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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 absorb what excess or inflationary funds may be endangering our economy, and that will not break the back of the average American taxpayer.

Probably never before have there been so many vital factors to consider in any tax program. Because we are dealing in astronomical figures, and because our present economic situation has created such a wide variation in ability to pay taxes, never before has there been such a possibility of unfortunate injustice being done by an ill advised tax program. 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.

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.

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Since the 1943 tax bill was introduced, at least 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 inadequate incomes; and

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.

One of our chief considerations in developing a tax program has been the drawing off of what has been so often called "excess spending money." It has been estimated that income payments to individuals will amount to about 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 taxes will account for about 21 billion at present rate, leaving excess spending money of about 42 billion dollars, and this excess spending money 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.

It has been pointed out that 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 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 will, if not controlled 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 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 fully cognizant of the problems we would have in levying so huge a tax on anything like an equitable basis. We fully realized that designing this tax, in the last analysis, would require a process different from any we have ever tried before. We knew we had to make actual observations in the field, since there is a great difference between the statistical

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working man, and the working man who pays rent, feeds his family healthful food, and meets all extra bills which war time living saddles upon him.

To help us in this direction, we made numerous checks. We checked closely the response of working people 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. By and large, we have found little actual evidence of dangerous inflationary spending, although in certain isolated spots, we, like everyone else, have seen individual cases of such spending, which unfortunately, have attracted wide attention and have unduly prejudiced the public mind.

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. 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 much of the new-found gains of the working people have gone to pay those debts.

In fairness to labor, we must say that 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 hundreds upon hundreds who are not, regardless of any increase they might have in their incomes. For the most part, the American working man is 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

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advance on his tax bill, and perhaps other charges which are necessary in connection with the kind of work he does. However, they do not ask for comfort and luxury while the nation is at war.

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 taxprogram must be tailored and fitted. We cannot punish all of them through excessive taxation simply because a few of them have more money than they know how to spend intelligently. Taxation is not a medium for vengeance.

Our experience in our War Loan Drives has proved to me beyond doubt 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.

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I am dwelling here today on the ^{average} American working man -- 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.

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 by the American people, even though the meeting of the individual tax bills may mean discomfort.

Let me tell you first how we arrived at our recommendations.

We first planned simply to increase rates to such an extent that we could secure the whole amount through taxation. This, of course, would be an ideal way to finance the war because it raises money without increasing our National debt. But we soon found this to be a completely impractical idea. Because of the existing high rates in the high income brackets, we would have to double and some times even triple the rates in the lower income brackets, and this we could not do.

With the thought foremost in my mind that we had to raise additional money for the War, that we had to absorb any excess money which might threaten inflation, we then considered various ways of combining income tax increases with post-war refunds in the lower brackets. In this way it would seem that we might get the necessary money from the lower income groups, and that in getting it we might be giving them an advantage. But we soon found that the very groups who would enjoy at least a theoretical advantage would have no part of compulsory savings, or of anything that depended upon Government compulsion. Labor reacted violently to this suggestion as being un-American -- particularly in the face of what Labor -- organized and unorganized -- is doing in the War Loan drives.

Let me stop for a moment and tell you about that.

The working people on the home front are investing heavily in War Bonds. During the Third War Loan, individuals invested _____ 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 working people who are making the most money from war work are investing the most in

their futures -- and they are doing this willingly, and without compulsion from their Government. The shipbuilders are investing 12% of their pay, the auto workers __%, the munitions makers __%, and in isolated cases, we have seen as high as 30% of the total payroll of a huge plant going to Bonds during a given month.

Realizing that the only appreciable source for money to finance the War is the lower income groups, and knowing that they would not approve of the refund idea, we took back to representatives of these people the idea of combining a moderate increase in income tax with a substantial increase in Social Security tax.

On every front we were met with interest and enthusiasm for this suggestion. We were told that we could go as far as we chose along this line. We were told *Cared See the workers* that the people would somehow find *by making additional tax* the money to pay the bill to increase the effectiveness of Social Security.

We felt then, and we feel now, that this is the best possible solution to the problem with which we are faced; the problem of getting a great deal of 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 had gone to these people and asked them and they had voted for it. This is the democratic way, in my estimation, to levy so huge a burden as we must have in order to pay for victory.

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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 foundation on the victory they will have won; and now we must also keep in mind that on that sound foundation of victory, working men 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 their futures than our fighting men.

That is how we arrived at the Treasury's recommendations for the present tax bill. We believe it is economically sound because it will tap any money that can be considered dangerous, and it will give us the use of the money to finance the war -- and in the final analysis, we are giving the people an opportunity to invest in their own future security.

The Treasury therefore recommends that in 1944 the individual income tax be a combination tax and social security measure. We recommend that individual income tax rates, as such, be raised to yield an additional 3.8 billion dollars. The greatest percentage of this 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

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disability and hospitalization. To do this will cost the American people, chiefly those up to thirty-five hundred dollars, approximately 3.7 billions. An additional payroll tax of 1.6 billion dollars will yield a total of 5.36 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 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.

Now let's see what this would mean to individual taxpayers. Take, for example, a married person with two dependents.

Assuming that this man were making \$1,500 a year, he will pay \$46 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 \$62. Under the plan which the Treasury is recommending, this man will pay \$100 towards income taxes and Social Security.

Take the case of a man in the same circumstances earning three thousand dollars. This year he will pay \$297. Next year,

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under the present law, he would pay \$327. Under the present proposal, he would pay \$458.

Finally, take the case of the man, married and with two dependents, earning ten thousand dollars. This year he will pay \$2,238. Next year, under the present law, he would pay \$2,268. Under the present proposal, he would pay \$3,555.

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 billion dollars.

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

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

The Treasury has one other recommendation to make in connection with this tax program. We recommend that every effort be made -- and at this session -- to simplify our taxes and make it possible for the Bureau of Internal Revenue to greatly simplify tax returns.

We spent a great deal of time attempting to simplify the September 15th return forms. I think we made it as simple as it

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is possible to make under the terms of the very complicated law which was passed during the last session. Part of our simplification was accomplished, very frankly, by postponing much of the difficult calculations until the March 15 return is filed. Unless the law can be simplified before March 15, it is my feeling that the resentment against any tax form that can fulfill the requirements of this present tax law will cause great resentment among the American people.

I am sure that Congress agrees that there is great room for simplification in all our tax laws. I cannot here go into the details of simplification, but I should like to recommend specifically the repeal of the Victory tax. The Victory tax serves especially to complicate return form. It is in itself complicated, it is calculated differently, and on a basis of different exemptions, so there is no way of simplifying it to such an extent that the man in the street can and will take it in his stride.

In changing the law to accommodate this situation, the Government will lose a certain amount of revenue; but I am confident that the loss of this revenue is far less important than the good-will of the American taxpayer. That's why I am urging that it be done.

Mr. Gaston

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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 will shorten the war and will save 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

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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 pay higher taxes of any sort 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 be met. We have, over the past several months, asked the help of every executive department 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 to which it might interfere with war production;

Third, the degree of hardship the plan places upon people with fixed incomes and with fixed obligations; and upon people with inadequate incomes; 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 153 billion dollars in the fiscal year of 1944. The amount of goods and services available can absorb only about 89 billion of this 153 billion, leaving 64 billion. Personal taxes will reduce this figure by 21 billion at the present rate, leaving a total of about 43 billion dollars. Of this 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 three

drives which we have had, and the regular Bond sales which go on month after month -- will have absorbed at least 17 billion dollars of this dangerous money from individuals.

There are of course other forms of non-inflationary savings, such as life insurance, which also must be subtracted from the 42 billion dollar inflationary gap.

But even taking these savings along with Bonds, a substantial amount of excess income will still be left; 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.

As you know, there is nothing essentially new about this threat of inflation. The seeds of it have been with us for a long time, and the Government has taken numerous measures during the recent past to cope with the situation. Partially because until recently, the threat of inflation seemed to many to be far away, and partially because of a lack of general understanding of the economic factors involved in inflation, not enough has been done. Much more remains to be done.

In the Treasury we have concentrated on two specific ways of combatting inflation -- the consistent recommending of higher taxes, and the sale of War Bonds and Tax Notes.

On March 9, 1941 I set up the Defense Savings Staff in the Treasury for the purpose of promoting the sale of Defense Savings Bonds to the general public. On May 1, I 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 April 24, 1941, I appeared before the Committee on Ways and Means to discuss the need of raising 3.5 billions additional revenue, one of the objectives of which was "to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production."

On August 1, 1941, we placed on sale Tax Anticipation Notes, designed to enable the taxpayer to save systematically for his tax bill, and at the same time to absorb purchasing power which might have been spent for consumers' goods.

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 25 billion 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 a month.

At the present time 27 million workers are deducting an average of approximately 10 percent of their pay or a total of 420 million dollars a month.

On March 3, 1942, I appeared before this Committee and asked for 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 pointed out that "nothing in the economic field can interfere with the war effort as much as an uncontrolled

rise in prices and an inflationary price rise is a source of great social injustice."

In the three years 1940, 1941, 1942 I have recommended to Congress tax increases totalling over 20 billion dollars, and I am glad to say that Congress has enacted most of these increases. It is safe to say that these tax rises and the money that we have realized through the sale of Bonds, have been substantially helpful, in connection with other Governmental actions and restrictions, in controlling inflation to the extent to which it has thus far been controlled.

I have given you this background to remind you that this inflationary tendency is something which has been with us over a period of years -- something over which we must constantly stand guard -- something for which a great deal of sacrifice now is worth while in order to protect ourselves in the future.

From a statistical standpoint, we know where the bulk of the new money lies, and where, therefore, lies also the greatest danger of inflationary pressure.

Today, seven-eighths of all the income of the nation is going into the pay envelopes of people earning less than five thousand dollars a year. And for this reason the people earning something over a subsistence wage, but less than five thousand dollars a year, present the greatest potential danger from the inflationary standpoint. In the aggregate, this huge group of people -- a group

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estimated to number around _____ million -- possess a great deal of inflationary money, the weight of which can cause undue price rises, and can completely upset our entire economic system if not absorbed in sufficient quantity.

Having this in mind, and also having in mind the need for additional funds to finance this most expensive war, the Treasury set a goal early this year of 12 billion dollars as the amount of additional revenue which should be raised by new taxation. It seemed reasonable that the bulk of this twelve billion dollars could come without too great a sacrifice from the medium and low income groups.

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, when translated into individual cases, 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 ^{an additional} a tax on anything like an equitable basis.

While it is perfectly obvious that the economic condition of the country indicates that there is still much room for additional taxation, income ~~especially the new income~~ is not distributed in such a way that it can equitably be drawn off in huge quantities straight across any given income level.

We found this out very definitely when we made actual observations in the field. When we talked to actual people --

people who pay rent, feed their families and meet the extra bills which wartime living saddles upon them. We found that some had tremendous ability to pay taxes -- and some earning the same amount of money, with the same dependents, were already nearing the breaking point. And in all the plans that we developed or examined, we did not find a single one that would separate out with equity and justice those who could pay a great deal of new taxes from those who could pay very little. We found no way, that is practicable and workable.

