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October 1, 1943
9:42 a.m.

Operator: Mr. Bell?

Dan
Bell: Yes.

Operator: The Secretary. Go ahead.

B: Hello.

HMJr: Hello, Dan?

B: Yes, sir.

HMJr: Can somebody tell me what happened last night in regard to my tax message for Monday?

B: Yes, sir. Roy Blough and Paul are both here. Roy is ready to talk to you.

HMJr: Isn't Gaston....

B: Gaston, White, Sullivan and Mrs. Klotz are all here.

HMJr: Where's Paul?

B: Right here.

HMJr: Paul?

B: Yep. I mentioned his name.

HMJr: Well, who's going to talk to me? Blough?

B: Blough, yes.

HMJr: All right.

Roy
Blough: Hello.

HMJr: Hello, Roy?

B: Yes. Nothing -- really nothing happened. Fred Smith and I took it over to Rosenman....

HMJr: Yeah.

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B: He took it and walked away with his overcoat and hat on.

HMJr: Uh huh.

B: So, he didn't ask any questions. He didn't read it there.

HMJr: Yeah.

B: And I haven't heard from him since. I don't know whether Fred has or not. Fred has just come into the room. Ben Cohen was with Rosenman at the time.

HMJr: Uh huh. Well, can you very briefly outline what form it took?

B: Well, Fred being the principal author and being here, I'd prefer he did it.

HMJr: Suits me.

B: All right. (Aside: Fred.)

HMJr: Hello.

Fred Smith: Hello.

HMJr: Got any black eyes?

S: N-no. (Laughs)

HMJr: Well, what happened?

S: Well, you mean on the....

HMJr: I mean what's the form?

S: The form is this: You start out by saying you want to present the -- the Administration suggests a tax program but more than that you want to explain why the program was developed because they are entitled to know that -- not only the decisions you have made but why you made them.

HMJr: Yeah.

S: Then you say that because of the huge cost of the war and so on and tell how much -- uh -- that you've got to deal in very large figures....

HMJr: Yeah.

S:astronomical figures....

HMJr: Yeah.

S:and that while you may be able to cut some of the costs of the Government -- uh -- you certainly can't be frugal about the war because we know that the -- the -- the cost of the war has -- that is, the supplying of equipment and so on has saved lives. Then you go on and say -- uh -- that in the face of these huge amounts of money that have got to be raised, that you met with the serious problem of creating a tax program that's fair and equitable.

HMJr: Yeah.

S: Uh -- and that you point out there that while you've got to raise the amount of money -- the big amount of money, you've still got to bear in mind that there is a point beyond which some people can't go on paying taxes.

HMJr: Yeah.

S: And that you're just saying that to remind everybody that -- to emphasize the fact that the Treasury has just not arbitrarily set down a figure....

HMJr: Yeah.

S:and then set about finding a formula to get it.

HMJr: Yeah.

S: Then you say that your -- that you've con -- that you've thought of every conceivable plan and that each of these plans has been measured against four different things which covers pretty much the -- the waterfront that you had to consider.

HMJr: Yeah.

S: Uh -- then you start out and say that one of the chief considerations is the -- in setting up this tax program was drawing off the excess spending money.

HMJr: Yeah.

- S: And there are the facts about that. Uh -- then you also bring in the -- in this forty-two billion, you subtract from the forty-two billion the seventeen billion that you are going to get -- uh -- during the course of the year.
- HMJr: Yeah.
- S: And then, even that seventeen billion plus the other non-inflationary savings still leaves a substantial amount of excess income....
- HMJr: Yeah.
- S: ...that the consumer will have to spend. Uh -- then you say that -- that "We at the Treasury" -- "The danger of inflation mounts," is the way you finish that paragraph. Then you say, "We at the Treasury have made numerous recommendations over the years to help prevent our being caught in a whirlpool of rising prices. As far back as October 16th, the cost of living having risen then about 2 points, wholesale prices having gone up about 5 points...."
- HMJr: A little slower -- wait a minute -- a little slower and a little louder.
- S: Okay. I'm -- I'm just reading this because it's....
- HMJr: I don't know whether you're....
- S: I didn't know whether you wanted to use it or not. See?
- HMJr: I don't know whether you're reading it for my pastime or -- because I can't hear it.
- S: Okay. (Louder) You say, "We at the Treasury have made numerous recommendations over the years to help prevent our being caught in a whirlpools of rising prices."
- HMJr: Yeah.
- S: "As far back as October 16, 1940, with the cost of living having then risen about 2 points, and wholesale prices having gone up about 5 points, the Treasury called attention to the incipient development of inflationary pressure resulting from the capacity shortages then beginning to appear in various basic material interest -- industries."

HMJr: What is that statement on October 16th?

S: Well, that is the -- that I took out of this book. It is a memorandum that was written to you by somebody in the Treasury.

HMJr: Well, what did I do with it?

S: That I don't recall but I just quoted from it.

HMJr: Well, I wonder if I didn't do anything with it, whether you might better not start with my Boston speech because I think that was the first public thing.

S: Well, that may be. What I -- what I've done here was start with the dates. We'll have to go over it from that standpoint.

HMJr: Yeah.

S: On December the 18th, then, you recommend a major expansion in the steel program in order to combat inflation. On the 19th you set up the Defense Savings Staff, on March 19th. On September the 9th you told an audience in Boston that -- and you quote -- and then I quote from that speech.

HMJr: I see.

S: See? In other words, I'm just giving it an historical background there.

HMJr: Yeah.

S: Uh -- then on December the 27th, you inaugurated "the pay-roll savings plan for the regular and systematic sale of United States Savings Bonds to wage earners. Within a year nearly 25 billion workers were regularly buying bonds through pay-roll deduction."

HMJr: Yeah.

S: "They were deducting nearly 8½% of their pay, or a total of three -- over 350 million dollars. At the present time blank million workers are deducting an average of blank per cent of their pay or a total of over blank million dollars a month and the figure is rising constantly," see -- and get a plug in there. "On March the 3rd 1942 I appeared before this committee

S:
Cont'd.

and proposed an increase in revenue of 7.6 billion dollars." I stated that the chief duty of the new Revenue Act was to help check inflation and I quote, "Nothing in the economic field can interfere with the war effort as much as uncontrolled rise in prices, and inflationary price rises are the source of grave social injustice." Unquote. Then, "I have given you this background to remind you that this inflationary tendency is something that has been with us over a period of years, something against which we must constantly stand guard." Then the business about "Two-thirds of the income of the nation is now going into pay envelopes of people earning less than \$3,000."

HMJr: \$5,000.

S: Huh? Well, we've used the \$3,000 and two-thirds -- it's seven-eighths and \$5,000....

HMJr: All right.

S:if you want to use it....

HMJr: All right.

S:and told how many million people that involves.

HMJr: Yeah.

S: "Having this in mind, and also the need for additional funds to finance the war, the Treasury set a goal early this year of \$12 billion. Since this goal was set as a satisfactory figure from a fiscal standpoint, we've done considerable investigating and so on, checked the statistical information against the actual situations and -- and then just -- and then we made a small survey of income and expenditures in one war-wealthy industrial city -- a survey of people at various income levels. In fairness to the average American citizen, we must say that not every one is over-earning and over-spending. We found, too, that a great economic...."

HMJr: Just a minute -- a little louder and a little slower.

S: "In fairness to the average American citizen, we must say that not every one is over-earning and over-spending."

HMJr: Yeah.

S: "We found, too, that a great economic transition has come over this nation since the war began." Then the business about our coming out of the depression and paying our debts.

HMJr: Yeah.

S: "But this does not lessen the danger..." after that's over "...but this does not lessen the danger of inflation, for even the payment of debts could not absorb enough of our dangerous dollars and every dollar that is left can be spent to absorb some part of a constantly shrinking supply of goods and services."

HMJr: Yeah.

S: Then you say you've thought a great deal about the average man, because he was making about \$3,000 a year, because he's the one who has to pay the most of any increase in taxes. And then you explain how you can't get any more out of the rich people -- uh -- then you -- then you say, "One of the things we must do...."

HMJr: ? Yeah.

S: "...not to satisfy the low-income person, but to be just to him, is to make allowance for hardship cases."

HMJr: Yeah.

S: "And even while we are setting out to get more money from most people, we need actually to give tax relief to some people." Then I take an example of a married man with two kids, making \$1,500 a year, and of a widow with two children, making \$800...."

HMJr: Yeah.

S:and show that they can't pay taxes, because....

HMJr: Louder.

S:to show that they are in a very bad tax position.

HMJr: Yeah.

S: That's to set up the business that you're not going to make them pay taxes under this new plan.

HMJr: Yeah.

S: Then you go on, "The program that I present to you today takes that into consideration, and takes also into consideration that in view of what we have found, we have reduced our tax proposal from \$12 billion to \$10.5 billion." Then you go on and say, "As a result of our investigations among average Americans, there is one further general recommendation that I want to make, that every possible step be taken at this session to reduce the complications in our tax laws which make it necessary for the tax payer to fill out complex and difficult tax forms."

HMJr: Yeah.

S: Then talk about....

HMJr: May I interrupt you a minute?

S: Yeah.

HMJr: The assistant editor of the Louisville Courier said if he was going to run for office, he'd run on a program of increased public convenience.

S: In -- oh, I think he's right.

HMJr: Increased public convenience.

S: Uh huh.

HMJr: In other words, to make things easier for the public in every way. I'm just throwing that out, I mean.

S: Well, that's been -- I agree with him. I don't know how many other people do, but I do.

HMJr: Well, anyway, I'm just throwing it out. "Anybody who would run on a platform of making things simpler and easier...."

S: Yeah.

HMJr: "...on all forms," he said, "could get elected to any office."

S: Yeah.

HMJr: I'm just throwing that out.

S: Well, then -- then we talk here along that -- hello, are you still there?

HMJr: I'm still here.

S: We talk about having tried to make the September 15th form simple and now we're working on the simplification of the March form. Then you say this, "But I want to say that it is my feeling that the public resentment against any tax form that can meet the requirements of the present tax law is likely to cause a great deal of resentment among the American people."

HMJr: Yeah.

S: Then you go on and say that, "I'm sure that Congress agrees there's a great deal of room for simplification of tax laws." You can't go into details here, but you certainly want to recommend the combining of the Victory tax with the income tax and that is part of the proposal.

HMJr: Yeah.

S: You say that the Victory tax especially serves to complicate the return forms because the tax is complicated and is computed differently and so on.

HMJr: Yeah.

S: Uh -- then you say, "Let me tell you about the specific recommendations for the tax program." You say, "I am recommending a program to increase Federal collections by approximately \$10.5 billion for a full year of operations...."

HMJr: Yeah.

S: "...recommending that these taxes be raised through an increase in estate and gift taxes, corporations taxes, selected excise taxes and individual income taxes."

HMJr: Yeah.

S: And you talk about the estate taxes and wind up by saying that you are going to get \$400 million that way. The corporation taxes -- just a paragraph on that, winding up that you are going to get \$1.1 billion on that. Your excise taxes....

HMJr: Yeah.

S:and then you wind up saying you're going to get \$2.5 billion through that. Then you say, "The tax increases of which I have spoken, estate and gift taxes, of \$400 million, the corporation taxes of \$1.1 billion, the excises of \$2.5 billions add up to a total of \$4 billion. This, of course, is no where near enough. Collections under the existing tax laws, during the fiscal year of 1944, are expected to amount to \$39 billion. This threatens a prospective deficit of \$70 billion, which must be met by borrowing to the extent that additional tax revenue is not secured. In order to reduce this borrowing load, I am recommending increases in individual income taxes to yield an additional \$6.5 billions. With equitability in the income tax program it is obvious that our population can pay these additional taxes as the income payments to individuals after taxes, have in the past few years been increased by several times the increase in income taxes which have thus far been imposed."

HMJr: Yeah.

S: "Adding this \$6.5 billion to the \$4 billion derived from other taxes will total \$10.5 billions for a full year of operation. Frankly, this is still not enough, but it is as much as we can justifiably recommend, realizing the limitations of taxation processes. It is as much as we can justifiably ask without causing undue hardship on those without an increased ability to pay. To take care of those who have a vastly increased ability to pay and of these, of course, there are a great many, we must maintain at full speed our War Loan Campaigns which we know are cutting deeply into the increased earnings of those people who have them. In planning a schedule to raise the \$6.5 billion in additional income taxes, we have merged the Victory tax into the income tax; the post-war credit which is now part of the Victory tax should be maintained in principle. However, since current offsets allowed against the post-war credits in the Victory tax, practically eliminate its post-war character, I propose the introduction of genuine post-war credits to protect the income of the lower income groups. I recommend that this post-war credit be paid in the form of survivors' insurance. It would supplement the insurance provision of the Social Security Act. If, however, the tax payer didn't wish to take this refund in insurance, he could receive it in cash at a 25% discount below the value of the post-war credit for the purchase of insurance."

HMJr: May I interrupt you?

S: Yep.

HMJr: That is very neat.

S: Huh?

HMJr: That is making the best of a bad situation in a very intelligent manner.

S: I think it is. (Laughs) "I further suggest (Coughs) that the post-war credit be made immediately available for the protection of persons with fixed incomes, especially those in the lower brackets who might be subject to undue hardships because of tax increases."

HMJr: Yeah.

S: "I should like to take a moment now to tell you exactly how this income tax schedule would work in actual practice." And then you take a married person with two dependents. If he earns \$1,000 a year, if he earns \$3,000 a year, if he earns \$25,000 a year. I think I had a \$5,000 in there, too. Uh -- "under the new" -- wait a minute -- then you go on, you say, "It is my belief that the proposal I have just made is as equitable as any tax so huge could possibly be. It is inevitable that some injustices will be done but these will be greatly modified, certainly, by the relief provisions which are included. By combining the Victory tax with the income tax, we can greatly simplify the paper work on the part of the taxpayer."

HMJr: Let's go back to the beginning of that subject again, where you start off.

S: "It is my belief that the proposal I have just made is as equitable as any tax so huge could possibly be."

HMJr: I see.

S: "It is inevitable that some injustices will be done, but these will be greatly modified, certainly, by the relief provisions which are included. By combining the Victory tax with the income tax, we can greatly simplify paper work on the part of the taxpayer."

HMJr: Yeah.

S: "And I might add that this could be further simplified by abolishing earned income credit, which I strongly recommend that the Congress consider. There's one further recommendation I should like to make to this Committee. It is not a part of the tax proposal but it bears a distinct kinship to it. I should like to recommend as enthusiastically as I know how that you amplify and extend the present Social Security plan. A substantial increase in these taxes would be of great service in diminishing the threat of inflation. I have talked to many people who would be concerned with the extension of the Social Security program which would involve increases in payroll taxes. I have been met with interest and enthusiasm for broadening the provisions of the Social Security Act."

HMJr: Yeah.

S: "I have been assured that the people who would have to pay additional payroll taxes see the wisdom of making necessary additional sacrifices. We have made arrangements to reestablish our fighting men economically when they return to build new lives on the sound foundations of the victory they will have won. And now we must also keep in mind that on the same foundation of victory, working men and farmers and all the other people on the home front, many of whom are not now covered by Social Security, must also build new and better lives. Therefore, I suggest that the Congress seriously consider widening Social Security to cover practically all persons in the Nation, to increase employment insurance benefits, and to provide benefits for temporary disability and hospitalization. To do this will cost the American people, chiefly those earning up to \$3,500 approximately \$3.7 billions. It is necessary -- the necessary additional payroll tax of \$1.6 billion will make a total of \$5.36 billion for Social Security purposes. There is no pretense on the part of these low income people -- low income people that they could comfortably meet this bill. It is known by them and admitted by us to be a sacrifice but it is felt by the leaders and spokesmen for these people and by those of the people themselves with whom I have talked, that because we are expanding Social Security's advantages and are permitting these people to invest in their futures, this sacrifice will be made willingly. If payroll taxes should thus be increased, the income tax schedules involved in the program I have outlined should be substantially modified to avoid an intolerable tax burden in the

S:
Contd. lower income groups." Period. End.

HMJr: Well, I'm perfectly delighted with it. I don't know how the other people feel. I hope the President will like it. Now one question.

S: Yeah.

HMJr: I take it that you people didn't raise the issue of whether -- how much the post-war credit is? You've dropped that?

S: That isn't in here now and we could put it in very easily where I talk about the -- the -- uh -- combining the -- wait a minute -- the Victory tax and -- wait, I can find it -- just a second --

HMJr: Well, wait a minute. Hello.

S: You mean the amount?

HMJr: Well, I mean, did you draw it -- bring that to Rosenman's attention?

S: Oh, yes, yes, yes. I'm sorry. I thought you meant in the message.

HMJr: Mr. Rosenman's attention?

S: That's right. It's been brought to Rosenman's attention. I don't know what he....

HMJr: Oh.

S: In a form of a memorandum to the President.

HMJr: Raising that?

S: Raising that -- that's right.

HMJr: I mean, just the way we raised it with Vinson?

S: That's right.

HMJr: All right.

S: That's right. Paul dictated it.

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HMJr: Good.

S: Yeah.

HMJr: Now, may I -- well, I'm, personally, very much pleased, but I don't know how the others -- I'd like to talk to two people.

S: All right. Name them.

HMJr: I think it's a swell job. I'd like to talk with Bell and then with Paul.

S: All right.

HMJr: Anybody that wants to make any comments to me....

S: Okay.

HMJr:I wish they'd please do so.

S: All right. Here's Bell.

Dan
Bell: Hello.

HMJr: Bell?

B: Yes.

HMJr: What is your frank criticism?

B: Well, I haven't read the statement. I just heard it here this time.

HMJr: Yeah.

B: Uh -- my reaction was -- it raised a question as to whether you should go over the history of what the Treasury has done on inflation -- that's the first part of the message -- and the other thing is whether you should go into the Social Security set-up -- make a recommendation on Social Security when the President isn't going to make any statement.

HMJr: Well, the President said we should do that.

B: Well, as I understood, he agreed that you could do that -- I didn't....

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HMJr: Well, I'd like to do that. I mean, that I very definitely want to do.

B: Well, I raise the question of the advisability of it because it's really a little out of our bailiwick and I think it ought to be cleared with Social Security Board.

HMJr: Well....

B: It seems to me you're kind of getting out on a limb. that the President isn't backing you up on. I may be wrong but that's the....

HMJr: Listen, fellow.....

B:my first....

HMJr:will you tell me....

B:reaction.

HMJr:since I've been on the Treasury, where I've been any other place but out'on the end of a limb?

B: (Laughs) That's right.

HMJr: When were we any other place?

B: No use picking another limb and one that's liable to break.

HMJr: No. But in view of all the fighting and -- and -- and I'm sure Paul will agree that he said that at the end we should make an appeal for Social Security. (Pause) Hello.

B: Well, I remember your statement the other day and I thought it was -- that when he said that you could do that, that he was going to send a message. I didn't realize at the time, that he was not....

HMJr: Well....

B:going to send the message.

HMJr:I will -- well, you people can think over -- let's wait and we'll hear from Rosenman by noon. See?

B: Yeah. Uh huh.

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HMJr: Now, there's no use worrying until we hear from him. See?

B: That's right.

HMJr: And what I propose to do is -- supposing Rosenman comes back and says, "Yes, the President has read it and approves this much but doesn't approve this." Well, then when I go up on the Hill and read what he has approved -- I propose to say, "This has been submitted to the President and he has read it and I'm reading it with his approval -- the following message."

B: I see.

HMJr: I'm not going to be out on the end of -- I'm going to say, "This has been read and approved by the President." Then I'll go ahead and talk.

B: I don't know that there's anything you can do about it but, of course, the refundable taxes....

HMJr: Well....

B:is sort of a slap at your bond buyers....

HMJr: I know.

B:and the Third War Loan Drive.

HMJr: I know. Tell that to Byrnes and Vinson.

B: I don't know what you can do about it. (Laughs)

HMJr: There's nothing you can do about it.

B: Well, that's just my first reaction on it.

HMJr: Pulliam -- Pulliam of Indiana told me if the tax is going to be about the way it's been in the paper, he was going to resign.

B: Really?

HMJr: He said he wouldn't go through another one.

B: (Aside: He's Chairman of the War Finance Committee in Indiana) Yeah.

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HMJr: So there's the first effect.

B: Uh huh.

HMJr: He said he just would resign.

B: Well, you might get a lot of that.

HMJr: And he's 'way over his quota.

B: After all, you've told him that you were backing voluntary savings.

HMJr: I know. Well....

B: Who else? Paul, you want? Paul you want to talk to?

HMJr: Yeah. I just want to know how he feels.

B: All right.

Randolph
Paul: Hello.

HMJr: Good morning, Randolph.

P: Good morning. Fred says to hang on to your seat.

HMJr: Why?

P: Well, we discussed this late yesterday afternoon and I indicated a good deal of disagreement with it.

HMJr: Yeah.

P: So did Roy Blough.

HMJr: Yeah.

P: I don't know how Herb Gaston and John Sullivan and Harry White feel....

HMJr: Yeah.

P: But I feel there are many things wrong about the approach. I can't -- I don't think it's very easy to go over them over the telephone.

HMJr: No.

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- P: But I -- I -- I think the whole approach is wrong. There are several items, we did get some changes yesterday that I think improved it.
- HMJr: Yeah.
- P: But I just feel that the whole approach is wrong and I'm -- I'm -- that's one thing. The other thing that I think is of serious consequence at this moment, and something we may do before you get back....
- HMJr: Yeah.
- P:is -- on this reduction of the post-war credit....
- HMJr: Yeah.
- P:on principle, I don't have so much interest whether it's one figure or another....
- HMJr: Yeah.
- P:but -- uh -- I do think that we ought not to try to jam through a reduction without talking with Byrnes and Vinson.
- HMJr: Well, I asked you the other day and you said positively it wasn't necessary.
- P: No, I -- you asked me about submitting this message to them. That was different. But, anyway, it's not too late to do it -- uh -- if you want to do it. I mean, I think there's going to be a lot of resentment by them that we sent a message to the President, again ignoring them, and I think the resentment -- I don't know what form it will take, but I do feel that after we get started on the tax bill....
- HMJr: Yeah.
- P:we're going to be without, at least, Vinson as an ally when we can certainly use him to good effect on several things where we agree.
- HMJr: Well, the way I feel now, after having listened to the statement, the amount of the refund -- it's the refund, you see?

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P: Yeah.

HMJr: Now, whether it's black or whether it's gray doesn't make much difference.

P: Yeah.

HMJr: And if it would make you feel any happier, I'd just as leave have you talk to Byrnes and Vinson.

P: You understand, one thing which I don't think occurred to a number of us....

HMJr: Yeah.

P:and perhaps it hasn't been called to your attention. This insurance gadget....

HMJr: Yeah.

P:reduces the refund from the cash point of view 25%. Do you see what I mean?

HMJr: The thing that I have been unable to get over to you, Paul, is this, Randolph.

P: Yeah.

HMJr: I mean, from the talk that I got in the field -- I mean -- let's be frank -- this is what you wanted, this refund, right from the beginning.

P: Well, not exactly, this refund. I wanted a bigger one, but....

HMJr: Well, anyway, you wanted -- what I can't get over to you is that I don't know whether I'll ever be able to put across another volunteer thing and I think half of my organization will resign.

P: Well, I can understand that.

HMJr: Yeah. And we....

P: I can understand that. And I think that there is a good deal to be said on the point that this refund is neither fish nor fowl. It doesn't amount to anything. Either way -- whether it's \$3.6 billion or \$2.5 billion or whatever it is....

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- HMJr: As Walter George said, it just does enough -- it doesn't do enough - it isn't enough to do any good and it's just enough to ruin my volunteer plan.
- P: Well, there is a good deal in that point of view. That point of view I understand, but I - I'm going on the basis that the President has decided on a particular program and I think Vinson got a very unfortunate impression at your house the other day, that you were trying to whittle on the President's program. Now....
- HMJr: Oh, well....
- P:I can understand that -- you said very frankly that you didn't think the President was the kind of man that ever considered a decision of his beyond appeal....
- HMJr: Yeah.
- P:but, on the other hand....
- HMJr: Now, let's be also frank. He wasn't -- what he was annoyed at was that he might be losing something. They thought that they -- they put me in this hole and he was afraid I was going to wiggle out of it.
- P: Well....
- HMJr: He was trying to put me off.
- P: Sure. Sure, that was understood.
- HMJr: And he tried to put me in the worst light. And what I told him -- I don't believe in serving the President that you've always got to say "yes" to him.
- P: Oh, I agree with you. I -- I feel the same way about serving you. That's why I'm talking this way.
- HMJr: Yeah.
- P: All right.
- HMJr: I don't -- I have no objection that -- that if -- there's no use putting it up to him and if, but if Rosenman comes back and says, "Yes" on that -- hello?
- P: Yeah.

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HMJr: Then I think -- I'm willing to have you talk with Vinson and Byrnes. But there's no use taking it to them until we hear from the President.

P: No. Yeah....

HMJr: What?

P: Well, time is getting to be....

HMJr: All right. I'm willing. I don't care. I don't want them to have....

P: I don't want them to have a case against you on that point.

HMJr: All right. You can talk to them now.

P: All right. Just a minute now. Do you want to talk to anybody else here? Harry is here, John....

HMJr: I want to....

P:and Mrs. Klotz is here.

HMJr: Yeah, I know. Gaston?

P: All right. Here's Herb.

Herbert
Gaston: Hello.

HMJr: Herbert?

G: Yeah.

HMJr: As to the over-all, how do you feel?

G: Well, I like it a good deal better than I did yesterday. I think it's improved a good deal and I think as a whole, it isn't bad. There is one spot there -- this matter about debt that I think we've got some -- uh -- a little cock-eyed economics there. I don't think the debt, from what the boys tell me, I don't think the reduction debt is an important factor.

HMJr: Well....

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G: It's a very minor thing and I think that we've got about a page there which seems to convey the belief that we -- that debt -- paying off debt has been the principal factor in their situation. I think we could -- I think we could do some modification on that page. And there are various other places where I think....

HMJr: Well....

G:the language should be modified.

HMJr: Well, that's all right, but as to the approach, the thing that Paul doesn't like -- but as to the approach...

G: Oh. Well, then the -- there are other -- uh -- well the general outline, I think, is all right. The general manner of treatment, I think, is all right. I believe there's too much on this question of what you have done in the past.

HMJr: No. I like that.

G: Well, there are some things here that didn't come, I think, to public attention at all, that were internal in the Treasury. Of course, we can't use those.

HMJr: No. There I agree with you.

G: Yeah. We'll have to check on those.

HMJr: Unless they brought it to public attention. Yeah.

G: Well, the general framework, with some minor improvement, I think, it can be made into a good message.

HMJr: Well, I think they should keep improving it all day long.

G: Yeah.

HMJr: Yeah. All right, let me have Sullivan and then White.

G: All right.

John
Sullivan: Good morning, Mr. Secretary.

HMJr: Hello, John. Anything you want to say?

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S: Well, my observation on the whole situation goes beyond the form it takes. I think you've got something at stake here that I don't know whether you want to discuss over the telephone or not.

HMJr: What's that?

S: I think you're going back on everything you believe in and everything you've said.

HMJr: Well, I can't help that.

S: Well, that's....

HMJr: It isn't me. I'm up there talking for the President.

S: Well....

HMJr: I've been all over that.

S: Well, if that bridge is crossed, why then that's that.

HMJr: It's been crossed, burned, and dynamited.

S: Yeah, I think it certainly was dynamited.

HMJr: Yeah. I agree with you, but I had to take that last week.

S: Well....

HMJr: All right.

S: I commiserate with you.

HMJr: Well, I'm beyond it.

S: Right. Here's Harry.

Harry White: Hello.

HMJr: Hello, Harry. Harry?

W: Yes, sir.

HMJr: What have you got to say for yourself?

W: Well, about the general approach -- I find quite satisfactory. I think it's a very good job. There are a couple of things I don't like. I think Herbert's right about the debt. I wouldn't say it's cock-eyed economics -- it's good economics. It's just exaggerated and can be easily toned down.

HMJr: Good.

W: I do not like that part in which you go over what you've done to stop inflation.

HMJr: You don't?

W: I think it sounds like an alibi -- it's not very strong and you'll find -- I don't think it adds to the statu^e of the occasion....

HMJr: Well....

W:but detracts.

HMJr:I wouldn't do it then.

W: Thirdly, I am not disturbed, but I suppose there is no reason why I should be -- the same thing that John is -- I think that you could quite legitimately take this position in view of the fact that that's what the President wants. I think that....

HMJr: Now, wait -- wait a minute -- a very important thing has just happened in the room. Will you hold the wire?

W: Yes, sir.

HMJr: My oldest son has just woke up. Will you wait a minute? (Pause) Hello.

W: All right. I'll wait until you put him to sleep.

HMJr: He may put me to sleep after this telephone call. But hold the wire a minute.

W: I'll do that.

(Brief pause)

HMJr: Hello. The situation is in hand and has been taken care of.

W: Is well in hand?

HMJr: Yeah. (Laughs)

W: Fine. But the one thing that disturbs me is the same thing that disturbs Paul and, I think, disturbs the others, that having retracted from a volunteer program....

