this because I am hoping that the President is going to do this. I think he should do it. I think he should do it rather than anybody else.

MR. ALTMAYER: I think there is another angle that you want to keep in mind and that the President will want to keep in mind; and that is the strategy of it so that the boys on the Hill don't do either, don't give you the increased taxes or the Social Security, because they are just - they don't care to do either. We know that.

H.M.JR: That is what Paul is worrying about.

MR. ALTMAYER: If it isn't presented just right, they will say, "You really don't care for taxes. You say you will take Social Security instead. We will take that up as soon as we get around to it."

MR. GASTON: What the Secretary is proposing is this: He is interested in Social Security, and he wants to have it presented at this session of Congress under the circumstances that are the most favorable for its adoption.

He doesn't want to go up before the committees of Congress and propose a tax measure that has no relation to Social Security so that we have two wings of the Administration going off on tangents.

He would like to see a concerted Administration drive to get Social Security, and in doing so, to integrate it with our tax plans to show that the Administration is completely united for getting this improved Social Security plan enacted.

- 9 -

MR. McNUTT: Theoretically you would be right, with the Congress in its present frame of mind, and, as I judge, the frame of mind of the people. I think you may be in trouble if you make it as a part of an integrated program as far as the Hill is concerned. Certainly in your own thinking, too, we go along with you a thousand percent.

MR. GASTON: I am afraid if we went up there and got a tax program - presented it and got it through the committees and then before the Congress, disregarding the Social Security thing, that Social Security is just as dead as the deadest mackerel for this session.

MR. McNUTT: All right, but the point I am making is that that should be handled by the leaders of these committees - for the President to do that - show them this whole picture - but I am talking about public relations on this thing and the support that we are going to get, and which will be reflected in an election-conscious Congress.

H.M.JR: That is the language I can understand. Altmeier doesn't like that language. He thinks--

MR. ALTMAYER: No, no, this is a political question, whether you like it or not, and, in fact, it should be because it affects the welfare of the people.

H.M.JR: Look, the only way - I am not a very good politician, but the only chance that this thing has got to get through is because they think it is good politics to do it now. If they think the alternative is an equal amount of taxes on the same people--

MR. McNUTT: And, frankly, it is good politics - if they will take a look at it - to do this, which will reflect the benefits of the workers, and do what you want done at the same time, when it should be done, and it will provide a backlog when we are going to need a backlog.

H.M.JR: And this is the only group the President can really rely on.

- 10 -

MR. PAUL: I am a little un-clear about how you think it should be presented on the Hill. You said something about our thinking, and the Secretary said, "Well, it would have to be presented" - do you mean that they go to the same committees and if these committees take up one, they won't take up the other?

MR. McNUTT: I think it is a matter of getting Bob Doughton and the leaders of the House Committee to agree that they are going to consider these two things simultaneously, because they mean drawing off money.

Now, he had said before, "We will not take up any Social Security program until we have finished with the tax bill." He said that to me a dozen times. Of course that wasn't the answer. We knew it then. Now, if--

H.M.JR: And he has also said to me, "Which do you want first?"

MR. McNUTT: There is no reason in the world why they shouldn't consider those two things simultaneously.

MR. PAUL: I agree.

MR. GASTON: If you get into taxes first without Social Security, you are in a vacuum, and then Social Security is dead.

MR. McNUTT: I am talking about reactions in the country - the reactions that there are going to be - they will be responded to by the Congress.

H.M.JR: Well, look, gentlemen, all I want to get this morning from you is enough encouragement to present at four o'clock tomorrow afternoon to this big group that comes in - who are all either Presidential appointees or their representatives - there will be nobody here except Presidential appointees or their representatives - I didn't want to go forward unless I thought you were sympathetic, and I gather that you people are sympathetic.

MR. McNUTT: Great Scott, we have urged it. The program is sound. Now is the time to do it - even from your standpoint, now is the time to do it. But from the long-range Social Security standpoint, now is the time to do it. Now is the time to get the money for the backlog to meet the demands we are certain will come after this war is over. I don't care what the postwar world is - how much production we have - we are still going to have a tremendous problem which can only be met by a sound Social Security program large enough and strong enough to meet the needs. Otherwise, we go right through what we went through before. I am convinced of that.

MR. ALTMeyer: Here is the way it stacks up in my mind as I listened in on the conferences you have already had on your tax program and the relationship with Social Security, which I agree you can't ignore. In order to protect yourself you might - the President might submit a double-barreled program - a tax program and a Social Security program - both on their merits, and then say, "To the extent that you enact Social Security along the lines that I have recommended, to that extent you will need to take that into account in the development of your tax bill." But present a completely integrated tax program so that you are protected in the event that the Congress shunts off Social Security.

H.M.JR: You can't do that. Do you mind - if we are going to give a straight tax program, then we have to have a tax, which we have, which will tax the people from eight hundred dollars up to three thousand dollars through taxes.

MR. ALTMeyer: Then they would see the alternative. It seems to me they might - that you stand a better chance of getting one or the other if they saw what the alternative was.

MR. McNUTT: If it weren't for the personnel considered especially on the House side, I would say that - why not be frank about it? But you can't. My own advice would be to see, first of all, if you can secure anything like an agreement from the leaders on the House side - that is, as far as the committees are concerned.

- 12 -

H.M.JR: I tell you, all of these things - Paul is prepared, with his staff, to give the President or anybody else who wants them, all kinds of alternative plans. He has a drawer full - and schedules, and so forth and so on. But I don't see how I can go any further than doing it first with this group and getting the benefit of their advice, and then the President, and see how he reacts. And then from then on, I hope - and from what he said over the week end, I think he will - that he would like to talk personally with the leaders and come to an agreement, which would be ideal, both from yours and my standpoint.

MR. McNUTT: That is right.

H.M.JR: I mean, if he would take this thing to his own bosom and say, "All right, I will see this through." Now, when we get together things move so fast - that is why I am not going to pass on all the alternatives.

MR. McNUTT: It is a matter of political judgment.

H.M.JR: Somebody on my staff said it was more political than anything else.

MR. McNUTT: I am really in accord. I do want to say that we are sincere in our urging a Social Security program. You are, too.

H.M.JR: Don't misunderstand me. This thing would not interest me at all if the basic economics of it weren't sound. For a by-product, once, have something economically sound and also good politics, three cheers.

MR. McNUTT: That is right. I am still going to stand up and say I want a Social Security program to be able to stand on its own feet.

H.M.JR: That is all right. I have no objections. I think you are right.

MR. PAUL: Of course you will sell some people on that, and you will sell some people on the other argument.

- 13 -

MR. McNUTT: But I am telling you where the most powerful argument is. I am talking about the masses of the people, and I am talking about the kind of Congress we are dealing with right now.

MR. PAUL: That is right, but there are certain people whose support you may be able to get with the anti-inflationary argument.

MR. McNUTT: Let someone from the outside make that - someone who is friendly. Let them point that out.

MR. PAUL: That is right. I agree.

MR. McNUTT: Here is a program that is sound in itself, but it is not only sound, it is necessary right now as a part of the general picture.

Now, if that can be done, if we could get a voice that would be listened to on the outside who would say that - you have the President's support on it - then I think we would have a chance. But there is no need to tell any of you gentlemen how tough the Ways and Means Committee of the House is.

MR. PAUL: Not me, anyway. (Laughter)

H.M. JR: If it is all right, could you gentlemen come back at four o'clock tomorrow and help me with this thing?

MR. PAUL: I would like to make a suggestion.

MR. McNUTT: Certainly.

MR. PAUL: In the meantime, Mr. Altmeyer could look over some of these schedules so as to be prepared more than otherwise he would be.

MR. ALTMAYER: What schedules?

- 14 -

MR. PAUL: The actual schedules we have constructed. They are still tentative, and so on, but still, you would get some of the concrete details of the idea in mind better.

H.M.JR: You can do it any time.

MR. ALTMAYER: You plan on raising eight billion dollars extra on individual income tax, and this would raise about seven billion dollars extra?

MR. PAUL: Yes, we have a supplementary income tax above the Social Security level.

H.M.JR: It will take you fifteen minutes if you want to stay with Blough now.

MR. ALTMAYER: You mean you have a dovetailed arrangement?

H.M.JR: Yes we have dovetailed. We have built the two things together without lowering the exemptions. I think it is a nice package.

MR. McNUTT: Then we will meet here at four o'clock?

MR. GASTON: That is tomorrow.

MR. McNUTT: Yes, tomorrow afternoon.

H.M.JR: All right.

Mr. Paul's conversation with Mr. Maggs of the Labor Department,  
at 4:45 p.m., September 1, 1943

- M: I talked to Miss Perkins and discovered she feels very vehemently that it would be a great mistake to adopt the program that was outlined this morning. Her words were almost exactly like those of Mr. McNutt, that social security ought to stand on its own feet; that it should not be dragged into an anti-inflationary thing. She thought it would be bad policy from this possibility of getting social security over at all. She feels very strongly that the tax thing should be got without saying anything about social security.
- P: Is it your understanding from the conference this morning that McNutt and you attended that McNutt was as much against this as Miss Perkins is? I didn't get that. I thought McNutt thought it was worth having a conference with Congressional leaders, that he felt well of the scheme provided emphasis was put on social security and it was clearly indicated that it was on its own merits.
- M: I think you are probably right. Miss Perkins had thought it would be better if social security were not mentioned at the present time. I agree that McNutt certainly did not go that far. Let me make the two things separate - McNutt was vehement about social security, and she went even further.
- P: And she's objecting to any mention to social security at this time.
- M: Seems to be. I put in a call to you and when I couldn't get you I felt I better get the thing to Mr. Morgenthau and got word that he would call me back. Do you want to get this to him?
- P: I will send word that you have talked to me.

September 1, 1943  
10:40 a.m.

LAZARD FRERES

Present: Mr. Paul  
Mr. Pehle  
Mrs. Klotz

H.M.JR: I have read this thing on Lazard Freres (referring to Memorandum to the Secretary from Mr. Paul, copy attached), and I want to ask a couple of questions which, after reading it, aren't quite clear to me. That is this: This million nine hundred and fifty, which is more now than it was first--

MR. PEHLE: That is right. Part of that was transferred up from Argentina just previously through the United States.

H.M.JR: What was the sum first?

MR. PEHLE: The first sum was a million, two.

H.M.JR: Now it is a million nine hundred and fifty?

MR. PEHLE: Yes.

H.M.JR: And they claim that all of that was sent out to Lazard Freres in Unoccupied France to pay their debts?

MR. PEHLE: That is right.

H.M.JR: And the man in this country was David-Weill?

MR. PAUL: Andre Meyer.

H.M.JR: Andre Meyer sending it to David-Weill.

Now let me ask you this - I am not familiar with it: You said he did nothing to get his father's citizenship back?

- 2 -

MR. PEHLE: His father's citizenship was revoked by the Vichy Government and stayed revoked for fifty-three days and it was restored. Originally we were worried lest the timing of the sending of the money would make it appear that the money might have had something to do with getting the citizenship back.

H.M.JR: Was it during those fifty-three days?

MR. PEHLE: No, it wasn't.

H.M.JR: When?

MR. PEHLE: The citizenship was restored before the money was sent. The citizenship was restored before any of the money was sent and the dates didn't coincide - that wasn't intelligible.

H.M.JR: You raised it, then you raised a doubt in my mind. The citizenship was restored before the money was transferred?

MR. PEHLE: That is correct.

H.M.JR: That isn't in here.

MR. PEHLE: I can see it wasn't clear.

H.M.JR: That takes care of that point. Now, as to whether they used it for bribery or not, you don't know.

MR. PEHLE: We don't know, but we are inclined to believe their story. Maybe we are naive, but it is a very plausible story.

H.M.JR: Now you also raise the sort of guarantee fund from two million dollars to a half a million.

MR. PEHLE: That is because the amount is up to a million nine hundred and fifty that was transferred.

H.M.JR: Have they got that?

- 3 -

MR. PEHLE: They have got it. They will put it up. In other words, it won't force them out of business.

H.M.JR: They have the money? Is Altschul going to leave his money in as a special partner?

MR. PEHLE: I don't know. It won't be his money that will be put up; it will be the money of the two French partners.

H.M.JR: And they have the money?

MR. PEHLE: They have the money.

H.M.JR: Who is the fellow James A. Jackson?

MR. PEHLE: I can't tell you much about him except that he has been a partner all along - an American. We have checked them and we didn't have any adverse information.

H.M.JR: But you give them your approval - both Jackson and Hettinger? You don't know very much about it.

MR. PEHLE: Hettinger had a long line of references in Washington. The only one I talked to was Dr. Goldenweiser at the Federal Reserve Board. He said he knew Hettinger very well and that he was an entirely reliable man. We didn't find anything adverse on Jackson. He has been there all the time.

H.M.JR: I thought in a previous memorandum we had already referred this to the Attorney General once.

MR. PEHLE: We had recommended referring it - we hadn't until we decided what we were going to do with it.

H.M.JR: Are you satisfied?

MR. PAUL: Yes. I think that they are willing to do that and we have got to send it to the Attorney General.

H.M.JR: Whose is this (referring to memorandum)?

- 4 -

MR. PEHLE: Randolph E. Paul.

H.M.JR: Where is Pehle?

MR. PEHLE: He is on the initialed carbon.  
(Memorandum initialed by Mr. Pehle.)

H.M.JR: All right, here goes Morgenthau. (Memorandum initialed by the Secretary.)

Do we get a photostat of this?

MRS. KLOTZ: We will do it.

MR. PEHLE: They have a new - they brought new counsel in, in addition to the old counsel, to deal with this matter. The new counsel is much more intelligent than the old.

H.M.JR: Who is the new?

MR. PEHLE: Dempsey and Koplovitz.

MR. PAUL: Dempsey is the son of the former New Mexico Congressman. He used to be--

MR. PEHLE: He is local, here in Washington. They handle themselves very well.

MR. PAUL: Dempsey used to be a great friend of Jerome Frank.

H.M.JR: Cook is certainly riding on a reputation of a good many years ago.

MR. PAUL: The partners in Cook's firm are very worried about Cook, generally. They think the whole firm is going to go to pieces as soon as Cook gets out - the effect of his reputation.

H.M.JR: This closes this, I hope. Maybe we will all get a free subscription out of Harper's magazine. Is that what it is?

- 5 -

MR. PEHLE: That is what they are dickering with.

H.M.JR: That is all I have got. Have you got anything else you want to clear?

MR. PEHLE: I just want to say you were right on this case from the beginning. You thought there was something wrong and there was. I don't know what it was, but it was there, all right.

H.M.JR: Well, we know now; they admitted it.

MR. PEHLE: Sure.

H.M.JR: They admitted it.

MR. PEHLE: I don't know what it was that gave you that feeling there was something wrong.

H.M.JR: Oh, well, the best way I can say it is the old elbow tingles. (Laughter)

One other thing - I want to get this thing straight. Who was the man at this end who sent the money? Who did all that?

MR. PEHLE: Andre Meyer.

H.M.JR: And on the receiving end?

MR. PEHLE: Pierre David-Weill. He is very ill.

H.M.JR: And he did the manipulating?

MR. PEHLE: Yes.

H.M.JR: And he was the fellow who did not tell the truth? Is that right?

MRS. KLOTZ: And he is the man who is Dr. Weizmann's friend, and not until Weizmann made him - discovered - I

- 6 -

don't know how he discovered the story, but I told you when he saw me up in New York he said that not until he entered into it and said, "This thing is going on; you have got to tell the truth. Have you been telling the truth?" did they break down. Then they wrote the letter. But it was Weizmann who made them do it.

H.M.JR: Do you think so?

MRS. KLOTZ: I think so.

MR. PEHLE: I think various people claim the same thing. Schubart claims it.

H.M.JR: But in the first instance it was my saying to these people, "Interview them and try to get them to tell the truth." Isn't that right?

MR. PEHLE: Yes. We did something else, too. We took the Swiss Bank, through whom they had transferred these funds, and blocked their funds here and said, "If you want them unblocked you tell us what happened to the money." And they very well may have been worried that the Swiss would come back - and the Swiss did come back in a cable we picked up through censorship saying, "Ask David-Weill; he knows."

MRS. KLOTZ: That is the answer.

MR. PEHLE: I am afraid that is why--

MR. PAUL: They made a virtue out of necessity, all right.

H.M.JR: So there were a number of people. I mean, the point was, they were blocked both mechanically and every other way, and it looked as though something was going to happen. So he said the less of two evils was to tell the truth.

MRS. KLOTZ: They would have been much better off originally if they had told the truth, but they had told a couple of lies and it was very hard to turn back.

- 7 -

H.M.JR: This just didn't smell right. It was a long hard job. I think you people did a good job.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 1 1943

Secretary Morgenthau

Randolph Paul

Lazard Freres & Company has filed its new application to reorganize. As indicated in a previous memorandum, Frank Altschul is not to be a partner in the new firm. The application names Pierre David-Weill, Andre Meyer and the French Lazard partnership as the capital contributing partners and James A. Jackson, Forrest Lattner and Albert J. Hettinger as additional partners. Jackson and Lattner are now Lazard partners. Hettinger is a former member of the faculty of the Harvard Business School and is vice-president, secretary and a director of General American Investors, Inc. According to Poor's Directory, Frank Altschul is president of the latter company, Raymond D. Smith is its executive vice-president and its board includes, among others, Robert Lehman, Monroe C. Gutman and William J. Hammerslough of Lehman Brothers, Arthur Ballantine of Root, Clark & Ballantine, Paul Baerwald, James Bruce, Edward P. Farley and Lester W. Perrin.

The application states that another American partner is to be admitted, and although his name is not given, we have been informally advised that the individual in mind is William H. Schubart of the Bank of Manhattan. We are further informed that Mr. Schubart's name was not specified because he has been in the hospital and has been unable to have the conversations with his present associates and the Treasury which he feels to be necessary before he can permit his name to be submitted formally.

We now believe that we are as informed of all the facts and circumstances surrounding the remittances made by Andre Meyer in September and October 1940, as we can be until the liberation of France makes the books and records of Lazard Freres & Cie. (Paris) available for inspection. Meyer has, as you know, recanted his testimony that these remittances were made to Les Fils Dreyfus (Basle) in liquidation of their interest in Ulitex, a Panamanian corporation, and in payment of a debt owed to them by Meyer.

- 2 -

now purports to confess, and his confession is supported by the sworn statement of Pierre David-Weill, that \$1,950,000 involved in these transactions were remitted to him to David-Weill at Chatel-Guyon, in what was then unoccupied France, and that Les Fils Dreyfus acted only as intermediaries in the transactions.

David-Weill has testified under oath that after the fall of France and Laval's rise to power, Lazard Freres & Cie. (Paris), then located in Chatel-Guyon, was faced with heavy withdrawals of deposits because many of its customers feared, under existing circumstances, to continue to do business with a Jewish banking firm. David-Weill also testified that although Lazard was solvent, its liquidity was impaired by its inability to discount paper normally discountable at the Bank of France and the unavailability of certain assets in the occupied zone. David-Weill further testified that the precariousness of his firm's position was greatly increased by Laval's personal hostility to its partners by reason of the part they played in causing the downfall of one of his governments in the years prior to the war. Fearing that the failure of his institution would create a scandal that would have unfortunate repercussions on both the banking and Jewish communities, Pierre David-Weill testified that he called on Andre Meyer, both directly and through Les Fils Dreyfus, for assistance. Contemporary correspondence between Meyer and David-Weill and cables between Les Fils Dreyfus and Meyer tend to corroborate the foregoing.

Both David-Weill and Meyer have testified that the Meyer's remittances of September and October 1940 were in response to David-Weill's pleas for assistance, and David-Weill has testified that the funds were used by him solely to liquidate legitimate obligations of Lazard Freres & Cie. (Paris). David-Weill has further testified under oath that one cent of Meyer's remittances, or indeed one cent of any other funds, was used to secure the restoration of his French citizenship, or as ransom for himself or anybody else.

Altschul testified that he did not know of the remittances in question. He stated that Meyer requested him to permit Lazard Freres, New York, to remit funds to David-Weill in 1940 but that he, Altschul, had refused to do so on the ground that such remittances would be in violation of government regulations. Meyer, thinking that Altschul was using this pretext in order to avoid risking his funds, became angry at Altschul and arranged the remittances without Altschul's further participation. Meyer's testimony corroborates this.

We have been unable to examine Alfred A. Cook, attorney for Lazard Freres & Cie. (New York) to ascertain the extent to which he knew that Andre Meyer and David-Weill were not telling the truth to the Department in their earlier explanations of these remittances. Mr. Cook has been in California for some weeks visiting his daughter whose death, after a long illness, is expected at any moment. Andre Meyer and two of Mr. Cook's partners, however, have been examined on this subject. It would appear that Meyer believes that Cook has been at all times since prior to the filing of the pending application fully aware of what is now said to be the truth about the remittances, while his law partners believe otherwise. We intend to interrogate Cook at the earliest possible opportunity, but feel that delaying action on the pending application would not be warranted.

After careful consideration we recommend that Lazard Freres & Co. (New York) be permitted promptly to admit Meyer, David-Weill and Hettinger as partners and to continue in business upon condition that:

- (1) A sum of not less than \$2,000,000 is deposited in a contingent vesting account as a guarantee of future compliance with the Order by the firm and subject to vesting in whole or in part should the current explanation of the remittances prove to be untrue or if further violations should occur, and

- 4 -

- (2) No transaction subject to the Executive Order will be effected by the reorganized firm without the prior approval of a previously designated partner of the firm who is a United States citizen and acceptable to the Department for the assumption of such function. In the application currently pending, Lazard Freres has designated James A. Jackson to fulfill this function with Albert J. Hettinger as alternate. We see no objection to the choice of these individuals.

We further propose that the violations of the Executive Order and the false testimony given by Andre Meyer be formally referred to the Attorney General for such action as he may deem appropriate.

If you approve, please initial.

*AK*

*PK*

I approve: \_\_\_\_\_

*H.M.R.*

*Sept 1<sup>st</sup> 1943*

September 1, 1943  
11:33 a.m.

HMJr: Hello.

Operator: Mr. Gamble.

HMJr: Ted. Ted.

Ted  
Gamble: Good morning, sir.

HMJr: Hello, Ted. I've got an idea and I just talked to Steve Early about it. He likes it.

G: Yes.

HMJr: And that is to try to ask for Churchill to make us a newsreel letting me sell him a \$25 bond....

G: Be wonderful.

HMJr: ....down at the gun factory here at the Navy where they are making a 16" gun as a background, you see?

G: Be wonderful.

HMJr: Now, his suggestion was that you get in touch with Aubrey Morgan, who is head of the British Press and Information Service here.

G: Yes.

HMJr: He said try him either at the Embassy here or down in New York....

G: Yes.

HMJr: ....and let it come through them.

G: Yes, sir.

HMJr: See?

G: Yes, sir.

HMJr: And his name is Aubrey Morgan.

G: I have it.

HMJr: And - well, for whatever it's worth, there it is.

G: I think it's a wonderful idea.

HMJr: He said it would be good for us and it would be good for Churchill.

G: Be wonderful for Churchill.

HMJr: Yeah.

G: And....

HMJr: Now, they'd have to do it tomorrow.

G: Well, we can do it - we can move - he's here tomorrow, I take it?

HMJr: He'll be here late today.

G: Wonderful. Well, we'll get right on it and I'll give you a report on it just the second I get word back from them.

HMJr: Okay.

G: I understand you were just asking about Detroit.

HMJr: Yeah.

G: I won't be able to give you that in full until tomorrow. I talked to Detroit last night - to Mr. Quinn and I talked to Mr. Murray this morning.

HMJr: Yeah.

G: I wanted to get from them the information - I didn't want them to feel we were moving in and taking over their program....

HMJr: Yeah.

G: ....on this radio.

HMJr: Yeah.

G: I've made the request for a half-hour's broadcasting time....

HMJr: Yeah.

G: ....and worked out Murray's participation with him.

HMJr: Yeah.

G: There are several details that I want your approval on....

HMJr: Okay.

G: ....but it will be tomorrow before I can give you much on that.

HMJr: Thank you.

G: All right, sir.

September 1, 1943  
12:40 p.m.

Cordell  
Hull: Can you connect that up any better? Hello, Henry?

HMJr: Cordell?

H: Yes, sir.

HMJr: Can you hear me?

H: Barely.

HMJr: Cordell, I wrote you a letter which I don't know reached you or not about this proposed loan to the Netherlands.

H: Yes, I got it this morning. The fact is that I have said several times, that while I'm always glad to get in on anything, I - I've said several times that this is almost in every essential respect a matter for the Treasury and the President....

HMJr: Yeah.

H: ....with especially you two.

HMJr: Well, I'm....

H: It's a question of monetary policy there more than anything else.

HMJr: Well, I'm willing to assume the responsibility but I thought that in this case....

H: Yeah.

HMJr: ....if we settled this one that we're not going to make any loans without, at least informing Congress....

H: Yeah.

HMJr: ....that that would take the heat off both you and me because they've been around to see your fellows and they've been around to see Jesse....

H: Yeah.

HMJr: ....and they've been - and even the President saw them.

H: Oh, did he?

HMJr: Yeah.

H: Well, anyhow, I haven't encouraged anybody to support this.

HMJr: Well, I....

H: I have said to the - I've said to the Netherlands....

HMJr: Yeah.

H: ....that this was a question of brand new policy....

HMJr: Well....

H: ....and that it relates to the monetary side and the loan side which the Treasury and the President handle and I just dumped them off in that fashion....

HMJr: Well....

H: ....and I did Mr. Jones the same way.

HMJr: Well, the trouble is, I think Jesse has kind of made them a half of a promise, which he shouldn't have done.

H: No, of course not.

HMJr: And I don't know whether you agree with me but I think for the President or anybody connected with it, to even make a half a promise on a loan, would embarrass us very much on anything that we want to do in the foreign field.

H: Well, I think everybody over here....

HMJr: Yeah.

H: ....off the record, feels the same way.

HMJr: Yeah.

H: That's the first thing I said when it first came up.

HMJr: Yeah. And somebody in Congress is going to find out about it....

H: Yeah.

HMJr: ....and you may want some post-war and I may want a stabilization program and they - the first thing they are going to ask me is, "Have you made any promises on any loans?"

H: Well, I'm 100%, you know, personally....

HMJr: Yeah.

H: ....of that view.

HMJr: Well, if you would scribble something on a piece of paper and send it back to me, I'd appreciate it.

H: Yes, Well, uh - I just wanted you to know that, while I don't think it's my function....

HMJr: Yes.

H: ....except to a nominal extent, that is my individual views.

HMJr: Well, I - I'm more than willing to assume the responsibility but what I was trying to do was delay this thing....

H: Yeah.

HMJr: ....and it - and what I'd like to feel that I -- when I go in these things, while I'm willing to take the final responsibility, when it's something new like this....

H: Yeah.

HMJr: ....I'd like to feel that you and I are shoulder to shoulder.

H: Yes.

HMJr: You see?

H: Yes. Well, that's the way we are on this.

HMJr: Well, that's all I wanted to find out.

H: Yeah. All right, Henry.

HMJr: Thank you.

September 1, 1943  
2:30 p.m.

TAXES

Present: Mr. Paul  
Mr. Surrey  
Mr. Smith  
Mr. Blough  
Mr. White

H.M.JR: This is an interesting refinement which I think has good public relations in it, that Altmeyer suggested. I thought you could just state it again.

MR. BLOUGH: Here is Altmeyer's suggestion: He says the particular plan that we have been talking about is what he calls neutral with respect to Social Security. We propose income tax and Social Security, but there is nothing in the plan which puts any premium on passing the Social Security.

Now he said, "Why don't you do this: Since you deducted the Social Security in arriving at your income tax schedule, anyway, why don't you take your income tax schedule before you deduct it as Social Security and say, 'That is the income tax proposal, but we propose that you pass Social Security also and that you allow the increase in Social Security pay roll tax on the employee as a tax credit against his income tax?'"

Now, he said that that has this advantage: In the first place it isn't neutral to Social Security. If Congress passes that income tax there will be great pressure on them to pass the Social Security increase also so that the workers will be able to get this credit and others will be able to get the credit. If they say, "Nothing doing; we are not interested in Social Security; now what do you suggest, Mr. Secretary?" - we will have an income schedule there that will stand on its own feet without Social Security.

- 2 -

H.M.JR: Let me explain it to you the way I understand it. That is a little bit complicated. We took this eight billion seven schedule and we said Social Security - let's say, for argument - will add three billion onto the payroll of the people.

MR. BLOUGH: Three and a half.

H.M.JR: I said that we don't want to have tax and the Social Security, so we deducted the three billion dollars from the tax schedule and then put the tax schedule on top of the Social Security. You see? That is the way they have arrived at these figures.

What Altmeyer says - he didn't say it to me - "Let's leave the eight, seven, put on the Social Security, and let the fellow have the fun, himself, of deducting it and think he is getting something for his money."

Blough doesn't put it that way, but that is what it amounts to, doesn't it?

MR. BLOUGH: He puts the emphasis not on the fellow having the fun of deducting it--

H.M.JR: That is what you are suggesting?

MR. BLOUGH: That is what would happen. A man would be allowed a deduction against his income tax.

MR. PAUL: In the meantime--

MR. BLOUGH: If they don't pass the Social Security in the meantime, they pass the income tax schedule you propose.

MR. SMITH: Including the Social Security?

MR. BLOUGH: Only including--

MR. SMITH: He would pay the same amount of money only not get Social Security.

- 3 -

MR. BLOUGH: Above the exemptions that is substantially correct. Below the exemptions he wouldn't pay any increase at all because we wouldn't increase his income tax and if they didn't increase his pay-roll tax of course he would have no increase.

MR. PAUL: What this means is that--

(The Secretary left the conference temporarily.)

MR. SMITH: The only rub I see is that you are passing a tax bill now - if I understand you correctly, you are submitting a tax bill; then you are suggesting that a tax credit be made - be given for Social Security, which you are--

MR. BLOUGH: Which you are urging at the same time.

MR. SMITH: Which you are urging at the same time. Now, the compulsory savings boys will jump up and say, "Why go into all the trouble with the Social Security? Why not just take that same amount of money and allow a tax credit for compulsory savings and then you get it right after the war is over?"

MR. BLOUGH: The same if you do it the other way.

MR. SMITH: But you have set it up so beautifully for them because you haven't said that your tax presentation is Social Security and taxes. They have got to split it apart before they can insert compulsory savings in place of Social Security.

MR. PAUL: This is the same as our second line of defense except it is a substitution of Social Security credit for--

MR. BLOUGH: We have no postwar credit.

H.M.JR: Let's forget it.

MR. BLOUGH: It is the only thing you will get.

- 4 -

MR. PAUL: Let me give you one other objection to it, though.

H.M.JR: Look, I am getting impatient, Roy. Why keep trying to do this thing the back way? Let's go down the line. I mean, there is always some suggestion of doing it some other way, which will open the door for the thing that I don't want.

MR. BLOUGH: I don't think it will. I don't think Mr. Smith is right.

MR. SMITH: I do, because it seems to me that there is a perfectly logical way to present this and that is in order to raise revenue for the Government and in order to combat inflation, whatever Altmeyer and McNutt - I read that thing this morning - what they are looking for are those two things; raising revenue and combatting inflation. Now, in order to do that you are presenting a schedule to raise eight point seven, or whatever it is, and you are suggesting that that be raised by excise taxes, increased income taxes, and Social Security, and that is a Social Security tax. Those are the three things that make it up - if those are the three things. You present that as a unit and it is going to be harder than hell for somebody to blast your Social Security out, and having gotten it out, put something else in.

I would like to be Byrnes - I would rather be Byrnes and Vinson under this new arrangement than I would under the old one. And besides, I can't get through my head - when Mr. Roosevelt calls Byrnes, Vinson, George, and Doughton and lays this thing out to them, right then and there Vinson and Byrnes are going to say it is very silly to try to put Social Security through because it is a big fight. "Now there are six billion dollars - just what we want in compulsory savings." You can take the Social Security out and put compulsory savings in and this will slip through without a question, then it is up to the President to say, "The hell with that." If he says, "The hell with that," we are clear; if he doesn't, then that is something else again.

- 5 -

MR. BLOUGH: He can very readily say that, anyway.

MR. SMITH: I know it, but it is going to be easier if he just is going to substitute one alternative for another.

H.M.JR: Can I interrupt you? Why does it have to take Altmeyer to come along and suggest a thing like this? You were perfectly happy the way it was.

MR. BLOUGH: I never said I was perfectly happy. You asked me yesterday if I would go along with this and I said I would, and I will.

H.M.JR: Look, my patience with all of you is beginning to run out. I mean, it gets to a point that I say I want something and I don't want to sit here all day long being pulled down. I can't do it any more. I am getting too tired. I am getting to the point where I can't take it any more.

MR. BLOUGH: O.K., I presented it. If you don't like it, O.K. I thought it was the same thing only better.

H.M.JR: You started to get angry.