From our surveys, and from checking closely the response of working people and farmers and other groups in the Bond Drives, we further found that this inequality in ability to pay taxes is being compensated for in a large measure by the voluntary purchase of Bonds among people who have more than their usual amount of money to spend. We found, for example, that among war workers in industries where income has been substantially increased, the purchase of Bonds is high. In factories where production is especially high, and where wages and overtime are accordingly high, the sale of Bonds is similarly high. In the automobile industry, for example, a very large portion of the workers are buying Bonds on payroll deduction plans, and those who are enrolled are regularly investing _____ percentage of their wages. During

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the Third War Loan Drive the workers in representative automobile plants in Detroit invested upwards of an average of one hundred dollars per man in extra War Bonds. They did this of their own free will, without compulsion by the government.

This pattern holds true throughout the Defense industries. A large proportion of the ship builders are on the payroll deduction plan, and are investing 11.3% of their wages; and at the yard which I visited last Thursday, the employees themselves have bought with their own War Bond purchases, every tenth ship they have built.

In fairness to the average American citizen, therefore, we must say that not everyone who is ~~over-earning~~ ^{more than usual} is over-spending.

The great majority of American people are ready and anxious to do their part to cooperate in every way that will help win the war in the shortest possible time. There is a fundamental soundness about them which is not always fully appreciated. I have seen it at work in our War Loan drives.

I am sure that we can count on them as individuals to see us successfully through in our fight against inflation if we will only tell them what to do -- clearly and decisively. Tell them how they can help. We can not legislate cooperation, and beyond a certain point it is wrong to attempt it.

That certain point in the levying of taxes must necessarily fall far short of what the nation needs in taxes, and of what some Americans can afford to pay. The amount of money we can take by legislation cannot possibly absorb enough of our dangerous dollars, because every dollar that can be spent, no matter by whom, no matter upon what, can be spent to absorb some part of ~~constant~~ ^{a limited} ~~supply~~ supply of goods and services.

I think that we should not burden the average American taxpayer at this time with a schedule that would produce 12 billion dollars. On the other hand, I believe that we can ask a total of 10.5 billion dollars, of which 6.5 billion is individual income tax.

I am talking a great deal here today about the average American, 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 further increases will not yield substantial sums nor materially aid in the battle against inflation.

One of the things I want to recommend today -- one of the things we must do -- not to satisfy the low income person but to be just to him -- is 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 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 \$300 and there are many like them.

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 present very complicated law. We are now working on the simplification of the March 15 form, but I want to say that it is my feeling that any tax form that can meet the requirements of this present 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 cannot 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 especially complicates 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 and added burden 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 those taxes be raised through an increase in Estate and Gift Taxes, Corporation Taxes, Selected Excise Taxes, and Individual Income Taxes.

Estate and Gift 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 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 has continuously risen since 1939. After paying dividends, corporations with net incomes will have added to their capital out of earnings, as estimated 15 billion dollars during the years of 1941, 1942 and 1943. 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

It is the belief of the Treasury Department that an increase in excise tax rates, has much to commend it as a means of raising additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected 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 equity 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.

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. The refundable part of the present Victory tax amounts to 2 billion dollars.

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. This would make part of the proposed income tax refundable. The amount refundable would be 2.5 billions, which compares favorably with the replaced Victory Tax.

I recommend that this post-war credit be paid in the form of a fully paid life insurance policy. 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 the cash value of credit be made immediately available ^{special} ^{the} in ^{hardship} ^{cases} for the protection of persons with fixed incomes, especially those in the lower brackets, ~~who might be subject~~

~~to the increase 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 income tax exemption would amount to \$1900, and the Victory Tax exemption would usually amount to \$624; under the proposal, there would be one exemption amounting to \$1700.

Such 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 Victory Tax credit. Under the new proposal, he will not be required to pay any tax at all.

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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 would thus pay \$57 more in gross taxes, or \$65 more in net taxes.

A married person with two dependents earning \$3,000 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 would be refundable. He would thus pay \$788 more in gross tax or \$611 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 in gross tax, or \$3,026 more in net tax.

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 the earned income credit. I strongly recommend that the Congress consider this.

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

~~the~~ *system*

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.

The President has announced plans to re-establish 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 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.

On the basis of ~~some of the~~ bills already introduced in Congress, to do this would increase the Social Security taxes paid by employees by approximately 3.7 billions. The necessary additional employees payroll tax of 1.6 billion dollars would make an annual increase of 5.3 billion dollars for Social Security purposes.

A substantial increase in the Social Security payroll taxes would be of great service in diminishing the threat of inflation.

There is no pretense on the part of low-income people that they could comfortably pay these additional payroll taxes.

It is known by them, and admitted to be a sacrifice; but it is felt by ~~the~~ leaders and spokesmen for ^{many of such} ~~these~~ people, and by those of the people themselves with whom I have talked, that because we

would be expanding Social Security's advantages and permitting ~~these~~ ^{workers} people to invest in their futures, this sacrifice will be made willingly.

If payroll taxes are increased, the income taxes should at that time be made substantially lower than I have recommended to avoid an excessive tax burden on the lower income groups.

Mr. Smith

10-1-43
3:30 # 8 256
MASTER COPY

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 will shorten the war and will save 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

can't spend for the war

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 pay higher taxes of any sort 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 be met. We have, over the past several months, asked the help of every executive department 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

- 3 -

its effect on the inflation problem.

Second, the degree to which it might interfere with war production;

Third, the degree of hardship the plan places upon people with fixed incomes and with fixed obligations; and upon people with inadequate incomes; 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~~158~~ billion dollars in the fiscal year of 1944. The amount of goods and services available can absorb only about 89 billion of this ¹⁵²~~158~~ billion, leaving ⁶³~~64~~ billion. Personal taxes will reduce this figure by 21 billion at the present rate, leaving a total of ^{about 42}~~above 42~~ 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, ^{however} foretell at this point. We do know that during ^{the past 12 months} the ~~calendar year 1943~~ -- that is to say, through the ~~past 12 months~~ ^{three}

drives which we have had, and the regular Bond sales which go on month after month -- ^{we} will have absorbed ^{nearly} ~~at least~~ 17 billion dollars of this dangerous money from individuals.

There are of course other forms of non-inflationary savings, such as life insurance, which also must be subtracted from the ~~42 billion dollar inflationary gap.~~ ^{potentially dangerous dollars}

But even taking these savings along with Bonds, a substantial amount of excess income will still be left; 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.

As you know, there is nothing essentially new about this threat of inflation. The seeds of it have been with us for a long time, and the Government has taken numerous measures during the recent past to cope with the situation. Partially because until recently, the threat of inflation seemed to many to be far away, and partially because of a lack of general understanding ~~of the~~ of the economic factors involved in inflation, not enough has been done. Much more remains to be done.

In the Treasury we have concentrated on two specific ways of combatting inflation -- the consistent recommending of higher taxes, and the sale of War Bonds and Tax Notes.

On March ¹⁹ 1941 I set up the Defense Savings Staff in the Treasury for the purpose of promoting the sale of Defense Savings Bonds to the general public. On May 1, I 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 April 24, 1941, I appeared before the Committee on Ways and Means to discuss the need of raising 3.5 billions additional revenue, one of the objectives of which was "to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production."

On August 1, 1941, we placed on sale Tax Anticipation Notes, designed to enable the taxpayer to save systematically for his tax bill, and at the same time to absorb purchasing power which might have been spent for consumers' goods.

On December 27, 1941, we ~~inaugurated~~ ^{implemented} the Payroll Savings Plan for the regular and systematic sale of United States Savings Bonds to wage earners. ~~Within a year, nearly 85 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 a month.~~

At the present time 27 million workers are ~~deducting~~ ^{persons deducting} ~~of approximately 10 percent of their pay~~ or a total of 420 million dollars a month.

On March 3, 1942, I appeared before this Committee and asked for 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 pointed out that "nothing in the economic field can interfere with the war effort as much as an uncontrolled

rise in prices and an inflationary price rise is a source of great social injustice."

In the three years 1940, 1941, 1942 I have recommended to Congress tax increases totalling ~~over 20 billion~~ ^{approximately 18 billion} dollars, and I am glad to say that Congress ~~has~~ enacted most of these increases. It is safe to say that these tax rises and the money that we have realized through the sale of Bonds, have been substantially helpful, in connection with other Governmental actions and restrictions, in controlling inflation to the extent to which it has thus far been controlled.

I have given you this background to remind you that this inflationary tendency is something which has been with us over a period of years -- something over which we must constantly stand guard -- something for which a great deal of sacrifice now is worth while in order to protect ourselves in the future.

From a statistical standpoint, we know where the bulk of the new money lies, and where, therefore, lies also the greatest danger of inflationary pressure.

Today, ~~some 40%~~ ^{four-fifths} of all the income of the nation is going ~~into the pay envelopes of~~ ^{to people} people earning less than five thousand dollars a year. And for this reason the people earning something over a subsistence wage, but less than five thousand dollars a year, present the greatest potential danger from the inflationary standpoint. In the aggregate, this huge group of people -- a group

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estimated to number around 63 million -- possess a great deal of inflationary money, the weight of which can cause undue price rises, and can completely upset our entire economic system if not absorbed in sufficient quantity.

Having this in mind, and also having in mind the need for additional funds to finance this most expensive war, the Treasury set a goal ~~early~~ ^{enter} this year of 12 billion dollars as the amount of additional revenue which should be raised by new taxation. It seemed reasonable that the bulk of this twelve billion dollars could come without too great a sacrifice from the medium and low income groups.

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, when translated into individual cases, 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 ^{h addition} tax on anything like an equitable basis.

While it is perfectly obvious that the economic condition of the country indicates that there is still much room for additional taxation, income ~~especially the new income~~ is not distributed in such a way that it can equitably be drawn off in huge quantities straight across any given income level.

We found this out very definitely when we made actual observations in the field. When we talked to actual people --

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people who pay rent, feed their families and meet the extra bills which wartime living saddles upon them. We found that some had tremendous ability to pay taxes -- and some earning the same amount of money, with the same dependents, were already nearing the breaking point. And in all the plans that we developed or examined, we did not find a single one that would separate out with equity and justice those who could pay a great deal of new taxes from those who could pay very little. We found no way, that is practicable and workable.

From our surveys, and from checking closely the response of working people and farmers and other groups in the Bond Drives, we further found that this inequality in ability to pay taxes is being compensated for in a large measure by the voluntary purchase of Bonds among people who have more than their usual amount of money to spend. We found, for example, that among war workers in industries where income has been substantially increased, the purchase of Bonds is high. In factories where production is especially high, and where wages and overtime are accordingly high, the sale of Bonds is similarly high. In the automobile industry, for example, ^{87.6%} ~~a very large portion~~ ^{all} of the workers are ^{regularly} buying Bonds on payroll deduction plans, and those who are enrolled are regularly investing 10.3 percentage of their wages. During

the Third War Loan Drive the workers in representative automobile plants in Detroit invested upwards of an average of one hundred dollars per man in extra War Bonds. They did this of their own free will, without compulsion by the government.

This pattern holds true throughout the Defense industries.