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HMJr: Yeah.

W:what's there -- uh -- is -- I would cite Paul's phrase -- is neither fish nor smoked herrings.

HMJr: It's neither....

W: Could easily have said nothing.

HMJr: It's neither fish nor herring.

W: That's right.

HMJr: Well, listen -- uh -- as Vinson said in my house -- I mean, he asked Paul for a plan and this is what Paul gave him.

W: Yeah.

HMJr: And I understand -- I mean -- Paul....

W: You mean Paul is responsible for that plan?

HMJr: What?

W: Well, he's got a lot to answer for.

HMJr: No, I want to -- no, Paul told me that if he asked for an alternative -- he talked to me as I remember it, beforehand. He can -- I can't see his face -- and he said he'd have to be prepared to give him something.

W: I see.

HMJr: Is that right, Paul?

W: (Aside: Paul?) I don't know that Paul has heard what you -- that Randolph has heard what you said. The trouble with Paul is he ought to change his name and make it Paul Randolph because it's so easy to -- uh -- shall I ask him?

HMJr: No. Well....

W: No.

HMJr:that's about the thing, so that's....

W: And about having taken this step -- if that's what the President wants, maybe I'm very unsympathetic but I certainly wouldn't give two hoots in hell about all those Resignations that you'll get from

W:
Cont'd. your bond salesmen on this matter. There are plenty of other good peg heads loose. You'll have -- however, providing it's a good program -- if it's the kind of program which there is, why....

HMJr: Well, the object of all the....

W:you'll end up in the soup.

HMJr:thing, Harry, is I'm going up there -- I'm going to sell these volunteer people down the river, see?

W: I don't see it that way.

HMJr: Well -- well....

W:Jr: However....

HMJr: Just a minute -- and then, I'm not going to get it. See?

W: Well, that's the trouble.

HMJr: And, with the people in the field -- uh -- I'll be, in their name, a bad....

W: I think that can be taken care of but I think the other is....

HMJr: No, I mean -- all they'll remember three months from now is -- when I have my next loan is that I sold them down the river and by that time we'll have a tax bill that won't look any more like this than Rome looks like New York.

W: I'm afraid of that. I'm afraid of that second -- not the first. Of course, it means a little more work, but I don't think....

HMJr: That's all water over the dam.

W: Right.

HMJr: I think this -- if Fred will listen to you men today because I'm down here and keep improving it all day long.

W: Yeah.

HMJr: And....

W: All right.

HMJr:and then, I don't know yet what my plans are -- and I won't know yet for a while. Is Mrs. Klotz there?

W: Mrs. Klotz is here but I'd like to ask you one question on another matter before....

HMJr: Yeah.

W:I turn it over. On the -- getting in touch with Rayburn about the appearance next week -- we'll hold that up until you come....

HMJr: Yes, but also, you can't hold up my appearing on the Hill before these committees though.

W: That's what I meant -- that's what he called about.

HMJr: No.

W: Pardon me?

HMJr: He wanted some fellows to sit with us at this end.

W: Yes, but I didn't know whether you wanted to check them both up. Well, who would you like to arrange for those committee meetings?

HMJr: Well, I think John Sullivan could help you....

W: Yeah.

HMJr:on the Hill. Hello.

W: Yes, who do you want to work through, Barkley and Rayburn?

HMJr: Yes, but you ought to do it -- try to aim for Tuesday and Wednesday.

W: Tuesday and Wednesday. We're having a little trouble with the British who don't want any publicity or notice given to the Bank plan....

HMJr: Well....

W:until they've had a chance to -- to give us their opinions.

HMJr: Well, Harry, if I'm to go up on the Hill, it's going to have to be Tuesday and Wednesday, and....

W: Well, then it will -- uh -- well, the British representative is in my office now. I'll see what we can work out with him.

HMJr: Yeah. But I mean if I can't go then, I'm not going to be able to go at all.

W: If you can't go Tuesday and Wednesday? Randolph is asking whether you will be here tomorrow.

HMJr: I hope not. But I'll be there Sunday night.

W: Sunday night?

HMJr: Yeah.

W: I'll -- Mrs. Klotz will take over.

Mrs.
Klotz: Uh -- Paul in.....

HMJr: Hello.

K: Paul inquired. He said the reason he asked is on account of Judge Hand, because he's going to call him today.

HMJr: Well, he'll have to go over there and take Preston Delano with him.

K: (Aside: You'll have to go over there and take Preston Delano with you.) All right.

HMJr: As the only taxpayer in the room, how do you like my message?

K: Well, I liked it very much.

HMJr: Good. I have to try it out on one taxpayer.

K: That's right.

HMJr: All the others are experts.

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K: Knowing nothing about taxes, I liked it very much.

HMJr: Good. Good. Now....

K: (Laughs) Yes.

HMJr:there's something I wanted to say -- well, I don't know -- I'll be calling up later when I get another weather report.

K: I see.

HMJr: At this time I've got to feed my son.

K: Uh huh.

HMJr: He looks very hungry.

K: I think the son ought to feed his father.

HMJr: Yeah.

K: He's exhausted.

HMJr: Now, let me just think a minute. There's something. Oh, who -- who in the room will keep after Rosenman to find out whether he has an answer?

K: Smith said he would.

HMJr: All right.

K: Now, Mr. Gaston would like to say a word to you.

HMJr: All right.

Herbert
Gaston: On the couple of appointment matters, one of them -- it's only minor -- on this Commissioner thing -- if we get -- if we get Frank Walker's agreement, do you -- uh --

HMJr: Send it over.

G: Send it over?

HMJr: Yep.

G: The other thing is this, that as a successor to Tom Gorman we'd like to appoint Ed Shamhart who has been the acting Deputy Commissioner.

HMJr: It's all right with me.

G: All right.

HMJr: Anything else?

G: No. You knew about the Preston Delano matter, too. We were going to clear that with Frank Walker today.

HMJr: You mean his reappointment?

G: Reappointment. Yeah.

HMJr: Sure. He gives me a pound of butter a month for weeks.

G: Oh, well.

HMJr: The rest of you, too.

G: Uh huh.

HMJr: So we are all buttered.

G: The rest of me? No.

HMJr: We're all buttered.

G: No, I'm not buttered.

HMJr: Well, I am.

G: (Laughs) All right.

HMJr: I am now going to go to bed.

G: Uh huh. Anybody -- nobody else -- nothing else you want?

HMJr: Not -- I'll be calling up later on.

G: All right. Bye.

HMJr: Bye.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

October 1, 1943.

REPORT OF CABINET MEETING

The President said he had nothing to report.

Mr. Berle commented on the South American situation. The President said they ought to have someone to represent the United States as a sort of roving Ambassador in South American countries. He was thinking seriously of sending Sumner Welles to that area for three or four months. There is some doubt as to just which way the Argentine Government will eventually turn.

The President then turned to me and asked me how the Bond program was going. I said it was going very nicely, that we had exceeded our goal of \$15 billion by approximately \$600 million; that we were going well over, possibly as much as \$17 billion; while I thought we were going to make our quota of \$5 billion for individuals, there was some doubt whether we would make the Series E Bond quota of \$3 billion. That was a right tough quota and we knew it when we fixed it. I said the total quota for individuals was only 50% higher than what we received in the Second War Loan Drive, while the quota for Series E Bonds was more than twice what we received.

The President then said "Of course you know that there are a lot of individuals who are cashing in their Savings Bonds in order to get credit for purchases in the Third War Loan Drive." I said I had heard that charge and I supposed there were a few cases, but the redemptions this month are very little higher, if any, than in July or August, in spite of the fact that September is a tax month. I told the President I thought the people who were making those statements could just as easily have said that the redemptions were for the purpose of paying taxes in stead of for the purpose of buying other bonds. I also said I had heard nothing said about the fact that some corporations sold their securities acquired during the Second War Loan Drive in order that they might buy in this Drive and be considered patriotic on both occasions and there was a good deal more of the latter than the former. However, I said, adding it all up, both for individuals and corporations, it wouldn't near equal the amount of the excess over the \$15 billion goal that we will eventually get. I said I thought the American people had responded wonderfully to the Drive and that we could all feel very well pleased with it. The President said it sounded very good. (In the course of my statement Fred Vinson turned to Jimmie Byrnes, smiled and winked.)



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Messrs. Stimson, Biddle, Walker and Forrestal had nothing to report. The President told Under Secretary Forrestal that the Navy was again trying to advocate a reorganization in the Navy which would virtually set up a general staff. He had turned it down a number of times and he wanted them to understand he was still against it. Forrestal said he thought everybody understood the President's views on that matter.

Mr. Ickes reported that the fuel oil situation is getting no better and the coal situation is getting worse every day. The President asked him why the coal situation should get worse. He said the demands for the use of coal are growing, particularly from Italy. Italy formerly got its coal from Germany which, of course, is now cut off. The President wondered if we could get some coal from North Africa and ship it across to Italy. Mr. Ickes said he did not think so, but we had been getting some from South Africa, much of which was going to Argentina and other South American countries.

Ickes then said he would like to bring up an old question again and that was the matter of getting \$5 million for prospecting for oil in Alaska. He said he thought the President would be justified in spending this amount of money for this purpose when the War Department had spent \$100 million on a pipeline and refinery set-up in Canadian oil fields.

General Fleming then came into the conversation with the statement that he had just been to Canada and had seen representatives of the Truman Committee up there who had investigated the pipeline and refinery. They have come back convinced that the War Department has wasted the money they have spent up there. They are also going to be rather critical of the War Department's projects around Excursion Bay.

Jimmie Byrnes then said he had had the matter brought to his attention by the Bureau of the Budget, which agrees with Mr. Ickes about the expenditure of public funds for this oil installation. He said he understood the War Department had spent approximately \$60 million and the question now was whether they should continue with the project and spend another \$40 million to complete it. The President asked Byrnes to get the different groups together on the matter and see what could be worked out. He suggested to Mr. Ickes that he might go back to the War and Navy Departments to see whether or not he could get \$5 million to prospect for oil in Alaska.

Secretary Wickard reported that many of the farm organizations are now coming out with statements to the effect that a little inflation wouldn't hurt the farmers too much. He said Cornell University recently issued a pamphlet in which that was inferred all the way through. He thought the President, in sending any message to Congress, might say something about this, but at the same time he thought he might pat the farmer on the back for what he has done in producing the Victory crops.

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The President then said that Nelson Rockefeller had come to see him that morning and had rather an ingenious scheme for providing Mexico with corn, of which it is very short and which, if they don't get, will cause serious disturbances in that country. He said Nelson suggested that our ships going to South Africa with goods should load up with coal in South Africa, take it to Argentina, where it would be sold, and then reload with feed cake which would be brought to this country and substituted in many of the feeding areas for corn. This would justify our giving Mexico some of our corn. Vinson said the Southwest feeding areas were really quite critical and that those areas had to be given some corn or other feed very soon. The President said an attempt should be made by the Secretary of Agriculture and the Secretary of State and Mr. Rockefeller to get together to work out this program as quickly as possible.

Mrs. Perkins commented rather extensively on the workings of the Smith-Connally Act, saying that almost everybody has been wrong about its effect. Labor was against it at the beginning, but has found no objections to its workings. Industry was very much in favor of it, but is now coming around to the view that it was a mistake to pass the legislation. She said it is a very cumbersome piece of legislation to work under but it is not having the effect they thought it would have before its passage.

She then said there was still quite a bit of uneasiness around because of the newspaper articles indicating that the Social Security program was going to be a part of the tax program. She had indicated her views to the Secretary of the Treasury on this matter at a recent Committee meeting in this Department and she was hoping that the Administration wouldn't tie taxes and the social security program together. The people who pay social security taxes do not look upon them as taxes, but look upon them as contributions to a system for which they will get returns later on.

Paul McNutt said he agreed with this and he had also expressed his views at the Treasury meeting. The President told them it had been decided that the social security program would be out of the Administration tax program. He didn't say anything about the fact that he had told the Secretary he might comment on the social security program in his statement to be given to the Ways and Means Committee next Monday.

The President asked Mr. McNutt how the legislation respecting the drafting of fathers was coming along. Mr. McNutt said he thought it was dying a natural death. The President wanted to know if there was anything we should do about it. Mr. McNutt said no, there was nothing. He thought it was losing support every day and it was his recommendation that we leave it alone for the time being.

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General Fleming reported on his recent trip to Alaska. He said he made the trip all the way up the Alaskan Highway. The Engineers have done a wonderful job. There is only ninety miles of the strip to be completed and they were completing approximately four miles every day. They expect to finish the entire strip by November 10th. He said at that time there will be between fifteen and sixteen thousand civilian employees released; so far as he could tell, most of them came from northern parts of the States of Minnesota, Montana, the Dakotas and Michigan; very few from the West Coast. Paul McNutt told him if they would send them all to the West Coast that they could get jobs immediately.

John Blandford said there have been a number of proposals introduced into Congress which would enable soldiers to acquire interest in homes and farms. He thought many of the Departments and agencies were interested in this subject and in order that there may be some uniformity of approach to the problem, he would suggest a conference on it. The President told Byrnes to get the groups together and work out policy decisions on it.

Vinson and Byrnes had nothing to report.

The President asked Vice President Wallace what the temper of the Senate is at the present time. Wallace said the temper is quiet and there isn't very much to do. He thought by Tuesday the draft of fathers would be definitely settled.

sub

These figures received from Mr Bell, at 6.05pm, October 1, 1943.

To be delivered to the Secretary.

7/8% cert.	3,835M	plus	137M		
2%	4,443M	plus	122		
2½%	3,124M	plus	41		
Tax Notes.	<u>2,262M</u>	plus	<u>264</u>		
Total.	13,664M	plus	564.	13,664m	plus 564
E, Bonds.	1,400M		91	76 E.	
F, Bonds.	139		10		
G, Bonds.	<u>387</u>		<u>23</u>	Total	1.926 124
Gov't Funds.	<u>630</u>		<u>0</u>	Total.	<u>.630</u> <u>0</u>

GRAND TOTAL. 16,220M Plus 688M

16887 6667

John J. McGrath
SA McGrath. NYC.

23 Wall Street
New York

R. C. LEFFINGWELL

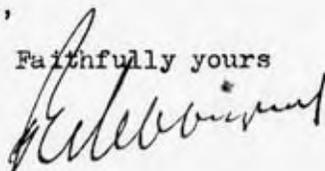
October 1, 1943

Dear Mr. Secretary:

I cannot tell you how pleased I am by the triumphant success of your Third War Loan. Knowing as I do what difficulties you had to confront this success must be peculiarly gratifying to you, as it is to your friends and to all lovers of our country.

I am, my dear Mr. Secretary,
with great respect,

Faithfully yours



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

FREDERIC A. DELANO

WASHINGTON, D. C.

870 LEXINGTON AVENUE
NEW YORK CITY

1530 P Street,
Washington 5, D.C.

October 1, 1943.

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

My dear Mr. Secretary:

The President's office has kindly sent me copy of your letter to him, under date of September 29, in regard to the very objectionable one-cent piece that looks like a dime and is constantly being accepted for a dime. Obviously, a coin could be minted of the same size and weight with a one-eighth inch hole through the center, as a slight increase in the thickness of the coin would make up for that which was taken out of the center. Of course, the face of Lincoln could not be used, and the coin would have to be of a different design. If this suggestion is not feasible, I think the brains of the Bureau of the Mint should be applied to a different solution.

As I understand it, a Congressman has already submitted a bill to change the coin, and the opposition to the coin is so great, that something will have to be done.

Very truly yours,

Frederic A. Delano

MEMORANDUM FOR THE SECRETARY.

October 1, 1943.

Mail Report

Except for the Bond mail, all receipts have been down during the past week. The subject of taxes receded into the background, and the letters that were received followed the pattern of previous weeks. There were 20 protests against increased taxes and 6 pleas for simplified forms; a few belated sets of Form 1040 E.S.; several routine endorsements of the CIO tax program; and the usual suggestions about further sources of revenue, these including the placing of a one-cent tax on bags of peanuts and popcorn. A sales tax and the excess profits tax rated only 2 or 3 mentions apiece.

There were a number of telegrams replying to the question about the percentage of defense plant employees buying an extra Bond during September. Percentages ranged from 0 to 90, with a few Chairmen unable to give any figures. Difficulties besetting certain groups, such as colored citizens, salesmen who cannot get gas, etc., have been described in scattered letters. Ideas about new types of Bonds and new points for emphasis were unusually heavy. There were even a few plans for the Fourth Drive. Noninterest-bearing Bonds are particularly popular, and annuity Bonds run them a close second. Special small denomination Christmas Bonds and other variations of the gift idea were frequently mentioned. Only 29 Bonds, 8 from Patchogue, New York, were submitted for redemption, the lowest figure for many weeks. Complaints from personnel of the War Department, dealing largely with nondelivery of 1942 Bonds, ran about the same as last week.

There was a sharp flare-up in letters complaining against Government extravagance, and in most instances these tied in with taxes or the Bond Drive. The scrapping of tools worth \$1,400,000.00 by the Army, as reported by

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Memorandum for the Secretary.

October 1, 1943.

newspapers, was commented upon many times. There was also a sharp rise in letters dealing with the unpopular new penny. According to a clipping forwarded in one letter, a newspaper is now featuring a column of stories about difficulties with this coin. Another group of bitter protests dealt with the recent Treasury ruling regulating yearly commissions to salesmen. These letters were frequently transmitted by Members of Congress.

Of 8 letters commenting specifically on recent speeches made by the Secretary, 6 were favorable, 2 unfavorable. Eight violently abusive communications were received - all but one of them anonymous.

The month's receipts from the White House were again low, although the total rose somewhat over the August figure. We had 374 letters, of which 137 were acknowledged in this Division. September has always been a low month, varying from 180 in 1939 to 519 in 1941. Last year, however, we received 1,877 communications during that month, but this was partly due to postal card campaigns in connection with income tax and the Townsend Plan.

J. F. Forbush

General Comments

We, the People. (Postmarked - New York City.) Gosh, as if we don't have troubles enough, you smart fellers down there have to put out a cent to look like a dime. Just another mess added to what we got. No wonder we get het up!

Henry J. Abrahams, Omaha, Neb. I take pleasure in enclosing Treasury Checks #696009 and #696046, endorsed to you, which I offer as my further contribution to our War efforts. Also my congratulations on your successful Drive for the Third War Loan. I also enclose my check for One Thousand Dollars, and when it clears, will be glad to receive two Five Hundred Dollar Series G Bonds.

Senator Lodge forwards a letter he has received from Allen W. Rucker, Vice President, Tailby-Mason Company, Pharmaceutical Manufacturers, Boston, Mass., which reads as follows: As you are aware, the Treasury has promulgated a control affecting the earnings of commission salesmen and prohibiting any increase in the dollar amount of those earnings without Treasury approval. This regulation is, insofar as it affects us, utterly disruptive. It not only requires that we break contracts of years' standing, but it seriously and even critically upsets our operations. * * * It is too well demonstrated in this industry to even admit of question that if the physicians are not continuously and properly called upon, they will purchase their goods from competitors. It is also demonstrated that the salesman with his necessary knowledge of pharmaceuticals is the most single powerful factor in making physicians acquainted fully with the merits of new and important developments in the treatment of disease and injury. * * * To now be compelled to inform our men that despite the added efforts required of them and the added business which they secure, we cannot fulfill our contract with them, will be enormously disruptive. Our firm,

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in common with most others, has continuously met the multitude of inconveniences and hardships, as well as the added expense of following Government regulations without complaint. This, however, is an instance where we feel that complaint is wholly justified and that we request your efforts to bring about a cancellation of this new Treasury regulation.

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Favorable Comments on Bonds

Mrs. Walter H. Simon, West Collingswood, N. J. Please send more forms "Record of Ownership". We have filled five and are ready to start filling many more. We are doing everything possible in order to buy more and more Bonds. We have a Bond taken out every payday, but I buy many more during the month, and I save pennies and have a dime bank for 25-cent Stamps. All my left-over house money goes for more Stamps. I believe we could paper a room in Bonds. I get a big kick out of saving all I can and the most of it goes for Bonds. We bought two \$100 ones for the Third Drive, and I talk and talk Bonds & Stamps. It is a very easy way to help our Government, and at the same time help ourselves. **

Floyd Schwartz, Sunnyvale, Calif. I buy Bonds with 55% of my salary. I was told after the last war the people were asked to burn their Bonds and they did not pay off in full value. Please inform me if this is true.

H. J. Braun, St. Louis, Mo. I was fortunate in being one of the honored guests who was present last evening at the dinner given at the Chase Hotel in your honor, in connection with the Third War Bond Drive. Your message was an inspiring one and the testimony of the members of the "Hellcat" brought home to every one the "do or die" necessity of each man and woman who loves liberty and the Four Freedoms doing his and her best to make the 15 billion campaign a success. ***

Pfc. Laurence G. Doyle, Camp Hatheway, Vancouver, Wash. I understand that a law has been passed which allows the Government to accept gratuities. Enclosed find receipt for a Bond which was purchased by the Army in my name. At the time arrangements were made to deduct some dollars from my monthly competence it was not my wishes to invest in Bonds but to have it sent to the Government as an outright gift. While realizing that the sum involved is an insignificant one, there are, nevertheless certain principles involved, and principles are tremendous trifles.

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Richard Stack, Carrolton, Ill. I have purchased today from Carrolton Bank of Carrolton, Ill., one \$25 War Bond, Series E, issued as of the first day of Sept., 1943. Bond No. is Q19176553 E. Please cancel payment. I am sending the Bond to Gen. Douglas MacArthur somewhere in Australia with instructions to place it on the first bomb, as postage, that he drops on Tokyo, Japan. It is so Damm Little to give, but I will get a Helluva Lot of Satisfaction if my wish is carried out.

Dr. Irvin A. Mathews, Kankakee, Ill. Today I have bought another War Bond and donated a pint of blood to the Red Cross. This seems so little to give one's Country, compared with the millions of fellow Americans who are giving a great deal more, even in some cases their lives on the battlefronts of today. Buying War Bonds and donating one's blood to the Red Cross is the least we on the homefront can do, and I for one consider it a great privilege. I wish that I could do more. To show my great appreciation and love for my country I wish to present to you my personal check for \$25.00 to be used for medical needs for our Armed Forces overseas.

Max Tachna, Tachna & Pinkussohn, Counsellors at Law, New York City. I have just received the enclosed check for \$990.00 from the Treasurer of the United States, as a "six months' death gratuity" paid me because of the death of our only son, Ensign Lionel Judah Tachna.*** At the time my son joined the Navy, early in 1941, he told us that for him as an American there was but one choice -- to fight, and, if necessary, die for a free country undominated by the fear of a Nazi-controlled world. I am sure that it would be our son's desire that the enclosed check, paid because of his death in action, should be devoted to carrying on the cause for which he gave his life. His mother and I therefore wish to invest the enclosed check in Defense Bonds and thus help the present Third War Loan Drive.*** As there may be some technical requirements about the endorsement

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of the check, will you please endorse it for me so as to obtain these Bonds, or return same to me with instructions? What I specifically desire, however, is that the check itself should be paid directly to the U. S. Government for these Bonds, and that the Bonds be registered in the names of Max Tachna and Rose Tachna, 40 West 77th Street, N.Y.C.

Jack L. Williams, San Antonio, Tex. I owe you thanks for your kind and courteous letter of June 22 this year, regarding my old War Bonds. I have since heard from Chicago that they will soon be delivered to me.
* * *

Herbert W. Forster, N.Y.C. The Army Show in Washington is to my mind a wonderful and inspiring spectacle. I spent nearly two full days there and then felt that I had by no means taken it all in. It leaves me with vastly increased respect and admiration for the magnitude of our war effort and of the technical and human vigor of this nation. If the men and exhibits, as well as the transportation facilities could be spared, I think it would be a great stimulant to the entire homefront if the show could go on tour throughout the country.

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Unfavorable Comments on Bonds

Bond Buyer -- Postmarked New York City. The War Bond Drive is lagging for a very good reason. Just whose super-brain evolved the brilliant idea of having the Drive coincidental with the filing of tax declarations and payment thereon has not been revealed, but that it has had a great effect, there is no question. The Bonds will all be sold, but if the Drive had been earlier, thousands could have bought them, and then borrowed, if necessary, against them to pay September 15 taxes. I hope the next Drive will be at a time when other payments are not due.

Robert G. Herzog, N.Y.C. I am writing this letter to call your attention to a condition which I feel cannot help but hinder the sale of War Bonds through Class A payroll deductions. I refer to deductions made by the War Department from the salaries of civilian employees. I give my own case as an example because I am thoroughly familiar with the details. However, I have inquired among other employees and former employees of the War Department and I find that my case is typical. * * * (Explains difficulties.) Until now, I had no idea how seriously this affects the sale of Bonds, but recently I was appointed, by the company for which I now work, to the Bond Selling Committee and have found difficulty selling Bonds to many individuals who claim undue delay in the delivery of Bonds. * * *

N. T. Brice, Treasurer, Falk Credit Union, Milwaukee, Wisconsin. We are issuing agent for the Falk Corporation. This month, because of the Third War Bond Drive, we will probably reach a \$200,000.00 total in Bonds issued. Most of these Bonds are of the smaller denomination so it means a lot of work. The Falk Corporation has gone to considerable expense in providing equipment and help to the Credit Union to do this work. The Federal Reserve Bank of Chicago has been supplying us with a penalty window envelope for some time, which

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speeded up our work considerably, as it eliminated addressing several thousand envelopes each month. You can imagine our disappointment when they informed us that no more were available as the Post Office Department could only order them. I checked with the Postmaster in Milwaukee and he said it was up to the Treasury Department. There is no use of going into this matter any further except to state that we offered to print the envelopes; do anything to get them and couldn't do so. It necessitated hiring more help, typing all envelopes and delaying delivery of Bonds and increasing our expenses. We hope we are patriotic Americans, but when two of the largest branches of the Government can't decide who will order some envelopes, it certainly strains one's willingness to make the sacrifices that one now has to make and is most willing to make in these days. * * *

C. Franklin Ward, Hollywood, Calif. In spite of my very great admiration of your leadership, I am fully in accord with the opinion of DeWitt Mackenzie as set forth in the attached clipping. (Criticism of HMJr's speech, "When... if...etc.")

G. Burton Hibbert, Chairman, War Finance Committee, Providence, R.I. (Telegram) The action of the Treasury Department contradicts your daily telegraphic urgings to push sales of Series E Bonds. Rhode Island's campaign was well in hand until news releases on dollar success from Washington broke in local papers. The people of the United States naturally will not sacrifice themselves unnecessarily, and if they think you have received all the money you asked for, no sales technique can persuade them to buy more. Our organization of over sixty-five thousand solicitors in Rhode Island has made an all-out effort pointing to the last ten days of this campaign, and success was assured which further publicity on dollar volume (instead of numbers of purchasers) from Washington will completely dissipate. Your cooperation is earnestly requested.

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N. Gropper, N.Y.C. You stated that the wage earner is not buying Bonds in the quantities expected. You know the answer to that one. No blame is chargeable to you, for you have done an admirable job in the face of the most criminal and corrupt bunch of legislators that any nation has ever had to contend with. * * * Business is earning enormous profits out of this war, stained with the blood of the best humans on earth. All this despite the so-called high taxes. The wage earner in the main is earning no more, and perhaps less, than in pre-war period. Sure, some war workers who put in extra hours on swing shifts roll up what looks like a large sum, but they don't keep it up. Whereas, the average worker with the same wage faces deductions for higher costs for food, rent, clothing, Union dues, taxes, pension contributions, money to boys overseas and in U. S. Camps, contributions for war agencies, Red Cross, etc. * * *

Kim Collins, C.P.A., Collins & Buri, Detroit, Mich. Our associates and clients don't feel very good about contributing to the Bond Drive when they see their money thrown away in the following manner. Recently the Army Air Force sold \$1,500,000.00 value of standard new cutting tools for \$75,000.00. The purchasers are not required to keep any inventory control or comply with priority regulations. I understand that orders came from General Hopkins, routed through the material command at Wright Field. The Detroit office advises that they were ordered, after an engine design change, to scrap this large quantity of tools as obsolete, when actually they were standard new cutting tools and adaptable to other purposes. Orders cited that there was no space to store them when actual space was enough to store all the cutting tools in America. The sale was required to be made at once by the Detroit office with no advertising and no competition allowed. The Detroit office had been making good progress in distributing this equipment to other critical material locations where it could be used to the best advantage. There was no reason for such an order and the manner in which the deal was handled indicates that there is something rotten somewhere. * * *

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Margaret Gray, Everett, Wash. The papers have commented upon your worry regarding Bond buying. Up to now we "little people" have been glad to sacrifice necessities to help OUR boys. Since a recent report regarding the shabby treatment of General MacArthur, we are beginning to wonder if we are helping OUR heroes or again financing Britain's "curtain calls". If Britain wants to feature BRITAIN -- at the expense of our brave men -- let HER pay for it. The American people are solidly behind General MacArthur, and if these reports are true, we are proving ourselves a nation of ingrates. Overoptimism isn't going to stop Bond buying, Mr. Morgenthau, but THIS sort of thing IS going to stop it.