MR. BLOUGH: I am not angry with you, I--

H.M.JR: But it is this thing of not wanting to do it this way and always getting back - that is something which is going to open the door to something else.

MR. BLOUGH: All you have to do is look at this chart, I think.

MR. PAUL: I haven't been trying to do that. I would consider myself very remiss in my duty here in this office if I didn't call your attention to some angles which I didn't think were completely clear in your mind.

H.M.JR: I think they are clearer than you give me credit for.

- 6 -

MR. PAUL: That may be, but I have to be sure of that.

H.M.JR: I think they are clearer than you give me credit for.

MR. PAUL: I am ready to admit that, but I can't sit here silent and let you do something that I don't think may be wise, or wouldn't open to you the full vision of the consequences.

H.M.JR: I understand all the implications. I understand everything that you have said. I also understand what I think you really want.

MR. PAUL: I am not trying to slip anything over on you.

H.M.JR: No, no, you keep just trying to wear me down.

MR. PAUL: No, I am not trying to wear you down. These are hard things; they are hard for us. We have been wearing our brains out on them, and in the first place we are interested in your picture here - we want you to do the right thing. And in the second place, from our own point of view we don't want to be told later that we didn't point these things out.

H.M.JR: They have been pointed out. I mean, over and over again - I mean, we have travelled a long way since we started with the eight billion seven and the corporate tax, and all the rest of this thing. We have gone from one end of the pendulum to the other.

After all, I got over this hurdle this morning. I didn't know what they would say. I don't know whether I can get over the hurdle tomorrow afternoon - I mean, I can stumble on the one tomorrow afternoon, but the final one is the President. All I am saying is that I like this. I don't know whether I can get the President to take it. If he can take it, then I expect him to do the battling.

- 7 -

That takes certain things you brought out at the house, which I don't want to repeat now. Then he can do it.

Now, pointing out all the troubles with anything new or revolutionary like this - of course there will be plenty of people to point out the troubles, but at least I want to get - if I do it with my dying breath, I would like to run and deliver it in his lap. If he doesn't want to accept it, he doesn't have to.

MR. SMITH: I think that is the big problem.

MR. PAUL: Never for one moment have we wanted to prevent you from doing it.

H.M.JR: Well, you can help me a little bit. Why can't you help me? Why can't you both, through your sense of duty, point out both the pitfalls and the advantages?

MR. PAUL: There are certain advantages. The advantages don't so much need pointing out because you see them very clearly. I think you made a very good statement on that yesterday in your four-point program.

Of course, I could probably do more - make you feel better by omitting disadvantages. I was pointing out what I thought wasn't clear.

H.M.JR: Right or wrong, and if I am wrong - I got the feeling through this constant pointing - if I am wrong I am sorry - that you fellows are trying to wear me down on this thing not to do it.

MR. PAUL: We are not trying to wear you down. We know what it is to be worn down ourselves.

H.M.JR: I unfortunately don't have the reserve that I should have. Now, could I just - the thing which I wanted to get - and I have got to stop at three o'clock - which I don't understand - this is terribly important - is this income tax schedule which I have got on my lap. (Indicating Chart entitled "Individual Income Tax, Effective Rates for Married Person without Dependents.")

- 8 -

MR. BLOUGH: There are several of them there.

H.M.JR: Are there?

MR. BLOUGH: The last is the "M-2."

H.M.JR: Is that the eight, seven with all the additions and subtractions? Does that go back to the eight, seven?

MR. BLOUGH: That is correct.

H.M.JR: If I had the original eight, seven, and I pointed to twenty-five thousand dollars and this is five three point nine, now where would it be, say, when Paul showed us at the very first meeting - he didn't show it, but the one he had - where would that differ?

MR. BLOUGH: At twenty-five thousand dollars?

H.M.JR: Practically fifty-four percent. How much difference between now and what it was?

MR. BLOUGH: Not over half of one percent. There may be that much - just mechanical.

H.M.JR: This is what I would like to do and I want to know whether you people agree. I have shifted a bit. I first said we would go in on the low level and raise it. I think it would be a better tactical thing to go in on the high level and let them whittle us down.

MR. PAUL: Let them whittle us down?

H.M.JR: Yes. I mean tactical versus the people we are going to see tomorrow afternoon.

MR. PAUL: For purposes of that conference?

H.M.JR: Yes.

MR. PAUL: I am inclined to agree.

- 9 -

H.M.JR: Are you in on that?

MR. BLOUGH: Absolutely.

H.M.JR: Let them whittle us down rather than have somebody like Dick Gilbert or Lubin say, "Well, you are New Deal on one hand and 'old deal' on the other."

MR. SURREY: You will be turning around too fast.

H.M.JR: The point I am getting at, on the twenty-five thousand we are practically where we were when we started.

MR. BLOUGH: That is right. We intended to be exactly there. If there is any difference, it is mechanically.

H.M.JR: I think from the standpoint of maneuvering versus this crowd, we had better stay where we were.

MR. PAUL: When you said twenty-five thousand did you mean twenty-five thousand income?

MR. BLOUGH: That is right, twenty-five thousand income.

H.M.JR: I mean, if I go below this, then that gives them something to--

MR. BLOUGH: In fact this chart, if it is blown up, shows exactly that.

H.M.JR: The only support you can give me is to blow it up? (Laughter)

MR. BLOUGH: I mean made big. It shows exactly that because the dotted line is our original eight point seven.

(Mr. White entered the conference.)

H.M.JR: Just for fun, without any comment - do you mind just trying this on Harry? He doesn't know whether I like it or don't like it. Just for fun.

- 10 -

MR. BLOUGH: This is a proposal that instead of deducting the increased Social Security pay-roll tax from the increased income tax and building a schedule on what is left, start with your income tax schedule and allow the taxpayer a tax credit for whatever increase in pay-roll tax the Congress may impose and for no other purpose.

MR. WHITE: My first reaction is that I don't like it, but I would like to think it over. See if I understand it, first. You are going to make them - you are going to have an increase in tax rates, and you are going to say that any increase which you have to pay you can later use as a contribution towards your Social Security payments?

MR. BLOUGH: Whenever the Congress passes the Social Security increase that automatically becomes a tax credit.

MR. WHITE: Is it your thought that that would be independent of a combining of both, or that you would still present both?

MR. BLOUGH: Yes, you present it as a unified plan, but you put the integration in the tax credit.

MR. WHITE: It is an alternative dressed up in another dress.

MR. BLOUGH: It is the second alternative, there is no doubt about that, but we have taken off some of the dress. Here is the part that isn't in the second alternative: There is no postwar credit for any purpose except this.

MR. PAUL: You passed the test. I think he got ninety or a hundred. (Laughter)

MR. WHITE: The first idea of the second line of defense was clever. I still think it is a good idea, as something that you may have to fall back on. I think it appeals to me. But I frankly don't see in it anything

- 11 -

new but another device to bring forward the second line of defense as the first line of defense. Maybe I am wrong, but I want to think it over.

MR. BLOUGH: Could I ask one question of him?

H.M.JR: Sure.

MR. BLOUGH: Would you feel that as a second line of defense it would be nearer to the first one and more acceptable than the one we were talking about before?

MR. WHITE: The difference between that and the first was they would get a credit in either case, though it might be in the form of that.

MR. BLOUGH: In this proposal they get no credit unless there is an increase in Social Security and only for that purpose. In the other one they got postwar credit.

MR. WHITE: I believe, offhand, that I like this wrinkle a little more because I think it may put more pressure on Congress to have extended Social Security since everybody who paid taxes will feel it isn't going to cost them any more.

MR. BLOUGH: That was Altmeyer's proposal.

H.M.JR: You had better stick around because you weren't here to go after Paul so I had to, and I can't do it nearly as nicely as you do. (Laughter)

MR. BLOUGH: Fred did very well. (Laughter)

MR. SMITH: I don't think it is fair to ask me a question at a different time than you ask a question of Harry White. We ought to both be here. We don't know where the other one stands. (Laughter)

H.M.JR: Well, Harry, the other thing important that I have about decided, but you can still holler, and I

- 12 -

think you are going to fight me tooth and nail on this one, and that is the eight, seven schedule originally proposed two or three weeks ago, in the higher brackets - we will stick by that. I said I thought we ought to go low, but I have changed my mind. I thought I would let them whittle me down.

In other words, it is exactly - the twenty-five-thousand-dollar salary is fifty-four percent, and we will leave it just about the way it is.

MR. WHITE: I am not sure that I understand, but I can easily say what I am in favor of. I am in favor of pushing up, or advocating increased taxes above the three thousand as far as we possibly can because, as I say, I think that the middle income brackets - those from three to thirty, or whatever it is - can bear and should bear more.

H.M.JR: Looking at it from the standpoint of Congress, I thought it would be a little more tasty to them if we didn't go so high in the ten-thousand-dollar class, you see.

After thinking it over, I would much rather have Gilbert or Lubin tell me I am too high than too low. In other words, we will stick where we were three weeks ago.

MR. PAUL: Except at the lower--

MR. BLOUGH: It amounts to practically nothing above ten thousand.

MR. WHITE: Above ten thousand it is not a question of the record; it is wholly a question of the psychological attitude and the ease with which we below ten are willing to pay if we know the other fellow - it is like all these fellows in a factory. There may be twenty-five thousand in a factory, and the fact that one boss may get a high income and doesn't pay a higher income tax irritates them all, even though the amount of revenue involved is insignificant. You are dealing with psychological--

- 13 -

H.M.JR: we are all agreed. Would you (Blough) show this to Mr. Gaston and also Sullivan and Haas?

Now, couldn't I meet with you people tomorrow, say, again at eleven-thirty? Are you busy at that time?

MR. PAUL: No, the only thing I have to do is call up Senator Wagner. I have been in touch with his secretary. I may have to go to New York to see him. I think I could go after this meeting.

H.M.JR: Let's say a tax meeting at eleven-thirty tomorrow, but before that see these other people and we will have one more resume.

MR. PAUL: I think it is very important to see Wagner.

September 1, 1943  
2:39 p.m.

HMJr: Hello. Hello.

Operator: Go ahead.

HMJr: Hello.

Fred  
Vinson: Yes.

HMJr: Henry Morgenthau.

V: Yes.

HMJr: Is this Fred Vinson?

V: Yes.

HMJr: Look, I suppose you've gotten a notice that there's  
Cabinet tomorrow afternoon. Hello?

V: Yes.

HMJr: Well, I have, too. And that kind of ties me all  
up because I have that 4:00 o'clock meeting on  
taxes in the afternoon....

V: Yes.

HMJr: ....which I hope you are going to come to, so I  
wondered if I could beg off tomorrow morning from  
your meeting.

V: Well, yes, that's perfectly all right, Mr. Secretary.

HMJr: Is that all right?

V: Yes, it's all right.

HMJr: Now, Bell isn't here either, so I thought I'd just  
call you up.

V: I see.

HMJr: He's gone, taking a week's holiday.

V: Well, that's - he ought to have two weeks.

HMJr: Yes, I agree with you.

- 2 -

V: All right.

HMJr: I just wanted to explain it - why....

V: That's all right.

HMJr: ....and i hope I'll see you at 4:00.

V: Good bye.

September 1, 1943  
4:37 p.m.

72

Operator: Go ahead.

HMJr: Hello.

Other  
Operator: Mr. Secretary.

HMJr: Yes; hello.

Edwin M.  
Watson: Hello, there, Mr. Secretary. How are you coming on?

HMJr: Who is this?

W: This is Pa Watson.

HMJr: My God, it's a voice from the past. It's been so long since I've heard you.

W: (Laughs) Well, look here, the President wants you and Mr. Paul....

HMJr: Yeah.

W: ....to come over here Tuesday - he said Monday or Tuesday, but I'd put it Tuesday - 'cause Churchill won't go 'till Tuesday morning.

HMJr: Well, I'll be in Detroit Monday anyway.

W: All right. Will Tuesday be okay for you?

HMJr: Wonderful. What time?

W: Well....

HMJr: Give us the first appointment.

W: All right. Give you the first appointment.

HMJr: About 11:00 o'clock. Is that....

W: I think that will be fine.

HMJr: What?

- 2 -

W: 11:00 o'clock.

HMJr: About half an hour?

W: Yes, sir, I'd say, at least.

HMJr: That would be very nice.

W: All right.

HMJr: Good.

W: Say, look here.

HMJr: Yeah.

W: When are you going to Charlottesville?

HMJr: Oh, I think it's on the 12th - I think.

W: Yes. Well, look here, Frances - I don't know whether I'll be there or not but she will and she said, "Why don't you come over and spend the night with us?" Occupy the President's little cottage.

HMJr: Be wonderful.

W: Well, now, you do that.

HMJr: Wonderful.

W: And that'll be on a Sunday, and....

HMJr: It's our broadcast that Sunday night, but I'd be there the night before.

W: Will you come Saturday, and stay Saturday and Sunday both? And how about Mrs. Morgenthau?

HMJr: I don't think she'd be well enough.

W: Well, it's a double cottage and....

HMJr: Yeah.

W: ....there's two great big beds.

HMJr: I don't think that she'll be well enough.

W: Well, we'll put you in there and count you - on your being there Saturday and Sunday....

HMJr: Well....

W: ....and you can go about your business - do anything you please but just have that your headquarters.

HMJr: That will be wonderful.

W: All right, sir.

HMJr: Ah - I'll be broadcasting the night of the 12th - I think it's 7:00 o'clock - something like that....

W: Yes.

HMJr: ....but I'd have to go over there Saturday.

W: Yes. Fine. You come on over then and spend your time with us there....

HMJr: Yeah.

W: ....and we'll reserve the cottage for you....

HMJr: Yeah.

W: ....and even I'll have a julep ready for you....

HMJr: Oh....

W: ....after you get through.

HMJr: That will be wonderful.

W: And you see Monticello is right up the hill from there.

HMJr: Yeah.

W: Well, that's fine. I'm awfully glad to - and I'm sorry we can't get her.

HMJr: Well, I'll speak to her but I don't think that she's going to be able to make it.

W: All right. Well, you tell her that Frances wanted her.

HMJr: I'll tell her.

W: And that's - when we heard the other day and Frances told me to contact you right away.

HMJr: Wonderful.

W: All right, sir.

HMJr: And then, 11:00 o'clock....

W: 11:00 o'clock Tuesday, the 7th.

HMJr: Thank you.

W: Good. Thank you.

Meeting in the Secretary's Office  
September 1, 1943

Present: Secretary Morgenthau  
Mr. McCloy  
General Hildring  
Mr. White

The following is the gist of the conversation. I think the meeting was called at McCloy's request.

Mr. McCloy said that he had wanted to designate Mr. Wolfe (?) to represent the Army on fiscal affairs in London. He said that Mr. Wolfe was a very able fellow and he thought that he would do an excellent job in London for the Army. McCloy added that he was under the impression that the Secretary had approved of that selection. The Secretary replied that that was not his understanding, that he remembered that McCloy asked him what he thought about the man and he had said he was all right. The Secretary said he thought McCloy asked him a general question and he (the Secretary) had no idea that McCloy was thinking of that man as a candidate for the top fiscal job in London. If he had told the Secretary that that is what he had in mind the Secretary definitely would not have approved the selection.

McCloy replied that he thought the Secretary had approved him, and did the Secretary have any objection to his being named for that job. The Secretary said he definitely did not approve the selection of this man. Mr. McCloy said that he had practically made a commitment and did not know how he was going to get out of it and did the Secretary want to reconsider his opinion in the light of that and approve of the selection. The Secretary said no, he was sorry but he did not feel that that man was the proper man for that kind of a job. The Secretary said that if the Army wanted to work with the Treasury on fiscal and monetary problems then the Treasury ought to have some say in a selection of the man for so important a job in the fiscal and monetary field. Mr. McCloy asked "Does that mean the Army must pick a man from those names suggested by the Treasury" and the Secretary "Oh, no, it didn't matter who thought of the man first. The man agreed upon ought to be satisfactory to both departments." Mr. McCloy replied that that sounded all right to him, but he had gone pretty far with Mr. Wolfe and he wanted to think it over and see what could be done. He assured the Secretary, however, that they would not appoint a man to whom the Secretary objected and the Secretary said that is all we ask.

H. D. White

*HDW*

72

CLASS OF SERVICE

This is a full-rate telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

# WESTERN UNION

(00)

SYMBOLS

- DL = Day Letter
- NL = Night Letter
- LC = Deferred Cable
- NLT = Cable Night Letter
- Ship Radiogram

A. N. WILLIAMS  
PRESIDENT

NEWCOMB CARLTON  
CHAIRMAN OF THE BOARD

J. C. WILLEVER  
FIRST VICE-PRESIDENT

The time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination.

NA1003 55/49 COLLECT=PRINCETON NJ 1 559P

1943 SEP 1 PM 7 04

DAVID FREDERICK=

379 TREASURY DEPT ROOM 387 WASHDC=

PEOPLE WHO ARE HAVING TAXES DEDUCTED NOW FROM THEIR PAY  
 ENVELOPES VOTE AS FOLLOWS: REPUBLICANS 79% PAY AS YOU GO,  
 15% PAY FOLLOWING YEAR, 6% NO OPINION. DEMOCRATS 84% PAY AS  
 YOU GO, 10% PAY FOLLOWING YEAR, 6% NO OPINION. THERE ARE  
 VIRTUALLY NO DIFFERENCES AMONG GEOGRAPHICAL SECTIONS=  
 EVELYN WICOFF AMERICAN INSTITUTE OF PUBLIC OPINION.

79% 15% 6% 84% 10% 6%.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

*Fred:  
Here is complete  
text of Gallup on  
withholding - + OK  
for See to quote + discuss  
dy*

*Supplementary stuff -  
geographic break down  
etc. may be coming  
they're unsure if  
they have any.  
- we'll hear by  
9 AM Thursday*

*W.P.C.*

V  
SPR SL 453 OK  
CKTS BY WILL CALL U OK  
URK  
WA WFO FIELD DIRECTORS OFFICE  
NY N Y C 9-1-43  
TO R W COVNE  
HERE IS COPY OF TODAY S GALLUP POLL

PUBLIC OPINION NEWS SERVICE

FOR RELEASE WEDNESDAY SEPT 1 1943  
PAY -AS-YOU-GO SYSTEM FOUND OVERWHELMINGLY POPULAR WITH TAXPAYERS  
AFTER 2 MONTHS TRIAL  
82 PERCENT OF THOSE SUBJECT TO  
WITHHOLDING TAX LIKE IT  
PREFER THAN FORMER SYSTEM

BY GEORGE GALLUP

DIRECTOR, AMERICAN INSTITUTE OF PUBLIC OPINION

PRINCETON, N J AUG 31 THE PAY AS YOU GO SYSTEM FOR COLLECTING FEDERAL INCOME TAXES, WHICH WENT INTO EFFECT TWO MONTHS AGO TOMORROW, IS APPROVED BY AN OVERWHELMING NUMBER OF TAXPAYERS WHOSE WAGES OR SALARIES ARE SUBJECT TO THE WITHHOLDING TAX. ONLY A SMALL MINORITY WOULD PREFER TO GO BACK TO THE OLD SYSTEM OF PAYING EACH YEARS INCOME TAX THE FOLLOWING YEAR.

WITH MANY TAXPAYERS NOW PREPARING THEIR SEPT 15 TAX FORMS, THE INSTITUTE HAS COMPLETED A NATION WIDE CHECK UP OF TAXPAYERS ATTITUDES TOWARD THE PAY AS YOU GO SYSTEM. SOME PROTESTS HAVE BEEN REPORTED FROM WORKERS WHO OBJECTED TO THE WITHHOLDING OF PART OF THEIR WAGES TO PAY THE TAX, BUT THE SURVEY REVEALS THAT THE ~~CURRENT~~ GENERAL OPINION IS HIGHLY FAVORABLE TO THE NEW SYSTEM.

TAXPAYERS WHO ARE NOW HAVING MONEY DEDUCTED FROM THEIR PAY ENVELOPES WERE ASKED BY THE INSTITUTE COLON MARK

"DO YOU FAVOR THE PRESENT PAY AS YOU GO PLAN FOR INCOME TAXES, OR WOULD YOU PREFER TO GO BACK TO THE SYSTEM OF PAYING EACH YEAR S INCOME TAX THE FOLLOWING YEAR  
QUESTION END QUOTES

THE VOTE IS COLON

FAVOR PAY AS YOU GO TAX 82 PERCENT  
FAVOR PAYING THE FOLLOWING YEAR 12 PERCENT  
UNDECIDED 6 PERCENT

CONSISTENTLY FAVORED

IT IS SIGNIFICANT THAT THE TAXPAYERS OF THE COUNTRY ARE JUST AS MUCH IN FAVOR OF THE PAY AS YOU GO SYSTEM TODAY., AFTER TWO MONTHS OF ITS OPERATION, AS THEY WERE IN FAVOR OF ITS ADOPTION IN THE FIRST PLACE LAST SPRING.

AT THE TIME OF THE PROTRACTED DEBATE IN CONGRESS OVER THE PAY AS YOU GO AND ITS SUBSTITUTES, INSTITUTE SURVEYS FOUND THAT ~~70 PERCENT~~ 70 PERCENT OF THE NATIONS TAXPAYERS WITH OPINIONS WERE IN FAVOR OF ADOPTING A PAY AS YOU GO SYSTEM, AND THAT 72 PERCENT FAVORED THE PARTICULAR METHOD SUGGESTED BY BEARDSLEY RUMEL FOR PUTTING THE COUNTRY ON A PAY AS YOU GO BASIS. THE SCHEME FINALLY ADOPTED BY CONGRESS, CALLING FOR A MAXIMUM FORGIVENESS OF THREE PORTIONS OF THE TAX FOR 1942 OR 1943, WHICHEVER IS THE LESSER, WAS THEN CALLED "THE RUMEL PLAN IN THREE QUARTERS TIME."

THE SURVEY CONDUCTED LAST APRIL BEFORE PAY AS YOU GO WAS ADOPTED, ON THE FOLLOWING ISSUE TO THE TAXPAYING PUBLIC COLON

"NEXT YEAR THE FEDERAL GOVERNMENT COLLECTS INCOME TAXES ON MONEY EARNED THE PREVIOUS YEAR. WOULD YOU LIKE TO HAVE THAT PLAN CONTINUE, OR WOULD YOU PREFER TO PAY YOUR TAXES ON THE MONEY AS YOU EARN IT QUESTION END QUOTES

THE VOTE WAS	COLON
APRIL 1941	
FAVOR PAY AS YOU GO	79 PERCENT
FAVOR OLD SYSTEM	21 PERCENT

Today  
82%  
12%

IN TODAY'S SURVEY THE VOTE OF THOSE WITH OPINIONS IS 87 PERCENT IN FAVOR OF PAY AS YOU GO, OR EVEN HIGHER THAN THE VOTE OF ALL TAXPAYERS LAST SPRING.

FOLLOWING INSERT APPEARS UNDER SECRETARY MORGENTHAU'S PICTURE  
PAY-AS-YOU-GO POPULAR

SECRETARY OF THE TREASURY MORGENTHAU WILL BE INTERESTED TO KNOW THAT AFTER TWO MONTHS UNDER THE PAY AS YOU GO INCOME TAX SYSTEM, AMERICAN TAXPAYERS LIKE IT FAR BETTER THAN THE OLD SYSTEM,

A POLL SHOWS. THE VOTE COLON

FAVOR PAY AS YOU GO	82 PERCENT
FAVOR OLD SYSTEM	12 PERCENT
UNDECIDED	6 PERCENT

September 1, 1943.

My dear Congressman Taber:

I wish to acknowledge your letter of August 24. I would like to suggest that upon your return to Washington you call and let me arrange for you to sit down with me and some of our people, so that we can go over the details of our program with you. I should like you to know just what we are doing and I would be glad to hear any suggestions you have to make, in connection with the War Bond Program.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable John Taber,  
Auburn, New York.

TJG:ecb

Congress of the United States  
House of Representatives  
Washington, D. C.

AT AUBURN, NEW YORK,

August 24, 1943

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

Dear Mr. Morgenthau:-

I remember having some correspondence with you last winter about the size of the appropriation that was made for publicity efforts in connection with the sale of government bonds and securities.

I felt that the amount that was to be provided was altogether out of line and while it was less than last year, it was more than it should be. My fears along this line have been borne out. As I told you at the time, the loading up of all of your committees with much more material than they can possibly use and the loading up of newspaper offices with much more material than they can use was a detriment to the government and a detriment to the sale of government bonds and securities.

I find that that same condition which existed a year ago and all through the winter is still continuing as we approach a new drive, and that nine-tenths of the things that you are sending out from Washington are a liability rather than an asset.

I am wondering if it is not possible for you to re-view this situation and place it in line with what it should be and in line with what the interests of the government require rather than to allow the expenditure of funds to go on in the same loose, ridiculous way that it has been allowed to go before.

I ask you, please give your support to the war effort by cutting down on this unnecessary expense.

Very sincerely yours,

*John Jacob*

SEP 1 1943

TO INVESTMENT BANKERS, STOCK EXCHANGE FIRMS,  
DEALERS AND BROKERS IN SECURITIES:

The expert services of men in your lines of business, which proved so valuable to the Treasury Department in the 1st and 2nd War Loan campaigns, are now in demand again. As I recently announced in the press, the 3rd War Loan Drive is to open on September 9, and its objective will be the sale to buyers, other than commercial banks, of United States Government securities in the amount of 15 billion dollars.

I am well aware that in previous drives men from your offices not only played a major part in the successful solicitation of large subscriptions, but also, especially in the larger cities, brought experience and skill to the organization and training of Volunteer workers.

Many of you are already active in making preparations for the 3rd War Loan. Your services are deeply appreciated and will this month be more valuable than ever before, because in this drive, emphasis is to be placed on sales of bonds to the largest possible number of individual buyers. This will require a thorough canvass of large and small buyers of all kinds other than commercial banks.

Here in Washington, I have asked Mr. Edward B. Hall, an Assistant to the Secretary, who has had long experience in various phases of the banking and investment banking business, to aid Mr. Ted R. Gamble, National Director of the War Finance Committee, in supporting the sales work of banks and bankers, securities dealers, stock exchange firms, savings and loan associations, and other financial institutions in the 3rd War Loan Drive.

Your State and local War Finance Committees will call on you to furnish as much distributing talent as you can, and I bespeak for them your customary whole-hearted response.

Sincerely,

(Signed) H. Morgenthau, Jr.

SEP 1 1943

TO THE BANKS OF THE UNITED STATES:

From the beginning of the Defense Program, your officers and employees have played a decisive role in the financing of the war. Through cooperation with the War Finance Committee, your leadership has been indispensable. You have been our main support in issuing bonds. You have, I know, given freely of your time and resources without thought of compensation beyond the satisfaction that comes from serving your country.

During the 3rd War Loan Drive, which opens September 9, we shall probably have to issue in the neighborhood of fifty million bonds to individuals. A large part of this burden will fall upon the banks. I am confident that you will do this job as you have many others with efficiency and dispatch.

Here at Headquarters I have asked Mr. Edward B. Hall, an Assistant to the Secretary who has had many years of experience in various phases of the banking business, to assist Mr. Ted R. Gamble, National Director of the War Finance Committee, in supporting the sales work of banks and bankers, securities dealers, stock exchange firms, savings and loan associations, and other financial institutions during the 3rd War Loan Drive.

After the drive is over, the Treasury Department will make an offering to commercial banks for their own investment.

Your State and local War Finance Committees must of necessity lean heavily on bankers for expert assistance and moral support. I bespeak for them your customary wholehearted response.

Sincerely,

(Signed) H. Morgenthau, Jr.

TO ALL NEWSPAPER PUBLISHERS:

On the eve of the Third War Loan, I want to impress upon you how heavily we are depending upon the newspapers, and upon the businesses who sponsor newspaper advertisements, to carry our urgent message to the American people.

In the past, these industry sponsored advertisements have proved the backbone of our promotional campaign. I am sure they will prove no less in the coming Third War Loan Drive.

I hope you will pass this information along to those businesses and industries in your community who can and will help sponsor this vital local newspaper advertising.

We all know that raising fifteen billion dollars -- no less than five billion of it from individuals -- is going to be a tremendous task. We must take full advantage of every available source of support.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

FS:gr

September 1, 1943

Ted Gamble.

The Secretary.

On page 21, today's New York Tribune, there is a story of a British anti-aircraft battery visiting the United States. Are they here to help us on War Bonds? And if not, why not? Please let me know the answer in writing today. Thank you.

*Finished -*

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 1, 1943

TO: Mr. Gamble  
FROM: Ralph O. Engelman

The British First Composite Anti-aircraft Battery, composed of 346 officers and men now in this country to help train American Anti-aircraft Troops, will be at the following camps during the Third War Loan:

September 7	Camp Edwards, Mass.
17	Fort Leavenworth, Kansas
27	Camp Haan, California

They will remain at each Camp several days. (Time not yet determined).

We are contacting the public relations officer assigned to the group today and shall work out arrangements to have the battery, or sections of it, featured (wherever possible and advisable) in the already planned Third War Loan activity of the localities surrounding the camps at which these troops will be stationed.

It is planned that these men will remain in the country until the end of November, and they will undoubtedly be available for regular Bond rallies for some time after the Third War Loan is over.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 1, 1943

TO Secretary Morgenthau  
FROM Fred Smith

The OWI has not yet used your Baltimore speech on a short wave. They have made a recording of excerpts of it, and report that they are "waiting for a spot." Apparently their schedules are very full at this writing.

Excerpts were also made of the speech and distributed widely to local radio stations through OWI.

FS

August 27, 1943

Mr. Fred Smith.  
The Secretary.

Please ask O.W.I. what use they made of my speech, if any,  
on overseas broadcasts. I'd like to have a written memo in reply.



MUTUAL BROADCASTING SYSTEM *Inc.*

*New York Office: 1440 Broadway*

PENNSYLVANIA 6-9600

September 1, 1948

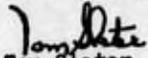
Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

Dear Sir:

May I take this opportunity to thank you in behalf of the Mutual Broadcasting System for your appearance on the broadcast on Wednesday, August 25th, from 9:15-9:30 PMET, from the 43rd Annual Session of the National Negroes Business League.

Your participation on this program made it most noteworthy and we want to assure you that the facilities of the Mutual Network are always open to you.

Cordially yours,

  
Tom Slater  
Director of Special Features  
and Sports

1b

24  
89

MEMORANDUM

September 1, 1943.

TO: The Secretary  
FROM: Mr. Sullivan

V R S

Mr. Niles reports that he is not acquainted with the Mr. Cohen who wired him regarding Doherty's political activity. I recommend that no formal investigation be made. I will try to inquire about this indirectly.



CLASS OF SERVICE

This is a full-rate telegram or Cablegram unless its special character is indicated by a suitable symbol above or preceding the address.

# WESTERN UNION

07 90

SYMBOLS

DL = Day Letter
NL = Night Letter
LC = Deferred Cable
NLT = Cable Night Letter
Ship Radiogram

A. N. WILLIAMS  
PRESIDENT

NEWCOMB CARLTON  
CHAIRMAN OF THE BOARD

J. C. WILLEVER  
FIRST VICE-PRESIDENT

Time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

BB574 15 NL=WUX BOSTON MASS 26 DAVID

K NILES

HOTEL CARLTON WASHDC

DERSTAND DOHERTY WAR SAVINGS ADMINISTRATOR MASSACHUSETTS IS  
QUIETLY ACTIVELY WORKING FOR THE COCA COLA MAN=  
A COHEN

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

*Original to Thompson*

SEP 1 - 1943

In reply refer to  
SD

My dear Henry:

I have received your letter of August 27, 1943 enclosing a list of the Treasury personnel in the Philippines and deprecating the absence of any such personnel from the list of those to be repatriated in the forthcoming exchange.

As you say, none of the Treasury people at Manila have so far been included by the Japanese authorities for repatriation in the present exchange operation. Despite all of the Department's past and continuing efforts, the Japanese government has refused categorically to agree to the general release for repatriation purposes of any Americans captured on United States soil after December 7, 1941. Japan indicated that it would permit a small number to be repatriated from the Philippines but reserved to itself the choice of the individuals so to be included in the list. The list of those tentatively named for repatriation from Manila has recently been altered somewhat by the Japanese authorities and there may be further revisions before the exchange finally takes place.

Although the Department is continuing its efforts to obtain the agreement of the Japanese to the general  
release

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

-2-

release of American civilians detained in Japanese-controlled areas of American sovereignty, including the Philippines, it is not anticipated that there will be any major change in the repatriation status of Americans so detained until after the present exchange operation is completed.

All of us in the Department are keenly aware of the distressing situation of Americans at present in Japanese hands and you may be assured that everything possible is being done to bring about their return to this country at the earliest feasible opportunity.

Sincerely yours,

*Cordell Hull -*

*THM*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 1, 1943

TO Secretary Morgenthau

FROM Mr. White *HDW*

Subject: Recent developments of Treasury interest in French African program.