Save by fine percent
~~A large proportion~~ of the ship builders are on the payroll deduction plan, and are investing 11.3% of their wages, and at the yard which I visited last Thursday, the employees themselves have *of their pay; and - to take a non-defense industry, 85% of* bought with their own War Bond purchases, every tenth ship they *of the employees of the telephone and telegraph industry* have built. *are subscribing 9% of their pay.*

In fairness to the average American citizen, therefore, we must say that not everyone who is ~~over-earning~~, is over-spending. *earn more than using*

The great majority of American people are ready and anxious to do their part to cooperate in every way that will help win the war in the shortest possible time. There is a fundamental soundness about them which is not always fully appreciated. I have seen it at work in our War Loan drives.

I am sure that we can count on them as individuals to see us successfully through in our fight against inflation if we will only tell them what to do -- clearly and decisively. Tell them how they can help. We can not legislate cooperation, and beyond a certain point *I think we must tread lightly* ~~it is wrong to attempt it.~~

That certain point in the levying of taxes must necessarily fall far short of what the nation needs in taxes, and of what some Americans can afford to pay. The amount of money we can take by legislation cannot possibly absorb enough of our dangerous dollars, because every dollar that can be spent, no matter by whom, no matter upon what, can be spent to absorb some part of a ^{limited} constantly ~~shrinking~~ supply of goods and services.

I think that we should not burden the average American taxpayer at this time with a schedule that would produce 12 billion dollars. On the other hand, I believe that we can ask a total of 10.5 billion dollars, of which 6.5 billion is individual income tax.

I am talking a great deal here today about the average American, 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 further increases will not yield substantial sums nor materially aid in the battle against inflation.

One of the things I want to recommend today -- one of the things we must do -- not to satisfy the low income person but to be just to him -- is 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 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 ^{to} 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.

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 ^{an important} ~~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 present very complicated law. We are now working on the simplification of the March 15 form but I want to say that it is my feeling that any tax form that can meet the requirements of this present 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 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 especially complicates 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.

Another source of great concern to the American people, and one which has to some extent a bearing on our wartime tax program, is the future of some of our war industries. I am greatly disturbed about the problems which many of the corporations will face, with the cessation of the War.

It is, of course, vital to our National welfare, and to the economic health of the entire world, that the economic future of this country continue to be founded upon the principles of enterprise which up to this point have proved so successful. The present system must be maintained and improved, and whatever measures on the fiscal front are necessary to achieve this result should be taken. Any other course would be short-sighted and unworthy of the American people.

I have personally investigated the financial conditions and situations of several corporations that are now completely converted to the production of war equipment, and are doing a commendable and wholly patriotic job. I have seen the deep feeling of concern for future security in these plants filtering

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 and added burden 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 those taxes be raised through an increase in Estate and Gift Taxes, Corporation Taxes, Selected Excise Taxes, and Individual Income Taxes.

Estate and Gift 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 taxpayers 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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down from top management through the rank and file of employees. I know that this concern and worry has a definite effect upon war production.

This is not something for which either top management or employees should be criticized.

They realize that they are now doing a tremendous business, and are now furnishing employment to tremendous numbers of people; but in some cases they may be unable under present circumstances to stay in business -- even for a short time -- if their war contracts should be withdrawn suddenly. When the war is over, they will have no equipment, and in some cases not even post-war production plans with which to continue business. To a great extent the entire future of our post-war national welfare depends upon our being fully ready to meet this problem when it comes.

This is not wholly a problem for the Treasury, and is only in a limited measure a tax problem. It has many aspects, and several departments of the Government as well as a number of private organizations are now engaged in studying it. The Treasury, however, has recently made an examination of certain tax aspects of this problem, and I am prepared at this time to make two or three suggestions which might be acted upon now and thus help the situation. I want to say, however, that far more comprehensive measures along many lines will have to be taken than those comparatively simple tax suggestions if we are to achieve full production and full employment immediately after the war.

\$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, net corporation income after taxes has risen greatly since 1939. After paying dividends, corporations will have added to their capital out of earnings, an estimated 11 billion dollars during the years of 1941, 1942 and 1943. 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.

In respect to those corporations now engaged wholly in war production and faced with the problem of reconversion after the war, I should like to point out that the law already provides important relief measures, particularly the carry-back of losses and unused Excess Profits credits. The value of these provisions in the post-war period would be greatly increased by modifying the refund and credit procedures to make the cash benefits more quickly available. Moreover, I believe that the carry-back

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- 13 a -

provisions now in the statutes should be somewhat expanded. Obviously, future provisions may have to be made, and these will have to be keyed in with the over-all administration plan for handling this problem. At a later date, it is entirely possible that as a result of the development of such a plan, I will have further recommendations to make concerning relief measures as they pertain to this problem.

Excise Taxes

It is the belief of the Treasury Department that an increase in excise tax rates, has much to commend it as a means of raising additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected 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.

In order to reduce this borrowing load, I am recommending increases in individual income taxes to yield an additional 6.5 billions. With equity 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.

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. The refundable part of the present Victory tax amounts to 2 billion dollars.

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. This would make part of the proposed income tax refundable. The amount refundable would be 2.5 billions, which compares favorably with the replaced Victory Tax.

I recommend that this post-war credit be paid in the form of a fully paid life insurance policy. This would supplement the

- 16 -

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 the cash value of ^{the} credit be made immediately available ^{in special hardship cases} 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 income tax exemption would amount to \$1900, and the Victory Tax exemption would usually amount to \$824; under the proposal, there would be one exemption amounting to \$1709.

Such 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 Victory Tax credit. Under the new proposal, he will not be required to pay any tax at all.

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 would thus pay \$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 would be 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 in gross tax, or \$3,926 more in net tax.

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

It is my belief that the proposal that I have just made is as equitable as ^{program} any additional tax ~~of this large~~ 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. And by enacting this proposal, I believe that Congress would serve the Nation in many ways.

First and foremost, of course, we would be able to finance a larger part of ~~the~~ ^{our budget} war costs through taxation; and by so doing we would be relieving ourselves of a post-war burden which might materially retard our period of reconstruction.

By combining the Victory Tax with ^{the} income tax under the formula I have indicated, we could, without losing revenue ^{and} without sacrificing the present post-war refund of the Victory Tax, greatly simplify paper work on the part of the taxpayer. This is a step in the direction of public convenience which should be taken, and ^{this} it should be immediately amplified by abolishing the earned income credit, and by taking whatever other steps are indicated to simplify those ^{part} of our tax laws which have grown exceedingly complex over the years.

In asking for an increase in excises, I believe we are indirectly as well as directly helping to fight inflation.

By asking for additional taxes from corporations, I sincerely believe we are not overburdening them, particularly in view of the relief provision which ~~is~~ ^{which would} and will be available to them. And by enacting the extension of relief provisions, as I have indicated, it will be taking a step towards protecting the

the usefulness of our war plants when we have finally won our Victory and we can begin again ~~to~~ to build a new Nation in peace.

In asking a gross income tax of 6.5 billion dollars or a net income tax of 4 billion dollars from the American people, *with* suitable provision^s for hardship cases, I believe we are being consistent with the ability of the ~~Nation~~ *people* to pay. And we are certainly materially strengthening our fiscal position.

I therefore ask your most thorough consideration of the suggestions I have made. Mr. Paul and the Treasury staff are here to answer your questions and to present to you the complete schedule and plans.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

October 2, 1943.

MR. SMITH:

Paul McNutt just called and said he had read over the statement and there was only one place he questioned; that is on page 2 where it begins "A substantial increase in the payroll taxes, etc." He does not question the truthfulness of the statement, but he questions the advisability of using that sentence in this tax statement. He would like to see that out.

I told him I would give it to you and possibly the Secretary might want to talk with him tomorrow when he comes back. He said he would be in town all day in case the Secretary did want to get in touch with him.

swb



October 2, 1943

My Dear Mr. McNutt:

In accordance with your telephone conversation with Mr. D. W. Bell, I am attaching the Secretary's proposed statement on Social Security which he will make following his tax proposal on Monday.

Very truly yours,

Fred Smith
Assistant to the Secretary

Honorable Paul V. McNutt
Administrator
Federal Security Administration
Washington, D. C.

Attachment

Statement of Secretary Morgenthau before the
Ways and Means Committee of the
House of Representatives,
calling for increased revenues to meet the cost
of the War.

October 4, 1943.

28-84

Public Relations
Master Copy. I

MEMBERS OF CONGRESS:

STRICTLY CONFIDENTIAL

4-2-43
5:00 p.m.
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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 ¹⁰⁶~~100~~ billions in expenditures. And while it may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for all the money we can possibly get for the war. We cannot be too frugal about it. 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 will shorten the war and will save 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 ~~is not~~ also saves untold lives.

These things -- equipment, medical supplies, lend-lease, and all the rest -- have helped to build the war cost to its present huge proportions, but I am sure you

-2-

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 pay higher taxes of any sort 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 be met. We have, over the past several months, asked the help of every executive department 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:

- 3 -

First, the ability of the plan to raise money, and its effect on the inflation problem.

Second, the degree to which it might interfere with war production;

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drives which we have had, and the regular Bond sales which go on month after month -- we ~~will~~ have absorbed nearly 17 billion dollars of this ~~dangerous~~ ^{"Excess Spending"} money from individuals.

There are of course other forms of non-inflationary savings, such as life insurance, which also must be subtracted from the 42 billion potentially dangerous dollars.

But even taking these savings along with Bonds, a substantial amount of excess income will still be left; 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.

As you know, there is nothing essentially new about this threat of inflation. The seeds of it have been with us for a long time, and the Government has taken numerous measures during the recent past to cope with the situation. Partially because until recently, the threat of inflation seemed to many to be far away, and partially because of a lack of general understanding of the economic factors involved in inflation, not enough has been done. Much more remains to be done.

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I have given you this background to remind you that this inflationary tendency is something which has been with us over a period of years -- something over which we must constantly stand guard -- something for which a great deal of sacrifice now is worth while in order to protect ourselves in the future.

From a statistical standpoint, we know where the bulk of the new money lies, and where, therefore, lies also the greatest danger of inflationary pressure.

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estimated to number around 63 million -- possess^ed a great deal of inflationary money, the weight of which can cause undue price rises, and can completely upset our entire economic system if not absorbed in sufficient quantity.

Having this in mind, and also having in mind the need for additional funds to finance this most expensive war, the Treasury set a goal earlier this year of 12 billion dollars as the amount of additional revenue which should be raised by new taxation. It seemed reasonable that the bulk of this twelve billion dollars could come without too great a sacrifice from the medium and low income groups.

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, when translated into individual cases, 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 an additional tax on anything like an equitable basis.

While it is perfectly obvious that the economic condition of the country indicates that there is still much room for additional taxation, income is not distributed in such a way that it can equitably be drawn off in huge quantities straight across any given income level.

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We found this out very definitely when we made actual observations in the field. When we talked to actual people -- people who pay rent, feed their families and meet the extra bills which wartime living saddles upon them. We found that some had tremendous ability to pay taxes -- and some earning the same amount of money, with the same dependents, were already nearing the breaking point. And in all the plans that we developed or examined, we did not find a single one that would separate out with equity and justice those who could pay a great deal of new taxes from those who could pay very little. We found no way that is practicable and workable.