M. H. Mattison, Publisher, The Elk Rapids Progress, Elk Rapids, Michigan. I have your letter of the 4th asking me to place before the respective businessmen of my community sponsored advertising pertaining to the Third Loan. This I have done -- contacted better than 95% of them -- including the professional men, with the result that I was turned down overwhelmingly. The first of the page series, with the President's photo, I ran myself twice in the paper, leaving the remaining three pages for the sponsors. The price I asked for running the same in the paper was \$3.33 per signature, or sponsor, which I really do not think excessive. Now what I am up against is this: should The Progress run in its columns the releases of the Treasury Department from time to time during the Drive, over its own signature, in view of the facts recited, and also in view of the fact that this newspaper carried ALL of the First Loan Drive material at its own expense. Since I did all the soliciting personally, I have the first-hand facts in the case.

F. R. Peake, Berkeley, Calif. Last week I expected to sell \$100,000 of War Bonds to the trustees of a certain institution. They finally bought \$10,000. The reason? One of them referred to a statement by Senator O'Mahoney that Lend-Lease for which Congress appropriated 18 billion dollars, has had added to it some 50 additional billions transferred to it by Executive Order from funds set aside

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by Congress for other purposes. The trustee said further that the only way to stop that sort of thing was to refuse to supply the money; that no single man was sufficiently able to spend such a vast sum wisely, certainly not the President and the theorists surrounding him. I ask you what answer your solicitors can give to such statements? If you can't give me an honest answer, don't bother to acknowledge receipt of this letter, but if the War Loan Drives fail, the blame will rest with the President, and not the people. Will he ever learn?

M. A. Niedfelt, Seattle, Wash. * * * How do you expect people to sell Bonds to the citizens in this state when you find the Governor who insisted in shipping scrap-iron to Japan, the same Governor (when he was Mayor of Seattle) inviting and entertaining the Admirals of the Japanese Navy, and he is now out heading the Bond sales and making speeches in our shipyards. The same Governor who would not respect the Anti-scrap-iron picket lines. Attached you will find a news clipping showing that the people here are asking for an investigation at Boeings because the Boeing management is more interested in disorganizing the entire war program here than in building more planes. * * * And we know that Pearson told the truth because we have read the Riddle of the State Department by the Nation Magazine. Well, if our Government is semi-fascist why should we buy Bonds to put bonds of fascism around us? * * *

Miss Anna Levy, Brooklyn, N.Y. I think it was an insult to us Americans in your speech September 22 at the War Loan Drive ceremony. It is true that England and Russia are our Allies, but we don't need Churchill and Stalin to urge us to back our Bond Drive. We Americans always do what we start out to do and we'll go over the top on this Drive.

A Sincere War Bond Buyer, Providence, R.I. I used to buy a new \$25.00 Bond every three weeks. I accumulated quite a number of these worthy documents, but a week ago I was in need of some ready cash, because an emergency

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arose, so I made a trip to the main Post Office Building in the heart of Providence, only to learn that I couldn't get cash for my Bonds, but would have to send them to the Federal Reserve Bank in Boston, Mass., and then wait a couple of weeks for the money. This waiting was, as a matter of fact, inconvenient and humiliating to me. I had to notify my creditor that I couldn't meet the note, and that is the first time in my life (I've lived a long while) that I could not meet an obligation when it fell due. I thought that all I had to do, when I wanted cash for one of my Bonds, was to visit the local Post Office, present the Bond, and with suitable identification, receive the cash. If you can remedy this sort of situation, not only myself but many others would appreciate it.

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Unfavorable Comments on Taxation

Arthur Mead, Brooklyn, N.Y. These individual and other income taxes will break the back of the Nation unless alleviated. With no income for years, by hard night and day work for my Government, I am in the 90% tax bracket, and with losses the Treasury will not permit me to deduct, I am minus thousands of dollars for my efforts. I have had to sell Defense Bonds to prepare for the December installment, and am generally most disheartened and discouraged. In addition, I have 7% to pay the State. This system of taxation has driven country after country into despair and revolution, as history proves. For God's sake give thrifty patriotic citizens a chance to live and enjoy the privilege and ability of being an American.

Lester C. Weisse, Attorney at Law, Sheboygan Falls, Wisconsin. After coming up for air, following the Declarations of income taxes, I have this recommendation to make. I suggest that legislation be introduced abolishing the filing of all Declarations except on December 15th. * * * By then, one would know his exact income. It would be corrected as of March 15th on the final return. Then all of the manpower wasted in the tax department could be given guns and placed in the fighting lines where it belongs. * * * It is a sorry tragedy in the face of the headlines on the shortage of manpower, that the Government should absorb more and more men in a system that has absolutely no merit. Fifty-two million reports were expected to roll in; fifty-two million times four gives you over a billion. Think of the clutter in the Post Offices of that quantity of mail; think of the waste. What has the Government accomplished in the great American guessing game which our income tax law has now provided for those people who are not on a salary or wage basis? * * * I am heartily in favor of abolishing the Victory Tax and all that computation, and make it a single income tax. Why complicate matters, and why try to lie to the public? We have a War on our

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hands and we expect to pay taxes, and that is one cheerful thing, not one individual, no matter how much his tax, complained in my office as to the amount. The only gripe was the confusion and the uncertainty of the computation.

C. H. Tholl, Wickford, R.I. I hate to bother a busy man like you but I wonder if you cannot find the time to grant a boon to the small businessman, and allow us to send in our Employer's Tax Return under the Federal Insurance Contributions Act without their being sworn to. We are now allowed to send in our income tax returns in this manner and it would seem that the Employer's Tax Return could be treated similarly. The chance for cheating is much less on payroll returns, as our payrolls are checked and audited by our State, under the Unemployment Compensation Act, and by the Insurance Companies under the State Workmen's Injury Compensation Act. * * *

F. M. White, Mayor, The City of Clarkton, Clarkton, Mo. Almost 68 years ago I was born in this state, near where I am now living, and have tried to be a representative citizen, and if not a credit, at least not a discredit to my state and country. Up to this year, I have fairly well succeeded, but it appears I am at my row's end. What, with the food and other restrictions which I have managed to comply with to the best of an undernourished man's ability, I am now faced with a law which forces me to "make an estimate" of my 1943 income, and threatens to penalize me if I make a bad guess. * * * It seems strange that such men as you would allow laws like this "pay-as-you-go-crazy" income tax plan, without making a protest. * * * Do any of you realize that the interpretation and working out of this fool law is a job of a combination Attorney, Certified Public Accountant, and Income Tax Expert? If anything is calculated to defeat the Democratic Party, this income tax law will do it. Not that the Republicans didn't also have a hand in passing it, but the common herd, of which I am an individual, is fed up on this kind of stuff, and getting madder all the time. The provisions of our Constitution

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have been kicked around until unrecognizable, and it is about time to call a halt, or have it scrapped altogether. I am going to vote, in the next election, against every incumbent, and work to the end that all be, if possible, defeated. I will vote any ticket but that which makes such laws possible.

Ruth K. Thompson, Melrose Park, Pa. Weren't you kidding about the 30% withholding tax, or do you want to start a revolution? We Americans have been cooperative about everything from sending our boys to fight on foreign soil (which we Mothers fought before Pearl Harbor with tooth and nail) to standing half a day in line for 1/4 pound of butter, which we can't eat - kept too long. We mildly smiled at the "pay-as-you-go", we called it, but when you oppress these same people -- watch out! Have you ever thought we have a War to win and you need 100% cooperation, not bitterness? Of all the dumb things to hurt our Third Bond Drive! * * * As a good Republican, everything this Administration is doing is going to make it swell for us for Presidential election, but as an American, stop before you wreck our Country beyond repair. * * *

Treasury Department
Division of Monetary Research

Date Oct. 5, 1943 19

To: Mrs. McHugh

This was merely for the Secretary's information. It calls for no action or decision on his part.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

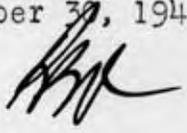
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE OCT - 1 1943

TO Secretary Morgenthau
FROM Randolph Paul

You will be interested in the attached copy of a letter sent to the President by Mr. Berle as Acting Secretary of State and its enclosure, an aide memoire from the British Embassy dealing with the question of providing money for Italian diplomatic missions in various neutral countries.

We received these documents from the State Department informally on September 30, 1943.



September 29, 1943

My dear Mr. President:

You will note from the attached copy of an aide memoire from the British Embassy that consideration is being given to the question of providing money for Italian diplomatic missions in various neutral countries which might find themselves in financial straits. You will further note that the British Government is endeavoring to ascertain whether the Badoglio Government is still able to supply funds for the upkeep of loyal missions abroad, and that if the Italian Government is not in a position immediately to provide needed funds, it is proposed that we share the responsibility on a fifty-fifty basis to furnish funds for the upkeep of these missions at least until such time as other arrangements can be made.

According to a telegram received from our mission in Madrid, the Italian representative in that city has already brought up the question of receiving financial assistance.

Since in the neutral countries involved (Argentina, Portugal, Spain, Sweden, Switzerland, Finland, Turkey, and Afghanistan), there are also German missions which undoubtedly will endeavor, by offering financial assistance, to win over to the side of the puppet Italian Government the Italian missions in these posts, it is felt that as an emergency matter we should be in a position to advance funds on short notice in the event the Badoglio Government, itself, is not able immediately to make provisions for its loyal representatives abroad.

Efforts are being made to ascertain the availability of official Italian funds in this country which might be used to repay any advances made to the Badoglio Government. If official Italian funds are not available in this country for this purpose, it is hoped that the Badoglio Government eventually can complete arrangements to cover these expenses from official Italian funds on deposit in one or more of the neutral countries involved.

In order that we may be in a position to act expeditiously in this matter in the event that it proves necessary for us to assist Italian missions to meet legitimate expenses until other arrangements can be made, it is suggested, if you

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agree to the proposal in principle, that you authorize an allocation from your Emergency Fund of various sums as needed, not to exceed \$1,000,000, however, for this purpose, on the understanding reimbursement will eventually be sought through diplomatic channels.

If you concur with the British proposal, we feel that the Soviet Government should be informed of our contemplated action in order that they may be in a position to offer suggestions and give their approval to the plan.

Faithfully yours,

(signed) A. A. Berle
Acting Secretary

The President

The White House

Enclosure:

Copy of aide memoire from the British
Embassy dated 25th September, 1943.

(Mr. J. Jones of the Department of State advised me that he understood Mr. Berle had added to this letter a pen note reading as follows:

"I have asked the boys to look into the question of using blocked Italian assets in this country.")

AIDE MEMOIRE

The question of providing money for Italian Diplomatic Missions is likely to arise in several countries. His Majesty's Government are trying to ascertain whether the Badoglio Government can still provide funds for their upkeep, but it must be recognised that in the present circumstances they will probably be unable to do so.

2. It could, of course, be maintained that this was a matter which does not concern His Majesty's Government or the United States Government, and that if the Italian Government cannot support their missions abroad these must be withdrawn to Italy. There would, however, be advantage in maintaining Italian missions in neutral countries provided that they support the King and the Badoglio Government, since their withdrawal might give an opportunity to the puppet Fascist Government to secure representation in neutral countries. His Majesty's Government therefore feel that arrangements must be made, if necessary, for their upkeep from Allied funds. No funds should be advanced to missions suspected of supporting Mussolini's regime.

3. His Majesty's Government feel that this responsibility should be shared between His Majesty's Government and the United States Government on a 50-50 basis. They would naturally wish expenditure to be kept to the minimum, and British and United States representatives in the countries concerned could advise whether the Italian diplomatic or consular staffs there could be reduced by the repatriation of unnecessary personnel to Italy. We should also secure the removal of any Italians suspected of Fascist sympathies.

BRITISH EMBASSY

25th September, 1943.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

October 1, 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 September 22, 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.

E2B

FEDERAL RESERVE BANK
OF NEW YORK

September 30, 1943.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended September 22, 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,

L. W. Knoke,
/s/ L. W. Knoke,
Vice President.

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

Enclosure

C O P Y

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In millions of dollars)

Strictly Confidential
Week Ended Sept. 22, 1943

PERIOD	D E B I T S				C R E D I T S				BANK OF FRANCE		
	Total Debits	Expends - Official	Transfers to Gov't	Other Debits	Total Credits	Gold	Securities (Official)	Transfers from Official	Net Incr. (-) or Decr. (+) in \$ Funds	Total Debits	Total Credits
First year of war (e)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	561.1	878.3	1,098.4
War period through	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	16.7	561.1	878.3	1,098.4
Second year of war (f)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	276.0	16.7	705.4	38.9	8.8
Third year of war (g)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	18.5	4.4
Sept. 3 - Sept. 30 1927	56.1	37.1	-	19.0	81.6	0.5	-	20.5	60.6	25.5	10.1
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	10.8	0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	12.9	0.2
Dec. 3 - Dec. 30 1927	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	-	21.7	120.8	-	-	15.0	103.8	33.6	-
Mar. 4 - Mar. 31	35.3	12.9	-	22.6	64.6	-	-	5.0	59.6	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	-
July 29 - Sept. 1	51.1	27.4	7.7	16.0	131.5	-	-	11.0	120.5	80.4	-
WEEK ENDED:											
Sept. 1	7.4	5.4	0.2	1.8	5.6	-	-	5.6	1.8	-	-
8	18.1	6.8	4.1	2.2	19.6	-	-	14.0	5.6	1.5	-
15	8.9	2.6	0.1	6.2	31.4	-	-	21.4	22.5	-	-
22	5.1	2.3	-	2.8	16.6(f)	-	-	16.6(f)	11.5	-	-

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) \$27.6 million

London (from 20, 1940 to March 12, 1941) \$54.9 million

See attached sheet for footnotes.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week ended Sept. 22, 1943

Strictly Confidential

PERIOD	DEBITS				CREDITS			
	Total	British	A/C	Others	Total	British	A/C	Others
First year of war (a)	223.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4 + 181.7
Second year of war (b)	460.4	16.6	460.6	707.4	534.8	20.9	110.7	41.0 + 230.2
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	360.0 + 40.5	66.4 + 1.6
Dec. 29 - Dec. 30	48.2	-	48.2	43.9	2.9	-	41.0 - 4.3	10.2
Dec. 29 - Dec. 2	56.5	-	56.5	80.8	17.4	-	66.4 + 24.3	5.5
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	92.1 + 154.6	8.0
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	63.5 + 66.1	15.0
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	51.6 + 15.4	5.0
Apr. 1 - Apr. 28	29.0	-	29.0	39.6	-	-	39.6 + 10.6	16.4
Apr. 29 - June 2	49.9	-	49.9	95.8	-	-	95.8 + 15.9	21.8
June 3 - June 30	53.8	-	53.8	77.2	-	-	77.2 + 23.4	20.0
July 1 - July 28	102.1	-	102.1	61.8	-	-	61.8 - 40.3	19.2
July 29 - Sept. 1	139.1	-	139.1	84.7	-	7.7	77.0 - 54.4	13.8
Sept. 2	12.1	-	12.1	20.1	-	0.2	19.9 + 8.0	0.9
Sept. 3 - Sept. 15	13.0	-	13.0	8.5	-	-	8.4 - 4.5	0.1
Sept. 16 - Sept. 22	9.9 (e)	-	9.9	7.7 (e)	-	-	7.7 (e) - 2.2	-

Bank's Proceedures

6.2 million
8.9 million
10.1 million
9.6 million

22, 1943

(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 17 1942.

(d) Interest charges 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 \$1.1 million received from suppliers, Ltd. and \$6.0 million received from New York accounts of Commercial Bank.

- (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 \$7.4 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports and \$7.0 million to be held for credit of the U. S. Armed Forces abroad (\$6.0 million of this amount was for U. S. Army and \$1.0 million for the U. S. Navy).

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRET.COPY NO 13U.S. SECRETOPTEL No. 323

Information received up to 10 a.m. 1st October 1943

1. NAVAL

HOME WATERS. Early 30th our light forces engaged R boats in the channel. One R boat set on fire, one of our motor gun boats slightly damaged.

NORTHERN WATERS. Special small submarines have attacked TIRPITZ in Alten Fjord. No definite information available regarding attack but photographic reconnaissance shows small ship secured alongside TIRPITZ and sea in vicinity appears covered with oil. SCHARNHORST has moved her berth.

ITALY. A channel has now been swept into Castellammere.

2. MILITARY.

ITALY. No fresh information received.

CORSICA. German bridgehead now reduced to a strip on East coast from Brando on Cape Corse to a point 20 miles south of Bastia. French troops engaged with German rearguards in mountain passes West and South West of Bastia. Enemy evacuation almost completed.

RUSSIA. In Mogilev area Russians have crossed River Sozh and taken railway centre of Krichev (55 miles East North East of Mogilev.). They have also advanced 6 to 8 miles opposite Gomel.

3. AIR OPERATIONS.

WESTERN FRONT. 29th/30th. 1318 tons were dropped on Bochum.

30th. Typhoons sank a lighter and seriously damaged a 1200 ton ship and a coaster off Dutch coast. Beaufighters left a 2000 ton ship on fire off Norwegian coast.

DODECANESE. 29th. Landing grounds on Kos attacked by 18 and 23 escorted Ju 88. Enemy casualties 1-1-1. Both landing grounds probably unserviceable for several days. An emergency landing strip is in use.

October 2, 1943
9:55 a.m.

Randolph
Paul: Wasn't very long.

HMJr: All right.

P: Here's Fred.

Fred
Smith: Hello.

HMJr: Fred, what happened at the White House?

S: Miss Tully has the speech....

HMJr: Yeah.

S:and she has not yet, as far as we know,
has not yet delivered it to the President.

HMJr: Well, did you give her the latest?

S: We got the latest one over there, yes. And Gaston
called her and she didn't want to wait to get it
but she said that if we would send it over and
put it on her desk....

HMJr: Yeah.

S:she would get it the first thing this morning
and get it to the President.

HMJr: I see.

S: And all that's been done.

HMJr: Good.

S: All right.

HMJr: Nothing's happened since then?

S: Nothing has happened since then except I've lost
my voice.

HMJr: Uh huh. Who have you been shouting at?

S: Nobody anymore.

- 2 -

HMJr: Well, there isn't much use in my going up on the Hill. The New York Times has the whole story.

S: Really?

HMJr: It was a wonderful idea of Doughton's to bring these fellows down here.

S: Ah.

HMJr: They've got it to the last detail.

S: Is that right?

HMJr: Yeah.

S: Huh.

HMJr: Well, let me talk to Paul as long as he's in a hurry.

S: All right. Then I want to mention something else to you when you're through.

HMJr: All right.

Randolph
Paul: Hello.

HMJr: Yeah.

P: You're right, the New York Times has most of the story.

HMJr: Yeah.

P: Anti-climax.

HMJr: Well, is it all set that we lower the exemptions?

P: Yeah.

HMJr: I see.

P: It's all set that we lower the exemptions.

HMJr: I never agreed to it, but I don't suppose that....

P: Of course, that -- that's dependent on the post -- of having a post-war credit and also on eliminating

P:
Cont'd. the Victory tax.

HMJr: I say, I never agreed to it, but that's not important. Well, anyway....

P: Well, that was mentioned over at the conference at the President's.

HMJr: I know.

P: In fact, I fought the exemptions up higher than the others wanted them.

HMJr: Yeah. You say you wanted to ask me something?

P: No, I -- I -- of course, I want to get the decision on this post-war reserve as soon as possible because all the schedules have to be inserted, and....

HMJr: Yeah.

P:all that sort of thing, but there's nothing we can do about that now.

HMJr: That's right.

P: Uh -- uh -- we have -- we have -- I don't know whether -- how you want some of the details of this explained, whether you want it to be in response to questions or whether you want another statement, or what.

HMJr: Well, I'm counting on you to explain the details.

P: Well, I mean have you any ideas on whether it should be done in a formal statement or just in response to questions?

HMJr: I think in response to questions.

P: All right. Wait a minute. (Aside: You got any....)

HMJr: I'm coming in, the weather permitting, late Sunday. I'm counting on seeing you, Blough and Smith. I wish you'd keep it open for me.

P: Sunday evening?

HMJr: Yeah.

P: All right. I don't know whether you want to go into some of the details of corporate relief. We want to come out against reserves and in....

HMJr: I've even got this in mind, I may want Blough and Smith to fly up and then come back with me if they'd be willing to do that.

P: You mean -- when -- today?

HMJr: Sunday.

P: Sunday?

HMJr: Yeah.

P: Well, I'm sure you'll be in agreement with our fight against reserves and our very limited relief to corporations but we haven't been over all of it.

HMJr: Well, if I had an hour and a half or two hours with Blough, we could cover a lot of ground.

P: Well, you don't want to make those arrangements now?

HMJr: No, because the weather is so uncertain.

P: Oh, I see.

HMJr: But I....

P: Well, I -- I don't have much doubt that you'll agree with all these things and most all of them -- most every one has been talked over. We have the stationary income relief.

HMJr: My God, a woman postmistress, R.F.D., just arrived. I've never seen that before.

P: Oh really? Well, they're getting -- I mean women are getting in everything now.

HMJr: That's nothing new.

P: Well, I think sometimes it's around the other way. Well, I don't know any more now. We're just waiting for this file....

HMJr: Well....

P:uh -- word.

HMJr:you know that we've put all the pressure that we could onto the President through Grace Tully.

P: Yeah.

HMJr: And what he will do, I don't know. I do wish -- I don't know what the memorandum of Rosenman's said but those last two pages on Social Security, I want to make damn sure the President knows I'm going to say that.

P: Yeah.

HMJr: Did Smith hear me?

Fred
Smith: Yeah.

Randolph
Paul: Yeah, he heard.

HMJr: And for the benefit of everybody, Mrs. Morgenthau has read Smith's statement and she thinks it's brilliant. And she said that that's the closest -- she's always....

P: Will you speak a little louder? The boys can't hear some of this.

HMJr: Mrs. Morgenthau thinks the statement is brilliant, and that she....

P: (Aside: Take a bow, Fred.)

HMJr: What?

P: Fred -- Fred's taking a bow.

HMJr: And that that is the approach that she always wanted me to take before Congress and never could get me to do it that way.

P: Well, maybe she's right.

HMJr: She said that the statements I have given heretofore, a handful of tax experts could understand it, but nobody else.

P: Yeah?

HMJr: She is very enthusiastic as to the approach.

P: Yeah.

HMJr: I mean, as to the approach, she is most enthusiastic, which bucks me up.

P: Yeah.

HMJr: Yeah.

HMJr: And....

P: Uh....

HMJr: ...what Bell told me about the attitude of Byrnes and Vinson at Cabinet, is so typical.

P: Oh, I didn't hear that story.

HMJr: Well, I'll let him tell you.

P: All right.

HMJr: I don't want to tie you up but I'll tell you, if you, Randolph, and Blough and Smith would be in touch or let the telephone -- my operator know where you are....

P: Yes.

HMJr:as soon as I make up my mind how I can get back, I'll be in touch with you.

P: All right.

HMJr: And -- uh -- I think what Smith ought to do is to tell Miss Carre that if anything comes from Grace Tully on this thing, that they should get in touch with him. Also, Mrs. McHugh and also my front office, so everybody knows that he is waiting.

P: Yeah.

HMJr: And as soon as he knows, if he will whisper it to me, I'd appreciate it.

P: All right. Now, Fred said he wanted to say another word to you.

HMJr: Now, on the Judge Hand thing, he's coming to see you?

P: He's probably there now. Yeah.

HMJr: And you're having Frederic Delano in....

P: Yes, I am. That's all been arranged.

HMJr: Well, would you tell Judge Hand I'm sorry I'm not there and please tell him I appreciate his kindness?

P: Of course, I will.

HMJr: Thank you.

P: Do you want Fred now?

HMJr: Yeah and you can -- you'd better go back....

P: All right.

Fred Smith: Hello.

HMJr: Yes.

S: We just got a flash from the White House. The speech has gone -- the new speech has gone to Mr. Roosevelt.

HMJr: The what?

S: The new speech has gone to Mr. Roosevelt now.

HMJr: I see.

S: So he's got it. Now, there's one other thing....

HMJr: Wait a minute. Who did the flash come from?

S: Miss Brady just called Fitz.

HMJr: Yeah.

S: And we just checked up -- I had Fitz check up this morning to make sure that Miss Tully got it. See, she was gone.

- 8 -

HMJr: Yeah.

S: And then Miss Brady just now called back and said that she not only got it but she gave it to the President.

HMJr: Oh.

S: So, that's that. We're that far along.

HMJr: Right.

S: Now, the one other thing that I want to just ask you about. I don't know whether you want to do anything....

HMJr: Wait a minute.

S: All right.

HMJr: In case you are talking to her at any time, her name is Mrs. Brady.

S: All right, Mrs. Brady, then. All right?

HMJr: Her name was Dorothy Jones, now Mrs. Brady.

S: All right, Mrs. Brady, nee Dorothy Jones. All right?

HMJr: Yeah.

S: Okay.

HMJr: Now, listen. As a publicist, public relations....

S: Yep.

HMJr:etc., etc....

S: Yep.

HMJr:do you think it's good or bad for the Treasury that the whole damn thing has leaked out in the papers?

S: I don't know. I don't know. I -- really I don't know.

HMJr: What have I got you for? That's my position. That doesn't help me any.

- S: I know, but you've got to give me a few minutes. I don't -- my first hunch is that it isn't going to be so bad.
- HMJr: Yeah.
- S: There are two reasons why I think it may not be so bad and one of them is that -- that if it didn't, then all of your publicity after you make the speech would simply be on -- would be inclined to be just on the plan. Now, you may get some publicity on the rest of the speech. That's just off of the top of the head. I don't know whether that's what's going to happen or not.
- HMJr: Well, of course, one thing that bothers me is that it gives the Republicans four or five days to prepare an answer.
- S: That's right. That's right if they dare -- well, of course, they had that -- they had that opportunity as soon as those leaders were over here the other day.
- HMJr: Yeah, but I mean -- I mean, they've been able to work on an answer since then.
- S: Yeah.
- HMJr: And get together.
- S: That's right. But that wasn't because it came out in the newspaper. They probably had a caucus five minutes after they got back.
- HMJr: Yeah. What a lovely voice you have!
- S: I think that I'm going to be a man soon. (Laughs)
- HMJr: You sound like Henry Aldrich.
- S: (Laughs) All right. Mother! Well, that -- the one thing that I wanted to ask you about was this....
- HMJr: Yes, Henry.
- S: You remember you were always talking about poor corporations that were going to go "bust" when the war was over.

HMJr: Yeah.

S: I wondered if there was anything you wanted to say in the text of the speech. You couldn't say anything about your taxes because it hasn't been done.-- anything to the effect that -- that such corporations are a matter of concern to several Departments of the Government, not only the Treasury, and that the taxes might -- that there might be some tax operations involved and if that is the case, sometime after this tax bill has gone through, that you may ask for some sort of a revision or something. It would just be paying lip service....

HMJr: I have that very much in mind.

S: Huh?

HMJr: I have it very much in mind.

S: All right.

HMJr: And I'd also throw in that particularly for the smaller corporation.

S: For the what?

HMJr: For the little fellows.

S: Yeah. Well, we've got -- we say in the actual tax business there that we need special treatment for the little fellow. But I don't think any treatment has been thought of in connection with this particular tax bill for the other people so you just have to make words about them.

HMJr: That's all right.

S: All right.

HMJr: I'd throw it in.

S: Oh. Well, Blough says I'm crazy so I will find out what they've done.

HMJr: All right.

S: Well, I'll write you a paragraph and the next time you call up, I'll have something for you. All right?

HMJr: All right.

S: Now John L. Sullivan wants to talk to you.

HMJr: All right.

John L.
Sullivan: Good morning, Mr. Secretary.

HMJr: Good morning.

S: Uh -- the arrangements have been made for you to appear before the three House Committees Tuesday afternoon at 4:00 o'clock.

HMJr: Good.

S: I'm trying to get a hold of Barkley. I tried all yesterday afternoon and this morning and I -- what I had in mind was 10:30 Tuesday morning.

HMJr: Oh-h-h. The same day?

S: Yeah.

HMJr: Gee, did you want to kill me?

S: Well, you asked for it.

HMJr: No, I gave -- now which day do I appear before the House?

S: Tuesday afternoon at 4:00 o'clock.

HMJr: And when do you want me to go before the Senate?

S: Well, I -- it doesn't make any difference to me when you go before. I thought you wanted to get it out of the way in a hurry.

HMJr: What day did you suggest?

S: I haven't suggested any date because I haven't been able to get a hold of Barkley.

HMJr: No, I thought you said 10:30.

S: I said I was planning to suggest to him 10:30.

HMJr: On what date?

S: Tuesday.

HMJr: Oh, I think I'd make it Wednesday.

S: All right. I will. Now, suppose if for any reason I can't get those three committees on Wednesday, it will have to be on Tuesday?.

HMJr: Yeah, if it has to be, but I don't see why they can't do it Wednesday. They've got nothing on.

S: Well, it depends on whether they have or not. You see, I haven't talked with the chairmen of those three committees over there, because I haven't been able to get a hold of Barkley.

HMJr: Well, now, what's the name of the clerk up there?

S: Les Biffle..