1. The dollar-sterling-franc rate of exchange set by the President at the Casablanca Conference appears to be too high. British and American representatives in French Africa have advised that the present rate of 50 francs to the dollar and 200 francs to the pound so appreciates the franc as to make it impossible for French Africa to sell its exportable commodities on the world market. The Allied Governments cannot purchase strategic materials in French Africa at anything near prices offered by the Allied Governments in other areas because these prices in dollars or pounds when converted into francs at the present rate of exchange do not provide adequate francs for the North African producers and shippers to cover their costs.

2. The French Committee for National Liberation wishes to have the 50-franc to the dollar exchange rate apply to France after its liberation. Representatives of the British Treasury have advised Treasury that, during the discussions of the proposed financial agreement between the British and the French Committee for National Liberation, the French Representative, M. Couve de Murville, expressed the hope that the 200 francs to the pound and 50 francs to the dollar rate of exchange would be adopted for Metropolitan France after its liberation.

Couve de Murville advised the British that he would recommend to the French Committee for National Liberation the adoption of a uniform exchange rate of 200 francs to the pound for all French territories with the exception of Syria. The British and the French have tentatively agreed that Syria should be a part of the franc bloc but that the present rate for the Syrian pound should remain unchanged: The Syrian pound cross rate would thus remain at 43.80 francs to the dollar. Treasury has requested the British representatives in Washington to submit reasons for the retention of the old rate in Syria.

Division of Monetary  
Research

- 2 -

3. The Bank of France and the French Government possess \$866 million in gold in French Africa. This was reported to the Treasury representatives in Algiers by M. Couve de Murville. One-half of this amount is said to be in West Africa and the other half in North Africa. The Treasury representative at Dakar previously advised that according to French officials in West Africa, there was originally \$1,125 million in gold held for the Bank of France in West Africa alone with unknown quantities withdrawn from the area prior to the Allied landings in November 1942.

4. After discussions with Treasury representatives in Algiers, the French authorities have agreed to arrange for a provisional moratorium on obligations of the Jewish people in Tunisia arising from forced mortgages of property to meet levies imposed by the enemy. Later a program for the disposition of the claims will be worked out. At the request of Treasury and State, the Treasury representatives informed the French African authorities that this Government considered the redemption of these mortgages and the payment of interest thereon to fall within the purpose of the United Nations declaration not to recognize property transfers made under Axis duress.

The existence of these discriminatory burdens upon the Jewish Community and the failure of the French to take remedial action was disclosed by Treasury representatives in their investigation of enemy occupation methods in Tunisia.

5. The program of war damage compensation suggested by the Treasury is presently being studied by the French. This program was suggested after Treasury representatives reported that the French had taken almost no measures to alleviate the burden of war property losses sustained in Tunisia during enemy occupation. Treasury representatives are participating in working out the details for administering and financing a plan which will lessen the burden on individuals on whom war property losses fall either by chance or by design of the enemy.

6. The French authorities have indicated that they do not anticipate at the present time any difficulty in balancing their budget. Except for military Lend Lease aid they will not need further financial assistance from the United States and the United Kingdom.

Division of Monetary  
Research

- 3 -

The French African Treasury succeeded in floating a net 13.5 billion francs of loans during the first five months of 1943. This was approximately the amount which it was expected to borrow for the entire year of 1943. 8.3 billion francs of the amount was in short-term Treasury bills and 5.2 billion francs in 3-year Treasury war bonds.

7. The efforts of the Treasury to stimulate the French to take effective action against the collaborationist elements in French Africa have begun to produce results. This is evidenced by the arrest of certain leading collaborationists, by the establishment of the Commission of Deputation to discover and bring retribution to persons who have actively collaborated with the enemy, by the reorganization of the French Economic Warfare Administration on what appears to be an effective basis, and by the increasing number of undesirable firms being brought under control.

Although the French African authorities have still a long way to go before a satisfactory economic warfare program is attained, the Treasury representatives in French Africa are of the opinion that the new French Committee for National Liberation can be convinced of the value of effective economic warfare measures. They feel that the new administration will be importantly influenced in this regard by French elements who are eager for an all-out war effort.

8. French Finance Officials have accepted in principal the program worked out by the Treasury which is designed to penalize collaborationists in Tunisia and to prevent persons in Tunisia from making large windfall profits from excessively high prices charged during the period of enemy occupation. It has not, however, been given final approval of the French Committee for National Liberation.

Treasury representatives are disturbed lest in its actual administration the program will bear only a modified resemblance to that suggested to the French. Certain of the French authorities are still unwilling to adopt an automatic levy against the blocked deposits and currency and, if the French Committee approves the program, it must be then cleared with the Tunisian Administration. The provincial interests of the Tunisian Administration will also be relied upon to administer the program. The Treasury representatives do not feel, however, that this Government should intervene further.

Division of Monetary  
Research

- 4 -

The proposal of the French Finance Officials, which if adopted would be satisfactory, is to apply a general tax to all profits earned during the enemy occupation no matter in what form they may be held. Each person earning a profit in excess of a certain minimum is to file a declaration. If no declaration is filed or if the declaration sets forth a profit less than the increase in currency and bank deposits during this period, the tax will be levied automatically against the bank deposits and currency holdings which have remained blocked pending the initiation of this program. The person taxed must assume the burden of proof to secure exemption from this procedure.

This general levy is to be supplemented by measures to discover and penalize persons who actively collaborated with the enemy.

9. The Treasury representatives in Tunisia, Dakar, and Casablanca are being withdrawn to Algiers as soon as their duties permit. Except for the minimum necessary to carry out the Treasury responsibilities in French Africa, it is planned to assign the personnel now in the French African territories to other occupation areas as the services of Treasury representatives are needed.

There are now 10 Treasury personnel in French Africa--4 from the Division of Monetary Research, 2 from the Legal Division of General Counsel's Office and 4 from Foreign Funds Control. Three additional personnel--one economist from the Division of Monetary Research, one Foreign Funds Control expert and one lawyer from the Legal Division are preparing to leave for French Africa. It is planned that this group together with Mr. Glasser and Mr. Hoffman will proceed to Sicily or Italy as soon as their services are requested.

Pvt. G. T. Kerskes formerly with Foreign Funds Control has arrived in Algiers for assignment to the Finance and Control Division of the North African Economic Board.

10. The official U. S. dollar funds available to the French North African authorities have continued to accumulate. As of July 31, 1943, \$94 million was held in the names of the State Banks of Algeria, Morocco, and West Africa.

Division of Monetary  
Research

- 5 -

This figure is misleading in that United States Army Finance Officers hold dollar credits with these State Banks and, also, in that the French African authorities are indebted to Lend Lease for goods already shipped to French Africa.

Arrangements are now being made between the French African authorities and Lend Lease for a payment of approximately \$32 million which will cover the balance due on Lend Lease shipments to French Africa through June 30, 1943.

11. The French Committee for National Liberation has agreed in principle to a lend lease and reverse lend lease arrangement with the United States for military supplies and services. In return for military aid, estimated at \$100 million dollars for the first six months of 1943, provided to the French on credit lend lease by the United States, the French are to provide as reciprocal aid certain military expenditures of the United States Government in the area other than the pay of troops and those expenditures which the military authorities consider advisable to obtain through cash.

A similar reciprocal aid program is being worked out between the French Committee and the British Government.

12. British Treasury representatives have submitted to the Treasury the text of a proposed financial agreement between the British Government and the French Committee for National Liberation. It is proposed to handle payments between the Sterling Area and the territories under the control of the French Committee through special exchange accounts in the Bank of England and a Central Agency of the French territories. These institutions are to be the sole holders of sterling and francs. The respective exchange controls are to so operate as to prevent exports of capital from one area to the other unless such exports serve a direct and immediate economic purpose. In the proposed agreement it is provided that periodic consultation will be held to arrange where possible that sterling held by the Central Agency of the French Committee and francs held by the Bank of England can be used for financial payments in third countries.

Division of Monetary  
Research

- 6 -

This proposed agreement will replace the present financial agreement between the British and the Free French as the Free French territories are now under the control of the French Committee for National Liberation.

13. Although the British Trading with the Enemy Restrictions were lifted on July 16, 1943, as they applied to French Africa, the financial and property controls of the United States as they apply to French Africa are to remain in force. The French African assets in the United States are to remain blocked or vested under the regulations of Foreign Funds Control and the Alien Property Custodian. The Treasury will continue to monitor remittances to and from French Africa from and to the United States under the present licensing procedure set up by Foreign Funds Control.

The British have indicated that they are depending on the British and French African exchange controls operating under the proposed Anglo-French Financial Agreement now being worked out to prevent any capital movements between French Africa and the Sterling Area that do not serve a definite and desirable economic purpose. Arrangements whereby persons and firms in French Africa will be permitted to dispose of their assets now blocked or vested in the Sterling Area are to be made later.

The British action included the lifting of the prohibition on commercial correspondence between the Sterling Area and French Africa. This Government had requested the British to continue their censorship restrictions, pointing out that as private trade for the time being must remain on a government-to-government basis confusion would result if private commercial correspondence were permitted. The British advised that this was not possible under the powers granted their Censorship authorities. It was therefore necessary for the United States to lift its ban on private trade messages simultaneously with the British to prevent an advantage accruing to British importers and exporters as against those of the United States. This joint action was taken on July 16, 1943.

SEP 1 1943

My dear Senator:

I thank you very much for your letter of August 19, 1943 with reference to the Allied Military Currency. Since I have forwarded to you in my letter of August 24 the Press Release of August 17, I presume you had not had the benefit of that release at the time you wrote your letter to me on August 19.

You will note from the Release of August 17 that we made every effort to inform the public fully of the reasons for the issuance of this currency and its effect, with special reference to its utilization in the Sicilian Operations.

In any event, however, should you desire any further or additional information on this or any other subject, please do not hesitate to call on me and I shall be pleased to see that representatives of both the War and Treasury Departments are made available to furnish any such information.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Arthur H. Vandenberg,  
United States Senate

HT:Dr1  
9/31/43

United States Senate

COMMITTEE ON FOREIGN RELATIONS

August 19, 1943.

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

My dear Mr. Secretary:

I read with great interest your release of August 2nd describing your new "Allied Military Currency" and I congratulate you upon successfully completing your amazing preparations in this connection.

Your release, however, provides no information regarding the basic nature of this new currency. Insofar as I may be entitled to the information, I should appreciate your discussion of the following questions.

- (1) Under what authority is this currency issued?
- (2) What is its nature - which is to say, is it "United States notes" or "silver certificates" and so forth?
- (3) Who is responsible for the redemption and what is the reserve for this purpose?
- (4) Is this currency to be carried on the Treasury Balance Sheet as part of the national currency?
- (5) If this is a cooperative substitute not only for the American currency heretofore used in North Africa but also for the "military pound" used by the British how do we share ultimate responsibility with the British for redemption of the currency?
- (6) To what extent has this special currency been used?
- (7) Is this the general pattern to be followed in subsequent invasion areas?
- (8) Does it tie-in in any way with the local currency in any given area or involve any local share of responsibility for its redemption?

I will appreciate hearing from you at your convenience.

Warm personal regards and best wishes,

Cordially and faithfully,

Respectfully,  
Signed by Senator Vandenberg  
in his absence.



SEP 1 1943

My dear Mr. Disney:

I have your letter of August 24, 1943, enclosing an inquiry from Mr. J. C. Day of Tulsa, Oklahoma, with reference to the "invasion money" employed by the Allied Military forces in Sicily.

I am enclosing copies of Joint Statements released by the Treasury and War Departments to the Press on August 2, 1943, and on August 17, 1943. These statements will furnish information concerning the nature and character of the "Yellow Seal" dollar and the Allied Military Lira Currency.

Your interest in this matter is appreciated and I hope the enclosed statements satisfactorily answer your inquiry.

Mr. Day's letter is returned herewith.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Wesley E. Disney,

House of Representatives.

Enclosure.

WASHINGTON ADDRESS:  
New House Office Building

OKLAHOMA ADDRESS:  
TULSA, OKLAHOMA

WESLEY  
WAYS  
MALCOLM

Congress of the United States  
House of Representatives  
Washington, D. C.

August 24, 1943

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

Dear Mr. Morgenthau:

I am enclosing herewith a letter I have received  
from Mr. J. C. Day of Tulsa, Oklahoma, which is self-explanatory.

I would be pleased to be advised in the premises:

Sincerely yours,



Wesley E. Disney

WED/mem  
Enc.

**WESTERN PETROLEUM REFINERS ASSOCIATION**

305 MID-CONTINENT BUILDING

TULSA, OKLAHOMA

OFFICE OF  
SECRETARY  
TREASURER

August 6, 1943

Hon. Wesley E. Disney  
New House Office Building  
Washington, D. C.

Dear Wes:

I notice that in the invasion of Sicily, the United States forces are passing out "invasion money".

I should like to know if this currency is backed up by silver or gold, or what guarantee is behind it. Are we to redeem this at face value the same as currency in this country, and by what authority did the Treasury of the United States issue this invasion money?

I think this is a problem that our Congress should investigate, and the American public should know what is being done, and how.

With kindest personal regards, I am

Very truly yours,

*W. Disney*

JCD:MC

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

Bombay

Dated September 1, 1943

Rec'd 11:17 a.m.,

Secretary of State,  
 Washington.

592, September 1, 10 a.m.

Your 356, August 19,.

FOR THE TREASURY DEPARTMENT.

(A) August 31 gold rupees 70 annas six per tola  
 fine, silver rupees 112 per 100 tolas.

(E) Reserves August 20 gold coin and bullion no  
 change, silver coin including paper notes millions  
 rupees 140.7.

(G) STRICTLY CONFIDENTIAL. July gold imports 3  
 ounces exports 2594 ounces, silver imports 4292 ounces  
 exports 16,191 ounces. Revision of June 1943 figures:  
 silver imports 1,240,495 ounces.

(I) General working class cost of living index  
 Bombay, year ended June 1934 represents 100: month  
 ended July 31, 1943 index number is 236; food prices  
 Bombay month ended July 31 index number is 262 same base  
 year.

(K) Provincial governments in India launching

"save and

-2-, #592, September 1, 10 a.m., from Bombay.

"save and lend" campaign according to plan prepared by Central Government. Target is 1,000,000,000 rupees by the end of March 1944.

This is anti-inflationary drive aimed at the small investor. During the next few months cultivators expected to have, as a result of high prices of produce, 2,000,000,000 rupees in excess of receipts in prewar days which would be spent in bazaars and to purchase land thus forcing up prices. Second aim, therefore, reported to be aid to cultivators by persuading them to save for postwar years. Plan is to persuade each cultivator to subscribe individually to defense savings certificates or to war loans.

DONOVAN

NPL

DM

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

Calcutta

Dated September 1, 1943

Rec'd 8:26 p.m.

Secretary of State,

Washington.

1113, September 1, 7 p.m.

FOR THE SECRETARY OF THE TREASURY FROM ADLER

One. Clear from cursory investigation that visit to Bombay essential for preparation of report. Bombay is leading financial center and dominant bullion market in India, while Calcutta is secondary financial center and has only nominal bullion market.

Two. Accordingly, subject to your confirmation I propose to leave Calcutta September 5 and to spend about a week in Bombay and a few days in Delhi. Because transportation connections are more convenient shall visit Delhi first. Consul MacDonald fully agrees with desirability of visiting Bombay and Delhi.

MACDONALD

WTD



1943 SEP 2 PM 1 48

107

TREASURY DEPARTMENT  
BRITISH MOST SECRET  
U.S. SECRET

NOT TO BE RE-TRANSMITTED

COPY NO. 13

OPTEL NO. 288

Information received up to 10 a.m., 1st September, 1943.

1. NAVAL

Coastal Forces operated off VIBO VALENTIA and the Toe of ITALY on 30th/31st and Destroyers carried out a sweep off the CALABRIAN Coast without incident. A Russian Submarine has sunk a 2,150 ton Bulgarian ship in the BLACK SEA.

2. MILITARY

In the SMOLENSK SECTOR, the Russians have broken through the German positions and captured YELNYA. In the KURSK Sector, they have entered the Northern UKRAINE and have captured GLUKHOV and RYLSK.

3. AIR OPERATIONS

WESTERN FRONT. 30th/31st. MUNCHEN-GLADBACH and RYEDT. 2,272 tons dropped including 11 8,000 pound, 268 4,000 pound H.E. and (21,269) tons of incendiaries in about fifty minutes. Some broken and drifting cloud hampered observation of results but accurately placed marker bombs could be seen by most crews. Not yet possible to estimate extent of success. Ground defences slight but night fighters numerous working with searchlights. Nine enemy aircraft claimed shot down.

31st. In attacks on airfields Fortresses dropped 281 tons at AMIENS/GLISY, Marauders 48 tons at LILLE/VENDEVILLE and Mitchells 30 tons at MONCHY le BRETON. Good results are reported in each case. 43 tons were dropped by Marauders on MAZINGARBE Power station with 'fair to poor' results. Enemy casualties by bombers and fighters cooperating in these and other operations 12.4.7. One Fortress, One Marauder and 7 Fighters missing and 3 Fortresses crashed in this country.

31st/1st. 713 aircraft sent out: BERLIN - 621 (48 missing), ammunition dump in FORET de HESDIN near ST. OMER - 41, BRAUWILLER - 5, Intruders - 43 (1 missing), Anti-shipping - 3. Over BERLIN, there was moderate cloud and observation was difficult. Preliminary reports indicate that bombing was inclined to lack concentration.

ITALY. 29th/31st. Wellingtons dropped 123 tons on the Railway centre and Steelworks at FORTE ANNUNZIATA. One Wellington missing.

30th. 38 escorted Fortresses bombed VITERBO Airfield. A total of 150 escorted medium and light bombers attacked Railway centres at CIVITAVECCHIA, MARINA di CATANZARO and PAOLA. Enemy casualties - 19.5.13; Cors - 14 Fighters missing.

BURMA. 28th. Heavy and medium bombers dropped 70 tons on AKYAB. 30th. Fighter damaged 115 Rivercraft on the IRRAWADDY.

September 2, 1943  
9:20 a.m.

RE: SURVEY ON PEOPLE'S EXPENDITURES

Present: Mr. Thompson  
Mr. Sullivan  
Mr. Haas

MR. SULLIVAN: You recall you asked us to handle the matter of getting funds for that survey as to how people were spending their money.

H.M.JR: Yes, sir.

MR. SULLIVAN: And Mr. Bell had sent to me a memorandum that he prepared for you, reporting on a talk with Miss Joy in which she said she thought there should be a coverage of about thirty-five hundred families, half urban and half rural, such a study to cost a hundred and fifty thousand dollars.

If they got it ahead, right now they could organize to start October 15 and have their answer in about six weeks or two months. She suggested that you talk with Jones - Marvin Jones - and Brown so that the three organizations could share in that expense.

I called Ludlow's office - you remember, Mr. Gamble said he was going out to make a speech and would be back in a couple of days. Apparently his plans changed, and he will not be back until the 14th. He is the number one man we would have to speak to if we were going to use our own funds.

After we three met with Hlough and White, I then asked Randolph's office for an opinion as to whether or not we could use the President's emergency fund, and I have an opinion from Randolph saying that we could.

Yesterday afternoon Mr. Haas talked with Miss Joy to see whether or not she would feel free to use the funds,

- 2 -

since they had been denied to the Labor Department, and she said if we could get it it would be eminently acceptable.

We are confident that if you want action you will have to ask Harold Smith. We are recommending you do so this morning. Tell him Labor is sending over justification for this.

H.M.JR: Would you mind carrying this - who carries this for the Treasury opposite Harold Smith?

MR. THOMPSON: I deal with him.

MR. SULLIVAN: That is all right. I was just reporting because you asked me to handle the Hill end.

H.M.JR: That is right, and you have done a very good job. I want you to continue.

MR. THOMPSON: Whether you want to use the President's funds--

H.M.JR: There isn't a chance to get the President's funds.

MR. SULLIVAN: We seemed to think there was.

H.M.JR: Let's try it. Nothing ventured, nothing gained. You go after it.

MR. SULLIVAN: We thought it would speed it up a good deal if you indicated to Harold your personal interest.

H.M.JR: I don't have the time. They know how to do it.

MR. SULLIVAN: All right.

H.M.JR: You can say that I am very much interested in this thing.

- 3 -

What else?

MR. HAAS: Now in connection with this I talked to Gallup last night, with the idea that the American Institute of Public Opinion could do a job like this. He is also head of the research department of Young and Rubicam. He was in town; Fred Smith told me about it. We thought he might explore it and expedite it. We had quite a talk about it.

He pointed out that it is a very difficult job, but he is going back and submit a proposal.

I thought this, in any case the BLS should do this and make it a continuing job, but it may be that if the figures - I agree with you that all these things should be checked some way or other, and it is so important that it doesn't cost too much. If Gallup can come through with anything that looks satisfactory, or a very good indication of it, it may be that we should let them go ahead and make the initial figures earlier and we have an additional check in BLS. In that case that would be paid out of Expenses of Loans. There wouldn't be any problem.

MR. THOMPSON: Depending on how much it would run into.

H.M.JR: I am perfectly willing to sign a letter to Harold Smith.

MR. THOMPSON: That would help. Suppose we draft a letter.

H.M.JR: Suppose you draft a letter; then I will sign it.

MR. SULLIVAN: I think it would be quite helpful.

H.M.JR: If Gallup could do a spot check, it would be wonderful.

- 4 -

MR. HAAS: He said it isn't adapted to a spot check.  
He said it is an extensive thing or it means nothing.

H.M.JR: All right.

September 2, 1943  
11:30 a.m.

TAXES

Present: Mr. Paul  
Mr. Gaston  
Mr. Sullivan  
Mr. Smith  
Mr. Blough  
Mr. Haas  
Mr. Surrey  
Mrs. Klotz

H.M.JR: On this statement that I expect you people to have for me Monday night for the President, I would like Mr. Gaston to collaborate, please, if that is all right.

Mr. Paul and I are going to go to see the President Tuesday on the tax bill. I call it a fiscal policy bill.

I want to be able to lay on his desk, Herbert, a proposed statement that he should make to introduce it. I have told these three gentlemen (Paul, Blough, and Surrey) I want it. I am sure they have got it already. (Laughter)

MR. GASTON: That would be a message to Congress?

H.M.JR: Yes, sir, but I would like to have it - I will be coming back from Detroit - when I arrive home from Detroit Monday night. Perhaps you could find some way to put it on the Secret Service teletype and I could read it on the way back.

MR. PAUL: You want to tie it up with what the President said about the returning soldiers.

- 2 -

H.M.JR: What I was hoping was that the President could do something for the common man in civil life corresponding to the statement he gave on the soldiers.

MR. SULLIVAN: When is he giving his next talk? I was thinking he might decide this could better be handled in a public talk rather than a message to Congress.

MR. PAUL: That wouldn't so much change what was said.

H.M.JR: No. Now, the other thing is, right or wrong, the fat is in the fire.

MR. SULLIVAN: I don't think it is.

H.M.JR: On Stam.

MR. PAUL: We haven't seen the transcript but got an account from Fred Smith, and it was all off the record. From what - we got it through Fred--

H.M.JR: He is reliable. (Laughter)

MR. SMITH: Thank you, sir. (Laughter)

MR. PAUL: It seemed all right to me, what you said.

H.M.JR: Well, I gather that somebody is cooking up - this fellow from the United States Daily--

MR. PAUL: Helm.

H.M.JR: He is always very friendly. He tipped me off that they are going to subpoena me.

MR. PAUL: The background of it is this letter which I showed you and which we have - Stanley, have you got the draft of reply ready? Sullivan, Helvering, Stanley, and I talked it over and worked out a course of procedure which I think will save all our rights and

- 3 -

will avoid most of the problem. Do you want to tell what it is?

MR. SULLIVAN: Go ahead.

H.M.JR: Do you want to do it now?

MR. PAUL: I think the letter should go off sometime before you leave.

H.M.JR: Are you ready?

MR. SURREY: It is the first draft.

H.M.JR: I don't want any first drafts. I would like a finished product.

MR. SULLIVAN: For your own protection, let's get this out.

H.M.JR: On the theory that Cabinet won't last until four o'clock - the chances are I will be back here by three-thirty, and I can do it just before we go into the tax thing.

MR. PAUL: We have it very carefully worded.

H.M.JR: I would like a finished product. When I come back from Cabinet I will take the time to get it off.

MR. PAUL: We are all agreed on it.

H.M.JR: But the thing I said - you can read my press conference - I said, "I am not going to let a two-by-four-man like him get my mind off the war effort."

MR. PAUL: Two-by-four is only theoretically true.  
(Laughter)

MR. BLOUGH: Five-by-five. (Laughter)

- 4 -

H.M.JR: This wasn't the exact language. "He is too dumb, can't do his own stuff, so he is trying to find out what we have got."

MR. GASTON: To whom did you talk?

H.M.JR: To the press, off the record.

MRS. KLOTZ: He didn't really say that.

MR. SMITH: Not as blunt as that. You said he didn't have the facility or the brains to do anything with it after he got it. (Laughter)

H.M.JR: That is all. (Laughter) I went over it, told them he was just small fry, I couldn't be bothered with him.

Now listen, young fellow (Blough), the purpose, at least this morning, is to let us know whether it is "M-1", "2" or "3". Mr. Paul was worried going home last night whether it was eight, seven plus or minus.

MR. PAUL: I knew it was eight, seven, but "M-2" is six. But it is true, as was said last night, that up above ten thousand it is three. It would be much the same thing.

MR. BLOUGH: Let me indicate what I think you want, and then if that isn't what you want--

H.M.JR: Then I will ask Mr. Surrey what I want. (Laughter)

MR. BLOUGH: I put down a few remarks that you may want to make at the beginning. (Copy of notes for an agenda attached.)

H.M.JR: Are you fellows going on record again? (Laughter)

MR. PAUL: We are trying to get a record for you.

- 5 -

MR. BLOUGH: No, that is water over the dam.  
(Laughter)

MR. PAUL: Let's be friends, huh? (Laughter)

MR. BLOUGH: There are two things. First, you don't want to hand these people anything to take away with them because that means difficulty so far as publicity is concerned. Second, the idea is sufficiently difficult that they probably ought to have something to see when it is explained to them.

Now, that may or may not be good sense, but at least we have proceeded as if you were going to proceed along that line. I thought that these two charts - one is the first chart we looked at, which shows up to six thousand dollars, the present law, the schedule we have already talked to them about; and the "M-2" schedule with Social Security included ought to be shown to them. And second, the income tax part of it on our regular income tax scale, comparing it again with the present law, with the schedule we have already proposed, and the "M-2" schedule--

H.M.JR: Do you mind, just for my peace of mind, telling me what - as long as Paul raised the question - what is the "M-2" schedule?

MR. BLOUGH: The "M-2" schedule is a schedule which will raise about three billion dollars of income taxes.

H.M.JR: How was it derived?

MR. BLOUGH: It was derived in the following way--

MR. PAUL: It is really six altogether.

MR. BLOUGH: This schedule of income taxes will raise about three billion dollars.

H.M.JR: Tell us how it came about, who was papa and mama.

- 6 -

MR. BLOUGH: You were papa and mama, and I was the doctor that delivered the baby. I kind of tore it up, perhaps, but anyway-- (Laughter)

MR. PAUL: Instrumental delivery. (Laughter)

MR. SMITH: Paul walked the floor. (Laughter)

MR. BLOUGH: This, as I understood, is what you wanted, and this is what we did. We started with a surtax rate schedule, which had been designated "W" because we had gotten down that far, from "A" to "W" this year already in cooking up schedules.

That surtax schedule when added to the normal tax and applied to personal exemptions of five hundred dollars for single persons, one thousand dollars for married couples, and two hundred and fifty dollars for each dependent, would at the hundred and forty-six billion dollar level of national income produce eight point seven billion dollars.

That is the schedule which was used in that manner in the program that was suggested to this group several weeks ago.

H.M.JR: Say it once more. I want to get it straight.

MR. BLOUGH: This schedule is a surtax rate schedule which, when added to the normal tax and applied to personal exemptions of two hundred and fifty for dependents instead of three hundred and fifty - reduced exemptions - would produce an additional income tax revenue--

H.M.JR: Just a minute. In this plan they have proposed to reduce the exemptions for dependents from three hundred to two hundred and fifty?

MR. BLOUGH: From three fifty to two fifty. Now, the first thing you wanted done--

- 7 -

MR. PAUL: That is the one that was talked about at the last meeting?

MR. BLOUGH: Yes, and the twelve billion dollars was built up around that.

The first thing we did was to use the present personal exemptions instead of the lowered personal exemptions. That lops off about two and a half billion dollars.

H.M.JR: Doing what?

MR. BLOUGH: Substituting the present personal exemptions for the lower personal exemptions.

H.M.JR: In other words, you leave them at three fifty?

MR. BLOUGH: That is it.

H.M.JR: That lops off?

MR. BLOUGH: About two and a half billion dollars. It brings the yield of that schedule to a little over six billion.

MR. PAUL: Instead of eight, seven.

H.M.JR: Oh, I see.

MR. BLOUGH: But that is all in changing the personal exemptions - nothing else.

The next thing we did, then, was to integrate the Victory tax in by adding enough to the income tax rates to make up for the cancellation of the Victory tax.

H.M.JR: Which is about three billion?

MR. BLOUGH: Which is about three billion dollars.

- 8 -

H.M.JR: And where did you put that in?

MR. BLOUGH: Uniformly from top to bottom as an increase in the income tax rates.

Then we made a table of the increases in income tax at various levels for a married couple and two dependents which that would give.

H.M.JR: Which would produce the six?

MR. BLOUGH: Yes. From that we subtracted the increased pay-roll tax which a four-percent raise in employee pay-roll tax would make. What was left in each income bracket was the income tax increase which we had as our goal.

We then took that increase, added it to the previous income tax, computed a new rate schedule to produce it. That new rate schedule is "M-2".

MR. PAUL: Summarizing that, as I understand it, you have left on your schedule increased income taxes above three thousand, and Social Security increases are the taxes below three thousand.

H.M.JR: That was his assignment.

MR. PAUL: But that operation was performed, if we can continue to be clinical, on a six-billion-dollar basis. So when we come out we get about three billion tax and four of the other.

MR. BLOUGH: Somewhat more than six altogether: Three billion of income tax and three billion and a half of increased pay-roll tax. The reason why is that the pay-roll tax is paid by a lot of people who would not pay the income tax.

H.M.JR: Well, the fact remains - the way Paul put it, you took the assignment, the increased tax of two and a half billion which would have come from lowering

- 9 -

exemptions, and we more than make that up through the Social Security tax.

MR. PAUL: No, that isn't right.

MR. BLOUGH: No. Instead of eight point seven we get three billion of income taxes.

H.M.JR: You didn't let me finish. I will say it again. By not lowering the exemptions you lose about two and a half billion on people with income of three thousand or less. Now, as a substitute for that you put in Social Security--

MR. PAUL: We have no substitute.

H.M.JR: To go back, in three thousand dollars or less by not lowering the exemptions we lose about two and a half billion dollars in income. By applying the Social Security to people of three thousand dollars or less we gain about three billion dollars in revenue.

MR. BLOUGH: Roughly - both things are rough.

MR. SULLIVAN: Your loss of two and a half doesn't come exclusively from the people below three thousand.

H.M.JR: But, anyway, the net is that when we get all washed up, through Social Security and the increase in the higher brackets, the fellow who pays twenty-five thousand dollars comes to practically fifty-four percent; and on the original eight, seven he is practically fifty-four percent.

MR. PAUL: You have the schedule, but you don't have the eight, seven.

H.M.JR: I mean for the individual. I am not talking about the net in Dan Bell's bank, but the individual of twenty-five thousand dollars.

- 10 -

When we started, the fellow who had an income of twenty-five thousand dollars would pay approximately fifty-four percent. Now, when we have all of this business still the fellow with twenty-five thousand dollars pays that. Am I right?

MR. BLOUGH: Right.

H.M.JR: So we arrived at it differently, but as to the individual it is the same. So if they ask us, "Have you changed it any in the higher brackets?" the answer is no. It is ninety-nine percent the same - ninety-nine and a half. At least it is ninety-nine percent the same to the man of twenty-five thousand dollars and above.

MR. BLOUGH: There are a few errors at the very top of the schedule.

MR. PAUL: You had said you wanted to change your strategy and present a high yield program. This "M-2" will yield - it will present a program of about two and a half billion less.

H.M.JR: What do you mean, high yield as it affects the individual or as it affects the Treasury?

MR. PAUL: Total revenue taken. We presented a twelve-billion-dollar program before.

H.M.JR: The President thought twelve billion dollars was too high. I told him I thought this was, just rough, about ten.

MR. PAUL: Just about ten.

H.M.JR: Let me see how close. On excise taxes, two billion more; corporate taxes, one billion more. And how much is this other?

MR. PAUL: Six.

- 11 -

H.M.JR: I mean through Social Security and everything else.