From our surveys, and from checking closely the response of working people and farmers and other groups in the Bond Drives, we further found that this inequality in ability to pay taxes is being compensated for in a large measure by the voluntary purchase of Bonds among people who have more than their usual amount of money to spend. We found, for example, that among war workers in industries where income has been substantially increased, the purchase of Bonds is high. In ^{most} factories where production is especially high, and where wages and overtime are accordingly high, the sale of Bonds is similarly high. In the automobile industry, for example, 87.6% ^{per cent} of all the workers are regularly buying Bonds on payroll deduction plans, and those who are enrolled

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are regularly investing 10.3 ^{per cent} ~~percentage~~ of their wages. During the Third War Loan ^d Drive the workers in representative automobile plants in Detroit invested upwards of an average of one hundred dollars per man in extra War Bonds. They did this of their own free will, without compulsion by the ^{of} Government.

This pattern holds true throughout the Defense industries. ⁷⁵ ~~Seventy-five~~ percent of all the shipbuilders are on the payroll deduction plan, and are investing 11.3% ^{per cent} of their wages.

Employees in the construction industry who are on the plan are deducting 10.4% ^{per cent} of their pay; and - to take a ^{different kind} non-defense industry - 85% ^{per cent} of the employees of the telephone and telegraph industry are subscribing ^{9%} ~~9%~~ of their pay.

In fairness to the average American citizen, therefore, we must say that not everyone who is earning more than usual, is over-spending.

The great majority of American people are ready and anxious to do their part to cooperate in every way that will help win the war in the shortest possible time. There is a fundamental soundness about them which is ~~not~~ always fully appreciated. I have seen it at work in our War Loan drives.

I am sure that we can count on them as individuals to see us successfully through ~~to~~ our fight against inflation if we will only tell them what to do -- clearly and decisively. Tell them

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how they can help. We cannot legislate cooperation, and beyond a certain point I think we must tread lightly.

That certain point in the levying of taxes must necessarily fall far short of what the Nation needs in taxes, and of what some Americans can afford to pay. The amount of money we can take by legislation cannot possibly absorb enough of our dangerous dollars, because every dollar that can be spent, no matter by whom, no matter upon what, can be spent to absorb some part of a limited supply of goods and services.

I think that we should not burden the average American taxpayer at this time with a schedule that would produce 12 billion dollars. On the other hand, I believe that we can ask a total of 10.5 billion dollars, of which 6.5 billion is individual income tax.

I am talking a great deal here today about the average American, 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 further increases will not yield substantial sums nor materially aid in the battle against inflation.

One of the things I want to recommend today -- one of the things we must do -- not to satisfy the low income person but to be just to him -- is make allowance for hardship cases. Even while we are setting out to get more money from most people, we need

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actually to give tax relief to some people.

Take, as an example, a 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 can be a burden -- a burden many times heavier to him than one much larger would prove 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.

The program which I will present to you today takes that into consideration.

As a result of our investigations among average Americans, there is an important 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 present very complicated law. We are now working on the simplification of the March 15 form, but I want to say that it is my feeling that any tax form that

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can meet the requirements of this present law is likely to cause a great deal of resentment among the American people.

I am sure 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.

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That is part of our proposal. The Victory Tax especially complicates 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.

Another source of great concern to the American people, and one which has to some extent a bearing on our wartime tax program, is the future of some of our war industries. I am greatly disturbed about the problems which many of the corporations will face, with the cessation of the War.

It is, of course, vital to our National welfare, and to the economic health of the entire world, that the economic future of this country continue to be founded upon the principles of enterprise which up to this point have proved so successful. The present system must be maintained and improved, and whatever measures on the fiscal front are necessary to achieve this result should be taken. Any other course would be short-sighted and unworthy of the American people.

I have personally investigated the financial conditions and situations of several corporations that are now completely converted to the production of war equipment, and are doing a commendable and wholly patriotic job. I have seen the deep feeling of concern for future security in these plants filtering

down from top management through the rank and file of employees. I know that this concern and worry has a definite effect upon war production.

This is not something for which either top management or employees should be criticized.

They realize that they are now doing a tremendous business, and are now furnishing employment to tremendous numbers of people; but in some cases they may be unable under present circumstances to stay in business -- even for a short time -- if their war contracts should be withdrawn suddenly. When the war is over, they will have no equipment, and in some cases not even post-war production plans with which to continue business. To a great extent the entire future of our post-war national welfare depends upon our being fully ready to meet this problem when it comes.

This is not wholly a problem for the Treasury, and is only in a limited measure a tax problem. It has many aspects, and several departments of the Government as well as a number of private organizations are now engaged in studying it. The Treasury, however, has recently made an examination of certain tax aspects of this problem, and I am prepared at this time to make two or three suggestions which might be acted upon now and thus help the situation. I want to say, however, that far more comprehensive measures along many lines will have to be taken than those comparatively simple tax suggestions if we are to achieve full production and full employment immediately after the war.

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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 and added burden 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 those taxes be raised through an increase in Estate and Gift Taxes, Corporation Taxes, Selected Excise Taxes, and Individual Income Taxes.

Estate and Gift 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 taxpayers 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, net corporation income after taxes has risen greatly since 1939. After paying dividends, corporations will have added to their capital out of earnings, an estimated 11 billion dollars during the years of 1941, 1942 and 1943. 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.

In respect to those corporations now engaged wholly in war production and faced with the problem of reconversion after the war, I should like to point out that the law already provides important relief measures, particularly the carry-back of losses and unused Excess Profits credits. The value of these provisions in the post-war period would be greatly increased by modifying the refund and credit procedures to make the cash benefits more quickly available. Moreover, I believe that the carry-back

provisions now in the statutes should be somewhat expanded. Obviously, future provisions may have to be made, and these will have to be keyed in with the over-all administration plan for handling this problem. At a later date, it is entirely possible that as a result of the development of such a plan, I will have further recommendations to make concerning relief measures as they pertain to this problem.

Excise Taxes

It is the belief of the Treasury Department that an increase in excise tax rates, has much to commend it as a means of raising additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected 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.

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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 ^aprospective deficit of ~~70~~⁶⁷ 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 equity 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.

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. The refundable part of the present Victory tax amounts to 2 billion dollars.

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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. This would make part of the proposed income tax refundable. The amount refundable would be 2.3 billions, which compares favorably with the replaced Victory Tax.

I recommend that this postwar credit be paid in the form of a fully paid life insurance policy. 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% ^{per cent} discount below the value of the post-war credit for the purchase of insurance.

I further suggest that the cash value of the credit be made immediately available in special hardship cases for the protection of persons with fixed incomes, especially those in the lower brackets.

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 income tax exemption would amount to \$1900, and the Victory Tax exemption would usually amount to \$624; under the proposal, there would be one exemption amounting to \$1700.

Such 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 Victory Tax credit. Under the new proposal, he will

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not be required to pay any tax at all.

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 would thus pay \$57 more in gross taxes, or \$65 more in net taxes.

A married person with two dependents earning \$6,000 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 would be 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 in gross tax, or \$3,326 more in net tax.

It is my belief that the proposal that I have just made is as equitable as any program this large for additional taxes 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. And by enacting this proposal, I believe that Congress would serve the Nation in many ways.

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First and foremost, of course, we would be able to finance a larger part of our huge war costs through taxation; and by so doing we would be relieving ourselves of a post-war burden which might materially retard our period of reconstruction.

By combining the Victory Tax with the income tax under the formula I have indicated, we could, without losing revenue or without sacrificing the present post-war refund of the Victory Tax, greatly simplify paper work on the part of the taxpayer. This is a step in the direction of public convenience which should be taken; and this should immediately be amplified by abolishing the earned income credit, and by taking whatever other steps are indicated to simplify those parts of our tax laws which have grown exceedingly complex over the years.

In asking for an increase in excises, I believe we are indirectly as well as directly helping to fight inflation.

By asking for additional taxes from corporations, I sincerely believe we are not overburdening them, particularly in view of the relief provision which would be available to them. And by enacting the extension of relief provisions, as I have indicated, it will be taking a step towards protecting the usefulness of our war plants when we have finally won our Victory and we can begin again to build a new Nation in peace.

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an income tax yielding a gross amount
In asking ~~a gross income tax of 6.5 billion dollars or~~
~~of 6.5 billion dollars or a net amount of 4 billion~~
~~a net income tax of 4 billion~~ dollars from the American people,

with suitable provisions for hardship cases, I believe we are being consistent with the ability of the people to pay. And we are certainly materially strengthening our fiscal position.

I therefore ask your most thorough consideration of the suggestions I have made. Mr. Paul and the Treasury staff are here to answer your questions and to present to you the complete schedule and plans.

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→ STATEMENT ON SOCIAL SECURITY ←

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 system.

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.

The President has announced plans to re-establish 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 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.

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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.

On the basis of bills already introduced in Congress, to do this would increase the Social Security taxes paid by employees by approximately 3.7 billions. The necessary additional employers' payroll tax of 1.6 billion dollars would make an annual increase of 5.3 billion dollars for Social Security purposes.

A substantial increase in the Social Security payroll taxes would be of immediate service in diminishing the threat of inflation.

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

- 3 -

If payroll taxes are increased, the income taxes should at that time be made substantially lower than I have recommended to avoid an excessive tax burden on the lower income groups.

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CHAST 2381
NATHAN LEWIS

Smith

STRICTLY CONFIDENTIAL

9-20-43
5:00 p.m.
#10 306

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 106 billions in expenditures. And while it may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for all the money we can possibly get for the war. We cannot be too frugal about it. 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 will shorten the war and will save 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 ~~also~~ also saves untold lives.

These things, -- equipment, medical supplies, lend-lease, and all the rest -- 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 pay higher taxes of any sort 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.

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There are of course other forms of non-inflationary savings, such as life insurance, which also must be subtracted from the 42 billion potentially dangerous dollars.

But even taking these savings along with Bonds, a substantial amount of excess income will still be left; 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.

As you know, there is nothing essentially new about this threat of inflation. The seeds of it have been with us for a long time, and the Government has taken numerous measures during the recent past to cope with the situation. Partially because until recently, the threat of inflation seemed to many to be far away, and partially because of a lack of general understanding of the economic factors involved in inflation, not enough has been done. Much more remains to be done.

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Today, four-fifths of all the income of the nation is going to people earning less than five thousand dollars a year. And for this reason the people earning something over a subsistence wage, but less than five thousand dollars a year, present the greatest potential danger from the inflationary standpoint. In the aggregate, this huge group of people -- a group

estimated to number around 63 million -- possess a great deal of inflationary money, the weight of which can cause undue price rises, and can completely upset our entire economic system if not absorbed in sufficient quantity.

Having this in mind, and also having in mind the need for additional funds to finance this most expensive war, the Treasury set a goal earlier this year of 12 billion dollars as the amount of additional revenue which should be raised by new taxation. It seemed reasonable that the bulk of this twelve billion dollars could come without too great a sacrifice from the medium and low income groups.

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, when translated into individual cases, 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 ^{large} ~~large~~ an additional tax on anything like an equitable basis.

While it is perfectly obvious that the economic condition of the country indicates that there is still much room for additional taxation, income is not distributed in such a way that it can equitably be drawn off in huge quantities straight across any given income level.