HMJr: Yeah. If you can't get him do it through Colonel....

S: Halsey?

HMJr: Halsey.

S: Well, I mean -- you see, I have to talk with the Chairman of each of the three committees anyway.

HMJr: Yeah, but why not do -- why not go up and see both Halsey and Biffle today?

S: Well, I'll be glad to do it -- I mean....

HMJr: And then sit in Halsey's office and you can do it right from there. He'll help you.

S: Well, I (Laughs) -- That isn't the way these fellows like it. They like to be called personally, the chairmen of the committees.

HMJr: I mean you can call them right from up there -- I mean -- what -- look, I don't want to let this thing go until Monday. See?

S: No, I understand that and I'm planning on doing it this morning. I'm just asking you as to which time you wanted it. Now, as I understand it, you want it Wednesday.

- 13 -

HMJr: That's right, but I mean if you can't -- what I'm trying to get over is that if you can't get Barkley, I'd try to consult Biffle and Halsey.

S: Well, I planned if I didn't get Barkley to get right a hold of George, Connally and Wagner direct.

HMJr: It's all right with me.

S: That's the way they like to do it and that's the way I've planned to do it in the House and Rayburn suggested that I do it in the House.

HMJr: Well, I asked you to do it because I knew you'd do it well.

S: Well, thank you. I'll try to.

HMJr: All right.

S: The Postmaster General cleared Delano yesterday as well as Hannegan.

HMJr: Good. Good.

S: Incidentally, Randolph Paul's father died this morning.

HMJr: Well, does he know that?

S: Does Randolph know it?

HMJr: Yeah.

S: Yes, he does.

HMJr: Well, I'd like to say something to him.

S: He's in his own room now.

HMJr: Oh, thank you.

S: All right.

HMJr: I'm glad somebody told me that.

S: Dan is here and Harry and Roy. Do you want to talk to him.

HMJr: Is Paul very much upset?

S: No, he seems to think it's a relief. His father was a -- an invalid.

HMJr: Oh. Well, I'm sorry.

S: Muriel has gone up there.

HMJr: All right, I'll talk to him.

S: Anybody else here you want to talk to?

HMJr: No. Not unless they want to talk to me.

S: Okay. Good bye, sir.

HMJr: Hello.

S: Yeah.

HMJr: I think I'm going to call up and ask Dorothy Brady what's going on. I'll let Smith know.

S: All right. Bye.

HMJr: Bye.

October 2, 1948
10:15 a.m.

(Dictated by the Secretary)

I just finished talking to Mrs. Brady, and she told me that she had not yet taken my tax statement to the President. I asked her whether she wouldn't do it as soon as possible, and would she please be sure to call the President's attention to the last two pages on social security as I wanted to be sure that that is what he wants.

I told Mrs. Brady that I was going up on the Hill Monday morning, and I asked her when she thought I would hear from the President. She said, "Oh, I will have to tell him that because I don't know whether he knows that." She said that she didn't think I would hear until Monday morning, so I said, "Well, I am going to be back in Washington on Sunday night, and I hope that you will let me know not later than Sunday night."

copies to: Mr. Paul
Mr. Smith

1943 OCT 2 AM 7 33

W5 (FIVE) 25

ZHWUT NEWYORK NY 642P OCT 1 1943

THE HONORABLE HENRY MORGENTHAU JR SECRETARY OF THE TREASURY
US TREASURY DEPT WASHN DC

THANKS VERY MUCH FOR YOUR WIRE TO RACING'S WAR BOND DRIVE. IT
WILL PLEASE ALL OF THE FIFTY THOUSAND PEOPLE WE WILL HAVE
THERE. REGARDS

HERBERT BAYARD SWOPE.

731A OCT 2 1943.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____

BUREAU _____

CHG. APPROPRIATION _____

*Secy. approved by
S. H. - P. W. M. -
Factor -*

War Finance

81

U. S. GOVERNMENT PRINTING OFFICE 10-1728

October 1, 1943

Herbert Bayard Swope
745 Fifth Avenue
New York, N. Y.

Please express my thanks and congratulations to the racing associations in New York for their generosity in sacrificing admissions to Belmont on Futurity and Gold Cup Day tomorrow to promote the sale of War Bonds and for their patriotic energy in obtaining in lieu of admissions subscriptions from individuals for War Bonds, which I am informed will reach the great total of approximately twenty-five million dollars. This is an extremely gratifying climax to the magnificent work done by the War Finance Committee in the State of New York and a tribute to the patriotism of the racing enthusiasts.

Henry Morgenthau, Jr.
Secretary of the Treasury.

LEND-LEASE ADMINISTRATION
WASHINGTON, D. C.

E. R. STETTINIUS, JR.
ADMINISTRATOR

October 2, 1943

Dear Henry,

Your kind note of the 28th has just reached me and I appreciate from the bottom of my heart the sentiments contained therein.

Your support and your confidence mean much to me and I am looking forward to the closer association that my work at the State Department will make possible.

With my best wishes always,

Sincerely yours,



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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

83
[Handwritten signature]
DATE October 2, 1943

TO Secretary Morgenthau

FROM Mr. White
[Handwritten initials: HDW]

Subject: Treasury Position on Negotiations with Exiled-Governments concerning use of their currency for military operations.

With reference to arrangements with the exiled governments for the use of their currency in connection with military operations in their countries, the Treasury proposes that if regular local or refugee currency is to be used during the period of military control, the following conditions should prevail:

1. The currency is to be made available in such amounts and at such times as the American and British Forces consider necessary and the local governments will not question the requests of the Allied Financial Officers; and

2. Any determination or negotiation as to who shall bear the financial costs resulting from the use of such currency including what adjustment, if any, shall be made between the American and British Governments on the one hand and the government-in-exile on the other with respect to the currency will be deferred until after the area is completely liberated and at a time mutually satisfactory to the Governments of the various countries concerned. Careful records will, of course, be kept of all expenditures of the funds.

We do not feel that it is necessary or desirable to discuss now such difficult questions as are obviously inherent in any discussion of the ultimate settlement of expenditures involved in these military operations. We feel that the question of final settlement for the currency can best be dealt with in connection with the overall settlement between the countries involved, and that such settlement may then be made in terms of all the facts available at the conclusion of the operation. Moreover, it should be pointed out that any attempt to agree upon a provisional settlement will merely provoke discussions of other items of settlement. Further, in this country the Congress will feel that it must be consulted in connection with ultimate terms of settlement and objections may be

Division of Monetary
Research

- 2 -

made of any financial arrangements that prejudice the terms of the final adjustment.

The British Treasury representatives are of the opinion that we should, in the negotiations with the friendly governments, make a commitment that we would repay in local currency sums expended in the area for the pay of Allied soldiers when such pay had been advanced out of currency made available by the friendly governments, and that against this accepted obligation would be offset such items as might be involved in an over-all financial settlement. In spite of the fact that it is the determined policy of our government to pay the wages of our own soldiers in friendly countries, this suggestion is considered to be undesirable because:

1. The governments may be more disturbed with this commitment than without it since the commitment with respect to the pay of soldiers implies negatively that there is no intent to assume any obligations with respect to other disbursements such as supplies, billets, etc.

2. If we agree with respect to one item, we may be led into discussion as to the eventual status of other items of expenditure.

We therefore favor the acceptance and use of the currencies of the Governments-in-Exile and/or A.M. Currency under the conditions set out on the covering page of this memorandum, to the effect that any discussions concerning the financial costs arising out of the use of such currency shall be deferred to a future post-liberation date. If the State Department agrees with us, we intend to inform the British Treasury representatives who will thereupon transmit these views to the British Treasury for consideration. The British representatives have indicated that their Treasury people in London seem to be divided on the question of whether we should enter into any commitment on the use of friendly government currencies. If, however, the State Department does not agree with our views expressed herein and favors the British suggestion, then we are prepared to accept it and carry out discussions with the governments on that basis.

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Treasury Department
Division of Monetary Research

Date 11/2/43

To: Mrs. McHugh

These are copies of acknowledgments
of the letters to the finance
ministers sent out in September.
We are following the same procedure
on these as we did on the April
acknowledgments.

ka

MR. WHITE
Branch 2058 - Room 214½

GOUVERNEMENT DU GRAND-DUCHE DE LUXEMBOURG

CABINET DU MINISTRE D'ETAT
PRESIDENT DU GOUVERNEMENTM O N T R E A L
Q U E .September the Twenty-Ninth
1 9 4 3

Sir,

I take pleasure in acknowledging receipt of your letter of September 14th with the revised draft of the tentative proposal for an International Stabilization Fund.

It is my firm belief that the revised proposal will bring us nearer to the international monetary co-operation so desirable and so necessary.

Accept with my best thanks for your expressed willingness to keep me fully informed of further developments in the matter, the assurance of my highest consideration.

s/ Pierre Dupong
Pierre Dupong

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

LEGATION OF ICELAND

WASHINGTON, D. C.

September 30, 1943

Sir:

I have the honor to refer to your letter of September 14th, and wish to confirm the receipt of a preliminary draft outline of a proposal for an International Stabilization Fund of the United and Associated Nations.

I wish to express my appreciation of being kept informed of the developments in this matter.

As in previous cases, this information will be forwarded to the Iceland Government and I shall be pleased to revert to the matter when I have received my Government's proposals and views.

Sincerely yours,

s/ Thor Thors

Thor Thors
Minister

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

TRANSLATION

R E P U B L I C A D E P A N A M A

M I N I S T E R I O D E H A C I E N D A Y T E S O R O

No. 368-dav

PANAMA, September 24, 1943.

Excellency:

I am pleased to acknowledge receipt of your courteous letter of September 14, in which there was enclosed the revised draft outline of a proposal to establish an International Stabilization Fund.

With my kindest thanks for your interest in keeping us informed on this important plan, I am pleased to remain,

Very truly yours,

(Signed) Jose A. Sosa J.,

Minister of Finance and Treasury.

His Excellency,
Mr. H. Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

JASJ:DAV

COMMONWEALTH OF THE PHILIPPINES
DEPARTMENT OF FINANCE

October 2, 1943.

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

My dear Mr. Secretary:-

I acknowledge receipt of your letter of September 14, 1943, and thank you for the enclosed copy of the Revised Preliminary Draft Outline of a Proposal for an International Stabilization Fund of the United and Associated Nations.

May I assure you, Mr. Secretary, that it is the policy of my Government, in this as in other matters, to be closely identified with the views of the United States Government in questions of international scope.

Yours very sincerely,

s/A Soriano

Lieutenant Colonel A. Soriano,
Secretary of Finance.

MINISTER OF FINANCE

CANADA

Ottawa,
September 29, 1943.Honourable Henry L. Morgenthau, Jr.
Secretary of the Treasury,
WASHINGTON 25, D.C.

My dear Mr. Secretary,

I wish to thank you for your letter of September 14 outlining the progress which has been made in the exploratory technical discussions on the international stabilization fund plan, initiated by your letter of March 4 last to the Finance Ministers of the United and Associated Nations. I am glad to have the revised draft of this plan prepared by your experts following the discussions with the experts of other countries, and to know that you intend to keep me fully informed of further developments in connection with the proposal for international monetary co-operation.

I am also glad to learn that the contributions to the discussions made by the Canadian experts were helpful to you and your associates, and to know that you were able to embody a number of their suggestions in the revised draft. You may be interested to know that they reported to me in the highest terms on the character of the discussions in Washington, on the technical competence of your advisers and on the frankness, the patience and the co-operative spirit which they displayed throughout.

May I express the hope that the leadership which you and your advisers have shown in this important and, to my mind, basic field of international collaboration will be rewarded by the consummation, at not too distant a date, of an international agreement generally satisfactory to all the United and Associated Nations and as a result providing a stimulus to the development of other forms of co-operation amongst the nations.

Sincerely yours,

s/ **Elsley**

TELEGRAM SENT

DM

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

October 2, 1943

1 p.m.

AMLEGATION

CAIRO

1456

FOR GUNTER FROM TREASURY

Hikesell has left for Algiers and will be in Cairo within a few weeks. You should make plans to meet him there. More specific information will be cabled later.

Repeat to Jidda.

BERLE
(Acting)
(PL)

FD:PL:PAK

PLAIN

TJP

Chungking via N.R.

Dated October 2, 1943

Rec'd. 3:45 p.m.

Secretary of State

Washington

1847, 2nd

Following published by Central News Agency Chungking October 1: "The Chinese Government would use two hundred million of the US dollars five hundred million loan to buy and bring gold here for the purpose of combating inflation and stabilizing prices: said Dr. P. H. Chang, Counsellor of the Executive Yuan at the press conference held on September 20.

Asked how the gold will be used, Dr. Chang replied that the Ministry of Finance will devise ways and means which however cannot yet be told.

A correspondent asked Dr. Chang "when people here are just as ready to buy gold savings certificates and gold bonds why should gold be actually imported at all?" Dr. Chang replied that there may be some people who prefer to have more tangible things than bonds and certificates.

The same correspondent raised another question as follows:

"In view

-2- 1847, October 2 from Chungking via N.R.

"In view of the difficult transportation, don't you think that the available airplane space should be better used for carrying ammunition which has a direct bearing on your war effort?" In reply Dr. Chang said, "To combat inflation and to stabilize prices is also to strengthen our war effort for sound economic conditions inside the country are as important as supplies of arms to our fighting forces." When the same correspondent pointed out that whereas gold is bought in America at US dollars thirtyfive or CN dollars seven hundred per ounce, it is sold in China for much more than CN dollars seven hundred per ounce and therefore it seems that the Chinese Government is making profit, Dr. Chang emphatically declared that that is a wrong conception. In this war, he said, we United Nations must not calculate profit and loss in dollars and cents; it is cooperation and mutual aid which will bring about the final victory that really counts. He asked if, by selling gold, the United States can help China most, why she should not do so. He further contended that since the prevailing price for gold in New York is US dollars thirty five per ounce and China pays it, there is no loss on the part of the sellers at all."

GAUSS

MRM

1943 OCT 4 AM 9 21

TREASURY DEPARTMENT

COPY NO. 13

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 324

Information received up to 10 A.M. 2nd October.

1. NAVAL

HOME WATERS. 1st/2nd. U.S. Tank Landing Craft sunk by enemy coast batteries in Dover Straits.

MEDITERRANEAN. 30th. A Tank Landing ship sunk and French Destroyer slightly damaged in enemy air raid on Ajaccio.

2. MILITARY

ITALY. 8th Army. On 29th patrols in contact with enemy five miles North of Serra Capriola at Castelnuovo and along Volturara - S. Bartolomeo Road.

5th Army. On 30th United States troops completed capture of Avellino. During night 30th/1st enemy evacuated Naples which was occupied by British troops at 0800 1st. No indications of disease or disorder. With improved weather, unloading over beaches in Gulf of Salerno has recommenced.

3. AIR OPERATIONS

WESTERN FRONT. 1st. 20 locomotives and a transformer station in Northern France damaged by fighters. 1st/2nd Aircraft despatched - Hagen (Eastern Ruhr) 251 (2 missing) Witten (near Hagen) 12, Intruders 21. Good concentration of bombing reported at Hagen although markers were scattered at first.

ITALY. 29th. Lightnings (P 38) dropped 11 tons on Ausonia Defile (13 miles Northeast of Gaeta) and Mitchells (B 25) dropped 196 tons on roads and bridges North and Northeast of Naples and in Benevento area. 29th/30th. Wellingtons dropped 74 tons on roads and other targets at Formia (45 miles Northwest Naples). 30th. Nearly 300 tons on communications in Naples and Benevento areas by medium and fighter-bombers.

CORSICA. 29th. French Spitfires destroyed 6 enemy aircraft off Bastia.

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET
U.S. SECRET

COPY NO. 13

OPTTEL NO. 325

Information received up to 10 a.m. 3rd October, 1943

1. NAVAL

Mediterranean On first port parties arrived Castellammere and Torre Annunziata where demolition is widespread. By afternoon 2nd an approach channel had been swept and established at Naples.

2. MILITARY

Italy 8th Army On 1st SERRA CAPRIOLA was taken.

5th Army Further progress was made on 2nd. United States Force captured BENEVENTO. United Kingdom Forces captured Nola and Afragola (15 miles and 8 miles North East of Naples.) Damage to port of Naples is extensive. Although not as bad as anticipated. 1 water reservoir intact which should just meet needs of population.

CORSICA German bridgehead on Northeast of island has been further reduced. More than three-quarters of German forces now evacuated.

RUSSIA 2nd Russians advanced towards MOGILEV and GOMEL and improved their positions in Taman peninsula.

NEW GUINEA Australian forces have captured Finschhafen.

3. AIR

Western Front 1st/2nd 1104 tons dropped on HAGEN. 2nd 337 escorted Fortresses (B.17) (2 Fortresses missing) dropped 901 tons in attack on EMDEN by blind bombing in cloud. Mustangs (B51) damaged 11 locomotives in Northern France.

2nd/3rd Aircraft Despatched

MUNICH 296 (8 missing and 1 crashed in United Kingdom),
sea-mining 118 (1 missing).

GELSENKIRCHEN and COLOGNE, 8; leaflets, 21; Intruder, 30;
anti-shipping, 10.

Visibility at MUNICH good and operation "satisfactory".
12 enemy aircraft flew over Eastern England and 6 minelayers off HUMBER.
1 Ju.88 crashed in sea.

AUSTRIA and South GERMANY 1st 186 tons dropped at WEINERNEUSTADT by 92 Liberators (B24) operating from North West AFRICA. 14 Liberators missing. An attack on AUGSBERG was abandoned owing to bad weather, but 29 aircraft bombed other targets Southwest of MUNICH.

CORSICA 30th 5 enemy aircraft destroyed by French Spitfires (1 missing).

ITALY 30th/1st 60 tons on coast road at FORMIA near GAETA by Wellingtons (1 missing).

1st Operations restricted by bad weather. Targets in Benevento area attacked by 24 medium bombers.

TREASURY DEPARTMENT

3:00 PM 3 OCT 4 1943

MEMBERS OF CONGRESS:

We are faced with the very serious problem of creating a new tax program for the American people that is fair and equitable, that will raise a substantial amount of money for the war, that will tap what excess or inflationary funds may be endangering our economy, and that will not over-burden the average American taxpayer.

Probably never before have there been so many vital ^{features to} considerations in any ~~proposed~~ tax program. And because we are dealing in ~~such~~ astronomical figures, never before has there been such a possibility of unfortunate injustice. ~~If~~ In our eagerness to raise additional money for financing the war, we ~~were to~~ ^{cannot} overlook the practical consideration: ~~that~~ there is a point beyond which the working man cannot deduct from his pay envelope and still keep his family ^{After his tax burden reaches a certain point, he} ~~cannot~~ maintain a standard of living conducive to good health, and to sound morale, and to the necessary high production in the war plants, ~~and other most tax bills~~.

I am telling you this to emphasize the fact that the Treasury Department knows these problems exist and must be met. In our effort to meet them, we ^{have asked the help of} ~~in cooperation with~~ every executive branch of Government having any relationship to taxes, including the Army and the Navy ^{we} have examined, I think, every conceivable plan to raise additional taxes.

1945 press copy not in file and still

plans against: ^{of the plan} first, the ability to raise money; second, the degree of hardship ^{the plan} placed upon ^{people of} fixed incomes and ^{with} fixed obligations; and third, their practicable ^{ability and} cost from the Administration standpoint.

No plan is approved if it won't work, or if it further

Because so much has been said and written during the past year concerning inflation, one of our chief considerations has been the drawing off of what has been so often called "dangerous inflationary money." It has been pointed out ^{constantly} that our National income is 145 billion in the fiscal year of 1944. It is further pointed out that the amount of goods and services available can absorb only 78 billion of this 145 billion. It is therefore reasoned that there is a dangerous inflationary gap of 60 billion dollars, and this gap accumulates month after month, year after year, as the war goes on, and production of civilian goods is decreased, and the supply ^{of things is being} becomes progressively more limited.

It has been pointed out that $7\frac{7}{8}$ of all the income of the nation is going into the ~~the~~ pay envelopes of people ~~not~~ earning less than five thousand dollars a year; and therefore it is reasoned that the people earning less than five thousand dollars a year present a great potential danger from an inflationary standpoint. It is said that they have a great deal of excess money and that the weight of this excess money will tear down the value of the dollar, will cause undue price rises, and ~~will~~ completely upset our entire economic system.

This is the plan of the preparation which is already underway with 800 million and the employment of more work.

must be necessary

With this in mind -- and having in mind ~~to~~ ^{also} the need for additional funds to finance this most expensive of wars -- ~~that~~ the Treasury set a goal early this year, of twelve billion dollars as the amount of money which should be raised ~~by~~ by taxation ~~in the tax bill which I am now about to present to you.~~

Since this goal was set ~~for~~ ^{as an ideal worth approaching,} the Treasury has done considerable investigating. We have gone outside the Treasury offices, outside of Washington. We have ^{tried honestly and from first-hand observation to find an answer to this} ~~asked of ourselves this~~ perfectly normal question: "If all this dangerous money is lying ~~right~~ ^{around} around, then someone ^{obviously} should have it. We should be able to find it. We should be able to see ^{by} the nature of ^{their} expenditures that working people ~~make~~ ^{perhaps} now have more money than is good for them."

To answer ~~these~~ ^{this} questions to our own satisfaction, we made numerous checks. We ~~had~~ ^{small} made a ^{of incomes and expenditures} sample survey in one ~~industrial~~ ^{city} ~~wealthy~~ ^{city}, of people at various income levels, ~~and~~ ^{to} ~~check~~ ^{the survey}

In the bulk we ~~did~~ ^{have found} not find evidence of dangerous inflationary spending, although in certain isolated cases, we, like everyone else, have seen ^{individual cases} evidences of such spending. Unfortunately, like all irregular things these cases of ~~irregular spending of income~~ have attracted wide attention and have prejudiced the public mind.

~~that~~ ~~to~~ ~~John~~ ~~and~~ ~~will~~ ~~not~~ ~~find~~ ~~out~~

We watched closely the behavior of working people in the lunch lines.

let me

What we found -- and ~~we say~~ say here that the surveys that we have made ~~are~~ being continued and elaborated, and are not now ~~scientifically~~ ^{are not yet large enough to be} conclusive, although I feel justified in regarding them, in concert with other observations and facts which we have gathered, to be a reliable indication of the ~~the~~ situation.

For every one citizen who is ^{(over earning and over -} spending ~~without regard to reason,~~
for every one who is ^{buying} ~~falling into~~ the silk shirt, ^{as in} ~~of~~ the last war, there are thousands upon thousands who ^{are not} ~~have no such opportunity,~~ ^{Most of them have no opportunity to do so,} regardless of any increase they might have in their incomes; For the most part, the American working man is struggling to make ends meet with a pay check ^{from} ~~out of~~ which has been ^{deducted} ~~deducted~~, even before he gets it, an allotment for War Bonds, an allotment for Social Security ^{or} ~~and~~ ^{a substantial} ~~a twenty percent~~ advance on his tax bill, and perhaps other charges which are necessary in connection with the kind of work he does.

And it is ^{to} ~~these~~ people -- these many millions of good American citizens who are turning out the materials of war in unprecedented amounts, ^{to whom} ~~to whom~~ the tax program must be tailored and fitted. We cannot punish them through excess taxation simply because one out of a thousand of them has more money than he knows ^{how} ~~why~~ to spend intelligently. Taxation is not a medium for vengeance.

It is difficult for some to understand why ~~the aggregate~~ ^{in the aggregate} working man ^{does not have} ~~is not able,~~ in the same measure, ~~to produce~~ surplus or excess money. I think the

- 5 -

economists do not always understand it, and sometimes they are prone to accept the ~~fact~~^{results} of mathematics rather than the results of observations and actual research, when the two are not in agreement. Perhaps they are right, and to them, I have but one reply to make: If ~~there~~ their mathematics are right, then the Treasury is going to recommend ~~an impractical~~^{one too small a} tax bill, because ~~there is no way~~^{the bill we recommend will not} it is not going to raise all the money possible.

~~But~~ We are making this recommendation ~~solely~~ because we would rather err on the side of being reasonable than ~~in~~ on the side of being mathematically perfect. ~~We will not~~^{We will not} ~~place an impossible tax request~~^{place an impossible tax request} on the American people.

secondly to mathematics.

~~I think it is a very important thing which we should all bear in mind while we consider the new tax proposal.~~

A great economic transition has come over this Nation since the war began. We came out of a depression -- out of a series of depressions -- into this period of prosperity. That was not the case in the last war.

Before Pearl Harbor, we were a nation of people in debt. We were in debt for money we borrowed to get along on during the lean years. In debt for vacuum sweepers and automobiles; in debt to the doctor and the dentist; in debt even for the clothes on our backs in many cases. Literally millions of people were living two and three families in a house. ~~There was~~ A large percentage of young married couples ~~who~~ had never been able to move out of the homes of their parents. We were a Nation of people whose normal lives were being ^{up}pressed from every angle by the burden of debts.

Some of it was foolish debt, some of it was debt brought about in an effort to maintain a typical American standard of living, and much of it was just out and out unavoidable debt. But whatever it was, it was there. Even before ^{we entered} the war, when it became obvious that civilian goods would be curtailed, that automobiles and vacuum sweepers were to go completely out of production, we wisely curtailed and stopped installment-plan buying. Then it was that the American people -- and chiefly the American working people -- began to get out of debt.

They began to be a Nation of people dealing on a cash basis. They began to pick up these ^{back} debts that had been hanging over them, in some cases for many years. ^{Everything} ~~All of our checks indicate~~ that here

~~is where~~ much of the new-found gains of the working people have gone,

to pay these debts.

~~Almost without fail, the American working man and his wife have~~
~~first ^{First, the people} ~~ought to~~ pay up ^{them} ~~on~~ their debts. ~~With this earned,~~ they~~

~~then turned~~ to repair other damages of our years of depression:
 New glasses, new and long-needed dental work, ~~long needed but~~
 essential minor repairs on homes and property -- repairs that ~~become~~
 necessary to preserve the property through the years ~~of the war~~.

There are some who will ~~say that~~ ^{ask if} it is ~~not~~ ^{necessary} for people
 to pay up their debts at this time, nor to repair their property now,
~~and will say~~ It is more essential that they finance the War. ~~It is more essential~~
~~that they~~ ^{and} curtail their spending -- all kinds of spending. And
 perhaps, as economists, they are right. I am not sure. But I am
 quite sure that as responsible leaders ~~of government, as responsible~~
 leaders of society, they are not entirely just.

There are ~~some~~ ^{Some} who will say that we ask every sacrifice of the
 men who are drafted and accordingly we should ask every sacrifice of
 the people on the home front. With this, in principal, I think
 we all agree. War is a time for sacrifice, and this war above all
 others will require ^{great} sacrifice. ~~But~~ ~~we~~ we have made arrangements

to re-establish our fighting men economically when they return to build
~~on the victory they have won;~~ ^{New lines on the sound foundation} we must also keep in mind that on that
~~foundation of victory,~~ ^{and now} ~~our~~ working men ~~and~~ people must also build

new and better lives. There is this one difference; the people
 who are working today and making substantial wages can afford to
 make larger investments ^{in the future} ~~than our fighting men,~~ ~~whose pay, of course,~~
~~is pitifully small.~~ ^{And that is as it should be.}

Already ^{works} ~~the~~ people on the home front are investing in War Bonds.
 During the Third War Loan, individuals invested XXXX billions of

dollars in Government securities. Of these, _____ Billions were E Bonds, small denomination bonds. As we go down through the list of War production plants, we will find that those who are making the most money are investing the most in their futures -- and they are doing this willingly, and without ~~any kind of~~ compulsion from their Government.

It is because ^{of} these people -- because ~~of the~~ ^{of the} ~~50~~ million ~~of the~~ ^{who have} ~~60 million who are now working~~ and voluntarily ~~buying~~ ^{bought} these securities, that the Treasury is not presenting a compulsory savings plan in any form. ~~We feel that it would not be keeping faith with those~~ ^{Working people - 5/6 of all the people on a payroll -} ~~who are the back-bone of America,~~ ^{these} whose patriotism and ~~wagerness~~ ^{wagerness} to help has been the foundation of all our successful War Loan drives, and must continue to be the foundation of War Loan drives.

Our experience in these drives has proved to ~~be~~ ^{be} beyond doubt that the ~~heart~~ ^{heart} of the American working people are sound. This is a precious possession which we have in this ^{free} country, and we should protect it ~~at all costs~~ ^{at all costs}. Primary consideration ~~sixty-six percent~~ ^{given to} ~~these~~ people in framing a tax bill, and that is exactly what we have done, with the sanction of the President of the United States.

The sound, strong American must be kept strong and sound.

He must be given every opportunity to become a better American, but we must not let him be legislated into doing less than he would do on his own, simply because one of his children, somewhere has started in isolated cases, we have seen as high as 30%

of the total payroll of a high school, spent given to bonds during a given month, 12% of them pay: the auto workers 4%, the munition makers 4%, and

They are already doing it voluntarily

I am dwelling here today on the American working man --

on the man who is making ~~off~~ under five thousand dollars a year --

because ~~now~~ he is the one who will have to pay ^{most} ~~the bulk~~ of

any increase in taxes. In the high income brackets, taxes are

~~levied to such an extent~~ ^{already at such a rate that} that they cannot ~~very well~~ be materially

increased and still be collectible. Moreover, the vast majority

of people are in these lower income groups, and taxation, like

everything else, ^{is American} is a production of, and ~~is~~ subject

to, the wishes of the majority. Therefore they are the ones who

must be satisfied, because they are the ones who must pay the bill.