MR. BLOUGH: Let's itemize them. The individual income tax, about three more; the employee pay-roll tax, about three and a half more; the employer pay-roll tax, about two more; estate and gift tax, maybe a couple of hundred million.

H.M.JR: That is eleven and a half.

MR. GASTON: Your employer tax in there brings the whole program up to where you started - almost up to twelve billion dollars.

H.M.JR: Yes, very nice.

MR. BLOUGH: A couple of things ought to be mentioned. That employer pay-roll tax will have some adverse effect on the corporate income tax.

MR. PAUL: That is a gross yield.

MR. BLOUGH: Yes.

MR. PAUL: Then you can't take those figures.

H.M.JR: Would it be eleven? This is eleven and a half.

MR. GASTON: You have to discount the forty percent, in the first place.

MR. BLOUGH: It depends on what happens, as prices go up or profits go down. If profits go down, then what you point out is right. You would have to discount it.

MR. SULLIVAN: Even if they remain constant you will lose out of your corporate yield. You lose about half of your additional yield.

MR. PAUL: At least half.

- 12 -

MR. BLOUGH: I say it depends on whether the prices should go up so that the gross take of the corporations is increased likewise.

MR. SULLIVAN: I don't think I would get involved in that, Mr. Secretary. It is terribly complicated.

MR. HAAS: If you are that close to twelve, if the war expenditures continue at present level we will have to figure that on a higher national income basis, so that will bring it up.

H.M.JR: Listen, George, you had better give Paul, to give me when I see the President - when I see the President I don't want to sit around and argue with the President. If he says, "How much will this produce?" I want to--

MR. HAAS: They are getting it all.

H.M.JR: Randolph, will you have that?

MR. PAUL: I will have all I can get. I think it is going to take a long time to get some of that, but I know the total over-all.

H.M.JR: But with the President, if you say that it is between eleven and a half and twelve he doesn't mind.

MR. PAUL: We can have that.

H.M.JR: You certainly ought to be able to hit it within a half a billion dollars.

MR. SULLIVAN: When he spoke of how much he wanted, that was on a gross basis, I think. I think anything you say - that you said to him was probably on a gross basis, Mr. Secretary.

H.M.JR: Well, I think we are all right.

- 13 -

Now, have you got some introductory remarks you would like this afternoon?

MR. BLOUGH: I just dictated them off. They are probably no good.

MR. PAUL: We would like to ask a couple of questions about the meeting in general.

MR. BLOUGH: Do you want the charts up in the room?

MR. PAUL: We thought we would have the big charts up.

H.M.JR: Sure.

MR. PAUL: The second point, we thought it would be appropriate if you made an introductory statement at least. I don't know whether you want to conduct the whole meeting.

H.M.JR: I am very much in sympathy with what you are saying.

MR. PAUL: I think Roy ought to explain the details of this plan, and then ~~do~~ you want to have a discussion headed up to anybody?

H.M.JR: I think I will sit in the chair today, unless it gets too hot, and then I think Roy should do the thing. But inasmuch as this is not going to be run quite as judiciously as you ran the other two meetings - it takes a little more assertiveness - I think I had better do it.

MR. PAUL: That suits me all right.

H.M.JR: I knew it would. I think I had better, figuratively and actually, be in the driving seat. I think it is going to take some driving. And it would be less embarrassing to you. Right?

- 14 -

MR. PAUL: It wouldn't be terribly embarrassing, but I think you ought to do it.

H.M.JR: I would like to. I would enjoy doing it.

(Notes for agenda for meeting handed to the Secretary.)

H.M.JR: (Reading) "The Secretary would open the meeting with a few remarks: At the last meeting one of the points that was briefly mentioned but was not gone into was the relation of Social Security and the tax bill.

"There obviously is such a relation, because the employee payroll Social Security contributions press on" - no, I can't say this. Let me do it kind of free and easy.

MR. BLOUGH: Of course, Mr. Secretary, you weren't intended to read it.

MR. PAUL: No.

MR. BLOUGH: I thought you might want some ideas on what to say.

H.M.JR: No, this is for people - a final talk to people who have already received their PhD. (Laughter)

MR. BLOUGH: This is just trying to put down--

H.M.JR: I got it largely here (indicating heart). I don't want too much here (indicating head.) (Laughter)

MR. BLOUGH: This was intended to strengthen your hand, that is all.

H.M.JR: Now that it is clear in my mind how "M-2" came into being, we are all right. (Laughter)

Since I have had this meeting with the President - I mean, I feel very much more confident of myself, until

- 15 -

the next thing happens, and knowing we are having a meeting Tuesday, and all that sort of thing, I think we are all right.

MR. BLOUGH: Could I read one paragraph of this to you?

H.M.JR: Absolutely. You can read the whole thing, if it would make you any happier. (Laughter)

MR. BLOUGH: There are two or three ideas in this paragraph that I think you may want to take into consideration.

"Any expansion in the Social Security program and of taxes to finance it must, of course, stand on its own merits. It would be neither good fiscal policy nor good social policy to rest the expansion of Social Security on the financing effects. However, these effects are a consideration and one which dictates the present as being a very logical time to expand Social Security.

"Heavy withdrawals of purchasing power are needed from lower income groups at the present time. Employee pay-roll taxes are one of the most effective measures for accomplishing such withdrawal. Such taxes, when linked with expanded benefits, are the one form of tax increase which industrial workers will accept cheerfully, and, I believe, enthusiastically."

MR. HAAS: That will kill it. (Laughter) McNutt made a very good statement, I thought, in--

H.M.JR: If you don't mind, I am ready now. Sometimes I want a statement. This is one of the times I don't want one. I am either ready or I am not. But thank you very much, Roy, and I am being sincere now. I am ready.

Then the thing is that you (Paul) are to let Mrs. Klotz know and she will let me know when I come back from Cabinet, and we will do that letter.

Notes for an Agenda for the 4:00 meeting  
September 2, 1943

The Secretary would open the meeting with a few remarks:

At the last meeting one of the points that was briefly mentioned but was not gone into was the relation of Social Security and the tax bill.

There obviously is such a relation, because the employee payroll Social Security contributions press on ability to pay in much the same way as do other taxes. If the burdens of expanded social security are not taken into account in the tax bill, the result would be either that the expansion of Social Security would be blocked or that the taxes would have to be readjusted when Social Security was expanded.

Any expansion in the Social Security program and of taxes to finance it must, of course, stand on its own merits. It would be neither good fiscal policy or good social policy to rest the expansion of Social Security on the economic and financing effects. However, these effects are a consideration and one which dictates the present as being the logical time to expand Social Security. Heavy withdrawals of purchasing power are needed from lower income groups at the present time. Employee payroll taxes are one of the most effective measures for accomplishing such withdrawal. Such taxes, when linked with expanded benefits, are the one form of tax increase

- 2 -

which industrial workers will accept cheerfully, and I believe enthusiastically.

For these reasons it has occurred to me that it would be desirable for the President to take an active position in support of expanded Social Security, prior to the time the tax hearings start, and for the tax proposals to include Social Security contributions carefully integrated with the income tax proposals in order on the one hand to get larger amounts of revenue from low income groups and on the other hand not to overburden such groups with taxes for which no benefits would be paid.

Nothing final has been decided with respect to this proposal. Naturally the decision will be the President's to make. However, I think it would be very constructive if we could have a free interchange of opinion regarding the idea.

In order that you may have a somewhat more definite idea of the type of income and payroll tax integration that I have in mind, an explanation will be briefly made by Mr. Blough. After that Mr. Paul will serve as Chairman as he has in the last two meetings, and I hope we may have a full and free discussion.

September 2, 1943  
4:05 p.m.

HMJr: I don't know whether you've heard about Churchill,  
but I've heard nothing.

Ted  
Gamble: I have heard nothing.

HMJr: Call up his secretary....

G: I will call Mr. Martin right now.

HMJr: ...and if there's anything doing, if anything's  
fixed, send me in a slip. I'll be in this tax  
meeting for a couple of hours.

G: Fine.

HMJr: Will you?

G: Yes, sir.

HMJr: Thank you.

G: All right.

D Envelope sent to the White House by  
SS Agent addressed to attention of  
John Martin, Secretary

September 2, 1943

The Right Honorable Winston Churchill,  
British Prime Minister,  
The White House,  
Washington, D.C.

My dear Mr. Prime Minister:

As you know, our big Third War Loan Drive starts on September 9th.

We have set a quota of 15 Billions Dollars for this drive, all of which is to be raised from non-banking sources. No job approaching the magnitude of this effort has ever before been attempted.

The President is going to officially launch the Program over all of our radio networks on the evening of September the 8th. I should like to invite you to help us with an idea that I think will go over big with all the people in our country.

The sixteen thousand theatre screens in the country have been made available to us, and we have been trying to obtain a newsreel shot that would effectively spark our drive through this media. I would like for you to appear in front of the newsreel cameras buying the first Bond from me. This could be done late today or preferably tomorrow morning.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Box Meeting  
Thursday, Sept 2, 1943 4 P.M.

132

Harold Smith or Mr. Loessler (acting for J. Wilson Jones)

Marriner Eccles

~~Donald Nelson~~

General Greenbaum for Judge Patterson

Rauchlin Currie

Secretary Wickard

Sewell ~~Key~~ for Sam O. Clark

Arthur Altmeyer

Ganson Purcell

Richard Gilbert for Prentiss Brown

~~W.H. Davis~~

Isidor Rubin - also represents Secy Perkins

Bernard Baruch

Ben Cohen

James Borrestal

Capt. Strauss

Sov. McNutt

Judge Rosenman

A. S. Hinrichs (B.L.S.)

Dr. Simon Kuznets (for D. Nelson)

Mr. Maggs - Regrets (for Secy Labor)

Judge Vinson

Secy Perkins - Rubin will represent

Secy Jones - Auding Alternate

Donald Nelson - Will send Alternate

W.H. Davis -

TREASURY

Paul

Sullivan

Haas

Boston

Blough

Helobinis

Surrey

Fred Smith

Lindsay

Shere

Shoup

Hart

September 2, 1943

HM Jr's ideas on why social security should be a part of the tax program - presented at 4:00 meeting of interested agencies

*Taps*

THE WHITE HOUSE  
WASHINGTON

1. Sound economics
2. anti-inflation
3. producers revenue
4. Sound social outlook
5. Post War aspects good
6. Good Politics.

September 2, 1943  
4:15 p.m.

TAXES:

Present: Mr. Paul  
Mr. Blough  
Mr. Gaston  
Mr. Sullivan  
Mr. Smith  
Secretary Wickard  
Judge Rosenman  
Mr. Currie  
Mr. Forrestal  
Mr. Eccles  
Mr. Altmeyer  
General Greenbaum  
Capt. Strauss  
Mr. Helvering  
Mr. Wayne Taylor  
Mr. Amos Taylor  
Mr. Maggs  
Mr. Lubin  
Mr. Hinrichs  
Mr. McNutt  
Mr. Milton Gilbert  
Mr. Purcell  
Mr. Colm  
Mr. Key  
Mr. Kuznets  
Mr. Loeffler  
Mr. Haas  
Mr. Surrey  
Mr. Lindow  
Mr. Shere  
Mr. Shoup

H.M.JR: This is, I think, gentlemen, the third meeting that we have had and we here in the Treasury feel that we have made considerable progress and we finally have a program that we like.

- 2 -

This may sound a little boastful, but as many people as there are in the Treasury - we think it is based on sound economics; we think it is anti-inflationary; and it produces approximately the necessary revenue. It has a sound social outlook and its postwar aspects are good. And last but not least, we think it is good politics.

Those are the attributes which we claim for this comprehensive fiscal program.

Now, what we have done here is this. We have taken the original eight billion seven program of income taxes and we have changed it to the extent that we do not change the exemptions. Furthermore, we added on the - let's start with the present income tax. We consolidate into the present income tax laws, the proposal is, the Victory Tax.

Then on top of that, in place of lowering the exemptions we have added approximately the program which is in Senator Wagner's bill on Social Security, and as far as revenue goes, the one about offsets the other.

And then, continuing with people of incomes of three thousand or over, we have schedules which approximate the original eight billion seven.

In other words, instead of lowering the exemptions and getting the increased taxes out of people of three thousand dollars or less through taxes, we have substituted the Social Security program of Senator Wagner. In incomes in the higher brackets, taking a man, say, with twenty-five thousand dollars income, the present proposal will give within less than one quarter of one percent difference. It works out that approximately fifty-four percent of his income will be paid in taxes, just the same as it did before. The main change is in the three thousand or less.

I had an opportunity over the week end to roughly outline this to the President. He said he had been groping for something and this sounded very good to him, and he

- 3 -

wanted us to go further and explain it to other people in the Administration who were interested in a tax program, and then finally come to him with a complete program.

I should say we stay the same as we were with corporate taxes - about a billion dollars; and about two billion dollars through special increased excise taxes. The gross program will very closely approximate twelve billion dollars, where we were when we started, but the big shift being in the method of treating the people with three thousand dollars or less.

I had an opportunity yesterday to outline this to Mr. McNutt, Mr. Altmeyer, and Mr. Maggs, representing Miss Perkins, and they will have an opportunity to say how they feel themselves. They can do it much better than I can.

But I would now like to have Mr. Blough give you the more technical aspects of this program - more detailed - and then the meeting is yours for criticisms, suggestions, or even possibly approval.

If Mr. Blough will - would you like to do it without being interrupted, or with interruptions?

MR. BLOUGH: I don't care.

H.M.JR: Mr. Blough will be glad to be interrupted if any of the things he suggests are not clear. But he will give you the technical aspects of this - what I call sort of a complete package on the fiscal front.

MR. BLOUGH: What I have to say relates only to the inter-relation of the Social Security pay-roll tax or contribution increases and the individual income tax increases.

As you know, at the present time the pay-roll tax on employees is one percent for old age and retirement insurance. That is scheduled to rise on January 1, 1944, to two percent. There is similarly a one percent pay-roll tax for the same purpose on employers which is

- 4 -

scheduled to rise to two percent January 1, 1944.

There are combined Federal and State taxes on employers of, roughly, three percent of pay roll, although merit rating has cut that down in some jurisdictions. So as of January 1, 1944, if there is no change in the law, we would have approximately two percent pay-roll tax on employees and five on employers.

The program of the Wagner bill would raise the contributions of employees to six percent, which is an increase of four above the 1944 scheduled levels.

H.M.JR: Can I interrupt you, Roy? I want to say something which I overlooked, which is rather important. My hope is that the President will take this as his program rather than a Treasury program. I want to make that very plain. I mean, this isn't something - our hopes are that he will take it and will, in a speech or message, present it to Congress rather than just Treasury.

MR. GILBERT: Would he take the benefits of the Wagner bill along with the tax increase?

H.M.JR: That is the idea, yes. I didn't mean to interrupt you, but in these people's minds - I didn't want them to sit there thinking that this is just Treasury. I am trying to think this is the Administration, with the hope that it is something that the President will take.

MR. BLOUGH: I am going into this detail simply to refresh your memory so I won't be going off in some direction and get lost some place.

Well, now, under the Wagner bill the proposal there will be an employee pay-roll tax of six percent and an employer tax of six percent. There will be no effort to integrate or combine the employer pay-roll tax with any present tax on business or corporations. There would be, however, an integration - if you want to call it that - of the increase in the employee pay-roll tax of four percent.

- 5 -

The integration really comes down to this: The schedule proposed some weeks ago, or suggested some weeks ago in connection with the program here - a schedule which at existing personal exemptions would raise a little over six billion dollars, and at lower personal exemptions would raise about eight point seven billion dollars - that six-billion-dollar schedule would not be used in its entirety, but would be cut down to the extent that the increased pay-roll tax was imposed on the income-tax payer. So a person who would have an increase in income tax of, say, a hundred dollars, and an increase in pay-roll tax of seventy-five dollars, the income tax schedule would be changed to give an increase in income tax of only twenty-five dollars.

In other words, the pay-roll tax, in effect, has been fixed up in such a way - the income tax has been adjusted in such a way that the increase in pay-roll tax would serve as an offset against the increase in the income tax.

MR. HINRICHS: That does have an effect of net increase in the lower incomes?

MR. BLOUGH: Yes, and it is all pay-roll tax increase, but there is a substantial increase.

I will explain this chart (indicating Chart II, entitled "Combined Individual Income and Employee Payroll taxes" copy attached).

The rates run up to forty-five percent, then there is a break because you don't need the whole scale, and the incomes run from zero to six thousand dollars. The present law - income tax and two percent pay-roll tax scheduled for next January - runs like this: Up to six hundred dollars or so you have only pay-roll tax at two percent of gross wages. The Victory tax begins at that point and is added to the pay-roll tax up to the income tax exemptions, which reach about nineteen hundred dollars of net income for a married couple with two dependents, on which this chart is based.

- 6 -

The present income tax then moves in and is added to it. So we have this situation, that at a thousand dollars the combined pay roll and Victory tax here (indicating) amount, for a married couple with two dependents, to about thirty-six dollars or a little over, or three and six-tenths percent. And at five thousand dollars the combined pay roll and individual income tax and Victory tax amount to seven hundred and ninety dollars, or about seventeen percent - somewhere in that neighborhood - sixteen percent.

Now, that is the existing situation, combining the three taxes.

Now it is proposed here - it was proposed last time, or a couple of times ago, at this meeting - to add a schedule on which is shown in this dotted line (indicating). That is the eight point seven billion schedule applied to lower personal exemptions. It did not contemplate at that time the absorption of the Victory tax, so up to the point at which the personal exemption was lowered to - which was fifteen hundred dollars for a married couple and two dependents - the tax would be exactly the same as today. Thereafter you have a very rapidly rising tax as shown in this upper dotted line.

Now, under the offset which I have just discussed and which the Secretary outlined, and using the present personal exemptions instead of the lower exemptions, we would get this sort of a combination: At this point (indicating) you would have a six percent pay-roll tax in operation from the very first dollar of wages. And that is, as I indicated, the proposal of the Wagner bill, and that would continue to be the only tax up to nineteen hundred dollars of net income. At that point the new income tax schedule would become effective and would add a tax as shown in the dashed line in the center (indicating).

So the effective rate of tax, combining Social Security and income tax, is higher down here because of the higher pay-roll tax, and in this area (indicating) which falls between the present income and two percent pay-roll tax and the schedule which we suggested here several weeks ago.

- 7 -

You will notice as we arrive toward the end here at six thousand dollars, the proposed schedule is rapidly approaching the schedule which we proposed the last time. The effect of that is shown in this chart (indicating Chart I, entitled "Individual Income Tax" copy attached).

This is for only income tax, but which in the higher levels, of course, is the only tax that counts because the Social Security tax only goes up to three thousand dollars. Here you have only the income tax. This, again, is an effective rate chart with the rate of tax as a percentage of net income shown along the side and the net income shown on the semilogarithmic scale, so that the whole area can be included on the chart, shown along the bottom. The solid black line represents the present law. The dotted line represents the proposal which has been made before - the eight point seven proposal. The dashed line is the income tax part of the present suggestion which, as you see, is at the very bottom, below even the present law because of the absorption of the Victory tax, which makes impossible precise alignment of the two at the bottom, which then crosses the line very shortly and at about in the neighborhood of six thousand - ten thousand - and becomes almost identical with the present - I mean, with the proposal previously made. Minor variations up here (indicating) are mechanical in character and can be erased if it is desirable to do so.

In other words, this income tax which would now raise three billion dollars would not fall in this area at all but would be just as heavy from about this point on (indicating) as the income tax which would raise eight billion seven hundred million dollars, which is, of course, the commentary on the fact that most of the income is down here (indicating).

H.M.JR: Do you want to ask some questions?

MR. BLOUGH: Perhaps you may have some questions about the mechanics of this idea. Now I know I haven't made it clear or there would be some questions. (Laughter)

- 8 -

MR. PAUL: I would like to get you to put in the idea that this is in place merely of the individual income tax part of the previous proposals and leaves intact the previous proposals as to corporate increases and excise taxes.

MR. BLOUGH: That should be emphasized, yes. This combined proposal, you might say, relates only to the individual income tax and the individual employee pay-roll tax.

MR. PAUL: Could you give us the constituency of the whole tax increase of which this is a part?

MR. BLOUGH: You mean--

MR. PAUL: What adds up to about twelve billion?

MR. BLOUGH: It is roughly this, as I recall the figures: This income tax, as indicated on the chart, would raise about three billion dollars based on a hundred and forty-six and a half billion dollar level of national income. The latest figures we have on probable pay-roll taxes indicate that the employee pay-roll tax increase would be about three and one half billion dollars as compared to - not the present level, but next year's level. The employer pay-roll tax would amount to somewhere in the neighborhood of a billion and a half dollars.

MR. FORRESTAL: Are those increases or--

MR. BLOUGH: These are increases in all cases. The corporation increase suggested would be about a billion dollars; the excise tax increases suggested is about two billion two; and the estate and gift tax suggested is about three hundred million - total, eleven and a half billion dollars.

Now, I would point out two things about that total. The first is that it is at a level of national income which is a bit higher than we are running today, but it

- 9 -

may probably be agreed, lower than the probable level of next year. So you would get a somewhat higher yield in '44 if the level of income runs somewhat higher, as may be expected.

In the second place, however, these are what you might call gross yields. No account has been taken of the inter-relation of the increases with each other. In other words, the increase in corporate tax would have some effect on the yield of an increase in individual tax. And an increase in employer pay-roll tax would, under certain circumstances, have an effect on the corporate tax and in turn, on the individual income tax, because you have the effect on dividends. Those have not yet been taken into account. Perhaps they would roughly offset each other, but I wouldn't even want to make that suggestion.

MR. LUBIN: Am I right in assuming that in reality what you have done is, you have increased your income tax rate in the brackets above six thousand dollars along the lines that were discussed when you talked about your original eight, seven billion tax program, and that for those people whose incomes are less than three thousand dollars, you have increased their tax, but not by income tax group, but Social Security group?

MR. BLOUGH: That is roughly true. Below three thousand dollars - and that level is not inflexible because it depends on the marital status to some extent - but below three thousand dollars, approximately, there is no increase in the income tax proper. In fact, there are some levels where there is somewhat of a decrease, and the increase in tax at those levels - under three thousand dollars - is all increased employee pay-roll tax.

Between three thousand and, roughly, eight thousand - ten thousand - somewhere in that neighborhood - the increase is combined - it is both the increased income tax and pay-roll tax. But the pay-roll tax increase, of course, doesn't go on above three thousand dollars, so what is

- 10 -

below three thousand helps, but it doesn't really have much effect on it. And from there on up it is the schedule that was proposed before.

Now, the reason that up to about eight or ten thousand dollars it is a little lower is this; that up to about that level the personal exemption shift from a lowered personal exemption to the current personal exemption, makes some substantial difference. When you get to about that level the small change in personal exemption makes so little difference that it really drops out and is replaced by the somewhat higher Victory tax - higher rate necessary to absorb the Victory tax.

MR. LUBIN: What happens to that group not subject to your six percent Social Security? How about that first three thousand dollars?

MR. BLOUGH: Any group which is free from the Social Security pay-roll tax would likewise be free under this proposal. They would pay whatever income tax was charged. They would not, of course, pay the employee pay-roll tax.

MR. LUBIN: In other words, there is no increased tax for that group on their first three thousand dollars.

MR. BLOUGH: That is correct.

H.M.JR: Mr. McNutt, would you like to say a word on this - what your impression is?

MR. McNUTT: Our feeling is - first of all, we are supporting this Social Security program. We have felt that it should stand on its own feet. We recognize, of course, that it is a part of the taxpaying structure of this country, but if the line of clarification is made, and that part of the program is sold on the basis of the benefits to be derived from Social Security, we feel that it would be made much stronger.

In other words, I feel that it could be sold as such while affecting your purpose as such and not as a part of a general program, because it is a continuing

- 11 -

thing and it should stand on its own feet, ensure the benefits that come from the benefits that go to the taxpayer himself.

I don't know whether Mr. Altmeyer wants to add to it, but that is as simply as I know how to put it.

H.M.JR: I will be repeating myself, but we are perfectly conscious of that, and we think that it should stand on its own feet, but you can't talk about Social Security - we don't think here - and put it in a vacuum by itself, when you are talking about how you are going to treat the people with incomes of three thousand dollars or less.

Now, the thing - I realize I am less of a chairman and more of a salesman today, but that is why I am sitting here - I told Randolph Paul he was too judicial for this meeting today (laughter), so I took the chair.

Quite frankly, we have in mind the things we have talked about with the Army and the Navy, the question about what the impact is on these people who they are relying on to produce the munitions. We have talked with Labor - organized Labor. Organized Labor likes this. They are willing to pay the six percent. They didn't like the lowering of exemptions or increasing the taxes, but they will do this and do this thing cheerfully, and they will get behind this thing publicly.

So we feel that for those people who are worrying about the spending power of the people of three thousand dollars or less - Mr. McNutt doesn't want me to talk about anti-inflation, but I still have to talk about what they have to spend - this would do the job in a manner that they would like, which we here think is very important.

MR. McNUTT: That is those who are subject to the Social Security act.

H.M.JR: That is right.

- 12 -

MR. McNUTT: As Mr. Lubin pointed out, there is another group this doesn't affect at all.

MR. LUBIN: We get out of paying that tax.

H.M.JR: As a Federal employee?

MR. LUBIN: Yes.

H.M.JR: But you are paying five percent now and you are a white-collared worker and you have had no increase.

MR. PAUL: Mr. Secretary, may I--

H.M.JR: Do you want to argue about that? (Laughter)

MR. PAUL: Mr. Secretary, you spoke of this plan having been discussed with labor. Some of the general ideas underlying the plan have been discussed, but there has been no discussion of this specific plan with labor, and I would like to add that - I would like to suggest to you that you suggest to the meeting that this precise plan hasn't been discussed with anybody outside this group, and that extreme care should be taken that is isn't discussed with reporters or anybody else who tells things to reporters, because I think it would be unfortunate to have it get abroad at this time.

H.M.JR: Well, I appreciate you are worried. After all, we are all here either as Presidential appointees or representing Presidential appointees, and what I am trying to do now is - this has got beyond just the Treasury. We have an appointment early next week with the President and he either will accept or reject it. That is, of course, his privilege. Inasmuch as this is something that I hope he is going to take, I think that - I am sure that the group will want to keep it in confidence up to the time that he says that this is something he likes or throws it back and says, "Discuss it some more."

- 13 -

That was one of the reasons I was particularly anxious that people like Judge Rosenman, Mr. Currie, and Mr. Lubin be here because I am sure they will be consulted and I know that in the case of Judge Rosenman he has already interested himself in this. But I am glad you sounded the word of caution.

MR. PAUL: At the last meeting there were twenty reporters outside the door.

H.M.JR: I don't think there will be any this time.

MR. PAUL: I would like to ask Mr. McNutt a question if no one else has any.

As I understand your statement, you want to be very careful of the proper emphasis being put on Social Security standing on its own feet, but you don't have any objection to a joint consideration of both parts - the Social Security and the tax part of this - provided the Congressional Committee chairmen and leaders are willing to have it joint?

MR. McNUTT: I think if you were to use the word "simultaneous" rather than "joint" perhaps it would express my feeling more clearly. I realize the fact that unless this is done in the case of Social Security it will affect your whole structure. Therefore, it should be at the same time. But I would hate to see, because of the future of Social Security - the soundness of that system - Social Security tied into a general tax system as such.

(Mr. Eccles entered the conference.)

MR. PAUL: But if it were made clear that the tax--

MR. McNUTT: If it is clear-cut, and the Social Security side is considered on its own merit, all well and good.

MR. PAUL: It is ultimate separability that you are interested in, not precise time when each is considered.

- 14 -

MR. McNUTT: That is right. It should be considered at the same time, I agree on that.

MR. PAUL: I wanted to get that clear.

MR. FORRESTAL: What part of the national income do you figure has been called the inflationary gap?

MR. PAUL: I don't know what the inflationary gap is because I am not certain about military expenditures nor about civilian goods. We tried to get into some of that last year. I am not certain what will be the 1944 income, but if you put your 1944 income at a hundred and fifty-five billion, say, and increased your present yield and the yield of this bill to about fifty - about where you would come out - that would leave a hundred billion. There is twenty billion more - that is a hundred and fifty less twenty is a hundred and thirty, and a hundred and fifty-five less twenty is a hundred and thirty-five - place that against, say, ninety for goods - civilian goods - and you have got forty. Then you have forty billion. Now, I don't know how much is saved there according to our present pattern. It is almost that. The gap is somewhere around ten to twenty billion.

There will still be a gap, in other words, after this, unless your military expenditures come down and therefore make your income come down, or unless your civilian goods go up. There will probably still be some gap after this increased tax program.

H.M.JR: Mr. Currie, do you want to say something?

MR. CURRIE: I don't think so.

H.M.JR: Does it interest you at all?

MR. CURRIE: Very much.

H.M.JR: Well, say something. You can't exclusively be in the foreign field. (Laughter)

- 15 -

MR. CURRIE: I would just like to ask a question following up what Mr. McNutt said. The Social Security part of the program will be placed in a separate bill altogether, would it?

MR. PAUL: The Wagner bill is before Congress now, yes. We will try, I assume, to get the Ways and Means Committee to take them up at the same time, keeping clear that they were - while integrated, the Social Security part of it would be a permanent thing and stand on its own feet and be acceptable for itself as well as we will perhaps minimize the anti-inflationary aspects of the Social Security bill.

MR. CURRIE: And in the bill containing these rate increases, pay-roll increases, would also be the benefits under the Wagner act?

MR. PAUL: You would hardly be able to have the Wagner collections without settling what were the benefits and the coverage.

H.M.JR: Judge Rosenman, do you want to ask a question or make some comments?

JUDGE ROSENMAN: No.

H.M.JR: General Greenbaum, you said last time I didn't ask you anything. (Laughter)

GEN. GREENBAUM: That was all right.

H.M.JR: How about this time?

GEN. GREENBAUM: No comment.

H.M.JR: Have you got a message if you are asked?

GEN. GREENBAUM: No, not today.

H.M.JR: Well, in fairness to Miss Perkins, Mr. Maggs sent us a message last night on how she felt and possibly Mr. Maggs would like to say what either he or Miss Perkins feels.

- 16 -

MR. MAGGS: I talked to Miss Perkins. She is, of course, mainly interested in having Social Security expanded. She feels that from the point of view of politics, that there is danger in sending it up this way - the danger that it would militate against the adoption of Social Security now if this whole thing failed.

H.M.JR: Mr. Taylor?

MR. WAYNE TAYLOR: The Social Security aspect of it, I think, is a very fortunate approach, and I don't think you can segregate the two as completely as Mr. Paul indicates, because it immediately gets into purchasing power and where you are siphoning off.

I would say it ought to be presented together with definite emphasis on what it does to siphoning off income.

MR. McNUTT: I made the suggestion the other day that by arrangement with the chairmen of the committees concerned and the leaders of the committees, that they could consider this at the same time, recognizing that it is a part of the financial picture.

MR. LUBIN: Mr. Secretary, would it be amiss to make a suggestion? Is it possible to present alternative pictures? In other words, "Here is what the picture would look like if you did it this way. Now, if you don't pass the Social Security act, we want you to pass the other bill, which we need - the eight point seven billion from personal incomes. Here is the way to get it. Now, you can do it this way, but if you prefer you can do it through the Social Security route."

H.M.JR: That is perfectly possible. As I say, again, this is a hope. But I was encouraged by the President to continue this thing. I am hoping that he will do something with this on the home front as he did for the soldiers on the postwar basis, as it seems to me that this approaches that. It may not do everything, but still, it is an approach.

- 17 -

We have been all through the dismissal wage, as I am sure you have. It is very difficult. After going all through the thing, it seems to us here in the Treasury that the Social Security program of unemployment is the best approach on the postwar basis.

As I say, I don't know, when the President sees it in black and white, how he will like it, but I was encouraged. If he was going to do it, my own advice would be that he do it in a positive way, without alternatives. But on the other hand, he might like it.

I felt that if he would do it just the way he did with the returning soldiers - this is a definite program and a definite recommendation - but as I say, I am sure that he will consult lots of people. I hope he will. But we simply felt that we would much rather have a definite recommendation. I don't know how he feels. If he wants alternatives, it is easy enough to give them to him and Congress may - of course, we are not fooling ourselves here. I mean, every time we have gone to Mr. Doughton he has always said, "Which do you want - a Social Security program or a tax program? I can't give you both. Now, if you want a tax bill you had better take it; if you want a Social Security bill, I can't give you a tax bill this year."

That is why we have tried to weave them together, quite frankly, to make it difficult for him, because he has stalled the Administration so long now on Social Security. We have tried to weave them together like that so that Mr. Doughton would have to consider them both and move forward on both fronts. Now, if we separate them, he will stall on one or the other; I don't know which.

I don't know whether I have answered you, but at least it gives you some of the reasons why we have tried to weave the two together. I know the Social Security people don't particularly like it. They would like to stand on their own feet. But without offense to anybody, standing on their own feet they haven't been able to get very far on account of Mr. Doughton.