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We found this out very definitely when we made actual observations in the field. When we talked to actual people -- people who pay rent, feed their families and meet the extra bills which wartime living saddles upon them. We found that some had tremendous ability to pay taxes -- and some earning the same amount of money, ~~with the same dependents~~, were already nearing the breaking point. And in all the plans that we developed or examined, ^{on Revenue taxes} we did not find a single one that would separate out with equity and justice those who could pay a great deal of new taxes from those who could pay very little. We found no way, that is practicable and workable.

From our surveys, and from checking closely the response of working people and farmers and other groups in the Bond Drives, we further found that this inequality in ability to pay taxes is being compensated for in a large measure by the voluntary purchase of Bonds among people who have more than their usual amount of money to spend. We found, for example, that among war workers in industries where income has been substantially increased, the purchase of Bonds is high. ^{most} In factories where production is especially high, and where wages and overtime are accordingly high, the sale of Bonds is similarly high. In the automobile industry, for example, 87.6% of all the workers are regularly buying Bonds on payroll deduction plans, and those who are enrolled

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are regularly investing 10.3 percentage of their wages. During the Third War Loan Drive the workers in representative automobile plants in Detroit invested upwards of an average on one hundred dollars per man in extra War Bonds. They did this of their own free will, without compulsion by the government.

This pattern holds true throughout the Defense industries. Seventy-five percent of all the shipbuilders are on the payroll deduction plan, and are investing 11.3% of their wages.

Employees in the construction industry who are on the plan are deducting 10.4% of their pay; and - to take a ~~sample~~ ^{different level of an} ~~industry~~

industry - 85% of the employees of the telephone and telegraph industry are subscribing 9% of their pay. X

In fairness to the average American citizen, therefore, we must say that not everyone who is earning more than usual, is over-spending.

The great majority of American people are ready and anxious to do their part to cooperate in every way that will help win the war in the shortest possible time. There is a fundamental soundness about them which is not always fully appreciated. I have seen it at work in our War Loan drives.

I am sure that we can count on them as individuals to see us successfully through ~~in~~ our fight against inflation if we will only tell them what to do -- clearly and decisively. Tell them

how they can help. We cannot legislate cooperation, and beyond a certain point I think we must tread lightly.

That certain point in the levying of taxes must necessarily fall far short of what the nation needs in taxes, and of what some Americans can afford to pay. The amount of money we can take by legislation cannot possibly absorb enough of our dangerous dollars, because every dollar that can be spent, no matter by whom, no matter upon what, can be spent to absorb some part of a limited supply of goods and services.

I think that we should not burden the average American taxpayer at this time with a schedule that would produce 12 billion dollars. On the other hand, I believe that we can ask a total of 10.5 billion dollars, of which 6.5 billion is individual income tax.

I am talking a great deal here today about the average American, 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 further increases will not yield substantial sums nor materially aid in the battle against inflation.

One of the things I want to recommend today -- one of the things we must do -- not to satisfy the low income person but to be just to him -- is 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 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 can be a burden -- a burden many times heavier to him than one much larger would prove 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.

The program which I will present to you today takes that into consideration.

As a result of our investigations among average Americans, there is an important 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 present very complicated law. We are now working on the simplification of the March 15 form, but I want to say that it is my feeling that any tax form that

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can meet the requirements of this present law is likely to cause a great deal of resentment among the American people.

I am sure 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 especially complicates 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.

Another source of great concern to the American people, and one which has to some extent a bearing on our wartime tax program, is the future of some of our war industries. I am greatly disturbed about the problems which many of the corporations will face, with the cessation of the War.

It is, of course, vital to our National welfare, and to the economic health of the entire world, that the economic future of this country continue to be founded upon the principles of enterprise which up to this point have proved so successful. The present system must be maintained and improved, and whatever measures on the fiscal front are necessary to achieve this result should be taken. Any other course would be short-sighted and unworthy of the American people.

I have personally investigated the financial conditions and situations of several corporations that are now completely converted to the production of war equipment, and are doing a commendable and wholly patriotic job. I have seen the deep feeling of concern for future security in these plants filtering

down from top management through the rank and file of employees. I know that this concern and worry has a definite effect upon war production.

This is not something for which either top management or employees should be criticized.

They realize that they are now doing a tremendous business, and are now furnishing employment to tremendous numbers of people; but in some cases they may be unable under present circumstances to stay in business -- even for a short time -- if their war contracts should be withdrawn suddenly. When the war is over, they will have no equipment, and in some cases not even post-war production plans with which to continue business. To a great extent the entire future of our post-war national welfare depends upon our being fully ready to meet this problem when it comes.

This is not wholly a problem for the Treasury, and is only in a limited measure a tax problem. It has many aspects, and several departments of the Government as well as a number of private organizations are now engaged in studying it. The Treasury, however, has recently made an examination of certain tax aspects of this problem, and I am prepared at this time to make two or three suggestions which might be acted upon now and thus help the situation. I want to say, however, that far more comprehensive measures along many lines will have to be taken than those comparatively simple tax suggestions if we are to achieve full production and full employment immediately after the war.

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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 and added burden 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 those taxes be raised through an increase in Estate and Gift Taxes, Corporation Taxes, Selected Excise Taxes, and Individual Income Taxes.

Estate and Gift 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 taxpayers 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

\$80,000 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, net corporation income after taxes has risen greatly since 1939. After paying dividends, corporations will have added to their capital out of earnings, an estimated 11 billion dollars during the years of 1941, 1942 and 1943. 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.

In respect to those corporations now engaged wholly in war production and faced with the problem of reconversion after the war, I should like to point out that the law already provides important relief measures, particularly the carry-back of losses and unused Excess Profits credits. The value of these provisions in the post-war period would be greatly increased by modifying the refund and credit procedures to make the cash benefits more quickly available. Moreover, I believe that the carry-back

provisions now in the statutes should be somewhat expanded. Obviously, future provisions may have to be made, and these will have to be keyed in with the over-all administration plan for handling this problem. At a later date, it is entirely possible that as a result of the development of such a plan, I will have further recommendations to make concerning relief measures as they pertain to this problem.

Excise Taxes

It is the belief of the Treasury Department that an increase in excise tax rates, has much to commend it as a means of raising additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected 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.

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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 ^{the} prospective deficit of ~~70~~⁶⁷ billion dollars, which must be met by borrowing to the extent that additional tax revenue is not secured.

In order to ^{cut the} reduce this borrowing load, I am recommending increases in individual income taxes to yield an additional 6.5 billions. With equity 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.

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. The refundable part of the present Victory tax amounts to 2 billion dollars.

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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. This would make part of the proposed income tax refundable. The amount refundable would be 2.3 billions, which compares favorably with the replaced Victory Tax.

I recommend that this postwar credit be paid in the form of a fully paid life insurance policy. 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 the cash value of the credit be made immediately available in special hardship cases for the protection of persons with fixed incomes, especially those in the lower brackets.

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 income tax exemption would amount to \$1900, and the Victory Tax exemption would usually amount to \$624; under the proposal, there would be one exemption amounting to \$1700.

Such 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 Victory Tax credit. Under the new proposal, he will

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not be required to pay any tax at all.

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 would thus pay \$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 would be 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 in gross tax, or \$3,926 more in net tax.

It is my belief that the proposal that I have just made is as equitable as any program this large for additional taxes 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. And by enacting this proposal, I believe that Congress would serve the Nation in many ways.

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First and foremost, of course, we would be able to finance a larger part of our huge war costs through taxation; and by so doing we would be relieving ourselves of a post-war burden which might materially retard our period of reconstruction.

By combining the Victory Tax with the income tax under the formula I have indicated, we could, ~~without losing revenue or~~ ^{without losing revenue or} without sacrificing the ~~present~~ post-war refund of ~~the victory tax~~, greatly simplify paper work on the part of the taxpayer. This is a step in the direction of public convenience which should be taken; and this should immediately be amplified by abolishing the earned income credit, and by taking whatever other steps are indicated to simplify those parts of our tax laws which have grown exceedingly complex over the years.

In asking for an increase in excises, I believe we are indirectly as well as directly helping to fight inflation.

By asking for additional taxes from corporations, I sincerely believe we are not overburdening them, particularly in view of the relief provision which would be available to them. And by enacting the extension of relief provisions, as I have indicated, it will be taking a step towards protecting the usefulness of our war plants when we have finally won our Victory and we can begin again to build a new Nation in peace.

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yielding a gross amount of

In asking a ^h ~~gross~~ income tax of 6.5 billion dollars or
a net income ^{amount} ~~tax~~ of 4 billion dollars from the American people,
with suitable provisions for hardship cases, I believe we are
being consistent with the ability of the people to pay. And
we are certainly materially strengthening our fiscal position.

I therefore ask your most thorough consideration of the
suggestions I have made. Mr. Paul and the Treasury staff are
here to answer your questions and to present to you the complete
schedule and plans.

STATEMENT ON SOCIAL SECURITY

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 system.

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.

The President has announced plans to re-establish 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 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.

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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.

On the basis of bills already introduced in Congress, to do this would increase the Social Security taxes paid by employees by approximately 3.7 billions. The necessary additional employers' payroll tax of 1.6 billion dollars would make an annual increase of 5.3 billion dollars for Social Security purposes.

A substantial increase in the Social Security payroll taxes would be of immediate service in diminishing the threat of inflation.

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

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If payroll taxes are increased, the income taxes should at that time be made substantially lower than I have recommended to avoid an excessive tax burden on the lower income groups.

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~~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 ^{we are presenting} 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 ~~ask for a great deal of money. We need it, and the~~ ^{ask for a great deal of money. We need it, and the} ~~deal in astronomical figures.~~ The budget for the fiscal year 1944 calls for 106 billions in expenditures. And while it

may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for all the ~~taxes~~ ^{getting it the} ~~money we can possibly get from the war.~~ ~~We cannot~~

~~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 will shorten the war and will save the lives of thousands of American fighting men.~~

The money that is expended ^{to help our allies} ~~on lend-lease~~ to keep the enemy engaged on dozens of fronts all over the world ~~and~~ also saves untold lives, ^{and helps shorten the war}

These things, -- equipment, medical supplies, lend-lease, and all the rest -- have helped to build the war cost to its present huge proportions, but I am sure you

the cold hard facts of fiscal necessity demand it.

to get it to when the national interest is the highest of any one leave

to secure the additional funds. We

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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 ~~big amounts~~ ^{a great deal} 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 ^{of moderate means} cannot pay higher taxes of any sort 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 be met. We have, over the past several months, asked the help of every executive department 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 its effect on the inflation problem.

Second, the degree to which it might interfere with war production;

Third, the degree of hardship the plan places upon people with fixed incomes and with fixed obligations; and upon people with inadequate incomes; 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 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, leaving 63 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 can not, of course, forecast at this point. We do know, however, that~~
During the past 12 months -- that is to say, through the three

drives which we have had, and the regular Bond sales which go on month after month -- we will have absorbed nearly 17 billion dollars of this ~~dangerous~~ ^{"EXCESS SPENDING"} money from individuals.