^{I might add that} Moreover, they are the ones whose spirits cannot be broken, and whose

incentive must be maintained, if we are to continue to get the

tremendous war production ~~which is~~ necessary to victory.

Therefore, I will say without hesitation that the means employed

in the new tax bill must be agreeable to them -- as agreeable as it

is possible for any plan ^{that sets out} to take their money ~~can be~~

^{my} We at the Treasury have had ~~had a~~ ^{plans} ~~series of~~ discussions

with the working people and with their leaders, and we are con-

fident that through the proposal which I am about to make we will

be able to raise a tremendous amount of money to be used for the

war, ^{it will be} but paid willingly and eagerly -- even though the meeting of

individual tax bills may mean discomfort -- by the American people.

The Treasury recommends that ^{in 1944} the individual income tax be a

combination tax and social security measure. We recommend that

individual income taxes, ^{rate} as such, be raised to yield an additional

~~three and one half~~ ^{3.8} billion dollars. The greatest percentage

10
~~5~~

of this ~~may well~~ ^{will} come from people making more than thirty-five hundred dollars a year.

We then recommend that Social Security be extended and expended to cover practically all persons in the Nation, to increase unemployment insurance benefits, and to provide benefits for temporary disability and hospitalization. To do this will cost the American people, chiefly those up to thirty-five hundred dollars, approximately ~~three billion~~ ^{2.7 billion} dollars. An additional payroll tax of ~~three billion~~ ^{1.6 billion} dollars will yield a total of ~~6 billion~~ ^{5.3 billion} billion dollars for social security purposes -- and for the immediate purpose of helping to finance the war.

There is no pretense on the part of American labor that it can comfortably meet this bill. It is ~~admitted~~ ^{known} by them and ~~by us~~ ^{admitted} that ~~it will be~~ ^{it will be} a sacrifice, but it is felt ~~that~~ ^{known} by leaders and spokesmen for labor that ~~by~~ ^{because we are} expanding social security advantages, ~~by~~ ^{and are} permitting the working people to invest in their future, this sacrifice will be willingly made. The people will find a way ~~to meet the bill,~~ ^{to meet the bill,} without resentment.

Now let's see what this would mean to individual taxpayers. Take, for example, a married person with no dependents.

Assuming that this man were making \$1,500 a year, he will pay \$96 in taxes this year. Next year, under the present law, with the increase of two percent in social security payments which is called for in the present law, he will pay \$112. Under the plan ~~for~~ which the Treasury is recommending, this man will pay \$172 towards ~~his~~^{IN} income taxes and social security.

Take the case of a man earning three thousand dollars. This year he will pay \$435. Next year, under the present law, he would pay \$465. Under the present proposal, he would pay \$672.

Finally, take the case of the man, unmarried and with no dependents, earning ten thousand dollars. This year he will pay \$2,497. Next year, under the present law, he would pay \$2,527. Under the present proposal, he would pay \$3,940.

The total result of this proposal -- the raise in income rates, the increase in Social security paid by the employer and the employee, would total 9.16 billions.

We propose also that corporation taxes be raised, under certain conditions until we have an increased yield of 1.11 billions.

We recommend that estate and gift taxes be raised to the extent of .40 ^f billion~~s~~ dollars.

We are proposing an increased ^{excise tax of} 2.53 billion dollars.

~~All/totalled~~, The sum total of these increased taxes, under the recommended proposal submitted, will total ~~17.676~~ \$13.20 billion.

Married - 2

Income	Presrid law + 1% #	Presrid law + 2% #	Schedule M ₂ plus 6% #
\$1,500	#146.	#62.	\$100.
3,500	297.	327.	458.
10,000	2,238.	2,268.	3,555.

Married - 0

\$1,500	96.	112.	172.
3,000	435.	465.	672.
10,000	2,497.	2,527.	3,940.

Ekman
9/27/63

- 11 -

There is no pretense on the part of American labor that it can comfortably meet this bill. It is known by them and admitted by us to be a sacrifice; but it is felt by leaders and spokesmen for labor that because we are expanding social security's advantages, and are permitting the working people to invest in their future, this sacrifice will be made willingly. The people will find a way to meet the bill, without resentment.

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The sum total of these increased taxes, under the recommended proposal submitted, will total \$13.20 billion.

Fifth Draft

September 29, 1943

DRAFT OF STATEMENT FOR THE SECRETARY

INTRODUCTION

I am glad to be here today at the invitation of your Committee to present the suggestions of the Administration for additional taxes to help finance the war. You are so familiar with the circumstances which call for additional taxes that I shall touch upon them only very briefly.

The Budget for the fiscal year 1944 calls for \$109 billion in expenditures, including expenditures of governmental corporations. Collections under existing law are expected to amount to \$39 billion. This leaves a prospective deficit of about \$70 billion to be met by borrowing. We need more tax revenue to reduce the need for such extraordinary amounts of borrowing.

We are faced, moreover, with much more than a budgetary problem. We are face to face with inflation. Over the past four years I have repeatedly stressed the urgency of adopting adequate fiscal measures to cope with inflation. In the three years 1940, 1941 and 1942, I have recommended to the Congress tax increases totaling over \$20 billion. I am glad to say that Congress has enacted most of these increases. The current collection of income taxes is also a

- 2 -

helpful measure against inflation. Since the Autumn of 1941 I have been urging the adoption of the withholding of income taxes at the source. In addition to ~~the~~ tax ~~increases~~ ^{increases}, the Congress and the Administration have enacted and placed in operation certain direct ~~controls~~ ^{measures} such as price ceilings, rationing, and wage stabilization. Despite all of these efforts, the index of the cost of living today is ___ percent higher than it was in 1939. The volume of current and accumulated spending power is ~~now~~ so great as to threaten the effectiveness of stabilization measures. Additional taxes will help to maintain stability in prices and the cost of living.

Higher taxes now are important also to protect Government finances and economic stability in the postwar period. Our vast accumulation of currency, bank deposits, and other forms of private saving, when spent after the war, may cause extensive postwar price rises. The accumulated Government debt will impose a very heavy burden of taxes. Equity requires that we keep to a minimum the debt and interest load. A soldier who has done his full share in the war by fighting should not have his tax obligations after the war increased by our failure to pay adequate taxes during the war.

We often forget that the true cost of the war is not measured in money but by sacrifices in lives, depletion of resources, loss of equipment, and by doing without many of the things we all need and desire. This cost cannot be escaped and borrowing to pay for

- 3 -

the war does not decrease it. The function of taxes is chiefly to distribute that inevitable cost. For our people as a whole, higher taxes do not increase the cost of the war and lower taxes do not decrease the cost of the war.

However, it is important in financing so huge an operation as this war to adjust taxes to the different economic situations in which taxpayers find themselves. The burden of heavy taxes may dig deep into tender economic flesh unless the taxes are adjusted to the abilities of the taxpayer. This is particularly important with respect to taxpayers with small incomes, especially where those incomes have not been increased.

In normal times, ~~when budgets are in balance, as normally so,~~
^{governmental} reductions in expenditures can be immediately translated into reductions in tax requirements. This cannot be expected to follow under present circumstances. You are familiar with my continued insistence on the maximum economy consistent with sound Government and all-out prosecution of the war. It would be no economy at all to reduce annual war costs at the expense of lengthening the war but certainly all possible economies should be made. However, any reductions which can be brought about in war expenses will still leave so large a war budget that the requirement for taxes will not be reduced, ^{below the amounts I am requesting} The need for taxes is so great that we must get all we can, whatever the volume or pattern of wartime expenditures.

- 4 -

Our wartime tax systems have been extended to apply to many millions of people who were not subject to taxes before the war, so that our direct taxes apply to the major~~ity~~ part of the population. Our people are subjected to much inconvenience in the application of necessary wartime restrictions. It is important that taxes be made as simple as possible so as not to add to this inconvenience. I have endeavored in the past to promote simplification of taxes. The Treasury's simplified income tax return has diminished the burden of tax computation for millions of our taxpayers. To some extent tax simplification is the enemy of tax equity but there are many important things we can do to promote simplification which will either increase equity, or at any rate not seriously disturb it.

Finally, we should have an eye on the security of the masses of our people after the war. That security can and should be promoted through the expansion and extension of the Social Security system. It can also be increased through the ^{medium} ~~adjustment~~ of survivors' insurance on an individual basis.

It is with these considerations in mind that the tax program which I am about to outline has been developed.

- 6 -

increases. I suggest furthermore that this postwar credit be paid in the form of survivor's insurance. This would supplement the survivor's insurance provisions of the Social Security Act. If, however, the taxpayer did not choose to take his refundable tax in the form of insurance he could receive it in cash at a 25 percent discount below the value of the postwar credit for the purchase of insurance.

I recommend the elimination of the abortive and complicated ~~earned~~ ^{earned} income credit. Consolidation of the ^{normal and surtax} rate scales would be ^{thereby} ~~made possible~~ ^{facilitated} with great results ⁱⁿ simplification. I recommend the extension of withholding to ^{cover the full tax liability of} ~~include~~ more taxpayers ^{thus} ~~eliminating~~ ^{eliminating} unnecessary declarations ^{of estimated income} and reducing the complexities of our current tax payment act.

Because of the great complications of the return for next March, complications which will ~~fixer~~ fortunately not recur, I recommend a radical ^{modification} ~~amendment~~ of the Victory tax for the year 1943 to permit as much simplification as possible for the return due on March 15, 1944.

To protect persons with fixed incomes, especially those in the lower brackets from undue hardship because of tax increases I recommend provision for the current use of the postwar credit to provide relief for such persons.

- 7 -

Estate and gift taxes

I recommend that the estate and gift taxes be increased to raise an additional \$400 million on a full year's basis.

Estate taxes have been a part of our Federal tax structure since 1916 but their contribution to the total revenue has always been unduly small. In this period ahead when great additional revenues are necessary, estate taxpayers should contribute their share to the cost of the war along with other groups of taxpayers. Increases in the estate taxes offer a way to raise money without a direct check on incentive to work and without threatening to upset wage and other cost levels. Also additional estate taxes will further one of the original purposes of the estate tax, namely, to check the undue concentration of wealth.

Specifically, it is suggested that the exemption for the estate tax be reduced from \$60,000 to \$40,000; that estate and gift ^{rates} taxes be increased throughout the scale.

Corporation taxes

It is recommended that corporation taxes be increased to raise an additional \$1.1 billion. Despite recent heavy increases in taxes the net income of corporations remaining after taxes has steadily risen since 1939 at the rate of \$1 billion a year. After paying dividends, corporations with net income will have added to

- 8 -

their capital out of earnings an estimated \$16 billion during the years 1941, 1942, and 1943. We can safely impose the recommended increase, ^{but} ~~and~~ small corporations should be given more favorable treatment than corporations generally. In order to protect corporations in the adjustment period immediately after the war, I recommend the strengthening of the two-year carryback of net operating losses and unused excess profits credit and provision for more prompt cash refunds.

Selected excise taxes

I recommend that approximately \$2.5 billion additional be raised by increasing excise tax rates and imposing new excises. In time of war, increases in excise taxes have much to commend them. Little or no increase in administrative machinery is required. I have taken care to avoid taxes on the necessities of life. The items selected are luxuries or commodities and services which need to be conserved for war purposes, or optional items of expenditure such as liquor and tobacco. The tax rates suggested have been fitted to the wartime conditions of supply and demand for each item separately. When these conditions change, I shall recommend revision of the tax rates.

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CONCLUSION

There are many desirable changes in the tax system which I have not mentioned. Important loopholes still remain to be eliminated, including the lower taxes on married couples in community property States, the tax exemption of interest on State and local securities, the subsidy to oil producers through percentage depletion, and the double deduction of intangible drilling expenses. You all know my views on these loopholes, and it is not necessary for me to do more than reaffirm my belief that they should be eliminated. I realize, however, that it may be impossible to deal with them in the short time remaining before the end of the year. Moreover, there are many technical matters which are important for the improvement of the tax laws. I suggest that the consideration of such matters at this time may unduly delay the passage of this bill.

I am sure the Committee is well aware of the necessity for expeditious action. The imposition of retroactive taxes is never entirely satisfactory and with the new current payment legislation in operation retroactive taxation is not necessary and would be difficult to apply. This means that the tax bill should become law in time to place the increases in operation on January 1, 1944.

The Treasury stands ready as always to give such help and cooperation as the Committee may wish and Mr. Paul and the Treasury staff are prepared to do their utmost to assist you.

- 5 -

II. TAX RECOMMENDATIONS

I am recommending a program to increase Federal collections by approximately \$10.5 billion for a full year of operation under conditions anticipated for the near future.

Individual income tax

Of this amount I recommend increased individual income taxes to yield additional gross collections of \$6.5 billion. I put this emphasis on individual income taxes because through them we can best achieve our standards of justice and fairness in taxation. Moreover, our population generally can readily pay this increase as the income payments to individuals after taxes have in the past few years increased by several times the increases in income taxes which have thus far been imposed.

I recommend that the Victory tax be merged into the income tax ^{beginning with 1944,} ~~tax~~ which was passed last year. The Victory tax was not considered by the Ways and Means Committee ^{it was} as introduced in the Senate. The Victory tax has different deductions and different exemptions ^(from the income tax). It has a postwar credit which varies in percentage according to marital and dependent status. Current offsets allowed against this postwar credit practically eliminates its postwar character. To replace the Victory tax I suggest a slight lowering of personal exemptions and the introduction of a genuine postwar credit to protect the lower income groups against undue

Amounts and effective rates of tax under present law and under revised Schedule "DD"

Married person, two dependents

Exemptions: Present law: \$1,900
Revised Schedule "DD", \$1,700

Net income: before personal exemption :	Present law 1/			Revised Schedule "DD" 2/			Increase	
	Gross tax	Victory tax credit	Net tax	Gross tax	Postwar: credit 3/	Net tax	Gross tax	Net tax

Amounts of tax

\$ 800	\$ 13	\$ 6	\$ 7	-	-	-	\$ -13	\$ -7
1,000	25	11	14	-	-	-	-25	-14
1,500	52	23	29	-	-	-	-52	-29
2,000	93	35	58	\$ 81	\$ 41	40	-12	-18
2,500	206	47	159	225	63	163	19	4
3,000	327	60	267	384	78	306	57	39
4,000	569	84	485	753	115	638	184	153
5,000	838	108	730	1,163	156	1,007	325	277
6,000	1,112	133	979	1,588	199	1,389	476	410
8,000	1,735	182	1,553	2,523	292	2,231	788	678
10,000	2,439	231	2,208	3,555	396	3,160	1,116	952
25,000	10,171	597	9,574	13,750	500	13,250	3,579	3,676
50,000	27,592	1,200	26,392	35,037	500	34,537	7,445	8,145
100,000	69,003	1,200	67,803	81,435	500	80,935	12,432	13,132

Effective rates

800	1.6%	0.8%	0.9%	-	-	-	-1.6%	-0.9%
1,000	2.5	1.1	1.4	-	-	-	-2.5	-1.4
1,500	3.5	1.5	1.9	-	-	-	-3.5	-1.9
2,000	4.7	1.8	2.9	4.1%	2.0%	2.0%	-.6	-.9
2,500	8.2	1.9	6.4	9.0	2.5	6.5	.8	.2
3,000	10.9	2.0	8.9	12.8	2.6	10.2	1.9	1.3
4,000	14.2	2.1	12.1	18.8	2.9	15.9	4.6	3.8
5,000	16.8	2.2	14.6	23.3	3.1	20.1	6.5	5.5
6,000	18.5	2.2	16.3	26.5	3.3	23.2	7.9	6.8
8,000	21.7	2.3	19.4	31.5	3.7	27.9	9.9	8.5
10,000	24.4	2.3	22.1	35.5	4.0	31.6	11.2	9.5
25,000	40.7	2.4	38.3	55.0	2.0	53.0	14.3	14.7
50,000	55.2	2.4	52.8	70.1	1.0	69.1	14.9	16.3
100,000	69.0	1.2	67.8	81.4	.5	80.9	12.1	13.1

Treasury Department, Division of Tax Research

September 17, 1943

- 1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.
- 2/ Victory tax integrated; earned income credit eliminated.
- 3/ 75 percent of the first \$50 of tax; 25 percent of the next \$50; and 1 percent of the balance, the maximum credit not to exceed \$500.

Comparison of surtax rates under present law and under revised
Schedule "DD", designed to raise approximately \$6.5 billion

Surtax net income (in thousands)	Present law	Revised Schedule "DD" 1/
0 - .5	13%	21%
.5 - 1	13	24
1 - 1.5	13	27
1.5 - 2	13	30
2 - 4	16	35
4 - 6	20	40
6 - 8	24	45
8 - 10	28	49
10 - 12	32	53
12 - 14	36	57
14 - 16	40	61
16 - 18	43	65
18 - 20	46	68
20 - 22	49	71
22 - 26	52	74
26 - 32	55	77
32 - 38	58	79
38 - 44	61	81
44 - 50	63	83
50 - 60	66	85
60 - 70	69	86
70 - 80	72	87
80 - 90	75	88
90 - 100	77	89
100 - 150	79	90
150 - 200	81	90
200 and over	82	90

Treasury Department, Division of Tax Research September 17, 1943

1/ Under Schedule "DD" the Victory tax is integrated; exemptions are \$500 - \$1,100 - \$300 instead of the present \$500 - \$1,200 - \$350; earned income credit is repealed; and a postwar credit aggregating approximately \$3.5 billion is allowed as follows: 75 percent of the first \$50 of tax, 25 percent of the next \$50 of tax, and 10 percent of the balance of the tax, the total credit not to exceed \$500.

Amounts and effective rates of tax under present law
and under revised Schedule "DD"

Single person - no dependent

Exemptions: Present law \$500
Revised Schedule "DD" \$500

Net income: before personal exemption	Present law			Revised Schedule "DD" 2/			Increase		
	Gross tax	Victory tax credit	Net tax	Gross tax	Postwar credit 3/	Net tax	Gross tax	Net tax	Net tax
			<u>Amounts of tax</u>						
\$ 800	\$ 65	\$ 3	\$ 62	\$ 81	\$ 45	\$ 36	\$ 16	\$ -	26
1,000	113	6	107	135	54	82	22	-	25
1,500	233	13	220	285	69	217	52	-	3
2,000	353	20	333	450	85	365	97		32
2,500	473	27	446	630	103	527	157		81
3,000	608	34	574	835	124	712	227		138
4,000	877	48	829	1,245	165	1,081	368		252
5,000	1,167	62	1,105	1,680	208	1,472	513		367
6,000	1,477	76	1,401	2,140	254	1,886	663		485
8,000	2,155	103	2,052	3,135	354	2,782	980		730
10,000	2,914	131	2,783	4,215	462	3,754	1,301		971
25,000	10,983	339	10,644	14,710	500	14,210	3,727		3,566
50,000	28,558	500	28,058	36,105	500	35,605	7,547		7,547
100,000	70,165	500	69,665	82,575	500	82,075	12,410		12,410

Effective rates

800	8.1%	0.4%	7.8%	10.1%	5.7%	4.5%	2.0%	-	3.3%
1,000	11.3	0.6	10.7	13.5	5.4	8.2	2.2	-	2.5
1,500	15.5	0.9	14.7	19.0	4.6	14.4	3.5	-	0.2
2,000	17.7	1.0	16.7	22.5	4.3	18.3	4.9		1.6
2,500	18.9	1.1	17.8	25.2	4.1	21.1	6.3		3.2
3,000	20.3	1.1	19.1	27.8	4.1	23.7	7.6		4.6
4,000	21.9	1.2	20.7	31.1	4.1	27.0	9.2		6.3
5,000	23.3	1.2	22.1	33.6	4.2	29.4	10.3		7.3
6,000	24.6	1.3	23.4	35.7	4.2	31.4	11.1		8.1
8,000	26.9	1.3	25.7	39.2	4.4	34.8	12.3		9.1
10,000	29.1	1.3	27.8	42.2	4.6	37.5	13.0		9.7
25,000	43.9	1.4	42.6	58.8	2.0	56.8	14.9		14.3
50,000	57.1	1.0	56.1	72.2	1.0	71.2	15.1		15.1
100,000	70.2	0.5	69.7	82.6	0.5	82.1	12.4		12.4

Treasury Department, Division of Tax Research

September 17, 1943

- 1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.
- 2/ Victory tax integrated; earned income credit eliminated.
- 3/ 75 percent of the first \$50 of tax; 25 percent of the next \$50 of tax; and 10 percent of the balance, the maximum credit not to exceed \$500.

Amounts and effective rates of tax under present law and under revised Schedule "DD"

Married person - no dependents

Exemptions: Present law \$1,200
Revised Schedule "DD" \$1,000

Net income:	Present law 1/			Revised Schedule "DD" 2/			Increase	
before :	Gross :	Victory :	Net :	Gross :	Post-war :	Net :	Gross :	Net
personal :	tax :	tax :	tax :	tax :	credit :	tax :	tax :	tax
exemption :	tax :	credit :	tax :	tax :	3/ :	tax :	tax :	tax

Amounts of tax

\$ 800	\$ 13	\$ 5	\$ 8	-	-	-	\$ -13	\$ -8
1,000	25	10	15	-	-	-	-25	-15
1,500	100	21	79	\$ 108	\$ 51	\$ 57	8	-22
2,000	220	32	188	255	66	190	35	2
2,500	340	43	297	417	82	335	77	38
3,000	459	54	405	594	99	495	135	90
4,000	723	76	647	999	140	859	276	212
5,000	995	99	894	1,409	181	1,228	416	354
6,000	1,294	121	1,173	1,864	226	1,638	570	465
8,000	1,945	165	1,780	2,829	323	2,506	884	726
10,000	2,677	210	2,467	3,885	429	3,457	1,208	990
25,000	10,578	543	10,035	14,230	500	13,730	3,652	3,695
50,000	28,075	1,000	27,075	35,571	500	35,071	7,496	7,996
100,000	69,584	1,000	68,584	82,005	500	81,505	12,421	12,921

Effective rates

\$ 800	1.6%	0.6%	1.0%	-	-	-	-1.6%	-1.0%
1,000	2.5	1.0	1.5	-	-	-	-2.5	-1.5
1,500	6.7	1.4	5.3	7.2%	3.4%	3.8%	.5	-1.5
2,000	11.0	1.6	9.4	12.8	3.3	9.5	1.8	.1
2,500	13.6	1.7	11.9	16.7	3.3	13.4	3.1	1.5
3,000	15.3	1.8	13.5	19.8	3.3	16.5	4.5	3.0
4,000	18.1	1.9	16.2	25.0	3.5	21.5	6.9	5.3
5,000	19.9	2.0	17.9	28.2	3.6	24.6	8.3	6.7
6,000	21.6	2.0	19.6	31.1	3.8	27.3	9.5	7.8
8,000	24.3	2.1	22.3	35.4	4.0	31.3	11.1	9.1
10,000	26.8	2.1	24.7	38.9	4.3	34.6	12.1	9.9
25,000	42.3	2.2	40.1	56.9	2.0	54.9	14.6	14.8
50,000	52.2	2.0	54.2	71.1	1.0	70.1	15.0	16.0
100,000	69.6	1.0	68.6	82.0	0.5	81.5	12.4	12.9

Treasury Department, Division of Tax Research

September 17, 1943

1/ Maximum earned income credit assumed. Victory tax net income assumed to be ten-ninths of net income.

2/ Victory tax integrated; earned income credit eliminated.

3/ 75 percent of the first \$50 of tax; 25 percent of the next \$50; and 10 percent of the balance, the maximum credit not to exceed \$500.

SUMMARY OF TAX PROGRAM IN SECRETARY'S
STATEMENT TO WAYS AND MEANS COMMITTEE

I

*Social Sec*Need for More Revenue

With governmental expenditures of \$109 billion and our present tax system, about \$66 billion must be borrowed from the banks and the public during the fiscal year 1944 if no further tax measures are enacted.

2.5
1.4

1. So much deficit spending threatens a further rise in prices.
2. A large accumulation of purchasing power also threatens prices and postwar stability.
3. The postwar interest-carrying charges are lessened by additional taxes.
4. Borrowing does not lighten the real economic sacrifice of the war, which is doing without wanted things.

II

Excise Taxes

The recommendation is \$2.5 billion new revenue from raising excise tax rates and imposing new excises.

1. The sales tax may be criticized on several grounds.
 - (a) That it affects necessary expenditures of the average family, which excises do not; that it is not compatible with wage and price stabilization; that it imposes severe administrative difficulties; and that it bears heavily on persons with low incomes.

- 2 -

2. There is a very strong demand for cigarettes, distilled spirits, admissions, etc., showing that added taxation is possible.
3. Excise taxes and the new rates suggested should not be permanent.
4. A sales tax with personal exemptions, or at a graduated rate, and a luxury purchasing tax of the British type is not practical.

III

Estate and Gift Taxes

The recommendation is \$400 million on a full year basis through an increase of rates and a reduction of exemptions.

IV

Corporation Taxes

The recommendation is an additional \$1.1 billion by raising the combined surtax and normal tax rates to 50% for the large corporations and 29 to 33% for small corporations.

1. Corporate profits are so high that these additional taxes can be paid.
2. Small corporations deserve special treatment as to rates, and should be permitted to cash their postwar credit immediately on termination of the war up to \$25,000.
3. We oppose corporate postwar reserves, but advocate a carryback system for late war expenses which will give adequate relief.

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V

Individual Income Tax

A. **Social Security Program.** -- The preferred recommendation is that the Social Security program should be extended and expanded to cover practically all persons now uncovered, to increase unemployment insurance benefits, and to provide benefits for temporary disability and hospitalization, but not medical care.

1. This would require an increase in the employee payroll tax of 2 percentage points and an increase in the employer payroll tax of about 1 percentage point.
2. In this way there will be provided for the civilian population somewhat the same kind of postwar security outlined by the President for the armed forces.
3. These increased payroll taxes will check inflation during the war.
4. The individual income tax increases proposed have been adjusted for this 2-point increase in the employee payroll tax.

B. **The Individual income tax.** -- The recommendation is that there be increases in the income tax, integrated to the above Social Security program, which, together with the Social Security program, will yield from \$6.5 billion to \$8 billion of additional revenue, the net increase in income tax revenue being from 3 to 3½ billion with postwar

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credits being substituted to the extent that the Social Security increases recommended above are not adopted.

C. Postwar Credits. -- Postwar credits are recommended in the event that the Social Security program is not extended.

1. To the extent that a postwar credit is allowed, it should be returnable primarily to the low income group.
2. The credit should be currently available in part to those whose incomes remain fixed, or who have heavy commitments for debt repayment and life insurance contracts.

D. We have completed a study of the possibility of taxing increases in incomes and have decided not to recommend such a tax. The study is offered for the record.

E. To simplify the individual income tax law and the income tax return it is recommended that the Victory tax be repealed.

F. It is recommended that personal exemptions should be lowered from \$1200 to \$1100 for married persons and the dependency credit from \$350 to \$300, leaving the single exemption unchanged at \$500. This recommendation assumes the repeal of the Victory tax and the allowance of postwar

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rebates. With such repeal, married persons with very low incomes will still be benefited.

G. Assuming the repeal of the Victory tax, it is recommended that the present falsely-named earned income credit be repealed.

H. It is recommended that the additional revenue required be raised through an increase of the surtax rates throughout the scale.

VI

Conclusion

While important loopholes should be eliminated, it may be impossible to deal with them in this bill because of time limitations.

Many technical matters important for simplification and the relief of hardship could be taken up in next year's revenue bill. In the meantime, to avoid retroactive taxation, the present bill should become law in time to place tax increases in operation on January 1, 1944.

○ 22.3 of 1944
mild

Treasury Department
Division of Research and Statistics

Date.....10/1..... 1943

To: Mr. Murphy

From: Mrs. Eaton

I have checked the 17 billion figure for sales of Federal securities to individuals during the calendar year 1943 with Mr. Tickton by telephone.

Mr. Tickton states that this figure is not to be found in any written memorandum, but was able to state that the 17 billion figure is correct, as the latest estimate for the calendar year 1943. (I will give you details on this figure when you get back to the office).

MEMBERS OF CONGRESS:

I want to present to you today the Administration's suggested program for raising additional taxes to help pay for the war. But more than that, I want to explain why this program was devised in its present form. I think you are entitled to know not only the decisions we have made, but our reasons for making those decisions.

Because of the huge cost of the war, it is necessary for us to deal in astronomical figures. The budget for the fiscal year 1944 calls for 109 billions in expenditures. And while it may be possible, and I hope it is, to curtail some governmental expenditures, we cannot be frugal about the war. We know by now that our willingness to spend the necessary funds, no matter how large, has had a definite effect on the lives of our men in battle. The superior fighting equipment which we have produced and bought has of course been expensive, but it has saved the lives of thousands of American fighting men.