- 18 -

MR. McNUTT: His conventional answer has been, "No Social Security legislation until after the tax bill is out of the way." He has said that at least a dozen times that I can remember.

MR. ALTMAYER: May I say a word, please?

H.M.JR: Just because I am positive, don't let me down anybody. I just feel that somebody has to be positive about this, so talk right up, please.

MR. ALTMAYER: As I understand it, from the standpoint of the Treasury you had, really, two alternatives so far as the relationship between Social Security and your tax program is concerned. You could have presented your eight point seven billion dollar individual income tax program, and could have said, "This would need to be adjusted appropriately in the event that you enact Social Security legislation, placing an additional burden upon the lower income groups," or you could take the second approach which Mr. Blough has outlined and which I am assuming you favor, and that is to adjust your individual income tax schedules upon the assumption that you are going to get a Social Security program costing employees six percent.

Now, that assumption is a large assumption because as someone remarked at the very outset, you can't just - the President can't just say to Congress, "I believe you should enact a Social Security program costing employees six percent," because Social Security in the minds of people consists of the benefits afforded, and the costs are necessary results. So when you get into a consideration of Social Security you are getting into consideration of the benefits to be provided, how they are to be provided, and you are getting into some very explosive situations - two in particular. One is States' rights, because the Wagner bill proposes to convert the State Unemployment Insurance laws into one national Unemployment Insurance law as a part of a combined integrated over-all social insurance system.

- 19 -

Secondly, that combined social insurance system would include, as a very important part, health insurance; and health insurance, as you know, is not looked upon yet with favor by the American Medical Association, or at least the hierarchy - the political hierarchy thereof.

So if the President decides to send up two programs wrapped together in a package, as you put it, he ought to understand that Social Security is not something that Congress is going to be converted to and enact over night. I think it will be a long-drawn-out discussion, not to say battle, before we get anything by way of an expanded Social Security program.

I would like to feel very optimistic because it is close to my heart, but as I see the realities, it is something that we won't get over night. So the net result will probably be that you will not get more than you ask for - three billion dollars - and there will be an extended discussion of Social Security lasting over until next year sometime, probably.

Now, my main concern - and I endorse what Governor McNutt says - is that we present the program in such a way that it is made clear that Social Security is something that is desirable in and of itself.

True, it has these other advantages that I have pointed out to various people in the room, of anti-inflation, and helps in the financing of the war costs, and because it has those other things, it should be all the more desirable.

But the enemies of Social Security have always seized upon any discussion of anti-inflation or financing of the war, to discredit a Social Security program which is sound in and of itself.

And that is the thing that worries us, that they distort your arguments in such a way as to throw doubt upon your bona fides in presenting Social Security in connection with a tax program.

- 20 -

H.M.JR: I can't argue with you. I think everything that you say is right, and I am perfectly willing to point out the difficulties to the President. But if we went up with some kind of a tax bill and Doughton said the usual thing to me, "Which do you want?" and I said, "I want the tax bill first," the chances are you will not get a Social Security bill or even get it considered during Mr. Roosevelt's third term.

Now, again weighing the fact as between placing the burden on people below three thousand, which we would have to - the increased burden - if we presented an all around tax bill, and taking this burden in a form which they would get benefits from, we here came to this conclusion.

Now, maybe I am being a little starry-eyed about it, and I am perfectly willing to be accused of being a little starry-eyed about it, but the final decision will have to be Mr. Roosevelt's. But left to me, myself, I would much rather go down and be defeated on this kind of a program which I can honestly defend, and would rather enjoy being a part of presenting - I would like once to present something that I didn't have to trim my sails on - and not something just because it was something you could get through. He has to decide that.

But I personally by the end of this term would like to present something that has got a good outlook and has all these points, as I say; and I would rather feel it was sort of an honor to be defeated on a thing like this. But again, Mr. Roosevelt will have, naturally, the final say, and I am sure that there will be plenty of people who will point out the difficulties on the Hill, and he is going to have to weigh them all.

When he gets through he will say, "I like your package," or, "I don't like your package," but I can honestly present it to him and point out all the things you say. Paul will be there. And after all, the people here are - there are three people here from the White House who have all got minds of their own and who can present to Mr. Roosevelt the difficulties if we should

- 21 -

overlook any. But having weighed all the difficulties, I still think that we in the Treasury should present this package to him.

MR. HINRICHS: Mr. Secretary, there might have been an alternative way of putting this up, which I suppose should be considered. I wondered why you thought this was the better way.

You might have put up your original program with any increase in Social Security taxes as something which might be deducted when, as, and if this proposal - if Social Security does not go through. It would show the need for additional funds which would then probably be supplied under the sales tax formula as the most likely substitute.

Now, was this the alternative of your schedule "W," with the deduction of any increase in Social Security taxes, and if so, why is this politically the strongest formula?

H.M.JR: Paul, do you want to answer that or not?

MR. PAUL: I am sorry, I didn't get it.

H.M.JR: Do you mind stating it again?

MR. HINRICHS: Did you consider setting up schedule "W" and then making provision that any increase in Social Security taxes should be deductible from the amounts due under schedule "W"?

MR. PAUL: That has been one of the alternatives we have had in mind.

MR. HINRICHS: Why does this seem politically stronger? Because if Social Security falls by the wayside under this bill, it would seem that you might be very likely to get ten percent sales tax with certain basic exemptions as the alternative of your straight line; and the sales tax of ten percent and a Social Security tax are two entirely different things from the labor point of view.

- 22 -

MR. PAUL: That is right, but there is the question largely of strategy; if you present this thing and some alternative you weaken the intensity with which you are presenting this thing. You are apt to push Social Security off the map from the strategical standpoint.

MR. HINRICHS: If the President were presenting a Social Security program, would it in fact appear as an alternative? That is, the basic law would still enact your schedule "W."

MR. PAUL: You would be essentially saying to Congress, "Let's impose additional income taxes. When, as, and if Social Security comes, we will give credit for it." I think a lot of people would feel - a lot of people in the low brackets would then feel that they were being given the run-around; and ultimately they would get Social Security, and in the meantime get income taxes without any benefits.

MR. MAGGS: Might that not generate great emphasis on the Congress to enact that?

MR. PAUL: On the other hand, you can look at it from the standpoint of the war effort. If these increased taxes go through and Social Security is delayed, a lot of people in the war factories are going to resent it. They are going to say, "This is just another postponement of giving us the benefits; in the meantime we got soaked with the taxes."

MR. HINRICHS: If Social Security falls by the wayside, would you feel that it was possible to go in with schedule "W" or with the proposals - would there be some new tax, probably sales tax, to come in to fill the gap?

MR. PAUL: If you were absolutely knocked out cold on Social Security, you would have to submit some alternative tax program, whatever it might be, with Social Security credits, or some other form of credits, something designed to ease the impact in the hardship cases in the lower brackets.

- 23 -

The point I think the Secretary had in mind was not to cross that bridge until we came to it. You would certainly have to be ready for any kind of a contingency, but you wouldn't have to be quite so ready as if you discussed the whole matter with Congressional leaders and had gotten some agreement on sort of a joint consideration. Ultimately the whole thing would be passed at once or it wouldn't be. If it were, you wouldn't have to provide for a credit. If it isn't passed at once you would probably have to have something of the anti-inflationary effect, some recognition of future Social Security pay-roll taxes.

MR. LUBIN: But, as a matter of fact, you are gambling with three billion dollars. In other words, if you get Social Security you are going to get three billion more in income. If you don't get it, you have lost that amount. Whereas, under your other system--

MR. PAUL: It is not very likely that you would get that three billion dollars in this schedule without Social Security - without some change in the lower brackets.

Congress would never enact just the income tax phase of this schedule because it would feel that the lower brackets were not being sufficiently taxed. There could - and that income tax schedule without the Social Security aspect of it would be subject to some criticism on the anti-inflationary point; it wouldn't be adequate in the place where the money is.

H.M.JR: Mr. Wickard?

MR. WICKARD: I don't believe I want to express myself. That has quite a little appeal to me. I think we positively ought to do something to drain off some of the excess purchasing power, and I think it is sort of a matter of strategy involved, rather than the objective strategy in point of what would be the best from the standpoint of Social Security as well as how we get Congress to react to the whole tax program.

- 24 -

H.M.JR: You know, in the Wagner Bill they include all farmers.

MR. WICKARD: I wanted to ask that question as to how they get at the farmers.

MR. ALTMEYER: Under the Wagner Bill self-employed are included, as well as the employed, for old-age retirement, for death, for permanent disability, for medical care of all kinds, and the self-employed would pay seven percent for that part of Social Security. They wouldn't be insured for unemployment because there wouldn't be any employer-employee relationship, and they wouldn't be insured for temporary wage loss due to sickness, because you couldn't establish what the wage loss was. But they would be insured for all the rest of the program.

MR. WICKARD: Who are the self-employed? Are tenants and share-croppers self-employed?

MR. ALTMEYER: You answer that one. (Laughter)

MR. WICKARD: Would there be a pay-roll deduction for wage hands, for instance?

MR. ALTMEYER: Yes, there would be, to be collected from the employer. There would be the usual deduction, fifty-fifty from the farm hand and from the employer. The employer himself would also be insured for those phases that I just mentioned.

MR. WICKARD: From that standpoint I think that there is something to be gained if we can get acceptance, but you know how they - the bloc - reacts to those things sometimes.

I always have the feeling that there ought to be more definitely a Social Security benefit for low-income people in agriculture. That is my own personal view; and if we don't run against - it is a matter of strategy - if we don't run into a bloc that insists that this is extending a lot of things they don't want to be extended to farm labor, perhaps it would be all right.

- 25 -

H.M.JR: Mr. Colm, do you want to say something?

MR. COLM: No, thank you.

H.M.JR: Does your silence mean approval?

MR. COLM: It doesn't mean anything, Mr. Secretary.  
(Laughter)

H.M.JR: How about SEC?

MR. PURCELL: I haven't any particular suggestions to make, Mr. Secretary. I think, personally, the idea of Social Security tax increases appeals to me because, as has been pointed out, it serves best to cushion the post-war aspects of the economy. I think that goes without saying.

I think this last suggestion that was made as to an alternative presentation, presenting your schedule "W" and providing for offsets for any increases in the Social Security program, might have an additional advantage to those pointed out from what you originally said, in that you would have the labor groups behind it, which I should think while it was in committee might be pressing to see to it that those increased Social Security schedules were adopted in order to avoid a more attractive tax base for the lower income groups. However, there may be mechanical and political considerations which outweigh that.

MR. GILBERT: Mr. Secretary, is it the correct understanding that part of this increase is the tax on the employer?

MR. PAUL: That is right. That is the gross tax.

MR. GILBERT: I wonder if it is advisable to impose that increase at the present time in view of the fact that a possible price adjustment will be necessary and the fact that a good bit of it comes out of income taxes anyway.

MR. PAUL: It would be deductible for purposes of the corporate income tax, which would mean that the billion five would be substantially increased for the net impact.

- 26 -

MR. GILBERT: Would the net impact be so low that by the time you start to readjust prices, which you would have to do in a good many cases, the net inflationary effect might be greater and withdraw the purchasing power you would get - I mean, in view of the roughness with which such calculations must be made?

MR. PAUL: If you could tell us more about that - I shouldn't think that that particular tax would occasion too great a readjustment of prices.

MR. GILBERT: I don't know the answer, but I would suspect that you would get an awful lot of applications for price increases.

MR. LUBIN: In all your fixed-fee contracts - I refer to General Greenbaum's information on that - I imagine that it automatically means an increase in the cost to the Government - this extra tax upon the employer - wouldn't it?

GEN. GREENBAUM: On contracts thereafter made, yes, but not on existing contracts.

MR. PAUL: On the existing contracts it might enter into renegotiation?

GEN. GREENBAUM: Indirectly by allowing a credit on renegotiation for existing contracts, yes.

MR. LUBIN: I am thinking of fixed-fee contracts.

GEN. GREENBAUM: You mean cost-plus?

MR. LUBIN: Those would all automatically be stepped up so it would wash out some of the increased taxes.

MR. PAUL: Of course you would have to take that corporate burden, too, in relation to the other income tax - increased corporate burden.

MR. LUBIN: This isn't a corporate burden. I mean, the Government pays all the costs and gives the employer a fixed fee for his services.

- 27 -

MR. PAUL: It does in those particular contracts, but this tax would be spread among all the corporations, and you couldn't - you would have to relate your total increased corporate burden in places where there weren't Government contracts. However, the corporate figures are such now that one doesn't have to worry too much except at the angle from which you are talking.

H.M.JR: Is somebody here from the Department of Justice?

MR. KEY: Yes.

H.M.JR: Would you care to say anything?

MR. KEY: No, I wouldn't care to say anything.

H.M.JR: How about OPA - are they represented? I don't see Dick Gilbert here today.

MR. PAUL: He was coming.

H.M.JR: Mr. Kuznets from WPB?

MR. KUZNETS: I have no comments to make.

H.M.JR: How about Mr. Eccles?

MR. ECCLES: I was late and missed the first part of the discussion on this. The whole idea is somewhat new. I haven't had a chance to consider it either from a technical standpoint or from a standpoint of the psychology of it.

I might say - rather extemporaneously, without much thought - it is my impression however that this, to include this Social Security with the general tax program, is likely to jeopardize the entire tax program, certainly delay it - delay getting an enactment. And whatever finally comes out of it might well be a hodgepodge of compromises. I would like to see a real Social Security program gotten through, because I think it has - it is very desirable

- 28 -

from an economic and a social standpoint, looking to the post-war world. I would like to see it gotten through, if possible, on its own merits, not as a part of the tax picture. Maybe that isn't possible.

I am conscious of the opposition to an increased income tax on the lower income group, that is, those getting an income up to three thousand dollars; and I agree that you won't get a sufficient tax to get you the eight billion that is proposed from the group that you should get it from, except if one of two things is acceptable: if Congress is willing to do, of course, the Social Security program, which, in effect, means a form of benefit that they are getting. I think the other would have to come in a post-war credit - either one or the other.

I believe that you may find that the latter would be more closely related to the tax program in the minds of Congressmen and more likely acceptable than would the Social Security form of benefit.

There is this feature about Social Security that Mr. Altmeyer raised, these various controversial aspects of the problem aside from its revenue-producing feature, that might well delay, as I say, the whole tax program. When you begin to take away from the States what they now have, you are going to get into a lot of difficulties and a lot of delays. I may be entirely wrong.

As I said, those are just my observations as I have listened here since I came into the room. The idea was entirely new. Upon further study and discussion and understanding of it, I may have some different views. I would like to think of it further, and, if I may, submit a memorandum.

H.M.JR: I would appreciate it.

If anybody else would like to submit a memorandum, we would be very pleased to get it, if we could get it not later than Monday.

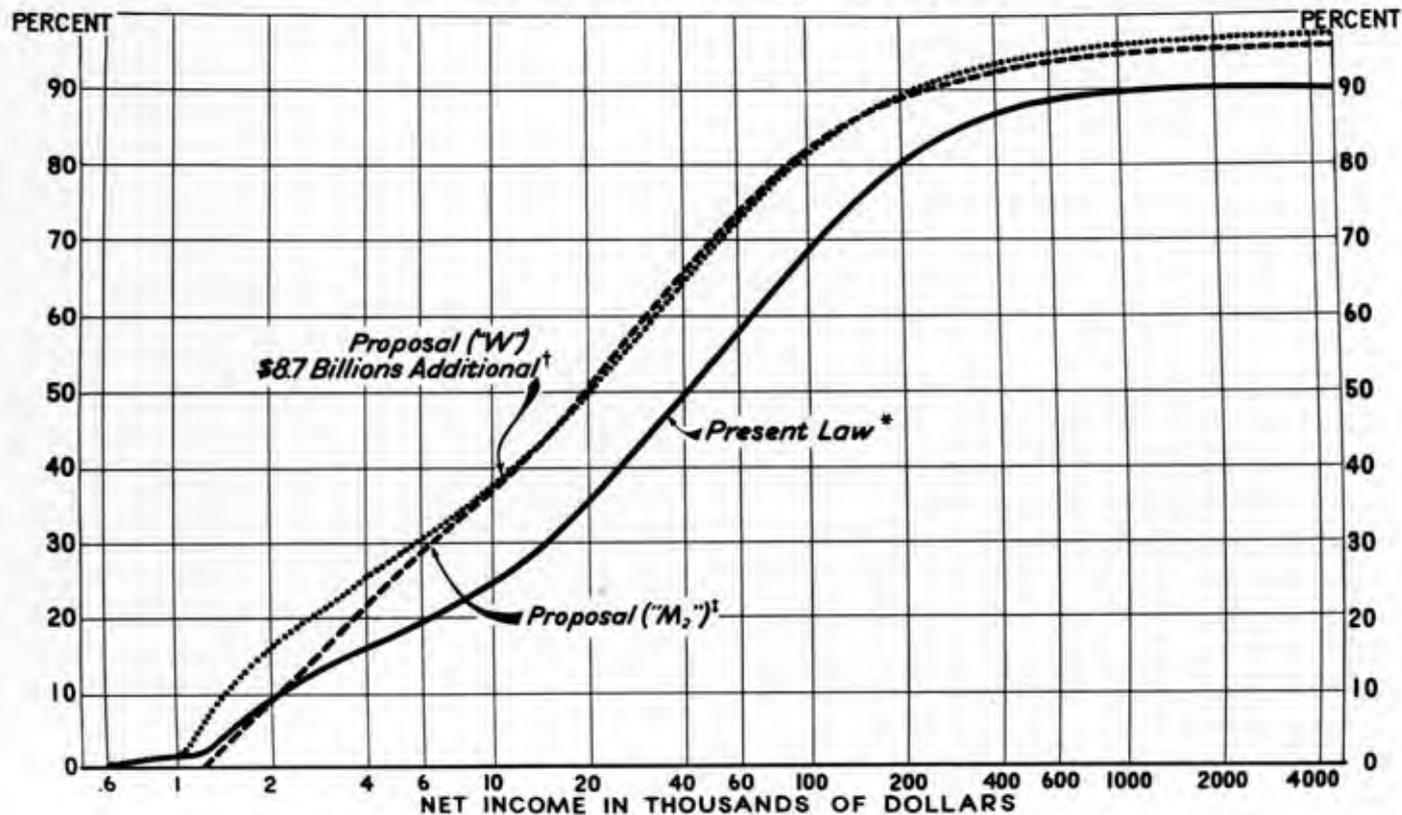
- 29 -

Does anybody have any afterthoughts?

I thank you for coming.

# INDIVIDUAL INCOME TAX

## Effective Rates for Married Person without Dependents



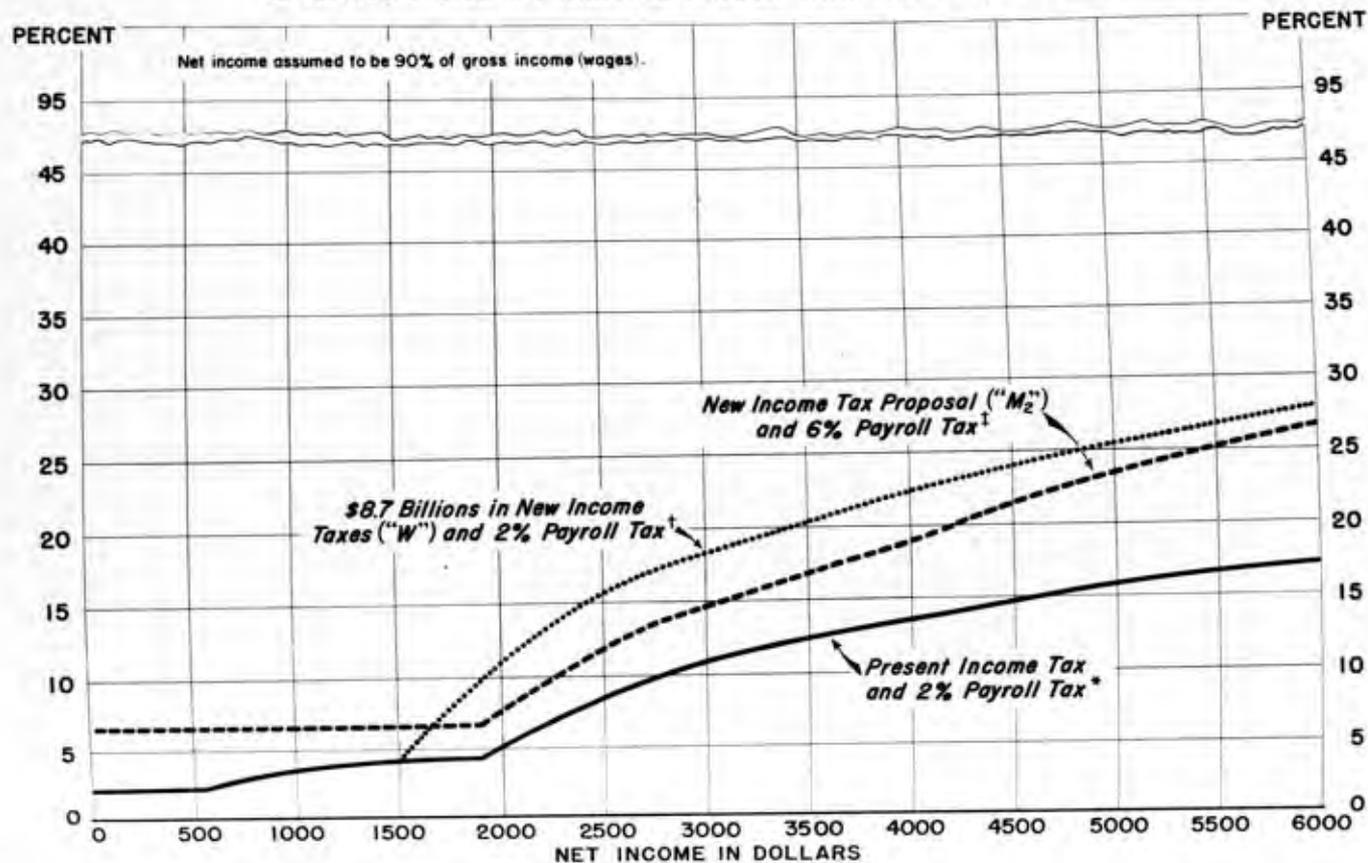
\*Includes Net Victory Tax

†Exemptions \$500-\$1000-\$250 and net Victory Tax

‡Present exemptions and net Victory Tax integrated

## COMBINED INDIVIDUAL INCOME AND EMPLOYEE PAYROLL TAXES

### Effective Rates for Married Person with Two Dependents



\* Present exemptions and present net Victory Tax.

† Exemptions \$500-\$1000-\$250 and net Victory Tax.

‡ Present exemptions and net Victory Tax integrated.

September 2, 1943  
5:47 p.m.

HMJr: Hello.

Brendon  
Bracken: Henry?

HMJr: Yes.

B: How are you?

HMJr: How do you do?

B: I'm glad to be in your town again.

HMJr: Well, it's nice to hear your voice, Brendon.

B: I thought of coming in to see you tomorrow about 12:00 o'clock if it suits you.

HMJr: Well, here is my situation. I have asked Mr. Churchill whether he wouldn't buy a war bond from us.

B: Yes, he certainly ought to and help you in that way.

HMJr: And we wanted to take a moving picture of it.

B: Yeah.

HMJr: We wanted to do it down at the Navy Gun Plant here in Washington in front of a big 16" gun.

B: Henry, I've plenty of time on Saturday. Are you going to be here on Saturday?

HMJr: Unfortunately, not.

B: What's your best time tomorrow?

HMJr: Well, my - I was going to go away unless Mr. Churchill was going to do this.

B: I'm sure he'll do it for you.

HMJr: Are you all tied up tomorrow?

B: No, I've got - I've - yeah, I'm tied up, alas, for lunch, and I've got a few other - some appointments in the afternoon.

- 2 -

HMJr: Uh - pending this other, is 10:15 - would that....

B: That will do me all right.

HMJr: Well, could I leave it this way....

B: If you've got this other thing on....

HMJr: Yes.

B: ....leave it like that....

HMJr: Yeah.

B: ....and go ahead with that because that's a very wise and desirable thing to do, but if not let me know in the morning, and....

HMJr: Yes - let me see - if you don't hear from me again, I'll look forward to seeing you at 10:15.

B: That's right.

HMJr: If Mr. Churchill lets me know he's going to do this, I'll get in touch with you through the Embassy?

B: You can get in touch with me - I'm staying at the Statler Hotel.

HMJr: Statler?

B: That's right.

HMJr: All right.

B: You'll get me....

HMJr: I'd love to see you.

B: And I'm looking forward to seeing you.

HMJr: How long are you going to be in the country?

B: I'm going away - I'm going away on Sunday.

HMJr: Oh - well, that's too bad.

B: But I wouldn't pass through the town without seeing you.

HMJr: No.

B: Or at any rate, talking to you.

HMJr: Well, I didn't know how to get hold of you.

B: Yeah.

HMJr: Well, I'll look forward anyway until tomorrow morning.

B: Yeah. All right, Henry.

HMJr: Thank you.

B: Righto.

SEP 2 1943

Dear Mr. Smith:

I have requested the Department of Labor to make application to you for funds for the purpose of enabling the Bureau of Labor Statistics to make a survey of the income, spending, and saving of a sample of about 3500 families during the third quarter of 1943. The Bureau of Labor Statistics would conduct the survey in urban regions, and would utilize the services of the Bureau of Home Economics, Department of Agriculture, in rural areas.

I am writing this letter to urge that the Department of Labor's application be given favorable consideration, as the results of the proposed survey are essential to the Treasury Department.

I trust the funds can be made available promptly from the President's Emergency Fund. I understand that the amount needed for this study of the third quarter is approximately \$200,000.

The Treasury Department is constantly confronted with the necessity of making policy decisions involving many billions of dollars in which the issue turns largely upon the distribution of income by income classes, upon recent changes in the incomes of individuals and family groups, upon the kinds of things that people in the different income groups are spending their money on, and upon the amount of savings in different income groups and how these savings are being held or invested. You will readily appreciate that the more abundant and the more accurate the available information of this type, the better will be our decisions with respect to tax policy and to the methods of war borrowing.

The issues just described are so large and so vital to the welfare of the country that I feel that I would be doing less than my full duty if I neglected any method of securing the required information at reasonable expense.

- 2 -

In the present case, it seems to me that the Bureau of Labor Statistics and the Bureau of Home Economics are both exceptionally fitted to obtain the information required and, because of previous work which they have done in the field, they are in a position to go forward without delay.

I understand that deficiency funds will shortly be requested to place this survey on a continuing basis, securing information for the fourth quarter and succeeding periods. I should like to urge that such deficiency requests also be given your favorable consideration as I believe that a continuing survey is definitely needed for the year-by-year formulation of sound fiscal policy.

Sincerely,

(Signed) H. Morgenthau, Jr

Honorable Harold D. Smith  
Director, Bureau of the Budget  
Executive Offices of the President  
Washington, D. C.

SEP 2 1943

My dear Madam Secretary:

I am enclosing a copy of my letter of this date, addressed to the Director of the Bureau of the Budget, urging his favorable consideration of requests to be submitted by the Department of Labor for funds with which to conduct a survey of the income, spending, and saving of a given number of families during the third quarter of 1943 and succeeding periods.

Such survey, as you know, is essential to the Treasury Department in the formulation of tax policy and methods of war borrowing. The Treasury will be pleased to assist the officials of your Department with the view of obtaining approval of this important project.

Sincerely,

(Signed) H. Mergenthau, Jr.

Honorable Frances Perkins,  
Secretary of Labor,  
Washington, D. C.

CRS:jc

*By messenger A. Brown  
9/3/43 - 1:05*

Sept. 2, 1943

Mr. Sullivan  
Mr. Paul

Secretary Morgenthau

Please read my press conference on Stam, talk the matter over, and give me a recommendation as to whether there is anything the Treasury should do, or whether there is something cooking in the way of a subpoena that I do not know about.

As I remember it, Sullivan saw George on this subject.

In any event, get together and give me a recommendation.

*Finished*

25

September 2, 1943

Dear Mr. Stan:

This is to acknowledge your letter of August 31, 1943 to Under Secretary Bell, respecting section 5012 of the Internal Revenue Code.

I gather from your letter that since the material you requested from the Commissioner of Internal Revenue under date of July 14, 1943 was submitted to you on August 30, 1943 through Under Secretary Bell as Acting Secretary, you feel that the statute has not been fully complied with. Inasmuch as the information which was thus transmitted to you is the information which the Commissioner submitted to me and which he would have furnished directly to you, the difficulty must arise merely from the manner of its transmission to you.

We believe that the manner of transmission adopted was, as a matter of procedure, better coordinated with the constitutional duties and function of the President of the United States as Chief Executive with respect to the submission of material to the Congress on the part of the Executive Branch of the Government. You are, of course, aware of the messages of previous Presidents, the opinions of the Attorney General, the reports of Congressional Committees, the Court decisions, and the views of the text writers in this field, clearly establishing the duty of the President to determine whether the divulgence of such material is contrary to the public interest. In the exercise of such duty the President may act through the heads of the Executive Departments.

- 2 -

Since it is the material and its actual ultimate transmission which are important, rather than the mechanics of such transmission, we did not believe that the manner of transmission would meet with any objection. In view, however, of your concern with the mechanics of transmission, I have directed the Commissioner of Internal Revenue to send directly to you the information you have requested, so that there will be no controversy whatsoever with respect to this section.

I agree with you that all our efforts should be directed to the difficult fiscal problems that face us and in furtherance of our desire to cooperate with the Joint Committee to the fullest extent the Commissioner and I shall be happy to continue to supply all appropriate information desired by the Committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Colin F. Stan, Esq.  
Chief of Staff  
Joint Committee on Internal  
Revenue Taxation  
Washington, D. C.

SSSurrey:hdr  
9-2-43



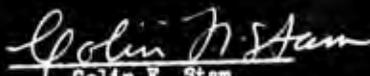
Enclose Daniel W. Bell,  
Page #2.

submitted in your letter of August 30, 1943 does not in any sense constitute a compliance with this request. It consists merely of copies of some suggestions submitted to Mr. Paul by the Commissioner. The copies do not even show the date on which the material was transmitted to the Treasury.

The Commissioner of Internal Revenue is ready and willing to comply with the provisions of the statute and transmit the material requested to us directly in accordance with the law. There is, of course, no objection to the Commissioner of Internal Revenue furnishing copies of this material to the Treasury, but the statute is not complied with unless the material is furnished directly to the staff by the Commissioner of Internal Revenue and not by the Treasury. Can we count on your cooperation to see that the provisions of the law are complied with in this respect?

The matter is so important that I am bringing it to your personal attention as I feel it would be very unfortunate to have a controversy over this matter before the Joint Committee on Internal Revenue Taxation at this time, unless it is absolutely necessary. Our attention and the attention of the Congress should be directed more to the urgent needs for revenue than to any side issue controversy such as this. Unless the statute is complied with in this respect, it will be necessary to present the matter to the full Joint Committee on Internal Revenue Taxation as soon as the Congress convenes. The present decision of the Treasury leaves me no alternative.

Sincerely yours,

  
Colin F. Stam,  
Chief of Staff.

WFS-ic

COPY

REQUEST FOR DATA AND INFORMATION

CONGRESS OF THE UNITED STATES

Washington, D. C.

July 14, 1943

*The Joint Committee on Internal Revenue Taxation*

To Honorable Guy T. Helvering, Commissioner of Internal Revenue,  
Washington, D. C.

**GREETING:**

Section 5012 of the Internal Revenue Code provides as follows:

**\*ADDITIONAL POWERS TO OBTAIN DATA.**

(a) The Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee, upon approval of the Chairman or Vice Chairman, is authorized to secure directly from the Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), or directly from any executive department, board, bureau, agency, independent establishment or instrumentality of the Government, information, suggestions, data, estimates, and statistics, for the purpose of making investigations, reports and studies relating to internal revenue taxation.

(b) The Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), executive departments, boards, bureaus, agencies, independent establishments and instrumentalities are authorized and directed to furnish such information, suggestions, data, estimates, and statistics directly to the Joint Committee on Internal Revenue Taxation or to the Chief of Staff of such Joint Committee, upon request made pursuant to this section."

In virtue of the authority vested in me under the above-quoted section of law, I hereby request that the following information, suggestions, data, estimates, and statistics be furnished directly to me at Room 1336, New House Office Building, within 16 days from the date of this request.

Alternative suggestions of your staff for raising additional revenue or combating inflation, with accompanying data and statistics.

The source of this material will be kept confidential if you so desire. It is intended to be used for study purposes by the staff.

(Signed) Colin F. Stam  
Chief of Staff.

Received:

WALTER F. GEORGE  
Chairman.