There are of course other forms of non-inflationary savings, such as life insurance, which also must be subtracted from the 42 billion potentially dangerous dollars.

But even taking ^{into consideration} these savings along with Bonds, a substantial amount of excess income will still be left; 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.

As you know, ~~there is nothing essentially new about this threat of inflation.~~ ^{inflation} The seeds of ~~it~~ ^{it} have been with us ~~since~~ ^{since the start of the} ~~war in Europe~~ ^{war in Europe} long time, and the Government has taken numerous measures ~~using~~ ^{using} the recent past to cope with the situation. Partially because until recently, the threat of inflation seemed to many to be far away, and partially because of a lack of general understanding of the economic factors involved in inflation, not enough has been done. Much more remains to be done.

^{taken several steps within our province} In the Treasury we have ~~concentrated on two specific ways~~ ^{to help} of combatting inflation -- ~~the~~ ^{We have} consistent ^{by} recommending ^{ed} higher taxes, and ~~the sale of~~ ^{have succeeded in getting the people to} War Bonds and Tax Notes.

On March 19, 1941 I set up the Defense Savings Staff in the Treasury for the purpose of promoting the sale of Defense Savings Bonds to the general public. On May 1, I introduced the series

most men believe in nature

U, 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. *Altogether the American people have invested - in new ~~and~~ Bonds*

On April 24, 1941, I appeared before the Committee on Ways and Means to discuss the need of raising 3.5 billions additional revenue, one of the objectives of which was "to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production."

On August 1, 1941, we placed on sale Tax Anticipation Notes, designed to enable the taxpayer to save systematically for his tax bill, and at the same time to absorb purchasing power which might have been spent for consumers' goods. *To date we have sold*

On December 27, 1941, we implemented the Payroll Savings Plan for the regular and systematic sale of United States Savings Bonds to wage earners. At the present time 27 million persons are deducting a total of 420 million dollars a month.

On March 3, 1942, I appeared before this Committee and asked for 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 pointed out that "nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices and an inflationary price rise is a source of great social injustice."

In the three years 1940, 1941, 1942 I recommended to Congress tax increases totalling approximately 18 billion dollars, and I am glad to say that Congress enacted most of these increases. ~~It is safe to say that~~ ^{ET} These tax rises and the money that we have realized through the sale of Bonds have been substantially helpful, in connection with other Governmental actions and restrictions, in controlling inflation to the extent to which it has thus far been controlled.

~~I have given you this background to remind you that this inflationary tendency is something which has been with us over a period of years -- something over which we must constantly stand guard -- something for which a great deal of sacrifice now is worth while in order to protect ourselves in the future.~~

From a statistical standpoint, we know where the bulk of the new money lies, and where, therefore, lies also the greatest danger of inflationary pressure.

Today, four-fifths of all the income of the nation is going to people earning less than five thousand dollars a year. And ~~except for the people earning~~ ^{more} ~~than a bare subsistence wage,~~ ~~for this reason the people earning something over a subsistence~~ ~~less than five thousand dollars a year,~~ ^{this group} present the greatest potential danger from the inflationary standpoint. ~~In the aggregate, this~~ ~~group of people~~ ~~is a group~~

the inflationary money in the hands of the group

~~estimated to number around 68 million possess a great deal of inflationary money, the weight of which can cause undue price rises, and can completely upset our entire economic system, not absorbed in sufficient quantity.~~

Having this in mind, ~~and also having in mind~~ *as well as* the need for additional funds to finance this most expensive war, the Treasury set a goal earlier this year of 12 billion dollars as the amount of additional revenue which should be raised by new taxation. It seemed ~~reasonable that the bulk of this twelve billion dollars would come without too great a sacrifice from the medium and low income groups.~~

Since this goal was set as a satisfactory figure from a fiscal standpoint, ^{*we in*} ~~the Treasury has done considerable investigating.~~ ~~we~~ have gone outside the Treasury offices, outside of Washington. We knew that twelve billion dollars, when translated into individual cases, 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 ^{*LARGE*} ~~huge~~ an additional tax on anything like an equitable basis.

While it is perfectly obvious that the economic condition of the country indicates ~~that there is still much room~~ ^{*a great deal of*} for additional taxation, income is not distributed in such a way that it can equitably be drawn off in huge quantities straight across any given income level.

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We found this out very definitely when we made actual observations in the field. When we talked to actual people -- people who pay rent, feed their families and meet the extra bills which wartime living saddles upon them. We found that some had tremendous ability to pay taxes -- and some earning the same amount of money, ~~with the same dependents, were already passing~~ *in a much different position* the breaking point. And in all the plans that we developed or ^{FOR RAISING TAXES} examined, we did not find a single one that would separate out with equity and justice those who could pay a great deal of new taxes from those who could pay very little. We found no way, that is practicable and workable.

From our surveys, and from checking closely the response of working people and farmers and other groups in the Bond Drives, we further found that this inequality in ability to pay taxes is being compensated for in a large measure by the voluntary purchase of Bonds among people who have more than their usual amount of money to spend. We found, for example, that among war workers in industries where income has been substantially increased, the purchase of Bonds is high. In ^{MOST} factories where production is especially high, and where wages and overtime are accordingly high, the sale of Bonds is similarly high. In the automobile industry, for example, 87.6% of all the workers are regularly buying Bonds on payroll deduction plans, and those who are enrolled

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This pattern holds true throughout the Defense industries. Seventy-five percent of all the shipbuilders are on the payroll deduction plan, and are investing 11.3% of their wages.

Employees in the construction industry who are on the plan are deducting 10.4% of their pay; and - to take a ^{DIFFERENT KIND OF AN} ~~non-defense~~ industry - 85% of the employees of the telephone and telegraph industry are subscribing 9% of their pay.

In fairness to the average American citizen, therefore, we must say that not everyone who is earning more than usual is over-spending.

The great majority of American people are ready and anxious to do their part to cooperate in every way that will help win the war in the shortest possible time. There is a fundamental soundness about them which is no always fully appreciated. I have seen it at work in our War Loan drives.

I am sure that we can count on them as individuals to see us successfully through ~~in~~ our fight against inflation if we will only tell them what to do -- clearly and decisively. Tell them

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That certain point in the levying of taxes must necessarily fall far short of what the nation needs in taxes, and of what some Americans can afford to pay. The amount of money we can take by legislation cannot possibly absorb enough of our dangerous dollars, because every dollar that can be spent, no matter by whom, no matter upon what, can be spent to absorb some part of a limited supply of goods and services.

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~~I am talking a great deal here today about the average American, 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.~~

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~~One of the things I want to recommend ^{at the same time, however,} ~~to~~ -- one of the things we must do -- not to satisfy the low income person but to be just to him -- is make allowance for hardship cases. Even while we are setting out to get more money from most people, we need~~

perfect themselves from the workers to do it they probably can

is not a definite part of our ³⁴¹
~~recommendations, but which~~

In our revised proposal we are asking for a total of
~~10.5 billions instead of 12 billions for the entire tax program.~~
Our original 12 billion schedule called for 8.7 billions in income
taxes and our new schedule calls for 6.5 billions in income taxes.

We realize that ~~these~~ ^{these additional} taxes, even in the lesser amounts of
6.5 billions, will impose a heavy burden ^{Some taxpayers} on the lower income groups,
~~perhaps an intolerable burden.~~ ^{Therefore} You may wish to consider some
device for lessening the ^{ultimate} impact of the schedule ~~we are about to~~
~~put~~ on the lower income groups. ^{such} One ~~suggested~~ device which we
have considered, and which I ^{pass along} give to you as a possibility ~~worthy~~
~~of your consideration,~~ is a provision for a post-war refund of a

part of the tax. ^{Such a} There would be a ceiling on this refund and it
~~should benefit principally the lower income groups.~~ ^{and should not exceed 3.5}
~~It would be a plan whereby the taxpayer could purchase, with~~ ^{with}
refund credit, survivor insurance ^{at an enhanced value,} ~~There~~
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(for payment)
The immediate use of
~~using~~ any post-war
credit to alleviate
extreme hardship
cases.

At first glance, it may seem that a billion and a half less than our original figure is not a substantial reduction; but I can assure you that it amounts to a great deal in terms of a reduced income tax burden on any given individual or family,

~~I will suggest to Congress, also, that the tax burden on the lower income groups, which under this schedule would be very heavy, might be reduced by making some portion of this total income tax refundable after the war.~~

*And this total reduction has been
in ^{proposed} individual income tax.*

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actually to give tax relief to some people.

Take, as an example, a 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 can be a burden -- a burden many times heavier to him than one much larger would prove 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.

The program which I will present to you today takes that into

~~consideration.~~ *before the end of the year*

As a result of our investigations among average Americans, there is an important general recommendation that I want to make.

It is vitally important that
~~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 present very complicated *enacted by Congress last spring.* law. We are now working on the simplification of the March 15 form, but I want to say that it is my feeling that any tax form that

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The so complex that it will

can meet the requirements of this present law is likely to cause a great deal of resentment among the American people.

~~I am sure 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 to recommend the combining of the Victory Tax with the Income Tax.~~

we shall be glad~~I cannot here go~~*now*~~but I want to~~~~certainly to~~~~recommend the combining of the Victory Tax with the Income Tax.~~~~with the Income Tax.~~

under the present law there are

Many of the complications which ^{will} confuse and irritate the taxpayer arise ^{out of} the fact that ~~there are~~ two ~~income~~ income taxes ^{We have} - the regular income tax ^{We also have} and the Victory tax, ^{which was} ~~which was~~ passed ~~by Congress~~ ^{and became} last year ^{and became} ~~and became~~ ^{limit} applicable to this year's ^{income} ~~income~~ out how the Victory tax complicates the ~~income tax~~ ^{situation} for the taxpayer. The Victory tax introduces a new and different income ^{computation} ~~computation~~ which does not take account of deductions for interest paid, taxes paid, contributions to charity, ^{or} other expenses. ~~The~~ ^{of} Victory tax has a different scheme of exemptions, with an exemption of \$624 ^{individual} for each taxpayer ^{this exemption} which, however, is reduced in the case of a married couple where one spouse has less than \$624 of income. No exemption is allowed for dependents. The Victory tax has a complicated postwar credit amounting to 25 percent of the tax for single persons, ^{with a limit of \$500} 40 percent of the tax for married ^{with a limit of \$1000} couples ^{with a limit of \$1000} and an additional 2 percent for each dependent. ^{with a limit of \$1000} A further complication is the provision for taking this credit currently to the extent of debt repayment, life insurance premiums or war bond purchases. ~~and~~ ^{and} this provision is not only ~~to increase~~ ^{all} complexity but for practical purposes ~~to wipe~~ ^{to wipe} out the postwar character of the credit.

Paying taxes all those now liable
for Victory tax, but not within present
income tax brackets. This would
be costly to the government and would
unnecessarily relieve taxpayers
of moderate incomes.

It seems wise, therefore, to
lower present exemptions. By
lowering them to \$1,000 for
married persons and \$300 for single persons,
we would retain the most important of the
taxpayers now liable for Victory
tax, but at the same time would

I want to make again, as I did last year!