The money that is expended on lend-lease to keep the enemy engaged on dozens of fronts all over the world -- that has saved untold lives.

These things, in the aggregate, have helped to build the war cost to its present huge proportions, but I am sure you will agree, and I am sure the American people agree, that it is

worth while.

In the face of huge amounts of money to be raised, we are met with a very serious problem of creating for the American people a new tax program that is fair and equitable.

We must raise huge amounts of additional money for financing the war and combating inflation, and yet in doing it we cannot overlook the fact that there is a point beyond which some people cannot deduct from their pay envelopes or farm incomes and still keep a family going. There is a point beyond which they cannot meet the tax bills and still maintain a standard of living which will permit them to continue to help in the effective prosecution of the war, or of their duties in the civilian economy which is necessary to support the war.

I am telling you this to emphasize the fact that the Treasury Department has not arbitrarily set down a figure as the amount to be raised, without regard to the problems which exist, and which must we met. ^{we have, in} the past several months, asked the help of every executive branch of government having any relationship to taxes, including the Army and the Navy. And I think we have examined every conceivable plan to raise additional taxes as equitably and efficiently as possible.

We have measured these plans against:

First, the ability of the plan to raise money, and

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its effect on the inflation problem.

Second, the degree of hardship the plan places upon people with fixed incomes and with fixed obligations; and upon people with inadequate incomes; and

Third, the degree to which it might interfere with war production, and

Fourth, its practicability and cost from the standpoint of its administration. No plan is good if it won't work, if it is impractical for the government to handle, or if it further tries the patience of the taxpayer who is already burdened with too much and too complicated paper work.

One of our chief considerations in developing a tax program has been the drawing off of what is called "excess spending money." It has been estimated that income payments to individuals will amount to ~~152~~¹⁵³ billion dollars in the fiscal year of 1944. The amount of goods and services available can absorb only about 89 billion of this ~~152~~¹⁵³ billion. Personal taxes will reduce this figure by 21 billion at the present rate, leaving a total of ^{above} ~~42~~⁴³ billion dollars. Of this ~~42~~⁴³ billion dollars we expect to draw off a substantial amount in the sale of War Bonds to individuals -- but how much can be drawn off in this way we cannot, of course, foretell at this point. We do know that during the calendar year 1943 -- that is to say, through the ^{two} ~~three~~

- 4 -

drives which we have had, and the regular Bond sales which go on month after month -- we will have absorbed at least ^(blawie) ~~17~~ billion dollars of this dangerous money in this way.

Even taking into consideration other forms of non-inflationary savings, that still leaves a substantial amount of excess income that the consumer will have to spend; and as the production of civilian goods is decreased, and the supply of things to buy becomes progressively more limited, the danger of inflation mounts.

We, at the Treasury, have made numerous recommendations over the years to help prevent our being caught in a whirlpool of rising prices. As far back as October 16, 1940, with the cost of living having then risen about two points, ~~the~~ wholesale prices having gone up about five points, the Treasury called attention to the incipient development of inflationary pressure, resulting from the capacity shortages then beginning to appear in various basic-material industries. Steel, zinc and copper had already gone up in price, and consumer purchasing power was on the rise. It became obvious even then that we would need to restrict purchasing power or increase production, if this bud of inflation were to be nipped.

^{Two months}
Something ~~over a year~~ later, on December 18, 1940, I said, in recommending a major expansion in the steel program, "My interest in forestalling potential inflationary developments

- 5 -

that would reflect unfavorably on the economy of the country, as well as our whole fiscal program, and in guarding against possible shortages of defense materials, leads me to express my serious concern over the growing congestion in the steel industry. It seems to me that an immediate major expansion program for the steel industry is clearly called for."

On March 19, 1941, I set up the Defense Savings Staff and on May 1 introduced the series E, F and G Savings Bonds in an effort to absorb individual savings and to forestall the potentially inflationary effects of the expenditures of these funds for consumers' goods.

On September 9, 1941, I told an audience in Boston that -- and I quote -- "If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter, and clothing which now cost a dollar will once more cost almost twice as much before the process has ended." At that time I suggested specific anti-inflationary measures including:

- (1) extension of Social Security;
- (2) control over bank credit and selected capital expenditures; and
- (3) reduction of non-essential governmental expenditures.

A few weeks later I appeared before the Banking and Currency Committee on the Price Control Bill and called attention to the

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terrible urgency of the inflation problem. I then pointed out the alarming similarity of the present price pattern to that of the first World War. I said -- and I quote -- "It is true, of course, that price control alone will not conquer inflation. This Bill alone cannot stop price rises. Every government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary."

"If we are to be sure of victory in the fight against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of Defense Savings Bonds and Stamps."

On December 27, 1941, we inaugurated the Payroll Savings plan for the regular and systematic sale of United States Savings Bonds to wage earners. Within a year, nearly twenty-five million workers were regularly buying Bonds through payroll deduction. They were deducting ^{about} ~~nearly~~ eight and one-half per cent of their pay, or a total of over 350 million dollars ^{per month}.

At the present time (27) million workers are deducting an average of ^{approximately} (10) per cent of their pay, or a total of over (420) million dollars a month, ~~and the figure is rising constantly.~~

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On March 3, 1942, I appeared before this committee and proposed an increase in revenue of 7.6 billion dollars. I stated that the chief duty of the new revenue act was to help check inflation, and -- I quote -- "Nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice."

I have given you this background to remind you that this inflationary tendency is something that has been with us over a period of years, something against which we must constantly stand guard.

Today, two-thirds of all the income of the nation is going into the pay envelopes of people earning less than three thousand dollars a year; and for this reason the people earning something over a subsistence wage, but less than three thousand dollars a year, present a great potential danger from the inflationary standpoint. In the aggregate, this huge group of people -- a group estimated to number around 58 million -- possess a great deal of inflationary money, and it is the weight of this money that can cause undue price rises, and can completely upset our entire economic system.

Having this in mind, and also the need for additional funds to finance this most expensive war, the Treasury set a goal early

this year of twelve billion dollars as the amount of additional revenue which should be raised by new taxation.

Since this goal was set as a satisfactory figure from a fiscal standpoint, the Treasury has done considerable investigating. We have gone outside the Treasury offices, outside of Washington. We knew that twelve billion dollars was a great deal of money, and as we progressed in our investigations, we became more and more cognizant of the problems we would have in levying so huge a tax on anything like an equitable basis.

In order to check statistical information against the actual situation in which the American taxpayer finds himself under war conditions, we made actual observations in the field. We talked to families; we talked to actual people -- people who pay rent, feed their families, and meet the extra bills which wartime living saddles upon them. We checked closely the response of working people and farmers and other groups in the Bond Drives. We made a small survey of incomes and expenditures in one war wealthy industrial city; a survey of people at various income levels.

In fairness to the average American citizen, we must say that not everyone is over-earning and over-spending.

We found too that a great economic transition has come over this nation since the war began. We came out of a depression -- out of a series of depressions -- into this period of prosperity. This was not the case in the last war.

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Before Pearl Harbor, we were a nation of people in debt. We were in debt for money we borrowed to get along on during the lean years. In debt for vacuum sweepers and automobiles; in debt to the doctor and the dentist; in debt even for the clothes on our backs in many cases. (We were a nation of people whose normal lives were being depressed from every angle by the burden of debts.)

Some of it was foolish debt, some of it was debt brought about in an effort to maintain a typical American standard of living, and much of it was just out and out unavoidable debt. But whatever it was, it was there. Even before we entered the war, when it became obvious that civilian goods would be curtailed, that automobiles and vacuum sweepers were to go completely out of production, we wisely curtailed (and stopped) installment plan buying. Then it was that the American people -- and chiefly the American working people -- began to get out of debt. They began to be a Nation of people dealing on a cash basis. They began to pick up these back debts that had been hanging over them, in some cases for many years. (Everything indicates that a large part of the new-found gains of the working people has gone to pay those debts.)

But this does not in any sense lessen the danger of inflation, for even the payment of debts could not absorb enough of our

dangerous dollars -- and every dollar that is left can be spent to absorb some part of a constantly shrinking supply of goods and services.

I am talking a great deal here today about the average American, the man who is making about three thousand dollars a year -- because he is the one who will have to pay most of any increase in taxes.

In the high income brackets, taxes are already levied at such a rate that further increases will not yield substantial sums nor materially aid in the battle against inflation.

One of the things we must do -- not to satisfy the low income person but to be just to him -- is to make allowance for hardship cases. Even while we are setting out to get more money from most people, we need actually to give tax relief to some people.

Take, as an example, ^a(the average) married man with two dependents making \$1500 a year -- and there are hundreds of thousands like him throughout the country. To this man, making less than \$30 a week, a tax of \$50 a year is a burden -- a burden many times heavier to him than one much larger would prove to be to a person making a few hundred dollars more a year. The seriousness of this problem deepens as we find the man making a thousand dollars or the widow supporting her children on \$800 and there are many like them.

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The program which I will present to you today takes that into consideration, and takes also into consideration that in view of what we have found, we have reduced our tax proposal from 12 billion dollars to 10.5 billion dollars.

As a result of our investigations among average Americans, there is one further general recommendation that I want to make -- that every possible step be taken at this session to reduce the complications in our tax laws which make it necessary for the taxpayer to fill out complex and difficult tax forms.

We spent a great deal of time attempting to simplify the September 15 forms. I think we made it as simple as it was possible to make it under the terms of the very complicated law passed in the last session. We are now working on the simplification of the March 15 form, but I want to say that (it is my feeling that ~~the public resentment against~~) any tax form that can meet the requirements of this present tax law is likely to cause a great deal of resentment among the American people.

I am sure that Congress agrees that there is a great deal of room for simplification in our tax laws. I can not here go into the details of simplification, but I want certainly, to recommend the combining of the Victory Tax with the Income Tax.

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That is part of our proposal. The Victory Tax serves especially to complicate return forms. The Tax in itself is complicated and it is calculated differently and on a basis of different exemptions from the income tax. Consequently, there is no present way of simplifying it on a tax form to such an extent that the man in the street can and will take it in his stride.

Let me tell you now about our specific recommendations for the tax program which I sincerely hope can be passed before the end of this year, thereby making it possible to spare the public the complication of retroactive taxes.

I am recommending a program to increase federal collections by approximately 10.5 billion dollars for a full year of operation under conditions anticipated for the near future.

I recommend that these taxes be raised through an increase in Estate and Gift Taxes, Corporation Taxes, Selected Excise Taxes, and Individual Income Taxes.

Estate Taxes

Estate taxes have been a part of our federal tax structure since 1916, but the total contribution has been unduly small. In this period ahead when great additional revenue is necessary, estate tax payers should contribute as heavily as possible to the cost of the war along with other groups of taxpayers. I am suggesting that the exemption for Estate Taxes be reduced from

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\$60,000 to \$40,000; that Estate and gift tax rates be increased throughout the scale. By so doing, we can raise an additional 400 million dollars on a fully year's basis.

Corporation Taxes

It is recommended that corporation taxes be increased. Despite heavy increases in taxes, the net income of ^{net income} corporations remaining after taxes have ~~steadily~~ risen since 1939 at the ^{average} rate of one billion dollars a year. After paying dividends, corporations with net incomes will have added to their capital out of earnings, an estimated ^{15.4} billion dollars during the years of 1941, -42 and -43. We therefore recommend that corporation taxes in general be raised, but that small corporations should be given more favorable treatment. Our schedule for increasing corporation taxes has been worked out along this line and will raise an additional 1.1 billion dollars.

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Excise Taxes

It is the belief of the Treasury Department that an increase in excise tax rates, and the imposing of any excises, is an acceptable way to raise additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected that are commodities and savings which need to be conserved for war purposes and additional taxes can be placed upon optional items of expenditure such as liquor and tobacco. The tax rates that we are suggesting have been fitted to the war time conditions of supply and demand for each item separately. When these conditions change, I shall recommend revision of the tax rates. Under the schedule which we will present to you in detail, we can raise an additional 2.5 billion dollars through increases in present excise tax rates, and through new excises.

The tax increases of which I have spoken -- the Estate and Gift taxes of four hundred million dollars, the corporation taxes of 1.1 billion dollars and the excises of 2.5 billions add up to a total of 4 billion dollars. This, of course, is nowhere near enough. Collections under the existing tax laws during the fiscal year of 1944 are expected to amount to 39 billion dollars.

This threatens prospective deficit of 70 billion dollars, which must be met by borrowing to the extent that additional tax revenue is not secured.

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In order to reduce this borrowing load, I am recommending increases in individual income taxes to yield an additional 6.5 billions. With equitability in the income tax program it is obvious that our population can pay these additional taxes, as the income payments to individuals after taxes have in the past few years been increased by several times the increase in income taxes which have been thus far imposed.

Adding this 6.5 billion to the 4 billion derived from other taxes, would total 10.5 billions for a full year of operation. Frankly, this is still not enough but it is as much as we can justifiably recommend, realizing the limitations of taxation processes. It is as much as we can justifiably ask without causing undue hardship on those without an increased ability to pay. To take care of those who have a vastly increased ability to pay -- and of these, of course, there are a great many -- we must maintain at full speed our war loan campaigns, which we know are cutting deeply into the increased earnings of those American people who have them.

In planning a schedule to raise this 6.5 billion dollars in additional income taxes, we have merged the Victory Tax into the Income tax.

The post-war credit which is now part of the Victory Tax, should be maintained in principle. However, since current offsets allowed against the post-war credits in the Victory Tax practically eliminates its post-war character, I propose the introduction of genuine post-war credits to protect the income of the lower income groups.

I recommend that this post-war credit be paid in the form of Survivors insurance. This would supplement the insurance provisions of the Social Security Act. If, however, the taxpayer didn't wish to take this refund in insurance, he could receive it in cash at a 25% discount below the value of the post-war credit for the purchase of insurance.

I further suggest that this post-war credit be made immediately available for the protection of persons with fixed incomes, especially those in the lower brackets who might be subject to undue hardships because of tax increases.

I should like to take a moment now to tell you exactly how this income tax schedule will work in actual practice.

Take, for example, a married person with two dependents; under the present law, the exemption would start at \$1900; under the proposal, exemptions would start at \$1700.

A person having a net income of a thousand dollars a year will pay a gross tax under the present law of \$25, of which \$11 is his refundable

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victory tax credit. Under the new proposal, he will not be required to pay tax.

If such a person is earning \$3,000 a year, he is now paying a gross tax of \$327, of which \$60 is his refundable tax credit. Under the new proposal, he would pay \$384 gross tax, of which \$52 would be refunded. He is thus paying \$57 more in gross taxes, or \$65 more in net taxes. A married person with two dependents earning \$8,000 a year is now paying at the rate of \$1,735 of which \$182 is his Victory tax refund credit. Under the present proposal he would pay \$2,523 of which \$159 is refundable. He would thus pay \$788 more in gross tax or \$811 in net tax.

At \$25,000 per year, a married person with two dependents is now paying \$10,171 of which \$597 is refundable.

Under the new proposal he would pay \$13,750, of which \$250 -- the maximum allowable under the proposed program -- would be refundable. He would thus be paying \$3,579 more, or a net tax increase of \$3,926.

It is my belief, that the proposal I have just made, is as equitable as any tax so huge could possibly be. It is inevitable that some injustices will be done, but these will be greatly modified certainly by the relief provisions which are included.

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By combining the Victory Tax with Income Tax, we can greatly simplify paper work on the part of the taxpayer -- and I might add that this could be further simplified by abolishing earned income credit, which I strongly recommend that the Congress consider.

There is one further recommendation I should like to make to this Committee. It is not a part of the tax proposal but it bears a distinct kinship to it.

I should like to recommend, as enthusiastically as I know how, that you amplify and extend the present Social Security plan.

A substantial increase in these taxes would be of great service in diminishing the threat of inflation.

I have talked to many people who would be concerned with extension of the Social Security program which ^would involve increases in payroll taxes. I have been met with interest and enthusiasm for broadening the provisions of the Social Security Act. I have been assured that the people who would have to pay additional payroll taxes see the wisdom of making the necessary additional sacrifices.

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We have made arrangements to re-establish our fighting men economically when they return to build new lives on the sound foundations on the Victory they will have won; and now we must also keep in mind on that same sound foundation of Victory, working men, and farmers, and all other people on the home front, many of whom are not now covered by Social Security, must also build new and better lives.

Therefore, I suggest that the Congress seriously consider widening Social Security to cover practically all persons in the Nation, to increase employment insurance benefits, and to provide benefits for temporary disability and hospitalization.

To do this will cost the American people, chiefly those earning up to \$3,500, approximately 3.7 billions. The necessary additional pay roll tax ^{on employes} of 1.6 billion dollars will make a total of 5.36 billion dollars ^{additional Taxes} for Social Security purposes.

There is no pretense on the part of these low-income people that they could comfortably meet this bill. It is known by them, and admitted by us to be a sacrifice; but it is felt by the leaders and spokesmen for these people, and by these of the people themselves with whom I have talked, that because we are expanding Social Security's advantages and are permitting these people to invest in their futures, this sacrifice will be made willingly.

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If payroll taxes should thus be increased, the income tax schedules involved in the program I have outlined should be substantially modified to avoid an intolerable tax burden in the lower income groups.

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On page 11, the item referred to under date of October 16, 1940, was a memorandum from Mr. Haas to Secretary Morgenthau. It is not strictly accurate, therefore, to say that the Treasury "called attention to the incipient development of inflationary pressure". It is not indicated from what base the cost of living and wholesale price indices have risen. Both indices were slightly less in October 1940 than in September 1939.

On page 4, the item under date of December 18, 1940, is only two months later rather than something over a year later.

On page 5, the omission of material before the last sentence of the quotation should be indicated.

On page __, the President's budget message for the fiscal year 1944 asked for \$16 billions of additional taxes. The reduction of this goal to \$12 billions was first reported in the New York Times for June 18, 1943, on page 1.

Draft # 2
9-30

MEMBERS OF CONGRESS:

I want to present to you today the Administration's suggested program for raising additional taxes to help pay for the war. But more than that, I want to explain why this program was devised in its present form. I think you are entitled to know not only the decisions we have made, but our reasons for making those decisions.

Because of the huge cost of the war, it is necessary for us to deal in astronomical figures. The budget for the fiscal year 1944 calls for 109 billions in expenditures. And while it may be possible, and I hope it is, to curtail some governmental expenditures, we cannot be frugal about the war. We know by now that our willingness to ^{Spend} supply the necessary funds, no matter how large, has had a definite effect on the lives of our men in battle. The superior fighting equipment which we have produced and bought -- ~~the medical equipment, the sulfa drugs and the blood plasma~~ ^{of course} ~~all of which has been frightfully expensive,~~ ^{but it has} saved the lives of thousands of American fighting men.

The money that is expended on lend-lease to keep the enemy engaged on dozens of fronts all over the world -- that has saved untold lives.

These things, in the aggregate, have helped to build the war cost to its present huge proportions, but I am sure you

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will agree, and I am sure the American people agree, that it is worth while.

In the face of huge amounts of money to be raised, we are met with a very serious problem of creating for the American people a new tax program that is fair and equitable.

We must raise huge amounts of additional money for financing the war and combating inflation, and yet in doing it we cannot overlook the fact that there is a point beyond which some people cannot deduct from their pay envelopes or farm incomes and still keep a family going. There is a point beyond which they cannot meet the tax bills and still maintain a standard of living which will permit them to continue to help in the effective prosecution of the war, or of their duties in the civilian economy which is necessary to support the war.

I am telling you this to emphasize the fact that the Treasury Department has not arbitrarily set down a figure of ~~10.5 billion~~ dollars as the amount to be raised, without regard to the problems which exist, and which must be met. We have, over the past several months, asked the help of every executive branch of government having any relationship to taxes, including the Army and the Navy. And I think we have examined every conceivable plan to raise additional taxes as equitably and efficiently as possible.

- 3 - *and its effect on the inflation Problem*

We have measured these plans against:

First, the ability of the plan to raise money.

Second, the degree of hardship the plan places upon people with fixed incomes and with fixed obligations; and upon people with ~~grossly~~ inadequate incomes; and

~~Third~~ ^{Fourth}, its practicability and cost from the standpoint of its administration. No plan is good if it won't work, or if it further tries the patience of the taxpayer who is already burdened with too much and too complicated paper work.

One of our chief considerations in developing a tax program has been the drawing off of what is called "excess spending money." It has been estimated that income payments to individuals will amount to 152 billion dollars in the fiscal year of 1944. The amount of goods and services available can absorb only about 89 billion of this 152 billion. Personal taxes will reduce this figure by 21 billion at the present rate, leaving a total of about 42 billion dollars. Of this 42 billion dollars we expect to draw off a substantial amount in the sale of War Bonds to individuals -- but how much can be drawn off in this way we cannot, of course, foretell at this point. We do know that during the calendar year 1943 -- that is to say, through the three drives which we ~~had~~ had, and the regular Bond sales which go

Spurred
the number of sales of War Bonds

It is impractical for government to handle.

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Non inflationary

on month after month -- we will have absorbed at least 17 billion dollars of this dangerous money in this way.

Even taking into consideration other forms of savings,
That ~~of course~~ still leaves a substantial amount of money

that the consumer will have to spend; and as the production of civilian goods is decreased, and the supply of things to buy becomes progressively more limited, the danger of inflation mounts.

excess income

We, at the Treasury, have made numerous recommendations over the years to help prevent our being caught in a whirlpool of rising prices. As far back as October 18, 1940, with the cost of living having then risen about two points, and wholesale prices having gone up about five points, the Treasury called attention to the incipient development of inflationary pressure, resulting from the capacity shortages then beginning to appear in various basic-material industries. Steel, zinc and copper had already gone up in price, and consumer purchasing power was on the rise. It became obvious even then that we would need to restrict purchasing power or increase production, if this bud of inflation were to be nipped.

Something over a year later, on December 18, 1940, I said, in recommending a major expansion in the steel program, "My interest in forestalling potential inflationary developments that would reflect unfavorably on the economy of the country, as well as our whole fiscal program, and in guarding against possible

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shortages of defense materials, leads me to express my serious concern over the growing congestion in the steel industry. It seems to me that an immediate major expansion program for the steel industry is clearly called for."

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- (1) extension of Social Security;
- (2) control over bank credit and selected capital expenditures; and
- (3) reduction of non-essential governmental expenditures.

A few weeks later I appeared before the Banking and Currency Committee on the Price Control Bill and called attention to the

terrible urgency of the inflation problem. I then pointed out the alarming similarity of the present price pattern to that of the first World War. I said -- and I quote -- "It is true, of course, that price control alone will not conquer inflation. This Bill alone cannot stop price rises. Every government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

"If we are to be sure of victory in the fight against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of Defense Savings Bonds and Stamps."

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At the present time million workers are deducting an average of percent of their pay, or a total of over million dollars a month, and the figure is rising constantly.

On March 3, 1942, I appeared before this committee and proposed an increase in revenue of 7.6 billion dollars. I stated that the chief duty of the new revenue act was to help check inflation, and -- I quote -- "Nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice."

I have given you this background to remind you that this inflationary tendency is something that has been with us over a period of years, something against which we must constantly stand guard.

Today, two-thirds of all the income of the nation is going into the pay envelopes of people earning less than three thousand dollars a year; and for this reason the people earning something over a subsistence wage, but less than three thousand dollars a year, present a great potential danger from the inflationary standpoint. In the aggregate, this huge group of people -- a group estimated to number around million -- possess a great deal of ~~excess~~ ^{inflationary} money, and it is the weight of this ~~excess~~ money that can cause undue price rises, and can completely upset our entire economic system.

Having this in mind, and also the need for additional funds to finance this most expensive war, the Treasury set a goal early this year of twelve billion dollars as the amount of ^{additional revenue} ~~money~~ which should be raised by new taxation.

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a satisfactory figure for a fiscal standpoint

Since this goal was set as ~~an ideal worth approaching~~, the Treasury has done considerable investigating. We have gone outside the Treasury offices, outside of Washington. We knew that twelve billion dollars was a great deal of money, and as we progressed in our investigations, we became more and more cognizant of the problems we would have in levying so huge a tax on anything like an equitable basis.

In order to check statistical information against the actual situation in which the American taxpayer finds himself under war conditions, we made actual observations in the field. We talked to families; we talked to actual people -- people who pay rent, feed their families, and meet the extra bills which wartime living saddles upon them. We checked closely the response of working people and farmers and other groups in the Bond Drives. We made a small survey of incomes and expenditures in one war wealthy industrial city; a survey of people at various income levels.

In fairness to the average American citizen, we must say that ^{not} ~~for~~ everyone ~~who~~ is ~~not~~ over-earning and over-spending, ~~for~~ ~~everyone who is buying "silk shirts" as in the last war, there~~ ~~are hundreds upon hundreds who are not, regardless of what~~ ~~increase they might have had in their incomes.~~ *In every*

~~income bracket there are millions who are~~

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We found too that a great economic transition has come over this nation since the war began. We came out of a depression -- out of a series of depressions -- into this period of prosperity. This was not the case in the last war.

Before Pearl Harbor, we were a nation of people in debt. We were in debt for money we borrowed to get along on during the lean years. In debt for vacuum sweepers and automobiles; in debt to the doctor and the dentist; in debt even for the clothes on our backs in many cases. Literally millions of people were living two and three families in a house. A large percentage of young married couples had never been able to move out of the homes of their parents. We were a Nation of people whose normal lives were being depressed from every angle by the burden of debts.

Some of it was foolish debt, some of it was debt brought about in an effort to maintain a typical American standard of living, and much of it was just out and out unavoidable debt. But whatever it was, it was there. Even before we entered the war, when it became obvious that civilian goods would be curtailed, that automobiles and vacuum sweepers were to go completely out of production, we wisely curtailed and stopped installment-plan buying. Then it was that the American people -- and chiefly the American working people -- began to get out of debt. They

began to be a Nation of people dealing on a cash basis. They began to pick up these back debts that had been hanging over them, in some cases for many years. Everything indicates that ^{a large part} ~~much~~ of the new-found gains of the working people ^{has} gone to pay those debts.

But this does not in any sense lessen the danger of inflation, for even the payment of debts could not absorb enough of our dangerous dollars -- and every dollar that is left can be spent to absorb some part of a constantly shrinking supply of goods and services.

I am talking a great deal here today about the average American, the man who is making about three thousand dollars a year -- because he is the one who will have to pay most of any increase in taxes.

In the high income brackets, taxes are already levied at such a rate that ^(will not yield substantial sums nor will) ~~they cannot be materially increased and still~~ ^{be collectible.} ~~be collectible.~~

Moreover, the vast majority of people are in these lower income groups, and taxation, like everything else in America is a product of, and subject to, the wishes of the majority. Therefore they are the ones who must be satisfied, because they are the ones who must pay the bill.

I might add that they are the ones whose spirits cannot be broken, and whose incentive must be maintained, if we are to continue to get the tremendous war production necessary to

...and in the inflation...

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victory. Therefore, I will say without hesitation that the means employed in the new tax bill should be agreeable to them -- as agreeable as it is possible for any plan that sets out to take their money.

One of the things we must do -- not to satisfy the low income person but to be just to him -- is to make allowance for hardship cases. Even while we are setting out to get more money from most people, we need actually to give tax relief to some people.

Take, as an example, the average married man with two dependents making \$1500 a year -- and there are hundreds of thousands like him throughout the country. To this man, making less than \$30 a week, a tax of \$50 a year is a burden -- a burden many times heavier to him than ~~enemuch~~ larger would prove to be to a person making a few hundred dollars more a year. The seriousness of this problem deepens as we find the man making a thousand dollars or the widow supporting her children on \$800 -- and there are many like them. ~~In the face of unavoidable price rises,~~ in the face of increased living expenses all along the line, it is my feeling that these people need relief far more desperately than the Nation needs the pittance we could get from them in taxes.

The program which I will present to you today takes that into consideration, *and takes also into consideration that in view of what we have found, we have*
 As a result of our investigations among average Americans, there is one further general recommendation that I want to make -- *repeal the first proposal from the bill in the 10.5 billion.*
that every possible step be taken at this session to reduce the complications in our tax laws which make it necessary for even the smallest taxpayer to fill out highly complex and difficult tax forms.

We spent a great deal of time attempting to simplify the September 15 forms. I think we made it as simple as it was possible to make it under the terms of the very complicated law passed in the last session. ~~Part of our simplification was accomplished, very frankly, by postponing many of the difficult calculations until the March 15 filing.~~ We are now working on the simplification of the March 15 form, but I want to say ~~frankly~~ that it is my feeling that the public resentment against any tax form that can meet the requirements of this present tax law ^{is likely to} will cause a great deal of resentment among the American people.

I am sure that Congress agrees that there is a great deal of room for simplification in our tax laws. I cannot here go into the details of simplification, but I want certainly, to recommend the combining of the Victory Tax with the Income Tax.

That is part of our proposal. The Victory Tax serves especially to complicate return forms. The Tax in itself is complicated and it is calculated differently and on a basis of different exemptions from the income tax. Consequently, there is no present way of simplifying it on a tax form to such an extent that the man in the street can and will take it in his stride.