Date: July 14, 1943

September 2, 1943

My dear Mr. Helvering:

I believe it desirable to have a clear understanding as to the procedure to be followed with respect to requests by the Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Committee under section 5012 of the Internal Revenue Code. Under the Constitution the duties and function of the President require that he, or the head of an Executive Department acting for him, determine whether the divulgence of any material so requested would be contrary to the public interest. In order that we act in conformity with this constitutional requirement, it will be necessary that any material should first be sent to me so that I can make the necessary determination for the President. Unless I determine, in such capacity, that to divulge such material would be contrary to the public interest I shall promptly return the material to you so that you may send it to the Joint Committee or the Chief of Staff. This procedure, I believe, need not be followed with respect to requests for statistical information that in your opinion do not raise any question as to the propriety of its divulgence.

I am sending a similar letter to the Assistant General Counsel for the Bureau of Internal Revenue.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Guy T. Helvering  
 Commissioner of Internal Revenue  
 Washington, D. C.

SSSurrey:hdr  
 9-2-43

25

September 2, 1943

Dear Mr. Wenchel:

I believe it desirable to have a clear understanding as to the procedure to be followed with respect to requests by the Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Committee under section 5012 of the Internal Revenue Code. Under the Constitution the duties and function of the President require that he, or the head of an Executive Department acting for him, determine whether the divulgence of any material so requested would be contrary to the public interest. In order that we act in conformity with this constitutional requirement, it will be necessary that any material you desire to submit in response to such a request should first be sent to me so that I can make the necessary determination for the President. Unless I determine, in such capacity, that to divulge such material would be contrary to the public interest I shall promptly return the material to you so that you may send it to the Joint Committee or the Chief of Staff. This procedure, I believe, need not be followed with respect to requests for statistical information that in your opinion do not raise any question as to the propriety of its divulgence.

I am sending a similar letter to the Commissioner of Internal Revenue.

Sincerely yours,

*(Signed) H. Morganthau, Jr.*

Secretary of the Treasury

J. P. Wenchel, Esq.  
Assistant General Counsel  
Bureau of Internal Revenue  
Washington, D. C.

SSSurrey:hdr  
9-2-43

AMHERST COLLEGE  
AMHERST MASSACHUSETTS

OFFICE OF THE PRESIDENT

September 7, 1943

My dear Mr. Secretary:

I have been very much touched to receive your note of August 27th regarding Peter Odgaard. It is characteristically thoughtful of you that in the midst of your many responsibilities you should take the time to send this note of appreciation to the College.

The College has been eager to make every contribution within its power to the national effort. We have been very happy to make it possible for Peter to be of service to the Treasury. I know how much he has enjoyed his work there and what a deep devotion he has to you personally. I therefore felt a peculiar reluctance to ask him to return to his duties here. Peter however is eminently a teacher, and the Army is insisting on our accepting more and more soldiers for training. The particular unit in which Peter is to be employed is made up of picked men from the entire Army of the United States and we must give them the very best ability which we have.

Again my warm appreciation to you for making it possible for him to take up his duties here.

Cordially yours,



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

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Thursday, September 2, 1943.

Press Service  
No. 38-39

President Roosevelt, broadcasting shortly after 9:40 PM, EST, September 2, will officially launch the Third War Loan drive. He is expected to call for a rededication of America to the war aims of the United Nations and for maximum sacrifice to hasten an early and decisive victory.

The broadcast, which will be carried by all four networks, is expected to reach 70 million people, and will "stop the show" in hundreds of theaters across the country.

Secretary of the Treasury, Henry Morgenthau, Jr., who is directing the drive -- the largest money raising campaign in the history of the world -- will introduce the President.

The broadcast will come as a climax to an hour's program, the first forty-five minutes of which will originate in California.

From Hollywood, beginning at 9 PM, EWT, a program sponsored by the War Activities Committee, will bring the voices of Bing Crosby, Gary Cooper, Burns and Allen, Dinah Shore, Edgar Bergen and Charlie McCarthy, Humphrey Bogart, Robert Young, Don Ameche, Jimmy Durante, Charles Boyer, George Murphy, Ronald Colman and Akim Tamiroff. Kay Kyser's Band will supply the musical setting.

Using as the theme the slogan of the Third War Loan, "Back the Attack!", the stars will present a series of dramatic sketches, recalling the highlights of the war to date, from the first numbing shock of Pearl Harbor, through the slow shift from peace to war, from struggling defense to powerful offense. In anticipation of an imminent invasion of the European continent and the relentless pursuit of the Japanese aggressors from the South Pacific, the Hollywood program will also carry a gay note, reflecting the battle songs of the services.

- 2 -

Government officials here estimate that approximately 17,500,000 of the country's 28,838,000 radio families, with a possible listening audience of more than 70,000,000 persons, will be tuned to the broadcast. Virtually all of the 567 outlets of the four major networks as well as most of the 324 independent radio stations will carry the feature.

Hundreds of motion picture theaters have signified their intention to halt their performance and tune into the President's message.

From Hollywood, the program will switch to Washington where James Cagney, as president of the Screen Actors Guild, will place the Hollywood Bond Cavalcade of top-flight stars and all the resources of the motion picture industry at the disposal of Secretary Morgenthau. After a brief acknowledgment, the Secretary will introduce President Roosevelt who is expected to speak for approximately 10 minutes.

With the President and the Secretary will be members of the "cavalcade", including: Greer Garson, Judy Garland, Fred Astaire, Lucille Ball, Olivia DeHaviland, Kathryn Grayson, Walter Pidgeon, Harpo Marx, Jose Iturbi, Dick Powell, Betty Hutton and Mickey Rooney.

From Washington, the film group will proceed for War Bond shows and demonstrations to Philadelphia, September 9; Boston, September 10; New York City, September 11; Pittsburgh, September 12; Cleveland, September 13; Detroit, September 14; Cincinnati, September 15; Chicago, September 16; Minneapolis, September 17; St. Louis, September 18; New Orleans, September 19; Dallas, September 20; San Francisco, September 23 and Los Angeles, September 24.

Throughout this period, 215 of the bigtime network programs, with an estimated listening audience of 600,000,000 persons, are to present the message of the Third War Loan - the purchase of at least one \$100 war savings bond in addition to present commitments.

More than 800 local programs have been built around high-ranking Army, Navy and Air Force officers, while special short-wave pickups will enable military leaders, commentators and men on the actual battlefronts to report to the American people on the progress of the war.

In addition to the screen personalities on the Cavalcade tour, there will be other stars touring some sixty

- 3 -

cities as an "Airmada of War Veterans." From Los Angeles, Dallas, Chicago, Atlanta and New York, Army and Navy transport planes will leave September 9, carrying groups of Army, Navy, Marine Corps, Coast Guard and Merchant Marine returned veterans, each group accompanied by a Hollywood star who will act as master or mistress of ceremonies at Bond rallies inspired by the young war heroes.

-c00-

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Thursday, September 2, 1943.

Press Service  
No. 38-39

President Roosevelt, broadcasting ~~from the White House~~ shortly after 9:40 PM, EWT, September 8, will officially launch the Third War Loan drive. He is expected to call for a rededication of America to the war aims of the United Nations and for maximum sacrifice to hasten an early and decisive victory.

The broadcast, which will be carried by all four networks, is expected to reach 70 million people, and will "stop the show" in hundreds of theaters across the country.

Secretary of the Treasury, Henry Morgenthau, Jr., who is directing the drive -- the largest money raising campaign in the history of the world -- will introduce the President.

The ~~White House~~ broadcast will come as a climax to an hour's program, the first forty-five minutes of which will originate in California.

From Hollywood, beginning at 9 PM, EWT, a program sponsored by the War Activities Committee, will bring the voices of Bing Crosby, Gary Cooper, Burns and Allen, Dinah Shore, Edger Bergen and Charlie McCarthy, Humphrey Bogart, Robert Young, Don Ameche, Jimmy Durante, Charles Boyer, George Murphy, Ronald Colman and Akim Tamiroff. Kay Kyser's Band will supply the musical setting.

Using as the theme the slogan of the Third War Loan, "Back the Attack!", the stars will present a series of dramatic sketches, recalling the highlights of the war to date, from the first numbing shock of Pearl Harbor, through the slow shift from peace to war, from struggling defense to powerful offense. In anticipation of an imminent invasion of the European continent and the relentless pursuit of the Japanese aggressors from the South Pacific, the Hollywood program will also carry a gayer note, reflecting the battle songs of the services.

- 2 -

Government officials here estimate that approximately 17,500,000 of the country's 28,838,000 radio families, with a possible listening audience of more than 70,000,000 persons, will be tuned to the broadcast. Virtually all of the 567 outlets of the four major networks as well as most of the 324 independent radio stations will carry the feature.

Hundreds of motion picture theaters have signified their intention to halt their performance and tune into the President's message.

From Hollywood, the program will switch quickly to the White House where James Cagney, as president of the Screen Actors Guild, will place the Hollywood Bond Cavalcade of top-flight stars and all the resources of the Motion Picture Industry at the disposal of Secretary Morgenthau. After a brief acknowledgment, the Secretary will introduce President Roosevelt who is expected to speak for approximately 10 minutes.

With the President and the Secretary ~~in the White House~~ will be members of the "cavalcade", including: Greer Garson, Judy Garland, Fred Astaire, Lucille Ball, Olivia DeHaviland, Kathryn Greyson, Walter Pidgeon, Harpo Marx, Jose Iturbi, Dick Powell, Betty Hutton and Mickey Rooney.

From Washington, the film group proceeds for War Bond shows and demonstrations to Philadelphia, September 9; Boston, September 10; New York City, September 11; Pittsburgh, September 12; Cleveland, September 13; Detroit, September 14; Cincinnati, September 15; Chicago, September 16; Minneapolis, September 17; St. Louis, September 18; New Orleans, September 19; Dallas, September 20; San Francisco, September 23 and Los Angeles, September 24.

Throughout this period, 215 of the bigtime network programs with an estimated listening audience of 600,000,000 persons are to present the message of the Third War Loan - the purchase of at least one \$100 war savings bond in addition to present commitments.

More than 800 local programs have been built around high-ranking Army, Navy and Air Force officers, while special short-wave pickups will enable military leaders, commentators and men on the actual battlefronts to report to the American people on the progress of the war.

In addition to the screen personalities on the Cavalcade tour, there will be other stars touring some sixty

- 3 -

cities as an "Airmada of War Veterans." From Los Angeles, Dallas, Chicago, Atlanta and New York, Army and Navy transport planes will leave September 9, carrying groups of Army, Navy, Marine Corps, Coast Guard and Merchant Marine returned veterans, each group accompanied by a Hollywood star who will act as master or mistress of ceremonies at Bond rallies inspired by the young war heroes.

-oOo-

THE SECRETARY OF THE NAVY  
WASHINGTON

September 2, 1943

Dear Henry:

In response to your letter of August 24, regarding Navy cooperation with the Third War Loan Drive, I sent out the following dispatch, dated August 26, to the Chiefs of all Bureaus, the Commandants of the Marine Corps and Coast Guard, the Commandants of all Naval Districts and the Commanding Officers of all Shore Stations in Continental United States:

"It is desired that fullest cooperation be given to War Finance Division, Treasury Department, in Third War Loan Drive. Granting of requests for personnel and material is authorized whenever feasible."

I feel sure that this dispatch will insure the kind of cooperation you are asking for in connection with your campaign.

Under your able leadership I am confident the accomplishment of this task of raising fifteen million dollars is a foregone conclusion. You have, as always, my heartiest cooperation and deep respect.

Sincerely yours,



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

*copies to Messrs  
Sullivan & others  
& Mr. Morgenthau  
9/2/43*

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE  
September 2, 1943

TO: Mrs. Klotz  
FROM: Harriet Elliott

Secretary Morgenthau called me this morning and asked me to send him some suggestions for speeches, based on my trip. This is a hurriedly thrown together statement, which may be too long, but I hope it has some ideas in it.

Please read it, and if I have not made my new approach on the Sacrifice Theme clear, please call me and let me talk to you about this before you give it to the Secretary. I have been trying to get this idea over since I came back, but without success.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

September 2, 1943

TO: Secretary Morgenthau

FROM: Harriet Elliott

My trip convinced me that we have excellent leadership in most of the states and that they are facing this responsibility with a grim determination to see it through. Anything that I suggest in this outline does not mean that the general situation over the country is not good. There was very little criticism of our plans and programs and materials. A recent survey brought favorable reports on posters, newspaper advertisements and radio programs.

LOCAL RESPONSIBILITY

In my meetings, I learned that workers liked the emphasis on local responsibility. They want our suggestions, but they want to adapt them to local conditions. Everywhere, the old refrain was sung, "We are different in this state." Local pride may be our great asset. You should play on this string. In every meeting, I emphasized the fact that since they admitted that they were different, it was up to them to prove that they were also better, etc. My work with the women in every state (except Kentucky and Nevada--these states were not represented at their regional meetings) convinced me that our state unit is our greatest asset.

I know that you cannot make 48 state speeches, but I think it would be to our advantage for you to let the states know that you are expecting each state to prove its efficiency, etc.

SACRIFICE THEME

The Sacrifice Theme should be slightly changed in emphasis. Workers and purchasers need "a pat on the back."

The workers need a positive appreciation speech from the Secretary of the Treasury. I know that you have said thank you in every speech. Now is the time, I think, to make it the major theme in a single speech.

I found a slight tendency for both workers and purchasers to resent the continuous emphasis on the idea that they do not face sacrifice in a forthright way. I am not suggesting that you stop making that point, but I am certain that a bang-up good appreciation speech would bring results.

Secretary Morgenthau

- 2 -

September 2, 1943

On the face of it, this may sound silly. (Of course, you appreciate all that they are doing.) The fact remains that again and again in all parts of the country the question was asked, "Does Secretary Morgenthau know how hard we are working?" I asked one woman if she was seeking praise and medals, rewards and compliments. She hit back with, "Soldiers receive medals, praise, awards, etc. We are told that our work is just as important."

One other group emphasized the point that when soldiers start on a sacrifice drive, the General praises them to the skies-- it is good technique. They made the point that we have taken too much for granted, etc.

Purchasers need "a pat on the back" too. In several places, it was said, "It is so easy for people to do without who have always had everything they need. When we do without, we are giving up so much that we have always wanted, etc."

I am convinced that you should make a positive speech to those making \$5000 and less. I know the reason for asking more from them has been explained, but if you pulled this out and made a real speech on this one topic, I believe it would do wonders to spur them on to greater buying. These people are not interested in the economic analysis of the fact that if those making more than \$5000 invested all their income, it would not pay the bill. We should remember that these people have always compared their status with the advantages of the so-called rich. We need to overcome the age-old attitude of "Let the rich pay the bill."

A down-to-earth, heart-to-heart talk to these people, letting them know in no uncertain way that you know full well what they are being asked to do, what it means in their lives to do without to win, etc., would have good psychological results. People in the low-income group like to feel important.

I am not suggesting that our approach up to date on the need for sacrifice has been wrong, but I am sure that a shift in emphasis by you would be helpful.

A brief reference to the excellent state planning which has been done would be a good "shot in the arm" for the workers. I was more than encouraged with the reports on organization and local planning.

Secretary Morgenthau

- 3 -

September 2, 1943

Since my return, I have heard from 40 state women leaders, telling about their increased state work, following up on the regional conferences. Regardless of heat, vacation months, etc., in most of the states the women have held state meetings, state regional conferences, and some state women report that they have been in every county building up a better organization and explaining the program. This should be remunerative.

I know that over-confidence is dangerous, but I also know that nothing is more helpful than the knowledge that work is appreciated and that success is possible. They want to hear this from you.

#### COMBATING THE DANGER OF LETTING DOWN

You have mentioned, in former speeches, the danger of "letting down" when victory is assured. This should be emphasized again and again. In my meetings I emphasized this. I have noticed that in the reports on state meetings in almost every state, the women have followed up on that theme in their reports to the states.

My suggestion was:

"If you find yourself thinking the war is nearly won, that victory is a sure thing, ask yourself this question: 'Would you be willing for your Government at this time to order cancelation of the production of guns, planes, tanks, ships and ambulances?' If you have a son, brother, husband or friend in the services, you will answer 'no.' You wouldn't take a chance for one minute on stopping the flow of arms and equipment that make our boys proud of fighting for a country that sends them its best. If you don't want war production stopped--you know that the war is not over, nor nearly over--you can show your determination to fight until it is by steadily pushing upward your investment in War Bonds.

"If you haven't told your own boy "goodby" for overseas, you don't know the whole sadness of war. You can be thankful for that, but you still can put yourself in the place of the family who has. You can make up your mind that you are going to do everything in your power to help bring this conflict to an end.

Miss Elliot called  
to say that she  
thinks she overstated  
the three paragraphs  
on Page 4 of your  
government"

WSK:67

Secretary Morgenthau

- 4 -

September 2, 1943

"Money is not far removed from the place of conflict. It is the first line of defense and offense. We must have money to bring back all the boys we can-- boys we love and whom others love--to their homes and farms and offices and schools. What's more, we must bring them back to a land where they can have the fun and opportunities they've missed by being away.

"Our investment in War Bonds is the very best tool we have to insure that they will come back to a United States of America that is strong, healthy and able to prove that it was worth fighting for."

This last may seem to contradict the "pat on the back" suggestion, but both approaches by you are necessary.

#### IT'S YOUR GOVERNMENT

Emphasize that the Treasury, the Government, asking for all this money, is your Treasury and your Government. I think a great many people are inclined to talk of the Government as though it had nothing to do with them, as though it were that Government down in Washington demanding money. This is, of course, ridiculous, but if we can stress the fact that it is YOUR Government, we should be able to make people dig into their pockets more easily.

I've heard a lot of talk lately that makes me think there is a feeling among some people that patriotism is the "bunk." This is true of comparatively intelligent people, too. Somehow, the thought should be gotten in that the Government is the people, that it isn't a private concern taking people's money because it wants to save itself from going bankrupt, but rather that we are all one big family, and when we buy more bonds and pay more taxes we are actually helping ourselves.

Some of the people who have this feeling are cold and sophisticated, usually make a lot of money and spend every cent of it. They buy \$2.00 lunches daily, the highest-priced dresses, etc. They should be told that if they continue buying these luxuries now, they will not even have the necessities later.

You might use this as an example:

Secretary Morgenthau

- 5 -

September 2, 1943

"It seems to me that the women of Pennsylvania in a very fine way symbolize the meaning of the Third War Loan and its slogan BACK THE ATTACK. Women from this state have organized into a "Blue Star Brigade" of workers. The "Blue Star Brigade" is composed of women each pledged to sell \$1000 worth of bonds to back up some man in the armed forces--husband, brother, son, or just the boy down the street. A Blue Star serves as the badge of membership and each member is entitled to wear one. In addition, she wears a Blue Star armband and carries a membership card. She also receives a Blue Star sticker for her automobile. Special appeals have been made to women's organizations to form Blue Star Brigades among their own members, and the response has been very good.

"Other states may, perhaps, have similar Blue Star 'women's armies,' and I do not mean to emphasize one at the expense of others. It does seem to me, though, that this organization of women have caught the full spirit and meaning of the voluntary War Finance program. By their determination to buy and sell bonds to back up our fighting men, they are fine examples of the stalwart character of American womanhood."

Last night, Miss Blake called me from Harrisburg, reporting that never had she seen such enthusiasm. They held a meeting in Harrisburg yesterday.

September 2, 1948

Dear Harold:

I have read the enclosures attached to your letter of August 30th with great interest, and I am returning them to you herewith for your files.

With kind regards,

Sincerely yours,

(Signed) Henry

Dr. Harold Thomas Hyman,  
940 Park Avenue,  
New York, New York.

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

August 30th, 1943.

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

Dear Henry:

The two letters enclosed will give you some idea of the difference between the manner in which the Army and the manner in which the Public Health Service are approaching the problem of five-day treatment. The typewritten note is from Capt. William Leifer who is at Fort Bragg. The twenty-five patients he speaks of having treated have probably been spread over the course of a minimum of four and maybe six weeks. The handwritten letter is from a girl that I persuaded to enter the Public Health Service, and who is in charge of what is called a Rapid Treatment Center in Savannah, Georgia.

With my kindest regards,

Sincerely yours,



Harold Thomas Hyman, M.D.

HTH:CB  
Enc.





and particularly sloppy.

The work is going nicely enough and Daniels displays great interest in it. He is practically the only one who does, and it may be partly due to the fact that it is being done on his service and he has a certain responsibility. At any rate, I like him and admire him though he has not made any effort to warm up. Perhaps 'tis better that way. Off the record (confidential) we have completed treatment on 25 patients, and at present I have 6 more under therapy. I have not had to interrupt therapy on anyone except one patient, who developed fever the afternoon of the 5th day; he got a total dose of 950 mg. instead of the intended 1000 mg. Astonishingly enough his temp. was normal that evening and remained so until his discharge 7 days later. Now, I am having q.2.h. temps. taken on all patients the 5th day and in this way may detect elevation before it goes very far; possibly reactions can be minimized, or at least abated in severity, in this manner.

The first 25 pts. received following dosage: 4 got 800 mg.; 1 got 950 mg.; 18 got 1000 mg.; and, 2 got 1200 mg. The 6 under treatment are receiving; 3 to have 1000 mg. and 3 to have 1200 mg. I have discarded the 800 mg. dose because I fear that the tests are on the insensitive side. That is, some presumably seronegative cases are more likely seropositive. However, such testing should operate in our favor in determination of "cure". I have been able to follow some cases after therapy and they definitely tend to become negative sooner than would be the cases were they subjected to the battery of tests that we employed in our work.

In so far as reactions are concerned, the following is a brief resume; of the first 25 patients again: 13 had primary fever; an additional 3 vomited one or more times the 1st day but had no fever; 2 had extremely mild almost momentary secondary fever without toxicoderma; and, 2 had typical secondary fever with toxicoderma.

SEP 2 1943

Dear Mr. Foster:

Your letter of August 10, 1943, addressed to Mrs. Roosevelt, is being referred to the Procurement Division of the Treasury Department for appropriate attention.

The manner in which property of the National Youth Administration may be disposed of has been fixed by Legislation, and the Procurement Division has the responsibility for effecting such disposition.

The disposal of NYA property in Arthurdale, West Virginia, is under the supervision of Mr. E. G. Dowd of the Procurement Division Regional Office, 235 West 12th Street, Cincinnati, Ohio. Mr. Dowd is being requested to inform you of the conditions under which the Hoosier Aircraft Company may acquire certain NYA properties, after the mandatory requirements of law governing the priority of disposal have been complied with.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. John F. Foster  
Vice President and General Manager  
Hoosier Aircraft Company, Inc.  
Arthurdale, West Virginia

cc: Mr. Dowd, Cincinnati

JFHUGH/mb  
9/1/43

SEP 2 1943

Dear Miss Thompson:

I am enclosing a copy of my letter to Mr. John F. Foster, Vice President and General Manager, Hoosier Aircraft Company, Inc., Arthurdale, West Virginia. This letter is written in response to Mr. Foster's letter of August 10th to Mrs. Roosevelt, which you forwarded with your note of August 24th.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Miss Malvina C. Thompson,  
Secretary to Mrs. Roosevelt,  
The White House,  
Washington, D. C.

By Messenger

JLS:kb

THE WHITE HOUSE  
WASHINGTON

August 24, 1943.

My dear Mr. Secretary:

I am enclosing a letter from Mr. John G. Foster, Vice President and General Manager, Hoosier Aircraft Company, Inc., Arthurdale, West Virginia.

In Mrs. Roosevelt's absence, I am bringing it to your attention as it appears to be a matter for the Procurement Division.

Very sincerely yours,

*Malvina C. Thompson*  
Secretary to  
Mrs. Roosevelt.

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

OSIER Aircraft Company, Inc.

Fabricators of Plastic-Plywood Aircraft and Parts

4221-4222

Plant: ELKHART, INDIANA

August 10, 1943

Address reply to:  
Arthurdale, West Virginia

Mrs. Eleanor Roosevelt  
The White House  
Washington, D. C.

Dear Mrs. Roosevelt:

Your recent visit to our plants here at Arthurdale inspired our entire organization, from the janitor on up through all of the departments, to a point where each one of us tried to give a little better than our best to the job in hand.

Of course, we like many others, have had problems confront us but happily the right solution has always been found. Our force is daily being expanded which is resulting in daily increased production.

It has recently been brought to our attention that certain buildings and equipment formerly used by the National Youth Administration here in Arthurdale are to be made available to Government agencies, States, organizations, etc.

The Arthurdale Association has so far made available to us eight houses for use by our employees. These, we have repaired, painted, and re-equipped throughout and are now occupied by our workers and their families. We could use many additional houses and have been advised by the Arthurdale Association that they will make these houses available to us as they become vacant. When these houses are turned over to us we put our own crews of carpenters and painters to work repairing and painting these properties.

When we moved to Arthurdale, we were given immediate possession of Blocks Nos. 1 and 3 and were to have had possession of Block No. 2 in approximately 30 days from the signing of our lease. Block No. 2 was then being used by the National Youth Administration. We own certain pieces of machinery, equipment, etc. In a spirit of cooperation we were very glad indeed to wait 30 days for this Block No. 2. However, the National Youth Administration is still

Page 2

Mrs. Eleanor Roosevelt  
The White House  
Washington, D. C.

August 10, 1943

occupying this building and we have been unable to ascertain just when they expect to make this building available to us.

The National Youth Administration have certain machinery and equipment here in Arthur Dale which we could use advantageously in our production program for the War Effort. If this machinery and equipment were made available to us, we could augment our personnel immediately; thereby increasing our payroll by an additional approximate amount of \$6,000 weekly.

It seems to us it would be most economical from the Government's standpoint to avoid expensive moving, redistribution, sales, advertising, and various other costs, which would be necessary were this machinery and equipment to be moved out of Arthur Dale for use elsewhere.

Certain of this machinery and equipment, if made available to us, can be put into operation immediately thus effecting a step-up in our employment and production programme for the War Effort.

Our purpose in writing you is to ask whether or not you would inform the proper Government agency in charge of this machinery and equipment of our needs with the thought in mind that we would lease this equipment on a token rental payment basis for the duration, and that certain of the now vacant National Youth Administration buildings which we could use to advantage be made available to us on the same basis.

We would, of course, be willing to keep up the necessary repairs to such of the National Youth Administration items which were placed in our custody.

If our request is not out of order, we will greatly appreciate your assisting us along the lines outlined above.

Respectfully yours,

HOOSIER AIRCRAFT COMPANY, INC.

*John F. Foster*  
John F. Foster  
Vice President and  
General Manager

FF:mev

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

September 2, 1943

TO Secretary Morgenthau  
FROM Mr. McConnell

There is attached a preliminary draft of "Government V-Day Problems." This draft is merely a brief listing of some of the matters which will be crying for attention and direction on the day after the armistice is signed.

Before a properly considered judgment could be made regarding the solution of any one of the seventy different problems posed in the tabulation, it would be necessary that months of study and discussion be undertaken by many separate groups of experienced men competent to deal with such problems and arrive at sound recommendations.

The tabulation serves to point up the enormous scope and breadth of the undertaking and indicates the number of Departments and agencies of the Government which would be involved. It also emphasizes the necessity for some over-all direction of the problem as a whole.

The whole intricate problem of costs and financing has not been dealt with in this brief agenda. It also should be pointed out that the proper solution for many of the problems will require special legislation.

*T. E. M.*

attachment

## SECOND PRELIMINARY DRAFT OF GOVERNMENT WAR DAY PROGRAM

(For purposes of discussion and revision)

APR 28 '45 DAY

OBJECTIVE

AGENCY

FUNCTION

## PART IV - POST-WAR PROBLEMS:

A. RELEASE OF MEN FROM WAR EMPLOYMENT.  
(FROM FIRST WEEK TO FOUR MONTHS.)

The transfer from wartime production to peacetime production with a minimum of unemployment and waste. (While our returning soldiers, sailors and marines have justly been promised first call on their old jobs, the first items on the agenda must deal with the solution of unemployment engendered by cessation of war production.)

(See Footnote)

EWS

EWS-C

EWS-D

EWS-E

T

FSA-C

FSA

FSA

FSA-D

FSA-E

FSA-F

I

1. Cancellation of war contracts.
  - (a) Modifications and advances not usable in peace.
  - (b) Consumers goods. (Perhaps over short term period, dependent on severity of unemployment.)
  - (c) Termination allowances. (Specify conditions early.)
  - (d) Promptness of payments. (Specify conditions early.)
  - (e) Necessity for legislation covering prompt and equitable settlement of war production losses.
2. Absorption of war workers in peacetime employment.
  3. U. S. Employment Office expansion.
  4. Retraining.
  5. Education.
  6. Loans to distressed areas or groups.
  7. Severance pay.
  8. Unemployment insurance.
  9. Reduced hours per week to increase number employed.
  10. Balance of Government employees.
  11. Public relations.

B. USE OF SURPLUS PROPERTY.  
(FROM FIRST MONTH TO ONE YEAR.)

The disposition of all available stocks of goods to fulfill peaks of high demand.

T

T

T

T

I

T

S

S

EWS-T

1. Inventory and segregate that part of wartime material useful in peacetime.
2. Lay out procedure for immediate controlled sale of consumer goods as it becomes surplus material.
  - (a) Furnish supply to satisfy demand or demand with minimum dilapidation of private endeavor.
  - (b) Influence on inflation tendency.
3. Conversion or swapping war material not in (2) above.
4. Export - Foreign trade.
5. Relief requirements.
6. Pre-emption release of surplus supplies and materials.

C. RELEASE OF MEN FROM THE ARMED FORCES.  
(FROM FIRST MONTH TO TWO YEARS.)

The rapid reabsorption of men from the armed forces into peacetime activities.

EWS-FSA-C

EWS-FSA-D

EWS-T

FSA-C

EWS-FSA-I-VA

FSA-VA

VA

1. Timing dependent on (a) military and foreign policy, (b) transport, (c) armitation length.
2. Priorities (a) dependency, (b) age, (c) length of service, (d) skills, (e) individual preferences.
3. Demobilization furlough pay - adjusted compensation.
4. Unemployment insurance.
5. Absorption in private industry.
6. Education training (a) schools, (b) trade schools, (c) colleges.
7. Delineation of functions of Selective Service, Veterans Administration, and U. S. Employment Office.
8. Rehabilitation.

D. USE OF WAR PLANT AND WAR DEVELOPMENT MATERIAL.  
(FROM FIRST MONTH TO TWO YEARS.)

The disposition or integration of war plant facilities for efficiently meeting peacetime needs.

E-EPIC-T

E-EPIC-T

E-EPIC-T

APC

1. Classify war plants (a) immediately usable in peace, (b) usable in the future, (c) convertible, (d) standby for national safety, (e) pilot plants, (f) scrap or second hand equipment.
2. Plan for immediate utilization of 1(a) above, and subsequent disposition of 1(b).
3. Suggest procedure for conversion, for separate utilization of structures, storage or separate sales of equipment, etc.
4. Utilization of ghost war committees.
5. Alien property utilization.

E. THE RELAXATION OF WARTIME ECONOMIC RESTRICTIONS.  
(FROM FIRST MONTH TO 7)

The prevention of any unusual fluctuations or distortions in prices and production during the period of transition to peacetime production.

EFA-T-C

EFA-T-D

EFA-T-EFA etc.

1. Price control policy related to (a) business activity, (b) employment, (c) national income, (d) inflation, (e) tax burden.
2. Allocations of materials related to (a) progress of demobilization, (b) sale of surpluses, (c) improved supply, (d) foreign relief, etc.
3. Other wartime controls: rationing, manpower, wages, export, etc.

## F. STIMULATION OF PRIVATE ENTERPRISE UNDER TRANSITION PERIOD

A. ENCOURAGEMENT OF PRIVATE INITIATIVE.  
(SHORT RANGE (6 MONTHS TO 1 YEAR.)

Business and prompt production of peacetime requirements and increased employment.

T

T

T

T

T

T-EPIC-FR

C

1. Tax adjustments to increase employment.
  - (a) Prompt reduction of total burden.
  - (b) Redistribute burden to increase payrolls.
  - (c) Inducement to capital expenditures, which includes reconversion as well as new enterprises.
2. Indemnities, refinancing and repurchase of war bonds. Policy, publicity.
3. Financing.
4. Stimulate prompt dissemination of knowledge of war inventions adaptable to peace activities.
5. Stock piles for national safety.

B. GOVERNMENT AID AND CONTROL.  
(LONG RANGE (1 to 4 YEARS.)

Build reserve of buying power after initial stocking up period. Provide economic climate conducive of prosperity but avoiding flash booms.

T-D

T

T-D

OSRD-C

C

E

1. International monetary stabilization.
2. Long-range tax policy.
3. International tax policy.
4. Stimulate research and development.
5. Patent law.
6. International trade and foreign investment arrangements.

## 3. EMERGENCY SCALE OF PUBLIC WORKS PROJECTS:

A. SHORT RANGE.  
(SIX MONTHS TO 1 YEAR.)

To provide an emergency bridge for initial impact of unemployment after "W" Day.