Another recommendation in the interest of simplification

~~the repeal of the unearned income credit, which I recommended last year.~~

Under present law, all net income up to \$3,000 is assumed to be earned income, whether or not it is actually earned. This failure to distinguish between different sources of income for the 3.2 million taxpayers below \$3,000 deprives the earned income credit of its chief significance. Yet it complicates the computation of the ~~tax and the value of the return~~ ^{returns and the income}. By eliminating the ~~misnamed~~ ^{misnamed} earned income credit, we can gain simplification without discriminating against the salaried people and wage-earners with modest incomes.

The elimination of the earned income credit would make possible the achievement of a further ^{important} simplification through the consolidation of the normal tax and the surtax into one tax schedule.

^{desirable} A change which would further simplify filing and collection procedure would be the withholding of taxes from wages and salaries at graduated rates. Graduated withholding could covering the full liability in all brackets instead of just the first bracket, as at present. This would materially reduce the number of persons required to file ^{troublesome} declarations of estimated tax. Recent discussions with employers indicate that they believe withholding at graduated rates to be desirable and entirely feasible.

paid-up base by

RB/SSS/eb
10/3/43

Keep ~~all~~ millions more of our taxpayers on a strictly current.

The tax increases just suggested -- the added Estate and Gift taxes of 400 million dollars, the new corporation taxes of 1.1 billion dollars, and the increased excises of 2.5 billions, add up to a total of 4 billion dollars. This, of course, is nowhere enough. ~~Collections existing~~ ^{present} under the tax laws, during the fiscal year of 1944 ^{collections} are expected to amount to 39 billion dollars, which threatens a prospective deficit of 67 billion dollars. This deficit must be met by borrowing to the extent that additional tax revenue is not secured; and it is my fiscal duty, and the duty of Congress, to reduce the necessity for borrowing to the greatest possible point.

Consequently, I am recommending increases in individual income taxes to yield 6.5 billion dollars. ~~With equity in the income tax program,~~ ^{It is my belief, and the belief of most economists, that} our population can pay these additional income taxes. The money is there. Income payments to individuals after taxes in the past few years have been increased by several times the increase in income taxes thus far imposed.

In planning a schedule to raise this 6.5 billions in additional income taxes, we have merged the Victory Tax into the income tax, and lowered the exemptions in the income tax.

As I pointed out before, the Victory Tax exemption at the present time is \$624. Income tax exemption is \$1500. By abolishing the Victory Tax, and lowering the income tax exemption to \$1100, the Government ~~retains~~ ^{most of} as taxpayers those now ~~liable~~ ^{responsible} for Victory Tax who pay appreciable amounts of money.

ITAP

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The total amount of Victory tax paid by the 9 million people who will thus be relieved of Federal tax paying amounts to ~~only~~ ~~XXXXXXXXXX~~ 300 million dollars, all of which has been redistributed and absorbed in our proposed schedule.

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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. This would make part of the proposed income tax refundable. The amount refundable would be 2.3 billions, which compares favorably with the replaced Victory Tax.

I recommend that this post-war credit be paid in the form of a fully paid life insurance policy. 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 the cash value of the credit be made immediately available in special hardship cases for the protection of persons with fixed incomes, especially those in the lower brackets.

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 income tax exemption would amount to \$1900, and the Victory Tax exemption would usually amount to \$624; under the proposal, there would be one exemption amounting to \$1700.

Such 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 Victory Tax credit. Under the new proposal, he will

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not be required to pay any tax at all.

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, ²gross tax, of which ~~\$62 would be refunded~~. He would thus pay \$57 more ⁰in 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, ²of which ~~\$150 would be refundable~~. He would thus pay \$788 more, ~~in gross tax or \$911 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, ²of which ~~\$250~~ the maximum allowable under the proposed program ~~is~~ would be refundable. He would thus be paying \$3,579 more ⁰in gross tax, or \$3,926 more in ~~net tax~~.

It is my belief that the proposal that I have just made is as equitable as any program this large for additional taxes 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.~~ And by enacting this proposal, I believe that Congress would serve the Nation in many ways.

subject to ^{withholding}

First and foremost, of course, we would be able to finance a larger part of our huge war costs through taxation; and by so doing we would be relieving ourselves ^{and our children} of a post-war burden which ~~could~~ ^{the coming} materially retard ^{and} our period of reconstruction.

By combining the Victory Tax with the income tax ^{by abolishing earned income credit, by increasing the} ~~under the~~ ^{tax brackets} formula I have indicated, we could, ~~without losing revenue or~~ ~~without sacrificing our present post-war refund of the victory~~

~~tax~~, greatly simplify paper work on the part of the taxpayer.

This is a step in the direction of public convenience which should be taken; and this should immediately be amplified by ^{whenever} ~~abolishing the earned income credit, and by taking whatever~~ ^{other} ~~other~~ ^{are} steps indicated to simplify those parts of our tax laws which have grown ~~excessively~~ ^{over the years} complex.

In asking for an increase in excises, ~~I believe~~ we are ^{not} ~~only helping finance the war, but are~~ ^{indirectly as well as directly} helping to fight inflation.

^{By} asking ~~for~~ additional taxes ^{of} ~~from~~ corporations, I sincerely believe we are not overburdening them, particularly in view of ^{several} ~~the~~ relief provision ^{which are} ~~which would be~~ available to them. ~~And by~~ ~~enacting the extension of relief provisions, as I have indicated, it will be taking a step towards protecting the usefulness~~ ~~of our war plants when we have finally won our victory and we can~~ ~~begin again to build a new Nation in peace.~~

If the congress disagrees ~~and~~ I have sug-
gested a method by which relief can be given to
handicap cases.

THROUGH AN increase yielding a gross amount of
income tax of 6.5 billion dollars

~~amount~~ of 4 billion dollars from the American people,
with suitable provisions for handicap cases, I believe ~~we are~~ ^{The tax suggested is}

being consistent with the ability of the people to pay. ~~and~~

^{could} we ~~are~~ certainly materially strengthen ~~our~~ our fiscal position.

I ~~therefore~~ ask your most thorough consideration of the
suggestions I have made. ^{Mr.} Mr. Paul and the Treasury staff are
here to answer your questions and to present to you ~~the~~ complete
schedule and plans.

In view of the gains which
this program would make on the
war ~~with~~ on inflation, as well as our
war on the axis, I

By relieving those with inadequate

~~incomes~~ incomes from the necessity
to pay federal taxes, in addition to
the other taxes they ~~already~~ must
continue to pay, I believe we
are repairing a wrong which has
gained the government little and has
actually
overburdened some of our citizens.

MEMBERS OF THE WAYS AND MEANS COMMITTEE:

10/4/43 - #12- 354

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 we are presenting this program. 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 ask for a great deal of money. We need it, and the time to get it is now, when the National income is the highest it has ever been.

The budget for the fiscal year 1944 calls for 106 billions in expenditures. And while it may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for getting at this time all that the American people can possibly give us in additional taxes. ~~We cannot reduce our requirements for additional taxes by getting money from some other source. We need to do both.~~

The additional taxes for which we are going to ask will make it necessary for people to take in their belts -- but the cold hard facts of fiscal necessity demand it. We know by now that our willingness to spend the necessary funds, no matter how large, has had and will continue to have a definite effect on the lives of our men in battle. The superior fighting equipment which we have produced and bought has been expensive, but it will shorten the war and will save the lives of thousands of American fighting men.

The money that is expended to help our allies keep the enemy engaged on dozens of fronts all over the world also saves untold

lives and helps shorten the war.

These things -- equipment, medical supplies, lend-lease, and all the rest -- 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.

We must raise a great deal 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 of moderate means cannot pay higher taxes of any sort 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 be met. We have, over the past several months, asked the help of every executive department 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.

We have measured these plans against:

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

its effect on the inflation problem.

Second, the degree to which it might interfere with war production;

Third, the degree of hardship the plan places upon people with fixed incomes and with fixed obligations; and upon people with inadequate incomes; 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~~ ^{or} if ~~it further~~ ^{it unduly} 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, leaving 63 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. During the past 12 months -- that is to say, through the three drives which we have had, and the regular Bond sales which go on month after month -- we will have absorbed nearly 17 billion dollars of this "excess spending money" from individuals.

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There are of course other forms of non-inflationary savings, such as life insurance, which also must be subtracted from the 42 billion potentially dangerous dollars.

But even taking into consideration these savings along with War Bonds, a substantial amount of excess income will still be left ^{These will be} ~~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.~~ *available spending money far in excess of the limited supply of goods available and with this excess the*

As you know, the seeds of inflation have been with us since the start of the war in Europe, and the Government has taken numerous measures to cope with the situation. Partially because ~~until recently~~, the threat of inflation seemed to many to be far away, and partially because of a lack of general understanding of the economic factors involved in inflation, not enough has been done. ~~Much more remains to be done.~~

In the Treasury we have taken several steps within our province to help combat inflation. We have consistently recommended higher taxes, and have succeeded in getting the people of the Nation to invest many billions in War Bonds and Tax Notes.

On March 19, 1941, ^{we} ~~we~~ set up the Defense Savings Staff in the Treasury for the purpose of promoting the sale of Defense Savings Bonds to the general public. On May 1, ^{we} ~~we~~ introduced the series E, F and G Savings Bonds in an effort to absorb individual savings

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and to forestall the potentially inflationary effects of the expenditure of these funds for consumers' goods. Altogether, the American people have invested 21 Billions net in these Bonds.

On April 24, 1941, I appeared before the Committee on Ways and Means to discuss the need of raising 3.5 billions additional revenue, one of the objectives of which was "to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production."

On August 1, 1941, we placed on sale Tax Anticipation Notes, designed to enable the taxpayer to save systematically for his tax bill, and at the same time to absorb purchasing power which might have been spent for consumers' goods. ~~By doing so we have sold~~

On December 27, 1941, we implemented the Payroll Savings Plan for the regular and systematic sale of United States Savings Bonds to wage earners. At the present time 27 million persons are deducting a total of 420 million dollars a month.

On March 3, 1942, I appeared before this Committee and asked for an increase in revenue of 7.6 billion dollars. I stated that the chief ~~duty~~ ^{purpose} of the new revenue act was to help check inflation, and pointed out that "nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices and an inflationary price rise is a source of great social injustice."

In the three years 1940, 1941, 1942, I recommended to

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Congress tax increases totalling approximately 18 billion dollars, and I am glad to say that Congress enacted most of these increases.

These tax ~~rises~~^{increases} and the money that we have realized through the sale of Bonds have been substantially helpful, in connection with other Governmental actions and restrictions, in controlling inflation to the extent to which it has thus far been controlled.

From a statistical standpoint, we know where the bulk of the new money lies, and where, therefore, lies also the greatest danger of inflationary pressure.

Today, four-fifths of all the income of the nation is going to people earning less than five thousand dollars a year. And except for the people earning no more than a bare subsistence wage, this group presents the greatest potential danger from the inflationary standpoint. The weight of the inflationary money in the ~~bonds~~^{hands} of this group can cause undue price rises, and can completely upset our entire economic system, unless absorbed in sufficient quantity.