~~To combine this tax with the income tax it will be necessary to raise the \$624 exemption limit now on the Victory Tax, but it will not have to be raised out of reason. And any loss of revenue which the Government may suffer by this means -- and there is not a great deal -- is far less important than the good-will of the American taxpayer. That's why I am urging that it be done.~~

Let me tell you now about our specific recommendations for the tax program which I sincerely hope can be passed before the end of this year, thereby making it possible to spare the public the complication of retroactive taxes.

I am recommending a program to increase federal collections by approximately 10.5 billion dollars for a full year of operation under conditions anticipated for the near future.

I recommend that these taxes be raised through an increase in Estate and Gift Taxes, Corporation Taxes, Selected Excise Taxes, and Individual Income Taxes.

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Estate Taxes

Estate Taxes have been a part of our federal tax structure since 1916, but the total contribution has been unduly small. In this period ahead when great additional revenue is necessary, estate tax ^{payers} ~~balances~~ should contribute as heavily as possible to the cost of the war along with other groups of taxpayers. I am suggesting that the exemption for Estate Taxes be reduced from \$60,000 to \$40,000; that Estate and gift tax rates be increased throughout the scale. By so doing, we can raise an additional 400 million dollars on a full year's basis.

Corporation Taxes

It is recommended that corporation taxes be increased. Despite heavy increases in taxes, the net income of corporations remaining after taxes have steadily risen since 1939 at the rate of one billion dollars a year. After paying dividends, corporations with net incomes will have added to their capital out of earnings, as estimated 16 billion dollars during the years of 1941, 42 and 43. We therefore recommend that corporation taxes in general be raised, but that small corporations should be given more favorable treatment. Our schedule for increasing corporation taxes has been worked out along this line and will raise an additional 1.1 billion dollars.

Excise Taxes

an acceptable

It is the belief of the Treasury Department that an increase in excise tax rates, and the imposing of any excises, is ~~an ideal~~ way to raise additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected that are commodities and savings which need to be conserved for war purposes and additional taxes can be placed upon optional items of expenditure such as liquor and tobacco. The tax rates that we are suggesting have been fitted to the war time conditions of supply and demand for each item separately. When these conditions change, I shall recommend revision of the tax rates. Under the schedule which we will present to you in detail, we can raise an additional ^{2.5} 2.5 billion dollars through increases in present excise tax rates, and through new excises.

The tax increases of which I have spoken -- the Estate and Gift taxes of four hundred million dollars, the corporation taxes of 1.1 billion dollars and the excises of 2.5 billions add up to a total of 4 billion dollars. This, of course, is nowhere near enough. Collections under the existing tax laws during the fiscal year of 1944 are expected to amount to 39 billion dollars. This threatens prospective deficit of 70 billion dollars, which must be met by borrowing to the extent that additional tax revenue is not secured.

In order to reduce this borrowing load, I am recommending increases in individual income taxes to yield an additional 6.5 billions. With equitability in the income tax program it is obvious that our population can pay these additional taxes, as the income payments to individuals after taxes have in the past few years been increased by several times the increase in income taxes which have been thus far imposed.

Adding this 6.5 billion to the 4 billion derived from other taxes, would total 10.5 billions for a full year of operation. Frankly, this is still not enough but it is as much as we can justifiably recommend, realizing the limitations of taxation processes. It is as much as we can justifiably ask without causing undue hardship on those without an increased ability to pay. To take care of those who have a vastly increased ability to pay -- and of these, of course, there are a great many -- we must maintain at full speed our war loan campaigns, which we know are cutting deeply into the increased earnings of those American people who have them.

In planning a schedule to raise this 6.5 billion dollars in additional income taxes, we have merged the Victory Tax into the income tax.

The post-war credit which is now part of the Victory Tax, should be maintained in principle. However, since current offsets allowed against the post-war credits in the Victory Tax practically eliminates its post-war character, I propose the introduction of genuine post-war credits to protect the income of the lower income groups.

I recommend that this post-war credit be paid in the form of Survivors insurance. This would supplement the insurance provisions of the Social Security Act. If, however, the taxpayer didn't wish to take this refund in insurance, he could receive it in cash at a 25% discount below the value of the post-war credit for the purchase of insurance.

I further suggest that this post-war credit be made immediately available for the protection of persons with fixed incomes, especially those in the lower brackets who might be subject to undue hardships because of tax increases.

I should like to take a moment now to tell you exactly how this income tax schedule will work in actual practice.

Take, for example, a married person with two dependents; under the present law, the exemption would start at \$1900; under the proposal, exemptions would start at \$1700.

A person ^{having a net income of} ~~earning~~ a thousand dollars a year will pay a gross tax under the present law of \$25, of which \$11 is his refundable

- 18 - 17

Victory Tax credit. Under the new proposal, he will not be required to pay tax.

If such a person is earning \$3,000 a year, he is now paying a gross tax of \$327, of which \$60 is his refundable tax credit. Under the new proposal, he would pay \$384 gross tax, of which ~~\$28~~^{\$52} would be refunded. He is thus paying \$57 more in gross taxes, or ~~\$60~~^{\$65} more in net taxes. A married person with two dependents earning \$8,000 a year is now paying at the rate of \$1,735 of which \$182 is his Victory tax refund credit. Under the present proposal he would pay \$2,523 of which ~~\$292~~^{\$159} is refundable. He would thus pay \$788 more in gross tax or ~~\$800~~^{\$811} in net tax.

At \$25,000 per year, a married person with two dependents is now paying \$10,171 of which \$597 is refundable.

Under the new proposal he would pay \$13,750, of which ~~\$300~~^{\$250} the maximum allowable under the proposed program -- would be refundable. He would thus be paying \$3,579 more, or a net tax increase of ~~\$3,870~~^{\$3,926}.

It is my belief, that the proposal I have just made, is as equitable as any tax so huge could possibly be. It is inevitable that some injustices will be done, but these will be greatly modified certainly by the relief provisions which are included.

By combining the Victory Tax with Income Tax, we can greatly simplify paper work on the part of the taxpayer -- and I might add that this could be further simplified by abolishing earned income credit, which I strongly recommend that the Congress consider.

There is one further recommendation I should like to make to this Committee. It is not a part of the tax proposal but it bears a distinct kinship to it.

I should like to recommend, as enthusiastically as I know how, that you amplify and extend the present Social Security ~~taxes.~~ *plan*

A substantial increase in these taxes would be of great service in diminishing the threat of inflation.

extension of the Social Security program which could
 I have talked to many people who would be concerned with ~~an increase in Social Security taxes.~~ *increase* I have been met with interest and enthusiasm, ~~wherever Social Security has been suggested as a means of raising money to fight the war, and to lay the groundwork for the coming peace.~~ *for widening the provisions of the Social Security act* I have been assured that the people who would have to pay ~~this additional tax~~ *payroll taxes* see the wisdom of making the necessary additional sacrifices. ~~In my estimation, this is the best possible solution to~~

to the ~~problem with which we are faced; the problem of getting~~
still more money from the people who have new money -- and
getting it without arbitrarily taking it away simply because
~~they now happen to have it.~~

We have made arrangements to re-establish our fighting men economically when they return to build new lives on the sound foundations on the Victory they will have won; and now we must also keep in mind on that same sound foundation of Victory, working men, and farmers, and all other people on the home front, many of whom are not now covered by Social Security, must also build new and better lives.

Therefore, I suggest ~~as the Chief Fiscal Officer of this Government,~~ that the Congress seriously consider ~~raising more money, over and above the present tax proposal,~~ by widening Social Security to cover practically all persons in the Nation, to increase employment insurance benefits, and to provide benefits for temporary disability and hospitalization.

To do this will cost the American people, chiefly those earning up to \$3,500, approximately 3.7 billions. The necessary additional payroll tax of 1.6 billion dollars will make a total of 5.36 billion dollars for Social Security purposes, ~~and for the immediate purpose of helping finance the war.~~

- 21 - 20

There is no pretense on the part of these low-income people that they could comfortably meet this bill. It is known by them, and admitted by us to be a sacrifice; but it is felt by the leaders and spokesmen for these people, and by those of the people themselves with whom I have talked, that because we are expanding Social Security's advantages and are permitting these people to invest in their futures, this sacrifice will be made willingly.

~~The people will find a way to meet the additional burden without resentment.~~

If payroll taxes should thus be increased, ~~modification~~ the income tax schedules involved in the program I have outlined should be substantially modified to ~~avoid~~ avoid an intolerable tax burden in the lower income groups.

#

draft # 3

Some people believe work
is a privilege and want
compensation 172

MEMBERS OF CONGRESS:

We are faced with the very serious problem of creating for the American people a new tax program that is fair and equitable, that will raise more money for the war, that will ~~not~~ what excess or inflationary funds may be endangering our economy, and that will not break the back of the average American taxpayer.

Abert

Probably never before have there been so many vital factors to consider in any tax program. ~~It~~ because we are dealing in astronomical figures, never before has there been such a possibility of unfortunate injustice. In our eagerness to raise additional money for financing the war, we must not overlook the fact that there is a point beyond which the working man cannot deduct from his pay envelope and still keep his family going. After his tax burden reaches a certain point, he cannot meet his tax bills and still maintain that standard of living and that morale essential to the effective prosecution of the war.

being done by an ill advised tax program

I am telling you this to emphasize the fact that the Treasury Department knows these problems exist and must be met. In our effort to meet them, we have asked the help of every executive branch of Government having any relationship to taxes, including the Army and the Navy. We have examined, I think, every conceivable plan to raise additional taxes.

Our present economic
and because ~~the~~ such a
wide variation in ability
to pay taxes
situation
has created

Since the 1943 tax bill was introduced, at least
~~During the course of the last nine months, no less than~~
 eighty-five specific plans have been suggested, developed, and
 examined against what we believe is the only yardstick that makes
 any sense in this year of war, 1943. We have measured these
 plans against:

First, the ability of the plan to raise money;

Second, the degree of hardship the plan places upon people
 of fixed incomes and with fixed obligations, *and upon people with grossly*
 and *inadequate incomes;*

Third, their practicability and cost from the Administration
 standpoint. No plan is good if it won't work, or if it further
 tries the patience of the taxpayer who is already burdened with
 too much and too complicated paper work.

~~Because so much has been said and written during the past year~~
~~concerning inflation,~~ *in developing a tax program*
 One of our chief considerations has been the
 drawing off of what has been so often called "dangerous inflationary
money speaking money
 money." It has been *estimated* pointed out ~~constantly~~ that our National income
is about 172
 is 145 billion dollars in the fiscal year of 1944. It is further
 pointed out that the amount of goods and services available can
be about 77
 absorb only 78 billion of this *152* billion. It is therefore
money speaking money
 reasoned that there is a dangerous inflationary gap of 60 billion
 dollars, and this gap accumulates month after month, year after
 year, as the war goes on, and production of civilian goods is
 decreased, and the supply of things to buy becomes progressively
 more limited.

*about 21 billion of goods
 with money speaking*

- 3 -

It has been pointed out that four-fifths of all the income of the nation is going into the pay envelopes of people earning less than three thousand dollars a year; and therefore it is reasoned that the people earning less than three thousand dollars a year present a great potential danger from an inflationary standpoint. It is said that they have a great deal of excess money and that the weight of this excess money will cause undue price rises, will tear down the value of the dollar, and must of necessity completely upset our entire economic system.

With this in mind -- and having in mind, also, the need for additional funds to finance this most expensive of wars -- the Treasury set a goal early this year, of twelve billion dollars as the amount of money which should be raised by taxation.

Since this goal was set as an ideal worth approaching, the Treasury has done considerable investigating. We have gone outside the Treasury offices, outside of Washington. We knew that twelve billion dollars was a great deal of money, and we were fully cognizant of the problems we would have in levying so huge a tax on anything like an equitable basis. We fully realize that designing this tax, in the last analysis, was going to require a process different from any we have ever tried before. We knew we had to balance off the economists figures with actual observations in the field, since there is a great difference between the statistical working man, and the working man who pays rent, feeds his family

healthful food, and meets all extra bills which war time living
^{settles} settles upon him.

To help us in this direction, we made numerous checks.

~~To answer this question to our own satisfaction, we made~~
~~thousands of~~ checks. We ~~watched~~ ^{checked} closely the ~~behaviour~~ ^{response} of working
 people in the bond drives. We made a small sample survey of
 incomes and expenditures in one war-wealthy industrial city, a
 survey of people at various income levels. ~~In the bulk~~ ^{by and large} we have
~~not found~~ ^{little actual} evidence of dangerous inflationary spending, although
 in certain isolated ~~cases~~ ^{spots}, we, like everyone else, have seen
 individual cases of such spending, ^{which} Unfortunately, ~~like all irregular~~
~~things these cases~~ ^{incidents} have attracted wide attention and have prejudiced
 the public mind.

→ *Mount B*

A great economic transition has come over this Nation since
 the war began. We came out of a depression -- out of a series of

(X)

B

depressions -- into this period of prosperity. That was not the case in the last war.

Before Pearl Harbor, we were a nation of people in debt. We were in debt for money we borrowed to get along on during the lean years. In debt for vacuum sweepers and automobiles; in debt to the doctor and the dentist; in debt even for the clothes on our backs in many cases. Literally millions of people were living two and three families in a house. A large percentage of young married couples had never been able to move out of the homes of their parents. We were a Nation of people whose normal lives were being depressed from every angle by the burden of debts. 5

Some of it was foolish debt, some of it was debt brought about in an effort to maintain a typical American standard of living, and much of it was just out and out unavoidable debt. But whatever it was, it was there. Even before we entered the war, when it became obvious that civilian goods would be curtailed, that automobiles and vacuum sweepers were to go completely out of production, we wisely curtailed and stopped installment-plan buying. Then it was that the American people -- and chiefly the American working people -- began to get out of debt. They began to be a Nation of people dealing on a cash basis. They began to pick up these back debts that had been hanging over them, in some cases for many years. Everything indicates that much of the new-found gains of the working people have gone to pay those debts.

What we found ~~and let me say here that~~ the surveys that we have made are being continued and elaborated, ~~and are not now~~ ^{while they} large enough to be scientifically conclusive, although I feel justified in regarding them, in concert with other observations and facts which we have gathered, ~~to be a reliable indication~~ ^{fully indication} of the situation. 177

But For every one ^{citizen} who is over-earning and over-spending, for every one who is buying "silk shirts," as in the last war, there are thousands upon thousands who are not, ~~Most of them have no opportunity to do so,~~ regardless of any increase they might have in their incomes. For the most part, the American working man is ~~struggling~~ ^{not finding it too easy} to make ends meet with a pay check from which has been deducted, even before he gets it, an allotment for War Bonds, an allotment for Social Security or old age pension, a substantial

3A

However, they do not ask for comfort and luxury while the nation is at war.

advance on his tax bill, and perhaps other charges which are necessary in connection with the kind of work he does.

And it is to these people -- these many millions of good American citizens who are turning out the materials of war in unprecedented amounts -- that the tax program must be tailored and fitted. We cannot punish ^{all of} them through excess ^{ing} taxation simply because one out of a thousand of them has more money than he knows how to spend intelligently. Taxation is not a medium for vengeance.

Our experience in ^{our War Loan Drives} ~~these drives~~ has proved to me beyond doubt 19
that the hearts of the American working people are sound and they
are more than willing to do their part. This is a precious possession

which we have in this free country, and we should protect it at all costs. Primary consideration should be given to these people in framing a tax bill; and that is exactly what we have done, with the sanction of the President of the United States.

The sound, strong American must be kept strong and sound. He must be given every opportunity to become a better American, but we must not let him be legislated into doing less than he would do on his own simply because one of his neighbors, somewhere, has failed to live up to his obligations. *about 3*

I am dwelling here today on the American working man -- the man who is making ~~under five~~ thousand dollars a year -- because he is the one who will have to pay most of any increase in taxes.

In the high income brackets, taxes are already levied at such a rate that they cannot be materially increased and still be collectible. Moreover, the vast majority of people are in these lower income groups, and taxation, like everything else ⁱⁿ to Americans is a product of, and subject to, the wis~~es~~es of the majority. Therefore they are the ones who must be satisfied, because they are the ones who must pay the bill.

I might add that they are the ones whose spirits cannot be broken, and whose incentive must be maintained, if we are to continue to get the tremendous war production necessary to victory.

Therefore, I will say without hesitation that the means employed in the new tax bill must be agreeable to them -- as agreeable as it is possible for any plan that sets out to take their money.

We at the Treasury have discussed various plans with the working people and with their leaders, and we are confident that through the proposal which I am about to make we will be able to raise a tremendous amount of money to be used for the war. It will be paid willingly and eagerly -- even though the meeting of the individual tax bills may mean discomfort -- by the American people.

Draft #4 -

9-30 182

MEMBERS OF CONGRESS:

I want to present to you today the Administration's suggested program for raising additional taxes to help pay for the war. But more than that, I want to explain why this program was devised in its present form. I think you are entitled to know not only the decisions we have made, but our reasons for making those decisions.

~~Since the 1943 tax bill was introduced, at least 85 specific plans have come under the examination of the Treasury Department. All of the major ones have been exhaustively studied because it is obvious that there have never been so many vital factors to consider in any tax program.~~ Because of the ^{huge} cost of the war, it is necessary for us to deal in astronomical figures. The budget for the fiscal year 1944 calls for ¹⁰⁹ billions in expenditures.

~~I do not need to ~~say~~ tell you that this is a huge amount of money -- almost a fantastic amount.~~ And while it may be possible, and I hope it is, to curtail some governmental ~~expenditures~~ expenditure we cannot be frugal about the war. We know by now that our willingness to supply the necessary funds, no matter how large, has had a definite effect on the lives of our men in battle.

Superior fighting equipment which we have ~~been able to produce~~ and ^{buy} the medical equipment, the sulfa drugs and the blood plasma -- all ~~this~~ ^{of which} has been frightfully expensive, ~~but it~~ has saved the lives of ^{some thousands of} American fighting men. [The money that is

expended on lend-lease, ~~the money that is used~~ to keep the enemy engaged on dozens of fronts all over the world -- that ~~is~~ has saved lives. ^{counted} ~~those~~ things, in the aggregate, ^{have} help to build ^{ed} for the war amount, ~~towards~~ ^{cost} to its present huge proportions, but I am sure you will agree, and I am sure the American people agree, that ~~every cent is well spent.~~ *it is worth while.*

~~In planning a tax bill for 1944, we have been in a very difficult position.~~ *In the face of huge amounts of money to be raised, we are met*
~~We are faced with a very serious problem of creating for the American people a new tax program that is fair and equitable, that will raise more money for the war, that will absorb excess and inflationary funds which may be endangering our economy and that will not sent into bankruptcy a substantial portion of the American people.~~

Must
 We ~~are, in fact,~~ ^{are} faced with a necessity of raising huge amounts of additional money for financing the war and combating inflation, And yet in doing it we cannot over look the fact that there is a point beyond which some ~~working~~ ^{working} people cannot deduct from their pay envelopes, ^{to farm incomes} and still keep a family going. There ~~are~~ ^{are} ~~some in this country whose tax burdens can reach only a certain~~ ^{point,} beyond which they cannot meet the tax bills and still maintain a standard of living which will permit them to continue to help in the effective prosecution of the war, or of their duties in the civilian economy which is necessary to support the war.

- 3 -

I am telling you this to ^{emphasize} the fact that the Treasury Department has not ~~simply~~ set down a ~~budget~~ tax figure of ^{10.5 billion dollars as the amount to be raised} ~~to be met~~, without regard to the problems which ~~exist~~ exist, and which must be met. ~~I might say further that in our effort to meet these problems,~~ We have, over the past several months, asked the help of every executive branch of government ~~for~~ having any relationship to taxes, including the Army and the Navy. And I think we have examined every conceivable plan to raise additional taxes as ^{equitably and expensively} ~~painlessly~~ as possible.

We have measured these plans against:

First, the ability of the plan to raise money.

Second, the degree of hardship the plan places upon people with fixed incomes and with fixed obligations; and upon people with grossly inadequate incomes; and

Third, ^{their} ~~the~~ ^{its} ~~the~~ practicability ^{and} ~~of~~ cost from ~~the~~ the standpoint of ^{its} ~~the~~ Administration. No plan is good if it won't work, or if it further tries the patience of the taxpayer who is already burdened with too much and too complicated paper work.

One of our chief considerations in developing a tax program has been the drawing off of what is called "excess spending money." It has been estimated that income payments to individuals will amount to 152 billion dollars in the fiscal year of 1944. ~~It is~~ ~~further pointed out that~~ the amount of goods and services available can absorb only about 89 billion of this 152 billion. Personal

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reduce this figure by
 taxes will ~~account for only about~~ 21 billion at the present rate, leaving a total of about 42 billion dollars. Of this 42 billion dollars we expect to draw off a substantial amount in the sale of War Bonds to individuals -- but how much can be drawn off ^{see} this way we cannot, of course, foretell at this point. We do know that during the calendar year 1943, -- that is to say, ^{through} during the three drives which we have had, and the regular Bond Sales which go on month after month, ^{we} we will have absorbed at least 17 billion dollars of this dangerous money in this way.

That of course still leaves a substantial amount of money that the consumer will have to spend; and ~~as~~ as the production and of civilian goods is decreased, ^{and} the supply of things to buy becomes progressively more limited, the danger of inflation mounts.

Substituted
 About the only way we can cope with this money is through ^{raising taxes and bonds} taxes and Bonds. Over the past four years I have repeatedly stressed the urgency of animated fiscal measures to cope with inflation. In 1940 and 1941, and again in 1942, I recommended to Congress that the taxes ^{be} substantially increased ^{by at least 3} and these ~~increases total something over twenty billion dollars, most of which Congress has enacted.~~

We, at the Treasury, have been cognizant of the threat of ~~inflation for more than four years, and have made numerous~~ recommendations over the years to help prevent our being caught in a whirlpool of rising prices. As far back as October 16, 1940,

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with the cost of living having then risen about two points, and wholesale prices having gone up about five points, the Treasury, ~~investigated~~ ^{called attention to} the incipient development of inflationary pressure, ~~resulting~~ resulting from the capacity shortages then beginning to appear in various basic-material industries. Steel, zinc and copper had already gone up in price, and consumer purchasing power was on the rise. It became obvious even then that we would need to restrict purchasing power or increase production, if this bud of inflation were to be nipped. ^{Something} ~~Little~~ ^{I said, in} over a year later, on December 18, 1940, the ~~Treasury~~ ^{strongly} recommended ^{my} a major expansion in the steel program. ~~I~~ ^{he} said at that time, "My interest ⁱⁿ for forestalling potential ~~inflation/developments~~ inflationary developments that would reflect unfavorably on the economy of the country, as well as our whole fiscal program, and in guarding against possible shortages of defense materials, leads me to express my serious concern over the growing congestion in the steel industry. It seems to me that an immediate major expansion program for the steel industry is clearly called for."

On March 19, 1941, I set up the Defense Savings Staff and on May 1 introduced the series E, F and G Savings Bonds in an effort to absorb individual savings and to forestall the ^{Potentially} and inflation ^{any} aspects ^{effects of the expenditure of these funds} for the consumers ~~of these~~ goods.

On September 9, 1941, I told an audience in Boston that -- and I quote -- "If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter, and clothing which now cost a dollar will once more cost almost twice as much before the process has ended." At that time I suggested ~~the~~ specific anti-inflationary measures including: (1) control over bank credit and selected capital expenditures; (2) extension of Social Security; ^{and} (3) reduction of non-essential governmental expenditures.

A few weeks later I appeared before the ~~the~~ Banking and Currency Committee ^{on the Price Control Bill} and called attention to the terrible urgency of the inflation problem, ^{I then} ~~and~~ pointed out the alarming similarity of the present price pattern to that of the first World War. I said -- and I quote -- "It is true, of course, that price control alone will not conquer inflation. This Bill alone cannot stop price rises. Every government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary."

"If we are to be sure of victory in the fight against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of Defense Savings Bonds and Stamps."

On December 27, 1941, we inaugurated the Payroll Savings plan for the regular and systematic sale of United States Savings Bonds to wage earners. Within a year, nearly twenty-five million workers were regularly buying Bonds ~~to~~ through payroll deduction. They were deducting nearly eight and one half percent of their pay, or a total of over 350 million dollars.

At the present time x million workers are deducting an average of x percent of their pay for a total of over x million dollars a month, and the figure is rising constantly.

12-A On ~~1941~~ March 3, 1942 I appeared before this committee and proposed an increase in revenue of 7.6 billion dollars. I stated that the chief duty of the new revenue act was to help check inflation, and -- I quote -- "Nothing in the economic field can interfere ^{with} ~~the~~ the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice."

(space)

I have given you this background to remind you that this inflationary tendency ~~x~~ is something that has been ^{with us} ~~mounting~~ over a period of years, something against which we must constantly stand guard.

Today, two-thirds of all the income of the nation is going into ^{the} pay envelopes of people earning less than three thousand dollars a year; and for this reason the people earning less than three thousand dollars a year, present a great ~~potential~~ potential danger from the inflationary standpoint. In the aggregate, this huge group of people -- a group estimated to number around xx million -- possess a great deal of excess money, and it is the weight of this excess money that can cause undue price rises, and can completely upset our entire economic system ~~and~~ ^{and} having ^{in mind} also the need for additional funds to finance this most expensive ~~of~~ wars, ~~the~~ the Treasury set a goal early this year, ~~of~~ twelve billion dollars as the amount of money which should be raised by new taxation.

Since this goal was set as an ideal worth approaching, the Treasury has done considerable investigating. We have gone outside the Treasury offices, outside of Washington. We knew that twelve billion dollars was a great deal of money, and ~~we were~~ ^{to we progressed} ~~in our own investigations~~ ^{we became more and more} fully cognizant of the problems we would have in ~~levy~~ levying so huge a tax on anything like an equitable basis. ^{In order to} check statistical information against the actual situation in which the American taxpayer finds himself under war conditions, we made actual observations in the field. We talked to families; we talked to actual people -- people who pay rent, feed their

families ~~healthful food~~, and meet the extra bills which wartime living saddles upon them. We checked closely the ^{response} ~~responsibilities~~ of working people and farmers and other groups in the Bond Drives. We made a small survey of incomes and expenditures in one war wealthy industrial city; a survey of people at various income levels. In fairness to the average American citizen, we must say that for everyone who is over-earning and over-spending; for everyone who is buying "silk shirts" as in the last war, ~~and~~ there are hundreds upon hundreds who are not, ~~really~~ regardless of what increase they might have had in their incomes.

~~We found that~~

We ~~found~~ found too that a great economic transition has ~~come~~ come over this nation since the war began. We came out of a depression -- out of a series of depressions -- into this period of prosperity. This was not the case in the last war.

Before Pearl Harbor, we were a nation of people in debt. We were in debt for money we borrowed to get along on during the lean years. In debt for vacuum sweepers and automobiles; in debt to the doctor and the dentist; in debt even for the clothes on our backs in many cases. Literally millions of people were living two and three families in a house. A large percentage of young married couples had never been able to move out of the homes of their parents. We were a Nation of people whose normal lives were being depressed from every angle by the burden of debts.

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Some of it was foolish debt, some of it was debt brought about in an effort to maintain a typical American standard of living, and much of it was just out and out unavoidable debt. But whatever it was, it was there. Even before we entered the war, when it became obvious that civilian goods would be curtailed, that automobiles and vacuum sweepers were to go completely out of production, we wisely curtailed and stopped installment-plan buying. Then it was that the American people -- and chiefly the American working people -- began to get out of debt. They began to be a Nation of people dealing on a cash basis. They began to pick up these back debts that had been hanging over them, in some cases for many years. Everything indicates that much of the new-found gains of the working people have gone to pay those debts.

But this does not in any sense lessen the danger of inflation, *Even the payment of debts could not absorb enough of our dangerous*
~~for every dollar that is spent, no matter how wisely, is a dollar~~
~~spent~~ *is left can be spent* to absorb some part of a constantly shrinking supply of goods and services.

talks a great deal about
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the
 In ~~a~~ high income brackets, taxes are already levied at such a rate that they cannot be materially increased and still be collectible. Moreover, the vast majority of people are in these

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lower income groups, and taxation, like everything else in America is a product of, and subject to, the wishes of the majority. Therefore they are the ones who must be satisfied, because they are the ones who must pay the bill.

I might add that they are the ones whose spirits cannot be broken, and whose incentive must be maintained, if we are to continue to get the tremendous war production necessary to victory. Therefore, I will say without hesitation that the means employed in the new tax bill ^{should} ~~must~~ be agreeable to them -- as agreeable as it is possible for any plan that sets out to take their money.

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money from most people, but we need actually to give tax relief to some people.

Take, as an example, the average married man with two dependents making \$1500 a year -- and there are hundreds of thousands like him throughout the country. To this man, making less than \$30 a week, a tax of \$50 a year is a burden -- a burden many times heavier to him than a one much larger would prove to be to a person making a few hundred dollars more a year. The seriousness of this problem deepens as we find the man making a thousand dollars or the widow supporting her children on \$800, ^{and there are many} thousands like them. In the face of unavoidable price rises, in the face of increased living expenses all along the line, it is my feeling that these people need relief far more desperately than the Nation needs the pittance we could get from them in taxes.