FRA

1. Short-time projects. Small projects and large undertakings in which the blueprint stage is short enough to permit employment of large numbers within thirty days of legislation, and which could be terminated in thirty days.  
(To be outlined.)

B. LONG RANGE.  
(ONE TO FOUR YEARS.)

To be prepared to take care of unpredictable unemployment and to produce finished works of high usefulness and utility. Engineering, drafting and blueprint stage should be started promptly.

FRA

1. Long-time projects to employ a substantial number of workers within six months of initiation.  
(To be outlined.)

## 4. FINANCIAL AND TRADE POLICY:

Adjustment of policies to further reconversion and maintain unemployment.

T

FD-C

FD-T

I-F

S

T

T-OSRD

T

S

1. Taxation.
2. Interest rates, discounts, deposits, etc.
3. Consumers credit policy, (a) installment buying, (b) mortgages.
4. New material deposits reserved for national safety.
5. Foreign rehabilitation aid.
6. Foreign credits.
7. Private industry capital requirements.
8. Treasury refunding.
9. Exports - imports.

## Footnote:

APC - Alien Property Custodian  
C - Commerce  
FR - Federal Reserve  
FSA - Federal Security Agency (including Selective Service, U.S. Employment Service, and War Manpower Commission)  
FRA - Federal Works Agency  
I - Interior  
L - Labor  
U - Office of Price Administration  
OSRD - Office of Scientific Research and Development  
EFC - Reconstruction Finance Corporation  
S - State  
SEC - Securities and Exchange Commission  
T - Treasury  
V - War  
EWS - War, Navy, Maritime  
EWP - War Production Board  
VA - Veterans' Administration.

Note: This draft is tentative, has no authoritative, and is subject to deletions, additions, and corrections.

R. H. W.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 289

Information received up to 10 a.m., 2nd September, 1943.

1. AIR OPERATIONS

WESTERN FRONT. 31st/1st. BERLIN. 1,359 tons dropped including 268 4,000 lb. H.E. and 611 tons of incendiaries in about 50 minutes. Although cloud prevented identification of ground objects it did not hide the marker bombs which were at first rather scattered. Accuracy and bombing concentration of main force improved later. Good concentration of fires finally reported one conflagration emitting smoke to 7,000 feet. Night Fighters very active, 4 of them shot down.

FORET de HESDIN. Marker bombs well placed and no opposition. 68 tons dropped, several explosions seen.

1st. Bostons bombed ROOSENDAAL Railway Centre near ANTWERP. Fighters damaged 2 Trawlers, a Flak Ship and 2 Barges off HOLLAND.

ITALY. 30th/31st. Wellingtons dropped 84 tons on CIVITAVECCHIA starting fires in the town and Harbour and hitting a transformer station and chemical factory.

31st. 152 Fortresses dropped 406 tons at PISA, hitting a railway round house, a gas works, and an aircraft factory and several grounded aircraft. At PESCARA, the Railway station and a bridge were hit by Liberators which dropped 84 tons. Enemy casualties - 16. 2. 0.

BURMA. 29th. Mitchells and Liberators bombed MYITKYINA, hitting the station railway siding and rolling stock.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

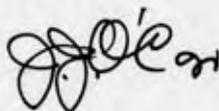
September 3, 1943

TO Mrs. Klotz  
FROM Mr. O'Connell

I reported to the Secretary verbally on the matter you spoke to me about on the telephone this morning.

For your information, we have never received a reply from our letter to Secretary Stimson and as I told the Secretary, our letter did not anticipate a reply, since it was couched in terms of submitting information to the War Department for its information.

I am returning the article from Thursdays P.M., as I assume you will want it for your files.



# Hitler's Master Plan for a 'Soft Peace'

## U. S. Capital, Smelling Profits, Goes Into Nazi-Controlled French Firms

By Waverley Root

American soldiers are well on the way to winning the war. But American businessmen can lose it. For it is not enough to beat Germany on the battlefield. She must be deprived of the power to resume hostilities as soon as the democracies have demobilized.

That means Germany must be beaten industrially, economically and politically, as well as militarily.

Hitler probably gave up all hope of winning the military war when Stalingrad held fast for two. But he intensified his campaign to win the economic war, as his last hope. The chief battlefield of that campaign is North Africa. His principal troops are the French collaborators, whose only chance of saving themselves is to save their German friends. The means they are using is the attempt to draw American business into partnership with themselves, and thus indirectly into partnership with the Germans.

If the plan succeeds American business will have an interest, which the peace treaty is made, in preserving the gains that German business has made through the conquests of the German empire.



Pierre-Etienne Flandin, who was negotiating with Hitler at Munich, is shown in U. S. troops into North Africa.

Prussian among the collaboration with the Germans in this country. The majority of French troops that are equipped, American life was saved through Lorraine-Delmeur. He was a man who had spent the Ligne des Condés (the "Temple's League"), a private group organized by Lorraine-Delmeur to assist the French in their fight against the Germans. He had been instrumental in organizing big department stores like Lorraine-Delmeur in one of the largest in Paris in a sort of protection against the demands of labor and the prosecution of the government that profits should be taxed. He gained control of the railway, ultra-nationalist Party, Le Jour, and as director of the Lorraine-Delmeur, the big representative of company of France, he represented his own's Danish bank shortly after the invasion, and he has to operate a few months of Germany.

Most of the Lorraine-Delmeur's business turned out was profitable during the war. The profits came from North Africa. For that reason, Lorraine-Delmeur made long trips from occupied France to North Africa, and, in return, the permission of the Germans. That gave him opportunity to sell out to the Germans and to the United States. He was a man who could see from North Africa, except of France—the development of the industry by essentially French firms, which was really German-owned.

And it was in July 1942, shortly after Scheidt had been given this assignment, that the first German attempt to involve American capital, through France, in German bank enterprise, was undertaken.

### French Consortium

A circular was sent to representatives of American companies in occupied France (we still recognized Vichy) that, according to the creation of a 50,000,000-franc Franco-American consortium for the reconstruction of Europe after the war. It was stated that 45 per cent of the capital would be put up by French banks, 20 per cent by the Bank for a well-known American banking firm, and 35 per cent by French branches of American banks and business firms. The German would have been on it by virtue of their control of all the banks in the country.

The French Trust American Co. was created as a trust to invest all works of North Africa, and to be controlled by the French Trust American Co. Once again, the French was French.

### New Companies

Victims were French companies spring up to operate in North Africa. The French chemical industry organized a subsidiary to develop that Africa resources at the plant of Morocco. So far, at least, the French Trust American Co. is the only one that has been set up in North Africa. The parent company, as we have already seen, was owned 21 per cent by American companies.

The French Trust American Co. was created as a trust to invest all works of North Africa, and to be controlled by the French Trust American Co. Once again, the French was French.

### Part III Bait for U. S. A.

Up to this point, Germany had been winning (but the military war had not been won), and the U. S. A. was in a position to simply to punish the Nazis to get the results of war which also had been won. But the U. S. A. was in the hands of Hitler in 1942. The failure of Paul Harbo to supply war resources to the Axis is the only possibility that Germany could have had. German industry shifted its emphasis to the complete blockade of the Axis, and that meant to starve the Axis of the raw materials which, until the war, had been supplied to the Axis by the French collaborationists. The major partners in the French consortium was the French

German trust, had been operating the French Trust American Co. in a way that was developing in which it would be necessary for the parent company to supply a certain portion. The French might be able to draw the Americans into the net, as the Germans had done. The Germans had done this in the past, and they had done it so well that they had been able to secure the economic and political ends of the Bank.

The Germans themselves could not deal directly with the Americans. They knew that, because they had tried it.

Germany's first attempt to involve American business into a partnership with the French was the setting of strong American influence for a "soft" peace for Germany. Germany's first attempt to involve American capital, through France, in German bank enterprise, was undertaken.

And it was in July 1942, shortly after Scheidt had been given this assignment, that the first German attempt to involve American capital, through France, in German bank enterprise, was undertaken.

### Why Too Suspect

But the head of the American consortium wanted to add one more thing to which they had to be taken at the time to the reports. He began to say that the consortium was not what it was in 1942. It had happened to be in the hands of the Germans.

Vichy had evidently wanted to suggest a French loan to help American business into the Franco-American circle. But Africa provided a more profitable market, and the creation of Africa had been the work of Jacques Lorraine-Delmeur. It was at this juncture that he began to say that the consortium was not what it was in 1942. It had happened to be in the hands of the Germans.

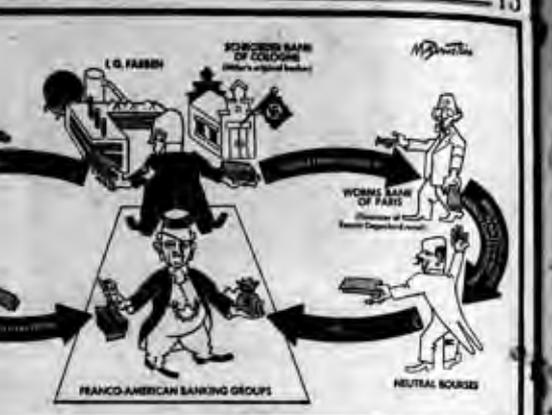
According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### 'The Plot Works'

The entire reason for the attempt was that the Germans were able to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### The Meeting Ground

Just as French businessmen were being drawn into the Franco-American circle, so were American businessmen. The meeting ground was the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.



### Part IV Contact Points

The point of contact between French business (controlled behind the scenes by German business) was varied.

### Part V Contact Points

Ernst Kautz, the American representative, a firm of French capital, which could not have been obtained from the multiple without German consent, was in North Africa.

### Part VI Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part VII Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part VIII Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part IX Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part X Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part XI Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part XII Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part XIII Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

## Part I Paper Bullets

The story of the economic war, and of the part played in it by certain French institutions, begins before the war. It is the story of two organizations: the Franco-German Editorial Committee and the Franco-German Editorial Committee.

The Franco-German Editorial Committee was the Franco-German heavy industry trust, which aimed at establishing industrial domination over all Europe. For French members—old violently reactionary in politics—accepted the role of senior partners in German heavy industry was more important than French.

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel), which were French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

## Part II Victory, Inc.

But it was not enough for France to work for Germany in the relationship of manufacturer and customer. Germany wanted also to own French industry and finance in the same way that the German military trust is linked to German heavy industry and the French, although not the very same.

One thing is certain: it was the loss which had been involved in the Oldfield affair, the man who had heavy industry was more important than French.

### The Franco-Fin

The Vichy government began to see as a serious line of action a service to which the French economy had been paid—no to work in defence of France, a man whose past was connected with the German had forced him to the industrial side of the financial sector. Information. A special Vichy decree was issued obliging French stockholders of Harco, official French trust agency, to sell out to German buyers.

### The Rush to Sell

President De Gaulle, of the big French chemical concern, Harco, was not a man who was in a position to simply to punish the Nazis to get the results of war which also had been won. But the U. S. A. was in the hands of Hitler in 1942. The failure of Paul Harbo to supply war resources to the Axis is the only possibility that Germany could have had. German industry shifted its emphasis to the complete blockade of the Axis, and that meant to starve the Axis of the raw materials which, until the war, had been supplied to the Axis by the French collaborationists.

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

## Part III Bait for U. S. A.

Up to this point, Germany had been winning (but the military war had not been won), and the U. S. A. was in a position to simply to punish the Nazis to get the results of war which also had been won. But the U. S. A. was in the hands of Hitler in 1942. The failure of Paul Harbo to supply war resources to the Axis is the only possibility that Germany could have had. German industry shifted its emphasis to the complete blockade of the Axis, and that meant to starve the Axis of the raw materials which, until the war, had been supplied to the Axis by the French collaborationists.

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

These Frenchmen also held leading positions in the two great French trusts, the Grand Paris (steel and armaments) and the Grand Steel (steel).

## Part IV Contact Points

The point of contact between French business (controlled behind the scenes by German business) was varied.

### Part V Contact Points

Ernst Kautz, the American representative, a firm of French capital, which could not have been obtained from the multiple without German consent, was in North Africa.

### Part VI Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part VII Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part VIII Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part IX Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

## Part X Contact Points

The point of contact between French business (controlled behind the scenes by German business) was varied.

### Part XI Contact Points

Ernst Kautz, the American representative, a firm of French capital, which could not have been obtained from the multiple without German consent, was in North Africa.

### Part XII Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part XIII Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part XIV Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

### Part XV Contact Points

According to his own account, he had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle. He had a number of letters directed to the U. S. A. as to how to get American business into the Franco-American circle.

September 3, 1943  
11:12 a.m.

HMJr: Hello.

Operator: General Greenbaum.

Edward  
Greenbaum: Yes, Henry.

HMJr: Eddie.

G: Yes.

HMJr: This is official. I don't know whether you saw the two-page story last night in P-M about the Germans and the French and....

G: No, I didn't.

HMJr: ....the financial - there's a two-page story - uh - the gist of which is that the - a bank of Worms - W-o-r-m-s, a French bank - is supposed to be the people who are the most active - you see?

G: Yes.

HMJr: Now - oh, I don't know how long ago - I sent a letter to Mr. Stimson showing that the representative of the Bank of Worms, a man by the name of Dariot....

G: Oh, yes.

HMJr: ....a colonel under Gregory, did not comply with the Treasury regulations on making out this form showing about his foreign interests, you see?

G: I remember.

HMJr: Hello?

G: Yes.

HMJr: And they've done nothing about it. Now I - this is just a friendly warning - uh - why wait 'till P-M finds out that the representative of the Bank of Worms is a Colonel in a high position in the War Department?

G: I get you.

- 2 -

HMJr: What?

G: I get it.

HMJr: Now, sooner or later they are going to find it out and then you fellows will have to scurry around and try to explain it.

G: I'll get hold of it right away and get busy on it.

HMJr: It's just a friendly tip. I thought I'd rather call you than call up I.F. Stone.

G: Yes. (Laughs)

HMJr: (Laughs)

G: Well, thanks very much. It's very appreciated. I'll take it up.

HMJr: Yeah.

G: Jack McCloy knows about the thing and I'll....

HMJr: Well, I - I can't understand why they've - I understand that G-2 - General Strong knows about it. He was interested but - I don't know - there was something funny went on over there.

G: Well, I'll....

HMJr: Not with Strong.

G: I know. Okay, I'll - I'll....

HMJr: But this is a matter of a friendly gesture on my part.

G: Thanks ever so much. I'll take it up right away.

HMJr: Thank you.

G: I appreciate it a lot.

September 3, 1943

Joe O'Connell.  
The Secretary.

Is there any question about the legality of Prime Minister Winston Churchill buying a United States Government War Bond? John Sullivan has raised the question. I'd like to know. As a matter of fact, for your own information, I am personally paying for the bond but before the newsreels, he will be saying that he is buying the first bond of the Third War Loan. Just as soon as you have the information, be sure and come right in to see me. Thank you.

*Finished -*

September 3, 1943

HM Jr sold a \$100 War Bond to Prime Minister Churchill before the News Reel Cameras:

HM JR  
To launch the ~~Third~~ War Loan Drive, Mr. Prime Minister, I am glad to sell you the first hundred dollar Bond. You are setting an example for the fifty million Americans who are being asked to buy an extra hundred dollar Bond during the month of September.

Today being the fourth anniversary of the entrance of your people into the war, I think this is a good way to commemorate it.

PRIME MINISTER CHURCHILL  
Thank you, Mr. Secretary:

I can't think of a better way to commemorate the anniversary. I will tell you what I will do. We will use this Bond to commemorate another event. I will give it to the first American soldier who sets foot in Berlin.

SEP 3 1943

Dear Mr. Bristol:

The other day a group of officials in my department of the War Finance Committee presented to me a beautifully bound book constituting a record of the advertising support given during the first six months of 1943 to the War Bond campaign of the U. S. Treasury Department by the Drug, Cosmetic and Allied Industries.

I want to express the appreciation not only of myself but of your Government on this patriotic voluntary contribution by the Drug, Cosmetic and Allied Industries. This is a vitally significant contribution because it is a completely organized activity on the part of an industry dedicated to the sole objective of promoting the sale of War Bonds. Its unselfishness has been clearly indicated by the fact that no commercial product advertising was employed.

The record as indicated by the book now in my possession is a valuable pattern which we hope other industries may see fit to employ likewise. At all events, your leadership and cooperation deserves full recognition from us all. It is a splendid contribution to the winning of the war.

We are now in the midst of the tremendously important Third War Loan campaign beginning September 9th. In connection with this Third War Loan campaign, the necessity for reaching a far greater number of individual subscribers than ever before renders your medium of contact through your extensive advertising more important than ever.

As Secretary of the Treasury, I wish to express to you my appreciation of the helpful cooperation which all your participating companies have accorded our War Bond drives.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Lee H. Bristol, Chairman  
Drug, Cosmetic and Allied  
Industries Committee  
630 Fifth Avenue  
New York, New York

FS:gr

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 3, 1943

to Secretary Morgenthau

FROM Fred Smith (FS)

This is a letter for the Drug Industry, which replaces the meeting you were to have with representatives of the Industry. It was their idea that this would serve the purpose as well.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 3, 1943

TO Secretary Morgenthau

FROM Fred Smith

SAX

You will be interested in the following memorandum from Emerson Waldman.

"We The People" inform me that they will let us know tomorrow, September 3, the guests they propose having on the broadcast from Monticello on September 12. The producer of the program, as a result of the research done in Charlottesville, is quite enthusiastic about the "local" possibilities for participation in the program."

(F3)

September 3, 1943

Randolph Paul.

The Secretary.

I understand that you will be back Saturday. I think it's very important that you see Judge Vinson and explain the program to him. I don't want him to have the opportunity to say that he didn't know about it. I also think that we should ask to see Judge Byrnes - Justice Byrnes - for an opportunity to explain it to him. At least, I want to make every effort to get this program to them before we see the President. We will hope that they will be helpful. Thank you.

*Paul saw Byrnes  
but was unable to  
see Byrnes as he  
went out of town -*

THE WHITE HOUSE  
WASHINGTON

September 3, 1943

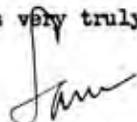
Dear Henry:

With respect to your letter of August twelfth, addressed to the President, about a dispute which has arisen between the Alien Property Custodian and the Treasury, which the President referred to me, I understand that the matter is in process of negotiation between the respective agencies.

Will you please inform me when an impasse has been reached and I will be glad to take it up further?

I assume that as long as your staff is discussing it with Mr. Crowley's staff in an amicable way, their negotiation should continue until a breakdown.

Yours very truly,



SAMUEL I. ROSENMAN

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

## MEMORANDUM FOR THE SECRETARY.

September 3, 1943.

Mail Report

Tax mail for the week -- three times heavier than that of last week -- was again filled with acid comments about the Declaration of Estimation. The farmer who wrote that he simply proposed "to wash his hands of this estimating" voiced the general sentiment of our taxpaying correspondents. The 80 communications concerning only the Declaration pointed out the impossibility of estimating income for the final three months of the year, and most of them were complaining of the complexity of the forms. Several denounced as Fascist the penalty for incorrect estimation. Every day brought one or two letters from persons calling attention to what they considered an error in the instructions -- the omission of "not" before the phrase "more than \$3,500 a year if married". A number of completed forms were sent to the Secretary, some with very pointed comments along the margin. Others were returned with a note that the addressee is now in service overseas. A number of writers asked that the date of filing be extended to October 15, and one suggested that for the benefit of accountants and Collectors of Internal Revenue all dates for future filings be staggered.

A dozen protests against further increase in taxation were in most instances accompanied by a demand for economy in Government expenditures. The new CIO tax program had 5 endorsements; the sales tax only 3. A tax certificate of smaller denomination was requested a number of times, and there were requests as to how to handle previously purchased certificates. A doubt of the Government's probable promptness in making any refunds that may be due in 1944 ran through all the mail that dealt specifically with tax payments.

Although not increased in such proportion as the tax mail, Bond mail was heavy. It mostly consisted of

- 2 -

Memorandum for the Secretary.

September 3, 1943.

ideas for the 3d War Loan Drive, or letters in regard to plans, appointments, etc. With the exception of a few persons who predicted failure because of New Deal tactics or Government extravagance, all those who commented on the Drive expressed approval of existing sales organization, and confidence in the success of the campaign. General suggestions followed the course of previous mail. There was one suggestion that "E" Bonds be sold at slightly higher rates and made tax-exempt. Members of the Armed Forces have taken the lead in asking for the issuance of special Christmas Bonds. A few business firms asked permission to grant increases in the form of Bonds, or to encourage sales during the campaign by matching, within reasonable limits, each Bond bought by an employee. In spite of the greater volume of mail, fewer Bonds were submitted for redemption, and fewer complaints of any sort were received.

In the miscellaneous mail there were 4 requests for copies of the radio address recently delivered by the Secretary in Baltimore. Interest in the invasion money used in Sicily lapsed completely, but there continued to be interest in plans for an international stabilization fund.

Mail forwarded from the White House was again very small in volume and very dull in comment. During August only 241 pieces of mail were forwarded, of which 106 were acknowledged in the Correspondence Division. What little mail came over consisted mostly of requests for some sort of help, ranging from assistance in connection with the Estimated Income Tax problem to a plaintive request for a more equal distribution of beer. There was almost no mail in connection with the Bond Drive, and few suggestions in regard to taxation.

Gabriel E. Forbush

General Comments

Harry S. West, Altoona, Pa. I am a groceryman and had my first experience with the new pennies, which I think is one of the most absurd things our intelligent U. S. Government has ever done. These pennies, when new, are the same size and color of a new dime (as you know), and are certainly a head-ache to the businessman. The least you could do would be to change the color or distinguish them from the other money by some plain mark which would overcome the fact that the businessman will lose thousands of dollars a year. \* \*

C. Mervyn Young, Wynnewood, Pa. May I have a copy of your interesting radio address in Baltimore, Maryland? Thanks.

Anonymous -- Camden, N.J. I see in today's papers you want more taxes. On Saturday night at the Trans Lux in Philadelphia when pictures of MacArthur, Eisenhower, and the President were shown, there was silence. But when a Russian picture was shown, there was great applause. And whom do you think patronizes the Trans Lux? Think it over. There is trouble ahead and you fellows are causing it.

George A. Easley, President, The National Iron Bank, Morristown, N. J. \* \* \* As President of this bank, and as Vice Chairman in Morris County of the Third War Loan Drive, I have a dual interest and responsibility in the undertaking, and it has had and is having my most earnest consideration. There is, however, a serious handicap facing us in common with all other banks which if left to drift must of necessity seriously impair or lessen the effectiveness of our efforts to accomplish the objective which you have set out for us, and which we all hope to achieve. \* \* \* We have lost to the war

- 2 -

services and industry practically all of our male employees. Eliminating five old janitors, 93% of our present employees are women. \* \* \* The women employees whom we have engaged in substitution for the men are doing excellent work, and we would be highly gratified if we were allowed to keep them, especially since we have been put to the expense and time of putting them through a course of training. Unfortunately, however, when trained, they become qualified for positions of responsibility in war plants where they are in demand, carrying increases in compensation to them as much as 60% more than our authorized salary schedule. \* \* \*

In order to relieve the situation, we filed more than three months ago, in accordance with regulations issued under Presidential Order, an application with the Regional Office of the Salary Stabilization Board for salary increases for our staff, and notwithstanding the fact that we have since been in constant touch with that Board, we are informed that no consideration can be given us until such time as they have received an approved schedule adopted by the War Labor Board applying to the banking industry. During all of this time we have been encouraging our staff to remain on their positions by promising them salary advances, but the continued delay on the part of the Regional Board is causing some of our staff either to doubt our sincerity or our ability to secure the necessary authority to make such salary increases effective. No one knows better than you the added burden that the present war effort has thrown on the banks of the country, and this is especially true of small country banks such as ours, restricted as they are by the salaries which they can offer. \* \* \*

- 3 -

Favorable Comments on Bonds

Lew Kent, Program Director, WMAZ, Macon, Georgia. Referring to your letter concerning the "Treasury Star Parade" programs to begin running during the 3rd War Bond Drive, September 9th through September 30th, I would like to commend your office on being able to secure such a wonderful array of talent. I would like to say also that during the past, the "Treasury Star Parade" programs have been exceptionally well done, and we consider it a privilege to broadcast them regularly over this station.

Dr. S. F. Galaskiewicz, Dentist, Chicago, Illinois. I would greatly appreciate a copy of your address, "The Third War Loan", given over the radio Thursday. At this time I wish that with the aid of God, you keep up your good work.

Mrs. Wolff Lowy, Brooklyn, N.Y. Have given my personal check for \$10,000 for the 3rd War Loan, which will be issued September 9 through the Brooklyn Trust Company of Brooklyn, New York, and I can assure you it is one of the happiest moments of my life. Hope my share will help to meet the goal. Our only son of 19 years is in the Armed Forces.

Captain Edward C. Reamer, Ninth U.S.A. Air Force Headquarters, War Bonds & Insurance Office, c/o Postmaster, N.Y.C. Information is desired by this headquarters if special War Bonds with distinctive markings will be issued by your office for use as Christmas presents by men in the field. This office has received several inquiries from Unit Bond Officers requesting information. It is the opinion of this office that if such a plan was instigated whereby Bonds purchased prior to Dec. 1 would be delivered on or about Christmas week, sale of Bonds in this theater would be increased by fifty percent or more.

- 4 -

Unfavorable Comments on Bonds

Virgil W. Cutright, Smithton, Pa. I have written and written about my December Bond that was lost, and all I can get is letters. It looks to me like they could send my Bond. It was lost in December; it is now September and no Bond yet. \* \* \* I either want my Bond or the money I paid in. \* \* \*

Mrs. A. J. Schroeter, Centralia, Ill. I have been advised to write you in regard to the charge we had to pay to cash 13 of our War Bonds. We cashed them for the sole purpose of helping to make a down payment on a home. When I took them to the City National Bank, Centralia, Illinois, to be cashed, was told there would be a charge of fifty cents each, and when they called to tell me the money was there, and I went to get it, I endorsed the check, and when they cashed it, was told they would just keep five dollars for their trouble. I feel as every one else does that that isn't fair. It really discourages us about buying any more Bonds, but yet we know we should do all we can to help. Thanking you to tell us if they have the right to charge this fee.

Fred P. Wood, President, Simplex Paper Corporation, Adrian, Michigan. The purchase of War Bonds is a very necessary obligation of the citizens of these United States of America. War supplies cannot be purchased, the fighting forces paid, without the citizens purchase Victory Bonds. That is absolutely true, and it is incumbent upon citizens to do this. That we fully recognize. Nevertheless, there is no reason why Government agencies should not do exactly what the Government asks its citizens to do, and that is come to some realization that we are engaged in a war, a very costly war. I think I can say to you, without hesitation, that 50% anyway, and possibly a higher percentage, of the great long telegrams received from the Government agencies do not need to be sent as a telegram, and

- 5 -

this telegram of yours of August 23rd certainly comes under that category. \* \* \* The drive does not take place before September 1st. A letter, which would only entail the use of a 3¢ stamp, would have been just as good. I, as a citizen, believe this -- that Government agencies are the servants of the people, not the masters, and I feel I am justified, as a citizen, in suggesting to you that you be economical in the use of public funds. \* \* \* I don't know how many thousands of dollars was spent in sending these telegrams, but if they averaged \$1.00 apiece there is no question in my mind that many thousands of dollars could have been saved by putting the subject matter in a letter, and also a much more intelligent appeal could have been made. \* \* \*

William U. Watson, President, Green Duck Company, Chicago, Ill. As I have just completed the dictation of a letter to Mr. Norman B. Collins, Executive Vice Chairman, War Finance Committee of Illinois, in response to a communication received under date of August 18 on the subject of the 3rd War Loan Drive, I hope you will pardon me for calling to your attention that although it is probably true that the average family's income is far greater than ever before, that there are a great number of small businessmen, among which my company seems to fall, who have not found it possible, under present Government regulations, to continue business, to say nothing of operating at a profit. There is small possibility of this group responding to your patriotic call. I am quite sure that if your appeal was directed to our War Production Board, and made strong enough to impress them with the necessity of unfreezing the great amount of stock that has no value in our effort, thereby permitting small manufacturers whose equipment is not fitted for our war effort to function, you would not only secure a quick answer to your appeal, but you would, in addition to this desirable result, receive a great amount of gratitude from the small businessmen.

- 6 -

John A. Cross, Attorney at Law, Loveland, Colorado. I have put in nearly a year trying to obtain for Pfc. Raymond D. Stroh and his wife the Bonds or Stamps or a refund of the money which was deducted from his pay at the Sioux Ordnance Depot, Sidney, Nebraska, and have as yet been unsuccessful in getting the matter cleared up. It now seems that the matter is in the hands of two different Government agencies, one for the amounts deducted during the period from September 1 to September 16, 1942, which is apparently in the hands of the Area Engineer of the War Department, located at Scottsbluff, Nebraska, and the other for the three months prior to that, which we are now informed is in the hands of the Commanding Officer, Centralized Field Offices, Finance Department, 366 West Adams Street, Chicago, Illinois. \* \* \* In other words, it seems that after having been passed from pillar to post, and one officer and organization to another for nearly a year, the only progress that we have made is that we are now dealing with two different organizations at the same time. I am writing this to you because I believe that this situation, if it is duplicated in many other instances throughout the country, will be an extremely strong influence against the authorization of payroll deductions by employees, and indirectly an interference with the War effort. The considerable amount of correspondence I have had with various agencies involves enough work on both my part and theirs to have covered the expeditious and efficient handling of one hundred accounts of this kind, and the slack and waste motion of this sort must be adding terrifically to the costs of the job to be done, besides the bad effect on morale and co-operation. \* \* \*

Merle Cushman, Cambridge, Mass. I am buying War Bonds with all I have left from an actual living, and banking none for sickness or other emergencies. Here is my question. Have we any assurance that the Government won't come out with an order to stop payment on those Bonds until after the duration, or later, as most

- 7 -

people claim is apt to happen? As we have taken the Government's word before when they issue ration stamps good for so much, then come out and tell us that they are only worth part of what they were issued for, we can't help but feel doubtful. Same as the pay-as-you-don't-drive five dollar windshield sticker. We buy the sticker so we can drive our car, then the Government puts O.P.A. men on the road to stop us. Can you assure us that something similar won't happen to our Bonds so we won't be stranded in case of sickness or death?

Copy of letter sent to the Division of Loans & Currency, Chicago, by Claude A. Guren, Attorney at Law, Detroit, Mich. As of August 1, 1941, and as of January 1, 1942, I purchased from the Federal Reserve Bank, Chicago, Detroit Branch, and the National Bank of Detroit, \$50,000.00 each of U. S. Defense Savings Bonds, Series G, making an aggregate of \$100,000.00. \* \* \* I am no longer residing at 941 Hazelwood Avenue, Detroit, and on July 15th I endeavored to change my address, as per above, by making inquiry at both the National Bank and at the local office of the Federal Reserve. My purpose in doing this was to insure the receipt of your draft for \$625.00 which was due and payable on August 1st. However, I was informed that to effect a change of address on U. S. Registered Bonds would require a notice of six months. This, in my opinion, is beyond all reason, but is probably in accordance with Governmental regulations and "activities". Had I been equally dilatory in my purchase, you would still be "holding the bag". \* \* \* I am sending a copy of this letter to Henry Morgenthau, Jr., by whom I am solicited to purchase additional Bonds, that he may understand that the investor is not given a square deal.

- 8 -

Favorable Comments on Taxation

E. R. Castor, Pottstown, Pa. Allow me to compliment you on your letter, "To Federal Income Taxpayers", with reference to Declaration Form 1040-E.S. This is the most clearly and simply worded piece of literature I have received from Washington in two years. (Suppose he means it?)

Charles M. Ross, Certified Public Accountant, Riverside, Calif. It was with extreme pleasure that I learned of the Treasury Department's plan to study our Federal tax laws with the view of making revision in order to simplify administration and reduce the paper work of taxpayers. I am taking the liberty of presenting a few suggestions which I sincerely hope will be given due consideration by the group appointed to tackle this important task. Possibly some of these thoughts have already been advanced by others -- then I trust that I will be lending emphasis upon the crying need for certain changes. \* \* \* I am not sufficiently familiar with the names of the members on your Advisory Committee to ascertain whether the group contains a prominent tax accountant. If the group consists entirely of attorneys, I fear that important accounting considerations will be overlooked. If the group is lacking a certified public accountant, the American Institute of Accountants should be contacted for their recommendation of an expert. \* \* \*

- 9 -

Unfavorable Comments on Taxation

Robert Clark Hollingsworth, New Augusta, Ind. If my eleven-year old son should compose anything as confused and unintelligible as the enclosed form letter, and the tax forms which accompanied it, I would whip him for being so willfully stupid. It is a great pity that the persons charged with collecting our taxes have never had any training in the use of clear and simple English. Some day your bright young men will choke on this mess of incoherent bad grammar -- an event which will fill me with considerable joy.