The program which I ^{will} ~~want to~~ present to you today takes that into consideration.

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There is one further general recommendation that I want to make -- that ~~is the recommendation that~~ every possible step be taken ~~in~~ at this session to reduce the complications in our tax laws which make it necessary for ^{even the} ~~the~~ taxpayer to fill out highly complex and difficult tax forms.

We spent a great deal of time attempting to simplify the September 15 forms. I think we made it as simple as it was possible to make ^{it} under the terms of the very complicated law ~~which~~ was passed in the last session. Part of our simplification was accomplished, very frankly, by postponing many of the difficult calculations until the March 15 filing. We are now working on the simplification of the March 15 form, but I want to say frankly that it is my feeling that the public resentment against any tax form that can meet the requirements of this present tax law will cause a great deal of resentment among the American people.

Just to be just to him - to make money for the underclass circles.

I am sure that Congress agrees that there is a great deal of room for simplification in our tax laws. I can not here go into the details of simplification, but I want ^{certainly} to recommend the ^{combining} amalgamation of the Victory Tax ^{with} into the Income Tax. That is part of our proposal. The Victory Tax serves especially to complicate return forms. The Tax in itself is complicated and it is calculated differently and on a basis of different exemptions from the income tax. Consequently, there is no present way of simplifying it on a tax form to such an extent that the man in the street can and will take it in his stride.

To combine this tax with the income tax it will be necessary to raise the \$624 exemption limit now on the Victory Tax, but it will not have to be raised out of reason. And any loss of revenue which the Government may suffer by this means -- and there is not a great deal -- is far less important than the goodwill of the American taxpayer. That's why I am urging that it be done.

Let me tell you now about our specific recommendations for the tax program which I sincerely hope can be passed before the end of this year, thereby making it possible to spare the public ~~the~~ the complication of retroactive taxes.

I am recommending a program to increase federal collections by approximately 10.5 billion dollars for a full year of operation under conditions anticipated for the near future.

I recommend that these taxes be raised through an increase in Estate and Gift taxes, Corporation Taxes, Selected Excise Taxes, and Individual Income Taxes.

Estate Taxes

Estate Taxes have been a part of our federal tax structure since 1916, but the total contribution has been unduly small. In this period ahead when great additional revenue is necessary, estate tax balances should contribute as heavily as possible to the cost of the war along with other groups of taxpayers.

I am suggesting that the exemption for Estate taxes be reduced from \$60,000 to

CORPORATION TAXES

249x

\$40,000; that Estate and gift tax rates be increased throughout the scale, ~~by~~ so doing, we can raise an additional 400 million dollars on a full year's basis. It is recommended that corporation taxes be increased. Despite heavy increases, ⁱⁿ ~~it~~ taxes, the net income of corporations remaining after taxes ^{have steadily risen} since 1939 ^{at the rate of} one billion dollars a year. After paying dividends, corporations with net incomes will have added to their capital out of earnings, an estimated 16 billion dollars during the years of 1941, 42, and 43. We therefore recommend that corporation taxes ^{in general} be raised, ~~from 10% to 50% in general~~, but that small corporations should be given more favorable treatment ~~than corporations general~~. Our schedule for increasing corporation taxes has been worked out along this line and will raise an additional 1.1 billion dollars. ~~In order to protect corporations in the adjustment period after the war, I recommend the strengthening of the two-year carry back of the provision for more cash refunds.~~

Excise Taxes

It is the belief of the Treasury Department that ~~excise~~ an increase in excise tax rates, and the imposing of any excises, is an ideal way to raise additional money during a war period. ~~In such a time, increases in these taxes have much to recommend them.~~ Little or no increase in administrative machinery is required. Items can be selected that are commodities and savings which need to be ^{conserved} for war purposes and additional taxes can be placed upon

optional items of expenditure such as liquor and tobacco. The tax rates that we are suggesting have been ^{fixed} settled to the war time conditions of supply and demand ^{on} and each item separately. When these conditions ^{change, I shall} ~~which~~ ^{is} recommended revision of the tax rates, under the schedule which we ^{will} ~~have~~ presented to you in detail, we can raise an additional 215 billion dollars through increases in present excise tax rates, and through ^{new} ~~any~~ excises.

SPACE
The tax increases of which I have spoken -- the Estate and Gift taxes of four hundred million dollars, the corporation taxes of 1.1 billion dollars and the excises of 2.5 billions add up to a total of 4 billion dollars. This, of course, is nowhere near enough. Collections under the existing tax laws during the fiscal year of 1944 ~~are~~ are expected to amount to 39 billion dollars. This ^{threatens} ~~is a~~ prospective deficit of 70 billion dollars, ^{which} ~~it~~ must be met by borrowing to the extent that additional tax revenue is not secured. In order to reduce this borrowing load, I am recommending increases in individual income taxes to yield an additional 6.5 billions. With ~~any sort of~~ ^{income program} equitability in the tax structure, it is obvious that our population can ~~readily~~ ^{these additional taxes} pay this increase, as the income payments to individuals after taxes have in the past few years been increased by several times the increase in ~~any~~ income taxes which have been thus far imposed.

Adding this 6.5 billion to the 4 billion derived from other taxes, would total 10.5 billions for a full year of operation. Frankly, this is still not enough but it is as much as we can justifiably recommend, realizing the limitations of taxation processes. It is as much as we can justifiably ask without causing undue hardship on those without an increased ability to pay. To take care of those who have a vast ^{ly} increased ability to pay -- and of these, of course, there are a great many -- we must maintain at full speed our war loan campaigns, which we know are cutting deeply into the increased earnings of those American people who have ~~such earnings~~ ^{them}.

In ~~setting and~~ ^{income} planning a schedule to raise this 6.5 billion dollars in additional taxes, we have merged the Victory Tax into the income tax beginning ~~with 1944~~ ^{#17} the post war credit which is now part of the Victory Tax, ~~and which varies in percentage according to the parental and marriage status,~~ ^{should} will be maintained in principle. However, since current offsets allowed against the post-war credits in the Victory tax practically eliminates its post-war character, I propose the introduction of genuine post-war credits to protect ~~ix~~ the income of the lower income groups.

~~SIXXXXXXXXX~~ Since, however, it would be impractical to start income tax exemptions as low as \$324, I suggest a slight increase in these exemptions which amounts also to a lowering of personal exemptions in the income tax.

Insurance provisions

I recommend that this post-war credit be paid in the form of Survivors insurance. This would supplement the _____ of the Social Security Act. If, however, the taxpayer didn't wish to take this refund in insurance, he could receive it in cash at a 25% discount below the value of the post-war credit for the purchase of ~~XXXX~~ insurance.

I further suggest that this post-war credit be made immediately available for the protection of persons with fixed incomes, especially those in the lower brackets who might be subject to undue hardships because of tax increases.

I should like to take a moment now to tell you exactly how this income tax ~~schedule~~ will work in actual practice. } Take, for example, a married person with two dependents; under the present law, the exemption would start at \$1900; under the ~~XXXXXX~~ proposal, exemptions would start at \$1700.

A person earning a thousand dollars a year will pay a gross tax under the present law of \$25, of which \$11 is his refundable Victory tax credit. Under the new proposal, he will not be required to pay tax.

If such a person is earning \$3,000 a year, he is now paying a gross tax of \$377, of which \$60 is his refundable tax credit. Under the new proposal, he would pay \$384 gross tax, of which \$78 would be refunded. He is thus paying \$57 more in gross taxes,

or \$39 more in net taxes. A married person with two dependents earning \$8,000 a year is now paying at the rate of \$1,735 of which \$162 is his Victory tax refund or dit. Under the present proposal he would pay \$2,523 of which \$292 is refundable. ~~xxxx~~ he would thus pay \$788 more in gross tax or \$678 in net tax.

At \$25,000 per year, a married person with two dependents is now paying \$10,171 of which \$597 is refundable.

Under the new proposal he would pay \$13,750, of which \$500 ~~xxxxxxx~~ ^{Under the proposed program} the maximum allowable in any one year would be refundable. He would thus be paying \$3,579 more, or a net tax increase of \$3,676.

It is my belief, ~~and the belief of the Treasury Department~~ ^{Spore} that the proposal I have just made, ~~to raise 10.6 billion dollars~~ in additional taxes, is as equitable as any tax so huge could possibly be. ¹⁹ It is inevitable ^x that some injustices will be done, but these will be greatly modified certainly by the relief provisions which are included. ¹⁹ By combining the Victory tax with Income Tax, we can greatly simplify paper work on the part of the taxpayer -- and I might add that this could be further simplified by abolishing earned income credit, which I strongly recommend ^{that the Congress consider} ~~to the Congress~~ to consider.

I am sure that Congress realizes that there are many changes in the tax system which I have not mentioned. Important loop-holes still remain to be eliminated. I realize however, that

it may be impossible to ~~xxx~~ deal with most of these loop-holes, we may need before the end of the year, and therefore consideration of such matters at this time may unduly delay passage of this bill.

I am sure the Committee is well aware of the necessity of expeditious action. The imposition of retroactive taxes is never entirely satisfactory and under our new current payment legislation, retroactive taxation would be difficult to apply. This means that the tax bill should become law in time to place the increases in operation on January 1, 1944.

The Treasury stands ready as always, to give such help and cooperation as the Committee might wish. Mr. Paul and the Treasury staff are prepared to do their utmost to assist.

last part

There is one further recommendation I should like to make to this Committee. It is not a part of the tax proposal but it ~~bears~~ ^{bears} a distinct ~~relationship~~ ^{kinship} to it. I should like to recommend, as enthusiastically as I know how, ~~xxxxxxx~~ that ~~you enact an amplification and extension of~~ ^d the present Social Security ~~laws~~ ^{taxes}.

A substantial increase in this ~~tax~~ ^{tax} would be of great service in ~~xxxxxxxxxxxxxxxx~~ diminishing the threat of inflation.

~~It could be used to absorb at least three billion dollars, and these three billion dollars would come from the dangerous areas,~~

I have talked to a ~~great number of~~ ^{many} people ~~xxxxxxx~~ who would be concerned with ~~an~~ ^{Social Security} increase in ~~taxes~~ ^{taxes}. I have been met with interest and enthusiasm wherever Social Security has been suggested as a means of raising money to fight the war, and to lay the groundwork for the coming peace. I ~~am sure~~ ^{have been assured} that the people who would have to pay this additional tax can see the wisdom of ~~making~~ ^{the necessary} additional sacrifices ~~to meet the bill~~.

~~In my estimation, this is the best possible solution~~ ^{to} the problem with which we are faced; the problem of getting a ~~great deal of~~ ^{still more} money from the people who have ~~any~~ ^{new} money -- and getting it without arbitrarily taking it away simply because they now happen to have it.

We have made arrangements to re-establish ~~xxxx~~ our fighting men economically when they return to build new lives on the sound

MEMBERS OF CONGRESS:

I want to present to you today the Administration's suggested program for raising additional taxes to help pay for the war. But more than that, I want to explain why this program was devised in its present form. I think you are entitled to know not only the decisions we have made, but our reasons for making those decisions.

Because of the huge cost of the war, it is necessary for us to deal in astronomical figures. The budget for the fiscal year 1944 calls for 109 billions in expenditures. And while it may be possible, and I hope it is, to curtail some governmental expenditures, we cannot be frugal about the war. We know by now that our willingness to supply the necessary funds, no matter how large, has had a definite effect on the lives of our men in battle. The superior fighting equipment which we have produced and bought -- the medical equipment, the sulfa drugs and the blood plasma -- all of which has been frightfully expensive, saved the lives of thousands of American fighting men.

The money that is expended on lend-lease to keep the enemy engaged on dozens of fronts all over the world -- that has saved untold lives.

These things, in the aggregate, have helped to build the war cost to its present huge proportions, but I am sure you

will agree, and I am sure the American people agree, that it is worth while.

In the face of huge amounts of money to be raised, we are met with a very serious problem of creating for the American people a new tax program that is fair and equitable.

We must raise huge amounts of additional money for financing the war and combating inflation, and yet in doing it we cannot overlook the fact that there is a point beyond which some people cannot deduct from their pay envelopes or farm incomes and still keep a family going. There is a point beyond which they cannot meet the tax bills and still maintain a standard of living which will permit them to continue to help in the effective prosecution of the war, or of their duties in the civilian economy which is necessary to support the war.

I am telling you this to emphasize the fact that the Treasury Department has not arbitrarily set down a figure of 10.5 billion dollars as the amount to be raised, without regard to the problems which exist, and which must be met. We have, over the past several months, asked the help of every executive branch of government having any relationship to taxes, including the Army and the Navy. And I think we have examined every conceivable plan to raise additional taxes as equitably and efficiently as possible.

We have measured these plans against:

First, the ability of the plan to raise money.

Second, the degree of hardship the plan places upon people with fixed incomes and with fixed obligations; and upon people with grossly inadequate incomes; and

Third, its practicability and cost from the standpoint of its Administration. No plan is good if it won't work, or if it further tries the patience of the taxpayer who is already burdened with too much and too complicated paper work.

One of our chief considerations in developing a tax program has been the drawing off of what is called "excess spending money." It has been estimated that income payments to individuals will amount to 152 billion dollars in the fiscal year of 1944. The amount of goods and services available can absorb only about 89 billion of this 152 billion. Personal taxes will reduce this figure by 21 billion at the present rate, leaving a total of about 42 billion dollars. Of this 42 billion dollars we expect to draw off a substantial amount in the sale of War Bonds to individuals -- but how much can be drawn off in this way we cannot, of course, foretell at this point. We do know that during the calendar year 1943 -- that is to say, through the three drives which we ~~had~~ had, and the regular Bond sales which go

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on month after month -- we will have absorbed at least 17 billion dollars of this dangerous money in this way.

*up from
other way*

That of course still leaves a substantial amount of money that the consumer will have to spend; and as the production of civilian goods is decreased, and the supply of things to buy becomes progressively more limited, the danger of inflation mounts.

We, at the Treasury, have made numerous recommendations over the years to help prevent our being caught in a whirlpool of rising prices. As far back as October 16, 1940, with the cost of living having then risen about two points, and wholesale prices having gone up about five points, the Treasury called attention to the incipient development of inflationary pressure, resulting from the capacity shortages then beginning to appear in various basic-material industries. Steel, zinc and copper had already gone up in price, and consumer purchasing power was on the rise. It became obvious even then that we would need to restrict purchasing power or increase production, if this bud of inflation were to be nipped.

Something over a year later, on December 18, 1940, I said, in recommending a major expansion in the steel program, "My interest in forestalling potential inflationary developments that would reflect unfavorably on the economy of the country, as well as our whole fiscal program, and in guarding against possible

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shortages of defense materials, leads me to express my serious concern over the growing congestion in the steel industry. It seems to me that an immediate major expansion program for the steel industry is clearly called for."

On March 19, 1941, I set up the Defense Savings Staff and on May 1 introduced the series E, F and G Savings Bonds in an effort to absorb individual savings and to forestall the potentially inflationary effects of the expenditures of these funds for consumers' goods.

On September 9, 1941, I told an audience in Boston that -- and I quote -- "If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter, and clothing which now cost a dollar will once more cost almost twice as much before the process has ended." At that time I suggested specific anti-inflationary measures including:

- (1) extension of Social Security;
- (2) control over bank credit and selected capital expenditures; and
- (3) reduction of non-essential governmental expenditures.

A few weeks later I appeared before the Banking and Currency Committee on the Price Control Bill and called attention to the

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terrible urgency of the inflation problem. I then pointed out the alarming similarity of the present price pattern to that of the first World War. I said -- and I quote -- "It is true, of course, that price control alone will not conquer inflation. This Bill alone cannot stop price rises. Every government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

"If we are to be sure of victory in the fight against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of Defense Savings Bonds and Stamps."

On December 27, 1941, we inaugurated the Payroll Savings plan for the regular and systematic sale of United States Savings Bonds to wage earners. Within a year, nearly twenty-five million workers were regularly buying Bonds through payroll deduction. They were deducting nearly eight and one-half percent of their PAY, or a total of over 350 million dollars.

At the present time million workers are deducting an average of percent of their pay, or a total of over million dollars a month, and the figure is rising constantly.

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On March 3, 1942, I appeared before this committee and proposed an increase in revenue of 7.6 billion dollars. I stated that the chief duty of the new revenue act was to help check inflation, and -- I quote -- "Nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice."

I have given you this background to remind you that this inflationary tendency is something that has been with us over a period of years, something against which we must constantly stand guard.

Today, two-thirds of all the income of the nation is going into the pay envelopes of people earning less than three thousand dollars a year; and for this reason the people earning something over a subsistence wage, but less than three thousand dollars a year, present a great potential danger from the inflationary standpoint. In the aggregate, this huge group of people -- a group estimated to number around million -- possess a great deal of excess money, and it is the weight of this excess money that can cause undue price rises, and can completely upset our entire economic system.

brief to 10.5 too clearly tied to inflation.

Having this in mind, and also the need for additional funds to finance this most expensive war, the Treasury set a goal early this year of twelve billion dollars as the amount of money which should be raised by new taxation.

Since this goal was set as an ~~ideal~~ worth approaching, the Treasury has done considerable investigating. We have gone outside the Treasury offices, outside of Washington. We knew that twelve billion dollars was a great deal of money, and as we progressed in our investigations, we became more and more cognizant of the problems we would have in levying so huge a tax on anything like an equitable basis.

In order to check statistical information against the actual situation in which the American taxpayer finds himself under war conditions, we made actual observations in the field. We talked to families; we talked to actual people -- people who pay rent, feed their families, and meet the extra bills which wartime living saddles upon them. We checked closely the response of working people and farmers and other groups in the Bond Drives. We made a small survey of incomes and expenditures in one war wealthy industrial city; a survey of people at various income levels.

In fairness to the average American citizen, we must say that for everyone who is over-earning and over-spending; for everyone who is buying "silk shirts" as in the last war, there are hundreds upon hundreds who are not, regardless of what increase they might have had in their incomes.

We found too that a great economic transition has come over this nation since the war began. We came out of a depression -- out of a series of depressions -- into this period of prosperity. This was not the case in the last war.

Before Pearl Harbor, we were a nation of people in debt. We were in debt for money we borrowed to get along on during the lean years. In debt for vacuum sweepers and automobiles; in debt to the doctor and the dentist; in debt even for the clothes on our backs in many cases. Literally millions of people were living two and three families in a house. A large percentage of young married couples had never been able to move out of the homes of their parents. We were a Nation of people whose normal lives were being depressed from every angle by the burden of debts.

Some of it was foolish debt, some of it was debt brought about in an effort to maintain a typical American standard of living, and much of it was just out and out unavoidable debt. But whatever it was, it was there. Even before we entered the war, when it became obvious that civilian goods would be curtailed, that automobiles and vacuum sweepers were to go completely out of production, we wisely curtailed and stopped installment-plan buying. Then it was that the American people -- and chiefly the American working people -- began to get out of debt. They

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began to be a Nation of people dealing on a cash basis. They began to pick up these back debts that had been hanging over them, in some cases for many years. Everything indicates that much of the new-found gains of the working people have gone to pay those debts.

But this does not in any sense lessen the danger of inflation, for even the payment of debts could not absorb enough of our dangerous dollars -- and every dollar that is left can be spent to absorb some part of a constantly shrinking supply of goods and services.

I am talking a great deal here today about the average American, the man who is making about three thousand dollars a year -- because he is the one who will have to pay most of any increase in taxes.

In the high income brackets, taxes are already levied at such a rate that they cannot be materially increased and still be collectible. Moreover, the vast majority of people are in these lower income groups, and taxation, like everything else in America is a product of, and subject to, the wishes of the majority. Therefore they are the ones who must be satisfied, because they are the ones who must pay the bill. 2
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I might add that they are the ones whose spirits cannot be broken, and whose incentive must be maintained, if we are to continue to get the tremendous war production necessary to

victory. Therefore, I will say without hesitation that the means employed in the new tax bill should be agreeable to them -- as agreeable as it is possible for any plan that sets out to take their money.

One of the things we must do -- not to satisfy the low income person but to be just to him -- is to make allowance for hardship cases. Even while we are setting out to get more money from most people, we need actually to give tax relief to some people.

Take, as an example, the average married man with two dependents making \$1500 a year -- and there are hundreds of thousands like him throughout the country. To this man, making less than \$30 a week, a tax of \$50 a year is a burden -- a burden many times heavier to him than ~~any~~ much larger would prove to be to a person making a few hundred dollars more a year. The seriousness of this problem deepens as we find the man making a thousand dollars or the widow supporting her children on \$800 -- and there are many like them. In the face of unavoidable price rises, in the face of increased living expenses all along the line, it is my feeling that these people need relief far more desperately than the Nation needs the pittance we could get from them in taxes.

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The program which I will present to you today takes that into consideration.

As a result of our investigations among average Americans, there is one further general recommendation that I want to make -- that every possible step be taken at this session to reduce the complications in our tax laws which make it necessary for even the smallest taxpayer to fill out highly complex and difficult tax forms.

We spent a great deal of time attempting to simplify the September 15 forms. I think we made it as simple as it was possible to make it under the terms of the very complicated law passed in the last session. Part of our simplification was accomplished, very frankly, by postponing many of the difficult calculations until the March 15 filing. We are now working on the simplification of the March 15 form, but I want to say frankly that it is my feeling that the public resentment against any tax form that can meet the requirements of this present tax law will cause a great deal of resentment among the American people.

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That is part of our proposal. The Victory Tax serves especially to complicate return forms. The Tax in itself is complicated and it is calculated differently and on a basis of different exemptions from the income tax. Consequently, there is no present way of simplifying it on a tax form to such an extent that the man in the street can and will take it in his stride.

To combine this tax with the income tax it will be necessary to raise the \$624 exemption limit now on the Victory Tax, but it will not have to be raised out of reason. And any loss of revenue which the Government may suffer by this means -- and there is not a great deal -- is far less important than the good-will of the American taxpayer. That's why I am urging that it be done.

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I am recommending a program to increase federal collections by approximately 10.5 billion dollars for a full year of operation under conditions anticipated for the near future.

I recommend that these taxes be raised through an increase in Estate and Gift Taxes, Corporation Taxes, Selected Excise Taxes, and Individual Income Taxes.

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Estate Taxes

Estate Taxes have been a part of our federal tax structure since 1916, but the total contribution has been unduly small. In this period ahead when great additional revenue is necessary, estate tax ^{payers} ~~balances~~ should contribute as heavily as possible to the cost of the war along with other groups of taxpayers. I am suggesting that the exemption for Estate Taxes be reduced from \$60,000 to \$40,000; that Estate and gift tax rates be increased throughout the scale. By so doing, we can raise an additional 400 million dollars on a full year's basis.

Corporation Taxes

It is recommended that corporation taxes be increased. Despite heavy increases in taxes, the net income of corporations remaining after taxes have steadily risen since 1939 at the rate of one billion dollars a year. After paying dividends, corporations with net incomes will have added to their capital out of earnings, as estimated 16 billion dollars during the years of 1941, 42 and 43. We therefore recommend that corporation taxes in general be raised, but that small corporations should be given more favorable treatment. Our schedule for increasing corporation taxes has been worked out along this line and will raise an additional 1.1 billion dollars.

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It is the belief of the Treasury Department that an increase in excise tax rates, and the imposing of any excises, is an ideal way to raise additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected that are commodities and savings which need to be conserved for war purposes and additional taxes can be placed upon optional items of expenditure such as liquor and tobacco. The tax rates that we are suggesting have been fitted to the war time conditions of supply and demand for each item separately. When these conditions change, I shall recommend revision of the tax rates. Under the schedule which we will present to you in detail, we can raise an additional 215 billion dollars through increases in present excise tax rates, and through new excises.

The tax increases of which I have spoken -- the Estate and Gift taxes of four hundred million dollars, the corporation taxes of 1.1 billion dollars and the excises of 2.5 billions add up to a total of 4 billion dollars. This, of course, is nowhere near enough. Collections under the existing tax laws during the fiscal year of 1944 are expected to amount to 39 billion dollars. This threatens prospective deficit of 70 billion dollars, which must be met by borrowing to the extent that additional tax revenue is not secured.

In order to reduce this borrowing load, I am recommending increases in individual income taxes to yield an additional 6.5 billions. With equitability in the income tax program it is obvious that our population can pay these additional taxes, as the income payments to individuals after taxes have in the past few years been increased by several times the increase in income taxes which have been thus far imposed.

Adding this 6.5 billion to the 4 billion derived from other taxes, would total 10.5 billions for a full year of operation. Frankly, this is still not enough but it is as much as we can justifiably recommend, realizing the limitations of taxation processes. It is as much as we can justifiably ask without causing undue hardship on those without an increased ability to pay. To take care of those who have a vastly increased ability to pay -- and of these, of course, there are a great many -- we must maintain at full speed our war loan campaigns, which we know are cutting deeply into the increased earnings of those American people who have them.

In planning a schedule to raise this 6.5 billion dollars in additional income taxes, we have merged the Victory Tax into the income tax.

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The post-war credit which is now part of the Victory Tax, should be maintained in principle. However, since current offsets allowed against the post-war credits in the Victory Tax practically eliminates its post-war character, I propose the introduction of genuine post-war credits to protect the income of the lower income groups.

I recommend that this post-war credit be paid in the form of Survivors insurance. This would supplement the insurance provisions of the Social Security Act. If, however, the taxpayer didn't wish to take this refund in insurance, he could receive it in cash at a 25% discount below the value of the post-war credit for the purchase of insurance.

I further suggest that this post-war credit be made immediately available for the protection of persons with fixed incomes, especially those in the lower brackets who might be subject to undue hardships because of tax increases.

I should like to take a moment now to tell you exactly how this income tax schedule will work in actual practice. *Victory*

Take, for example, a married person with two dependents; under the present law, the exemption would start at \$1900; under the proposal, exemptions would start at \$1700.

A person earning a thousand dollars a year will pay a gross tax under the present law of \$25, of which \$11 is his refundable

Victory Tax credit. Under the new proposal, he will not be required to pay tax.

If such a person is earning \$3,000 a year, he is now paying a gross tax of \$377, of which \$60 is his refundable tax credit. Under the new proposal, he would pay \$384 gross tax, of which \$78 would be refunded. He is thus paying \$57 more in gross taxes, or \$39 more in net taxes. A married person with two dependents earning \$8,000 a year is now paying at the rate of \$1,735 of which \$182 is his Victory tax refund credit. Under the present proposal he would pay \$2,523 of which \$292 is refundable. He would thus pay \$788 more in gross tax or \$678 in net tax.

At \$25,000 per year, a married person with two dependents is now paying \$10,171 of which \$597 is refundable.

Under the new proposal he would pay \$13,750, of which \$500 -- the maximum allowable under the proposed program -- would be refundable. He would thus be paying \$3,579 more, or a net tax increase of \$3,676.

It is my belief, that the proposal I have just made, is as equitable as any tax so huge could possibly be. It is inevitable that some injustices will be done, but these will be greatly modified certainly by the relief provisions which are included.

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By combining the Victory Tax with Income Tax, we can greatly simplify paper work on the part of the taxpayer -- and I might add that this could be further simplified by abolishing earned income credit, which I strongly recommend that the Congress consider.

There is one further recommendation I should like to make to this Committee. It is not a part of the tax proposal but it bears a distinct kinship to it.

I should like to recommend, as enthusiastically as I know how, that you amplify and extend the present Social Security taxes.

A substantial increase in these taxes would be of great service in diminishing the threat of inflation.

I have talked to many people who would be concerned with an increase in Social Security taxes. I have been met with interest and enthusiasm wherever Social Security has been suggested as a means of raising money to fight the war, and to lay the groundwork for the coming peace. I have been assured that the people who would have to pay this additional tax can see the wisdom of making the necessary additional sacrifices.

In my estimation, this is the best possible solution to

to the problem with which we are faced; the problem of getting still more money from the people who have new money -- and getting it without arbitrarily taking it away simply because they now happen to have it.

We have made arrangements to re-establish our fighting men economically when they return to build new lives on the sound foundations on the Victory they will have won; and now we must also keep in mind on that same sound foundation of Victory, working men, and farmers, and all other people on the home front, many of whom are not now covered by Social Security, must also build new and better lives.

Therefore, I suggest as the Chief Fiscal Officer of this Government, that the Congress seriously consider raising more money, over and above the present tax proposal, by widening Social Security to cover practically all persons in the Nation, to increase employment insurance benefits, and to provide benefit for temporary disability and hospitalization.

To do this will cost the American people, chiefly those earning up to \$3,500, approximately 3.7 billions. The necessary additional pay roll tax of 1.6 billion dollars will make a total of 5.36 billion dollars for Social Security purposes -- and for the immediate purpose of helping finance the war.

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There is no pretense on the part of these low-income people that they could comfortably meet this bill. It is known by them, and admitted by us to be a sacrifice; but it is felt by the leaders and spokesmen for these people, and by those of the people themselves with whom I have talked, that because we are expanding Social Security's advantages and are permitting these people to invest in their futures, this sacrifice will be made willingly.

The people will find a way to meet the additional burden without resentment.