N. Wood Hill, N.Y.C. As one in the "medium bracket", I beg you to use your influence to impose other taxes (sales, luxury, etc.) rather than those directly affecting our incomes. Even at present, I have to draw on principal, and take funds from my savings bank to pay these Federal taxes four times a year. I am patriotic, and eager to help, but surely the Government does not approve of a wrecking process like this.

F. Y. Hill, Llano, Texas. Of all the crazy setups during the last several years -- I thought our Government's triple AAA was the banner freak bureaucracy until the new income tax "pay-as-you-go"-crazy forms for estimating one's tax reached me with their accompanying instructions. The Treasury has gotten Mr. Secretary of Agriculture Henry Wallace's famous and infamous AAA Farm Control skinned more ways than a cat has lives. My honest belief is that when our citizens get down to work on this Serio-Comic "Estimated Income" return in earnest that your Treasury Department and Agents will hear from them plenty. If the new system does not collapse of its own freakish, meddlesome, troublesome weight of mystifying complications, then you can call me a goat. I would rather be in Hell, or Texas, any day than wading through the new revenue-maze.

- 10 -

Representative Robert Crosser (Ohio). \* \* \* I am enclosing the letter from Marstan Cleaners which they sent me, and if there is anything you can do to adjust this matter to their satisfaction, they would greatly appreciate such consideration. (The following is the letter addressed to the Congressman by the President of the Company.) Enclosed is a copy of our letter addressed to the Treasury Department, having to do with a double assessment of our Unemployment Tax for the reason that we were late in paying it. Our lateness was the result of not having the funds with which to pay it, and, although we are slowly paying up our taxes, we still owe some and therefore are hardly in a position to pay them twice as we are now called upon to do. It just seems to us that a penalty so great, equal to the original tax, certainly is not within the spirit of any law, except there be willful and flagrant violation. This does not exist in our case. To apply such a penalty and insist upon it seems a very satisfactory way to destroy the small business. There having been an extension granted in which to pay the tax during the previous years, we indulged a hope that this would also be done in 1942. \* \* \* When it was not extended, it was then too late for us to make any corrections. \* \* \* Very likely there are other taxpayers in the same predicament and probably Congress in its wisdom will see fit to provide for a further extension and thus automatically abate these penalties. If not, we hope that something can be done in our case to abate the penalty because payment of it will be practically impossible without seriously injuring our business.

Capt. Frank A. Jefferson, c/o SS PICKENS, Postmaster, N.Y.C. I have before me one of your 1040 ES blanks and beg to advise you that you haven't any seat-warming slacker in your Department who knows what it is all about after he has made this up and spent thousands of dollars sending this out to me and the rest of the public. Most businessmen do not sign forms

- 11 -

and blanks issued by the Government unless they can give an honest answer. I happen to have been raised in the old school. I nor any other living being can estimate his income in advance during wartime. In one of your paragraphs you state you will refund overpayment. However, you didn't state when. My experience with the Treasury Department has been very unsatisfactory along these lines in the past. It usually takes from six months to twenty years to receive any refunds from the Government, unless you have an Act of Congress to do it. Furthermore, I will probably be on the other side when this payment is due and furthermore, you have a penalty attached if you underestimate your future income. \* \* \* It will cost the average citizen thousands of dollars for useless paper work and accountant fees and headaches over your systematic gouging of the public. \* \* \*

Wm. N. McCormick, Box 6, Route 1, Dayton, Texas.  
I have talked to several persons in regard to the purchase of War Bonds. Not a one of these persons but would prefer to pay the computed income tax on a Bond at date of purchase than to have the headache of figuring out amount of income to pay on Bonds held. Personally speaking, I would prefer to pay \$20.00 for a \$25.00 Bond and not have to pay a lawyer to figure it all out for me. By adding the income tax to the price, I believe you can sell two billion dollars to "Back the Attack" and get more money.

Mrs. Annie E. Howell, Ballsville, Va. In March when the call came for paying income taxes, I filled out one of the yellow forms and sent it to the Commissioner of Internal Revenue at Richmond, Va. I wrote a letter stating there was no place on the blank for widows, sent in the amount of my income, and asked to be classified. The deadline for paying was so near, and I had not heard from the office, that I then wrote and sent a blank check containing my signature, and stating that I was due to pay a tax, to fill in the check. When my check was returned, \$24.00 had been taken. My

- 12 -

year's salary was \$580.00. I wrote two letters, and finally I decided to go to the Richmond Office, but they didn't seem to be able to tell me just what I should have paid, but promised to let me hear from the office. I have not heard from them as yet. Will you please tell me how much I was due to pay? My husband has been dead more than three years, and I have no children, but that is what makes it so hard. \* \* I have to do all that he did, and more, as far as cash is concerned, as many things he did around the home, I have to pay for having done. \* \* \* Please help me as I had no dream that I would have to pay so much. \* \* \* Twenty-four dollars seems very small to people of means, but it is a lot to a poor person.

Horace R. Southwick, Hotel Ben Bolt, Mexico, Mo. In 1942 the Government asked people to buy U. S. Treasury Notes with money they were saving to pay income tax. We did our bit and bought \$2,500. We have used part of this to pay income tax, but now things have changed, with the pay-as-you-go, and my income tax is withheld from my wages. Hence, I have no use for balance of Treasury Notes. These were to draw interest if used to pay on income tax, but now things have changed, and through no fault of our own, we cannot use them. Do we have to lose the interest on the Notes? It looks only fair now that these should be paid with interest to date. I was informed yesterday that they could be cashed but no interest would be paid. \* \* \*

Margaret E. Brown, Showboat Theatre, Freeport, Texas. I received some forms from the Treasury Department in Austin, Texas, regarding income tax. I don't understand about the withholding tax at all. And everybody I've spoken to about it has a different explanation. I can't understand all those printed explanations I've been sent. There are too many if's, and's and but's in them. I wonder if you could send me an explanation in ordinary, plain, everyday language. I want to do right, but I can't if I don't know what to do. \* \* \*

- 13 -

Albert Zange, Auditor and Public Accountant, San Diego, Calif. (Encloses copy of letter he addressed to the Collector of Internal Revenue at Los Angeles.) "In view of the fact that no forms 1040 ES (Estimated Income Tax Forms) are available or mailed to my clients up to the present writing, and having over 100 to complete by September 15, 1943, which is almost an impossibility, I am requesting an extension of time of 30 days on the following clients." \* \* \* Also a brief reply thereto -- "Please be advised that no extensions of time are being granted at this time. The necessary forms will be sent you before September 15, 1943." -- \* \* \* "I have been a Public Accountant practically from the inception of income tax laws, and I have always found the Deputy Collectors at the San Diego Office very courteous and obliging, but I cannot consider the answer to my letter from the Los Angeles Office anything but discourteous and insulting to my intelligence. In the first place, his answer would imply that I am requesting a 30-day extension for my personal 1943 Estimated Income Tax Return, which is already estimated and the money ready to be paid in full immediately upon receipt of Form 1040 ES, but you can readily understand it is impossible to take care of my clientele if not a single one has received a 1040 ES Form up to the present writing, and as a Public Accountant, I have many other duties to perform other than Estimated Income Tax Returns, and with this in mind I am convinced you will readily understand my requesting a 30-day extension on the enclosed list of Estimated Income Tax Returns. An immediate answer will be greatly appreciated granting my request, as not only am I worried sick about the prompt compliance of making up the returns in record time, but my clients are worrying me crazy about why I cannot get the forms for them.

J. H. Hoepfel, Manager, National Defense (magazine). I am writing to you requesting information as to the action taken by your office on the application of Lester S. Terry, First Sergeant, U. S. Army, Retired, who made a claim on your Los Angeles office, asking

- 14 -

for refund of the income tax which he paid for 1941, alleging in his claim and protest that he was exempt from paying income taxes during this period because of the provisions of Public No. 262, 74th Congress, Section 3. Your Los Angeles office, under date of June 17th, had this question up for final determination and Sergeant Terry was requested to appear, personally, for a hearing on his protest. Under date of June 21st Sergeant Terry informed your Agent in Charge of the Treasury Department at 417 South Hill Street, Los Angeles, that he did not desire to appear personally because of the fact that his "argument was contained in the Brief which accompanied his claim for refund". Sergeant Terry requested that his protest be forwarded by the Los Angeles office to your office for final determination. This was on June 21, 1943. Acting for, and in behalf of Sergeant Terry, I request that your office inform either myself, or Sergeant Terry, as to your final decision in this matter so that we can proceed further, if necessary, in an appeal to the U. S. Court. \* \* \*

John Albert Pringle, Oakland, N.J. Attached herewith please find: (1) Copy of my letter of January 28, 1943, to Collector of Internal Revenue, New York; (2) Copy of my letter of July 28 to Mr. Joseph T. Higgins, Collector, 3d District, New York City; (3) Form letter in reply addressed to me as "Gentlemen", dated August 24, 1943. I know you expect us all to pay our required income tax promptly. Don't you think your Department might be more prompt in a routine refund of this sort, and more cooperative in seeing that it is made than a delay of seven months or more would indicate? It is brought to your attention in the hope that you will do something about it.

Mrs. Rhoda R. B. Wood, Pittsburgh, Pa. March 14, 1942, I paid by check \$16.00 Federal Income tax, and on March 12, 1943, I paid \$71.00 Federal Income Tax. My

- 15 -

daughter, Mrs. John L. Sedlacek, went to the Federal Income Tax Office and a man there, delegated to give information, marked a yellow sheet stating my tax amount. Now I want to protest, especially to this latter assessment. \* \* \* I am a retired teacher, 81 years old last March 12th. I am a wheel-chair occupant, and almost blind. \* \* \* My pension is \$80.83 per month. It costs me for care, room, and board and laundry, \$66.00 per month, and sometimes more. Insurance \$12.65 -- a total of \$78.65 every month, leaving \$2.18 for clothing, medicine, a doctor, miscellaneous things. How can it be done? \* \* \* Well, if you will consult your files, you will recall my having cashed in my Liberty Bonds August, 1942, I think. With this money I bought War Defense Bonds, paid various bills, until now, I am just about bankrupt. Uncle Sam says he does not want a penny unjustly. Does my pension justify such taxation? Right close to "Shylock", eh? Please refund. I am truly sorry to make such a request at this critical period. There are thousands amply able to bear the War burden. Here is a clipping substantiating my statement. (Headline: "Welles May Purchase 50-Room Maine Estate")

J. W. Snider, Calumet City, Ill. The idea is growing on people in general that any money taken by the U. S. Government by the withholding tax plan will not be refunded after March 15, 1944, if the return filed on that date shows that too much money has been withheld. Most any one knows that if a refund is due, that it will take several months to check the records and make such refund to the individual, but if he knows that he is going to get it, he will be willing to wait. \* \* \* We have too many conflicting statements from different Departments stating one thing today, and something entirely different tomorrow. People rapidly lose confidence in a boss who doesn't know his own mind, and also in a Government Bureau that doesn't lay down a plan and follow it. \* \* \*

Philip E. Hamilton, Attorney at Law, Beaver Falls, Pa.  
I received the copies of the "Current Tax Payment Act

- 16 -

of 1943", and have come to the conclusion that it is impossible to understand its meaning without reference to the Internal Revenue Code, of which it is an amendment. \* \* \* As I read the amendment, the same deductions are allowable as were allowable under the general act, but just how professional men and farmers are going to estimate the income for 1943 is one of the many perplexing problems confronting all of us. It simply cannot be done. We are going to witness the most hopeless and utterly confusing state of affairs we have yet experienced so far as Federal taxes are concerned, and I have not the slightest doubt that all our great middle classes are going to enjoy the experiment of being penalized for failure to do that which is impossible. It is certainly an amazing piece of legislation for a Government to impose on a people -- so far as I know, the only thing of the kind ever attempted throughout all history -- namely, guess what the future will be and pay now.

C. G. Schietinger, Sanitary Hatchery, Weimar, Texas. A lot of people in the United States, including the writer, have purchased Series "C" Tax Bonds to come to the aid of the Government by paying their taxes in advance. It is to be regretted that the Department of Internal Revenue seems to have never heard of these Bonds. If the Internal Revenue Department had been informed about this matter, I would not feel so bitter about their rules and regulations. \* \* \* I had the idea that perhaps the Treasury Department had some loose connection with the Revenue Department, that the Internal Revenue Collector's office at Austin would be informed who has invested in Tax Bonds, that we who are holding these Bonds would not be penalized for the failure of estimating our income correctly up to a certain percent, since the Government is already in the possession of part of my income. Instead of getting my Country's thanks for buying a tax Bond some 11 months before my tax comes due (March 15, 1944), I should be penalized for a "mistake" in figuring my

- 17 -

income. This is one of those clear cases where the right hand of the Government does not know what the left hand is doing to the extent of causing great dissatisfaction. \* \* \*

J. E. McCoy, Muscatine, Iowa. After looking over Form 1040 ES table of instructions for estimating farm tax, I find that it is one of the most conflicting things to a farmer that has ever been imposed. It looks impossible to be done. I used to plan one to four years ahead on my farm program. This kind of administration has made it impossible to plan over one day ahead. With the change of ceilings from time to time, one can never guess what the income will be on any one commodity that I raise. I have fed quite a few cattle in my time. They are so far out of line that big feeders have also quit. I won't know a thing about my income until I close my books on cattle. Hogs were more profitable in 1940 and 1941 than they are now, but how much I don't know until I close my books for the year. \* \* \* I never thought that Congress, in this state of affairs, would impose on farmers what they have in this pay-as-you-go tax plan. Now you ask a penalty if we farmers miss our estimate 33%. When the bankers list for a barnyard loan, they can't guess within 33%, so with an absolute uncertainty of any situation that arises on the farm, you have made it a law for us to do the impossible. \* \* \* I would like to see each individual satisfied in preference to having his business, his mind, etc., in a turmoil all the time. Right is right, and good will always come from it in the end. But no good can come from some of the things that are being done by this Administration. Science has been trying to make the mind last as long as the body, but the minds of the people can't hold up in this state of affairs. I have had quite a few worries caused by the allocations. I have, on one occasion, driven 223 miles to get repairs for a pump, 133 miles to get repairs for hay tools. Other times I just went in town and returned in less than an hour with minor repairs of that sort. That is the uncertainty of which

- 18 -

I spoke that makes it impossible for me to estimate one year's income in advance. If you want cooperation you will have to cooperate also. As far as I know now, I will wash my hands of this estimating, as quite a few farmers are going to do, and will close my books as formerly.

Warren J. Pratt, Chicago, Ill. I want to compliment you on the last income tax law, recently put through Congress. I think that it is a marvel and one that must have required an enormous amount of gray matter to figure out. How any person given the authority to govern the people of this United States would want to conceive such a cockeyed law as this one, I can't understand. The idea of having to estimate my income for the balance of the year! How can I tell what my income is going to be anywhere near the correct answer? I may be working overtime every night the rest of the year; I may get another job and work for less money; I might even take on another job and double my money -- how do I know at this time? Another thing, what point is there in making the rules so hard and the laws so screwy that no one understands them? All the Government should be interested in is getting the 20% and making it as easy as possible for the taxpayer. The way the law reads now to a common person like me, who is forced to pay for the gifts to England against his will, is worse than a cross-word puzzle. \* \* \* The idea of talking four freedoms and then threatening a taxpayer with a heavy penalty because he erred in guessing how much he may earn! \* \* \* I don't like the law the way it is written up; I don't like the principle of having all these rules coming out of Washington with a stinger on the end that if you don't, you are subject to a ten thousand dollar fine. Give us four more years of the New Deal ideas of life and we will all be better off dead. Sure, I'll pay my tax. I'll pay more next year and like it too, but I do think we little taxpayers are entitled to a little more feeling from the ones we have elected to run our Government. \* \* \*

Sept. 3, 1948

Mr. Thompson

Secretary Morgenthau

Would you or Charlie Bell please investigate the matter mentioned in the attached clipping, and give me a written report on it not later than Tuesday morning.

Article from Washington News  
of Sept. 3, 1943 - Engraving  
Cafe Horribly Dirty.

*memo in 9/7/43-*

SEP 3 1943

My dear Mr. Secretary:

This is in further reply to your letter of August 16, 1943, concerning the release to Mr. Charles B. McDaniel, Jr., of 109,000 pounds of "blocked" sterling on deposit to his account in the National City Bank of New York in London.

In accordance with your request, we have taken this matter up with Sir David Maley of the British Treasury. Sir David indicated a strong reluctance on the part of his government to unblock the funds in question. He asked that a formal request be submitted.

For your information, I am enclosing a copy of the memorandum we submitted to the British Treasury.

Very truly yours,

(Signed) H. Mergenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

Enclosure

HDW:TMK:rl 8/31/43

By Mergenthau 2647 8-31-43  
File not to be made

25

SEP 2 1943

Dear Mr. Berle:

This is in reply to your letter of August 21, 1943, in which it is requested that the Treasury Department endeavor to arrange with the British for the unblocking of the blocked sterling account of Mr. Charles B. McDaniel, Jr., in the amount of 109,000 pounds sterling, deposited in the National City Bank of New York in London.

In accordance with the desires of the Departments of State and Navy, we have spoken about this matter to Sir David Waley of the British Treasury. Sir David indicated a strong reluctance on the part of his government to unblock the funds in question. He asked that a formal request be submitted.

For your information I am enclosing a copy of the memorandum we submitted to the British Treasury.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Adolf A. Berle, Jr.,  
Assistant Secretary of State,  
Department of State,  
Washington, D.C.

Enclosure

HDW:TSK:erl 8/31/43

*For Mr. Berle*



DEPARTMENT OF STATE  
WASHINGTON

52428

REPLYING AUTHORITY  
Mail A Piles

In reply refer to  
NE

August 21, 1943

My dear Mr. Secretary:

It would be very much appreciated if the Treasury Department would endeavor to arrange with the British Government for the unblocking of the blocked sterling account of Mr. Charles B. McDaniel, Jr., in the amount of 109,000 pounds sterling, deposited in the National City Bank of New York in London.

Mr. McDaniel is an American citizen, and the purpose for which he intends to use the funds is a matter of urgent interest and importance to this Government. The enterprise is related to the war effort and is supported by the War Production Board, the War Shipping Administration, the Navy Department and this Department. Briefly, for the information of the Treasury Department, the funds are to be utilized in the construction of a port and port works in Cabinda, Portuguese West Africa, to aid in the execution of certain commodity contracts which Mr. McDaniel has entered into with this Government. There are other important implications of a political and strategic nature involved, however.

It is hoped, therefore, that the Treasury Department will be disposed to make this request of the British Government and that the British Government will be willing to unblock Mr. McDaniel's sterling.

Sincerely yours,

  
Adolf A. Berle, Jr.  
Assistant Secretary

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



AUG 18 1944

My dear Mr. Secretary:

Reference is made to your letter of August 16 in which it is requested that the Treasury Department take whatever steps are proper and necessary to accomplish the prompt release to Mr. Charles B. McDaniel, Jr. of some 100,000 pounds in "blocked" sterling on deposit to his account in London, in order that Mr. McDaniel may proceed immediately with the construction of a breakwater and other necessary port facilities at Malemba Bay, Cabinda, Portuguese West Africa. It is stated that this construction work is required to facilitate the shipment of mahogany and other strategic materials needed in the war effort.

The Treasury Department will immediately take this matter up with the British Treasury, and will keep you advised of developments.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable

The Secretary of the Navy.

JEDUBols:ecr  
8/16/43

*By messenger Sturgis Sick  
File to W. V. Thompson*

THE SECRETARY OF THE NAVY  
WASHINGTON

Serial 0119112

CONFIDENTIAL

18 AUG 1943

My dear Mr. Secretary:

In order that Mr. Charles B. McDaniel, Jr., an American citizen, may proceed immediately with the construction of a breakwater and other necessary port facilities at Malemba Bay, Cabinda, Portuguese West Africa, which construction work is required to facilitate the shipment of mahogany and other strategic materials needed in the war effort, it is requested that the Treasury Department take whatever steps are proper and necessary to accomplish the prompt release to Mr. McDaniel of some 109,000 pounds in "blocked" sterling on deposit to his account in London.

Mr. McDaniel's Cabinda project has received the support of the Department of State, the War Shipping Administration and the War Production Board as well as the Navy Department, in the form of letters to the Office of Economic Warfare, where Mr. McDaniel has been negotiating for the past four months for a substantial loan of public funds for the project. The legal and political difficulties inherent in the proposed loan are such as to make it exceedingly difficult to give the lending agency the safeguards it requires, particularly since the operations in Cabinda must be carried on through a Portuguese company in which high government officials of Portugal and the Portuguese Government itself are directly involved through ownership of minority shares. In view of this, the loan negotiations have been slow and difficult. Mr. McDaniel is now seeking to avoid these complications and further delay by commencing the project with his own funds, that is, the "blocked" sterling referred to above.

Obviously, it would be to the advantage of this Government if Mr. McDaniel could carry forward this project with his own money instead of borrowing U. S. public funds.

Serial 0119112

Likewise, there would be less political risks if his enterprise in Cabinda were a private undertaking rather than one subsidized by our Government.

Thus it appears to be clearly to our national interests to effect the immediate release of Mr. McDaniel's "blocked" sterling account, and, accordingly, the active cooperation of the Treasury Department to this end is requested.

The Export-Import Bank of Washington and the Department of State have official knowledge of this account. So far as known to the Navy Department no valid legal or moral claims have been made against Mr. McDaniel's account in London.

Sincerely yours,

*Frank Knox*

FRANK KNOX

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

From the desk of  
LEWIS L. STRAUSS

Dear Dr. White -

These are the  
papers of which I  
spoke. After you  
have read them will  
you give me a ring?

Sincerely  
Lewis Strauss

OFFICE OF THE CHIEF OF NAVAL OPERATIONS

13 August 1943

MEMORANDUM TO CAPTAIN L. L. STRAUSS.

Re: "Blocked Currency" of Charles B. McDaniel Jr.

1. If the Treasury Department should want to make a check on the information contained in the memorandum on this subject submitted to me by Mr. McDaniel's attorney, which I passed on to you, I suggest getting in touch with Mr. Warren Lee Pierson, President, Export-Import Bank of Washington, who has known Mr. McDaniel for some years and who has official knowledge of this "Blocked Currency" situation. Also, I suggest telephoning to Mr. Perry Jester of the Near East Division, Department of State, (State Department Extension 2288) who has complete file on this subject and who likewise is thoroughly informed about the State Department's attitude with respect to Mr. McDaniel's project for developing a new port in Cabinda, Portugese West Africa.

2. As Mr. Pierson and Mr. Jester will confirm, there is strong governmental support for this project from the State Department, Navy Department, War Shipping Administration and the War Production Board.

3. If Mr. McDaniel's funds in England are released to him or an equivalent advance made to him against these funds as collateral he could and would set in motion immediately his Cabinda project. Without such an arrangement I doubt if he can undertake the project.

*Paul Foster*

CHARLES B. Mc DANIEL, JR.

CHARLES Mc DANIEL

1119 Barr Building,  
Washington, D. C.

Captain Paul F. Foster,  
Bureau of Operations,  
Navy Department,  
Washington, D. C.

Dear Captain Foster:

Supplementing the memorandum forwarded to you under date of August 10th by our counsel, Sidney V. Smith, in regard to my blocked sterling account of 109,000 Pounds in the National City Bank of New York, London, I should like to bring the following to your attention:-

Complete documentation covering this transaction has been filed with the Near Eastern Division of the State Department and with the Export-Import Bank of Washington.

On March 7, 1942, the Export-Import Bank agreed to extend us an advance of \$300,000 against this account. However, in view of the objections registered by the British as regards the transfer of this account to the blocked account of the Export-Import Bank, this advance was reduced to \$65,000 against an assignment of my rights to this Sterling to the Export-Import Bank.

For your information, I have discussed this matter personally with the Secretary of Commerce and the President of the Export-

Export Bank, who intervened with British authorities here to obtain the release of the Sterling but no action was taken for the reasons as set out in Mr. Smith's memorandum to you.

Both Ambassador Biddle and Ambassador Winant intervened in this matter in London with the Polish Government but Ambassador Biddle was informed by the Polish Minister of Finance that they would be glad to release us free Sterling or see us get this Sterling released but that they were not allowed to do so by the British Exchange Control. On the other hand, the British Exchange Control advised the Export-Import Bank that they were unable to make this transfer or release this Sterling in view of the objections of the Polish Government. We have written records of these conflicting statements.

From confidential Polish sources, however, we are informed that the British Treasury were unwilling at the time to allow the Polish Government to utilize free Sterling for the purchase of Francs as the British Government had certain Franc resources in France and were insisting that the transaction we had be cancelled and Francs purchased from the British Treasury.

I have likewise been given to understand by one of my British friends that Sir Eric Phillips intervened personally in this matter in London but that he was unable to obtain satisfactory settlement of our matter.

My claims against the Polish Government were represented by notes of the Polish State Railways, endorsed as to principal and interest by the Polish Treasury. The amount of these defaulted obligations represents several times the amount of the Sterling transaction which the British Treasury indicate might, at some time, be contested by the Polish Government.

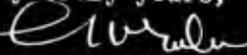
Evidence of the fact that the Polish Government has defaulted on their obligations to me is contained in a letter on file with the Near Eastern Division of the State Department and signed by the former Director of Finance of Poland and likewise by a letter on file with the Foreign Exchange Control and signed by the former Minister of Finance of Poland.

We have repeatedly insisted that the Polish Government arbitrate the differences, if any, in accordance with the terms of our agreement with the Ministry of Finance but our requests were refused on the grounds that any arbitration of the matter could only take place in London and would be subject to British Exchange control.

The funds represented in this transaction were clearly set out and defined in our application to the Federal Reserve Bank (Foreign Exchange Control). None of the funds were derived directly or indirectly from any British source.

In view of the fact that the work which we are undertaking has been fully supported and endorsed by four agencies of this Government as being in the interest of our Defense effort as well as our post-war planning, it seems unfortunate that this work should be impeded by the "freezing" of our funds in London without moral or legal merit.

Very truly yours,



Charles E. McDaniel, Jr.

js.

TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY

September 3, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended August 25, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

*EAB*

FEDERAL RESERVE BANK  
OF NEW YORK

September 2, 1943.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended August 25, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke,

L. W. Knoke,  
Vice President.

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

Enclosures

COPY

**STATEMENTS OF BRITISH AND FRENCH ACCOUNTS**  
(In Millions of dollars)

Week Ended August 25, 1943. Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)										BANK OF FRANCE			
	D E B I T S				C R E D I T S						Net Incr.(+) or Decr. (-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Transfers from Official Australian Account	Other Credits (c)					
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0	
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1	
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1	
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+ 125.9	18.5	4.4	- 14.1	
Sept. 3 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7	
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3	
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1	
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-	
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	- 109.7	-	-	-	
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-	
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-	
Apr. 1 - Apr. 28	37.0	16.3	-	20.7	87.4	-	-	15.1	72.3	+ 50.4	-	-	-	
Apr. 29 - June 2	90.4	74.3	-	16.1	103.4	-	-	19.0	84.4	+ 13.0	-	-	-	
June 3 - June 30	31.6	11.6	-	20.0	130.7	-	-	20.0	110.7	+ 99.1	-	-	-	
July 1 - July 28	33.0	18.2	-	14.8	100.5	-	-	16.0	84.5	+ 67.5	-	-	-	
<b>WEEK ENDED:</b>														
August 4	8.5	5.1	-	3.4	14.0	-	-	1.0	13.0	+ 5.5	-	-	-	
"   11	11.0	6.9	-	4.1	34.1	-	-	10.0	24.1	+23.1	-	-	-	
"   18	19.6	8.1	7.5	4.0	12.9	-	-	-	12.9	- 6.7	-	-	-	
"   25	4.6	1.9	-	2.7	64.9(j)	-	-	-	64.9(j)	+60.3	-	-	-	

**Average Weekly Expenditures Since Outbreak of War**  
 France (through June 19, 1940) \$19.6 million  
 England (through June 19, 1940) \$27.6 million  
 England (June 20, 1940 to March 12, 1941) \$54.9 million  
 England (since March 12, 1941) \$21.4 million

See attached sheet for footnotes.

**ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS**  
(In Millions of Dollars)

Week Ended August 25, 1943 Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	D E B I T S				C R E D I T S				D E B I T S				C R E D I T S			
	Total Debits	Transfers to Official		Total	Proceeds of Gold Sales	Transfers from Official British A/C			Net Incr. (+) or Decr. (-) in \$ Funds (f)	Total Debits	Transfers to Official		Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds (f)
British A/C		Others	For Own A/C			For French A/C	Other Credits	British A/C			Other					
First year of war (a)	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
war period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	225.8	0.3	225.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 5 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	- 0.4
Apr. 1 - Apr. 28	29.0	-	29.0	32.6	-	-	-	39.6	+ 10.6	16.4	15.7	6.3	19.3	-	19.3	+ 2.9
Apr. 29 - June 2	79.9	-	79.9	95.8	-	-	-	95.8	+ 15.9	21.8	19.0	2.8	20.1	-	20.1	+ 1.7
June 3 - June 30	53.8	-	53.8	77.2	-	-	-	77.2	+ 23.4	20.0	20.0	-	27.3	-	27.3	+ 7.3
July 1 - July 28	102.1	-	102.1	61.8	-	-	-	61.8	- 40.3	19.2	16.0	3.2	12.5	-	12.5	- 6.7
<b>WEEK ENDED:</b>																
August 4	6.1	-	6.1	15.9	-	-	-	15.9	+9.8	2.3	1.0	1.3	10.5	-	10.5	+ 8.2
" 11	5.6	-	5.6	15.6	-	-	-	15.6	+10.0	10.3	10.0	0.3	0.4	-	0.4	- 9.9
" 18	113.1	-	113.1	14.5	-	7.5	-	7.0	-98.6	0.2	-	0.2	0.3	-	0.3	+ 0.1
" 25	2.2(a)	-	2.2	18.6(a)	-	-	-	18.6(f)	+16.4	0.1	-	0.1	3.6(g)	-	3.6(g)	+ 3.5

**Average Weekly Expenditures**

First year of war	6.2 million.
Second year of war	8.9 million.
Third year of war	10.4 million.
Fourth year of war (through August 25, 1943)	9.6 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.
- (b) For monthly breakdown see tabulations prior to October 8, 1941.
- (c) For monthly breakdown see tabulations prior to October 14, 1942.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Does not reflect transactions in short term U. S. securities.
- (f) Includes \$ 9.4 million deposited by War Supplies, Ltd. and \$9.0 million received from N.Y. accounts of Canadian Chartered Banks.
- (g) Includes \$3.0 million for account of Treasurer of U.S. to be applied against U.S. currency and Treasury checks negotiated.

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Includes: \$54.0 million to be held for the credit of the U. S. Armed Forces abroad (\$53.0 million of this amount was for the U.S. Army and \$1.0 million for the U. S. Navy)

\$6.5 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports.  
\$2.5 million transferred from Reserve Bank of New Zealand account at this bank.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET

U.S. SECRET

OPTEL NO. 290

Information received up to 10 a.m., 3rd September, 1943.

1. MILITARY

ITALY. Early this morning troops of 5th U.K. and 1st Canadian divisions with some armour landed near REGGIO from CATANIA.

OFFICE  
SECRETARY OF TREASURY

1943 SEP 4 AM 11 50 NOT TO BE RE-TRANSMITTED

COPY NO. 13

TREASURY DEPARTMENT  
BRITISH MOST SECRET  
U.S. SECRET

OPTEL NO. 291

Information received up to 10 a.m., 3rd September, 1943.

1. NAVAL

2nd. One of H.M. Anti-submarine Trawlers escorting 2 ships from LISBON to GIBRALTAR shot down 1 out of 3 F.W. 200 which attacked off CAPE ST. VINCENT. One of H.M. Submarines has torpedoed a stranded Italian Destroyer which was being salvaged at ALICE POINT in GULF OF TARANTO, the stern of the Destroyer sank.

2. AIR OPERATIONS

WESTERN FRONT. 2nd. 104 escorted medium bombers attacked an ammunition dump in the FORET DE HESDIN. Fortresses dropped 88 tons on two airfields and escorted Marauders dropped 37 tons on MAZINGARBE Power Station. 10 escorted Bostons made an effective low-level attack on SERQUEUX railway centre. Hurricanes destroyed 4 lock gates at HANSWEFRT east of FLUSHING. From all operations 5 Fighters, 3 Hurricanes, 1 Marauder and 1 Boston are missing. Enemy casualties: 4. 1. 0.

2nd/3rd. Aircraft despatched: Ammunition dump FORET DE MORMAL, near VALENCIENNES - 41, Sea-mining - 89 (1 missing), COLOGNE and DUISBURG - 8, Intruders - 13. Many large explosions were seen in the FORET DE MORMAL.

ITALY. 31st. A total of 216 escorted medium and light bombers attacked 4 railway centres on the foot of ITALY.

31st/1st. Wellingtons dropped 77 tons on railway yards at SALERNO, 1 Wellington missing.

SARDINIA. 1st. 58 Fighter bombers effectively attacked a zinc works near CAGLIARI.