Having this in mind, as well as the need for additional funds to finance this most expensive war, the Treasury set a goal earlier this year of 12 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,~~ we ~~in the Treasury~~ have gone outside the Treasury

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offices, outside of Washington. We knew that twelve billion dollars, when translated into individual cases, was a great deal of money; and as we progressed in our investigations, we became more and more ~~cognizant~~ ^{aware} of the problems we would have in levying so large an additional tax on anything like an equitable basis.

While it is perfectly obvious that the economic condition of the country indicates a great deal of room for additional taxation, income is not distributed in such a way that it can equitably be drawn off in huge quantities straight across any given income level.

We found this out very definitely when we made actual observations in the field. When we talked to actual people -- people who pay rent, feed their families and meet the extra bills which war-time living saddles upon them, ~~we~~ ^{we} found that some had ~~tremendous~~ ^{much heavier} ability to pay taxes ~~but that others~~ ^{but that others} earning the same amount of money ~~in a much different position~~ ^{could not bear as heavy a burden.} And in all the plans that we developed or examined for raising taxes, we did not find a single one that would separate out with equity and justice those who could pay a great deal of new taxes from those who could pay very little. We found no way, that is, practicable and workable.

From our surveys, and from checking closely the response of working people and farmers and other groups in the Bond Drives, we further found that this inequality in ability to pay taxes is being compensated for in a large measure by the voluntary purchase

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of Bonds among people who have more than their usual amount of money to spend. We found, for example, that among war workers in industries where income has been substantially increased, the purchase of Bonds is high. In most factories where production is especially high, and where wages and overtime are accordingly high, the sale of Bonds is similarly high. *For example, former plants now converted to war production.* In the automobile industry ~~87.6%~~ 87.6% of all the workers are regularly buying Bonds on payroll deduction plans, and those who are enrolled are regularly investing 10.3 percent of their wages. During the Third War Loan Drive the workers in representative automobile plants in Detroit invested upwards of an average of one hundred dollars per man in extra War Bonds. They did this of their own free will, without compulsion by the Government.

This pattern holds true throughout the *War Production* Defense industries. Seventy-five percent of all the shipbuilders are on the payroll deduction plan, and are investing 11.3% of their wages. Employees in the construction industry who are on the plan are deducting 10.4% of their pay; and - to take a different kind of an industry - 85% of the employees of the telephone and telegraph industry are subscribing *9.3%* of their pay.

The great majority of American people are ready and anxious to do their part to cooperate in every way that will help win the war in the shortest possible time. ~~There is a fundamental soundness~~

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~~about them which is not always fully appreciated.~~ I have seen *this*
~~it~~ at work in our War Loan drives.

I am sure that we can count on them as individuals to see us successfully through our fight against inflation if we will only tell them what to do -- clearly and decisively. Tell them how they can help. We cannot legislate cooperation, and beyond a certain point I think we must tread lightly.

~~That certain point in the levying of taxes must necessarily fall far short of what the nation needs in taxes, and of what some Americans can afford to pay. The amount of money we can take by tax legislation cannot possibly absorb enough of our dangerous dollars, because every dollar that can be spent, no matter by whom, no matter upon what, can be spent to absorb some part of a limited supply of goods and services.~~

For ~~this reason~~ ^{but} we must ask the people, ^{so that they may} ~~to help~~ protect themselves from the injustice of inflationary price rises, to do all they possibly can. And while I think we should not burden the average American taxpayers at this time with ^{additional} ~~taxes~~ of 12 billion dollars, I do believe that they can pay, and will, ^{in as great an amount} ~~a~~ total of ^{additional} 10.5 billions ~~dollars~~, of which 6.5 billion is individual income tax.

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At first glance, it may seem that a billion and a half less than our original figure is not a substantial reduction, ^{but} ~~that I can assure you that~~ ^{all of the reduction is in the individual income tax and} it amounts to a great deal in terms of a reduced income tax burden on any given individual or family; ~~and this total reduction has been in proposed individual income tax, and~~

~~Our original 12 billion schedule called for 8.7 billions in income taxes and our new schedule calls for 6.5 billions in~~ ^{The proposed} ~~income taxes.~~ ^{additional}

We realize that these additional taxes, even in the lesser ^{amount} of 6.5 billions, will impose a heavy burden on some taxpayers.

You may therefore wish to consider some device for lessening the ultimate impact of ^{the increased tax} ~~this schedule~~ on the lower income groups.

One such device which is ~~not a definite part of our~~ ^{for your consideration,} ~~recommendations, but which we have considered, and which I pass along to you as a possibility,~~ ~~is~~ a provision for a post-war refund of a part of the tax.

Such a refund should benefit principally the lower income groups and ^{might cover the range of between two and} ~~should not exceed~~ 3.5 billions of the 6.5 billion tax. If such a device should be used, it is suggested that the taxpayer be permitted to purchase with his refund credit, a fully paid-up life insurance policy. There should also be a special provision ^{for} ~~the~~ immediate use for tax payment of any post-war credit ~~to~~

~~alleviate extreme hardship cases,~~ *where the Taxpayer's income has not ^{increased} substantially.*

As a result of our investigations among average Americans, there is an important general recommendation that I want to make. It is vitally important that every possible step be taken ~~before the end of the year~~ 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 present very complicated law enacted by Congress last spring. We are now working on the simplification of the March 15 form, but I want to say that it is my feeling that any tax ^{return} that can meet the requirements of this present law is likely to be so complex that it will cause a great deal of resentment among the American people.~~

Many of the complications which ~~will~~ confuse and irritate the taxpayer arise out of the fact that under the present law there are two income taxes. We have the regular income tax. We also have the Victory Tax, which was passed last year, and became applicable to this year's income.

~~I would like to point out how the Victory Tax complicates the situation for the taxpayer.~~

The Victory Tax introduces a new and different income computation which does not take account of deductions for interest

paid, taxes paid, contributions to charity, or other ^{non-Business} expenses.
It has a different scheme of exemptions, with an exemption of \$624 for each individual taxpayer. This exemption is reduced in the case of a married couple where one spouse has less than \$624 of income. No exemption is allowed for dependents. The Victory Tax has a complicated post-war credit amounting to 25 per cent of the tax for single persons, with a limit of \$500, 40 per cent of the tax for married couples with a limit of \$1,000, and an additional 2 per cent for each dependent with a limit of \$100.

A further complication is the provision for taking this credit currently to the extent of debt repayment, life insurance premiums or War Bond purchases -- and this provision not only increases complexity, but for all practical purposes wipes out the post-war character of the credit.

Because of these variations from the income tax, the Victory Tax confuses the taxpayers and makes impossible any real simplification of tax forms. It has wiped out simplifications previously possible in income tax forms. For example, the ^{complete} tax table which we were able to provide for taxpayers in the 1941 and 1942 returns has become impossible this year because of the Victory Tax.

I, therefore, recommend the repeal of the Victory Tax as the first and most important single step toward tax simplification.

~~There~~ There are additional gains to be made by repealing this tax now. Such a step would improve the equity of the income tax system in important respects. ~~Although the pressure of war expenditures make desirable some reduction of the income tax exemption, it is my feeling, and our observation, that the~~ *failed to take due account of family status.* Victory tax ~~went too far.~~ It loaded an additional tax on all those earning an income above \$624 regardless of the size of their families.

While it does not seem desirable
~~On the other hand, it is not feasible simply to eliminate~~
~~exempt wholly from taxation~~
~~from the responsibility of paying taxes all those now liable~~

for Victory Tax, but not within present income tax brackets. ~~This equity will be promoted by repealing~~
~~would be costly to the Government and would unnecessarily~~
~~the Victory tax and lowering~~
~~relieve taxpayers of moderate incomes.~~

It seems wise, therefore, to lower ^{income tax} present exemptions.

By lowering them to \$1,100 for married persons, and \$300 for ~~dependants,~~ *with about the same tax burden,* single persons, we would retain ~~the most important of the~~ *those only who are best able* taxpayers now liable for Victory Tax, ~~At the same time~~ *would we* ~~relieve 9 million hard-pressed~~ *to bear the burden of some income tax,* ~~low income taxpayers from tax~~ *families from taxes* on their incomes.

Repeal would not, of course, leave these citizens untaxed. They would continue to pay heavy ^{indirect} ~~hidden~~ taxes, ^{under existing law} and most of them will have their social security taxes doubled next year.

In the interest of simplification, there is another recommendation I want to make again, as I did last year. I urge the repeal of the earned income credit.

The elimination of the earned income credit would make possible the achievement of a further important simplification through the consolidation of the normal tax and the surtax into one tax schedule.

Under present law, all net income up to \$3,000 is assumed to be earned income, whether or not it is actually earned. This failure to distinguish between different sources of income ~~for the 88 million taxpayers~~ below \$3,000 deprives the earned income credit of its chief significance. Yet it complicates both the returns and the computation of the income tax. By eliminating this misnamed earned income credit, we can gain simplification without discriminating against the salaried people and wage-earners with modest incomes.

A desirable change which would further simplify filing and collection procedure would be the withholding of taxes from wages and salaries at graduated rates. Graduated withholding could keep millions more of our taxpayers on a strictly current, paid-up basis, by covering the full liability in all brackets instead of just the first bracket, as at present. This would materially reduce the number of persons required to file troublesome declarations of estimated tax. Recent discussions with employers indicate that they believe withholding at graduated rates to be desirable and entirely feasible.

Mr. N.

Let me tell you now about our specific ^{suggestions} ~~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 and added burden of retroactive taxes.~~

I am ^{suggesting} ~~recommending~~ a program to increase federal ^{revenue} collections by approximately 10.5 billion dollars for a full year of operation, ~~under conditions anticipated for the near future.~~

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

~~It is suggested that the following legislative~~

Estate and Gift 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 taxpayers 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.

M

Despite heavy increases in taxes, net corporation income after taxes has risen greatly since 1939. After paying dividends, corporations will have added to their capital out of earnings an estimated 11 billion dollars during the three years of 1941, 1942 and 1943. We therefore recommend that corporation taxes in general be raised, but that small corporations should be given special 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

It is the belief of the Treasury Department that an increase in excise tax rates has much to commend it as a means of raising additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected which need to be conserved for war purposes and additional taxes can be placed upon such items of expenditure ~~as~~ 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. 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 ^{two} new excises.

The tax increases just suggested -- the added Estate and Gift taxes of 400 million dollars, the new corporation taxes of 1.1 billion dollars, and the increased excises of 2.5 billions, add up to a total of 4 billion dollars.

~~This, of course, is nowhere enough. Under the present tax laws, during the fiscal year of 1944, collections are expected to amount to 39 billion dollars, which threatens a prospective deficit of 67 billion dollars. This deficit must be met by borrowing to the extent that additional tax revenue is not secured; and it is my fiscal duty, and the duty of Congress, to reduce the necessity for borrowing to the greatest possible point.~~

~~Consequently, I am ^{suggesting} recommending increases in individual income taxes to yield 6.5 billion dollars. It is my belief, and the belief of most economists, that our population can pay these additional income taxes. The money is there. Income payments to individuals after taxes in the past few years have been increased by several times the increase in income taxes thus far imposed.~~

In planning a schedule to raise this 6.5 billions in additional income taxes, we have merged the Victory Tax into ^{as I have indicated. The exemptions suggested} the income tax, and lowered the exemptions in the income tax ^{are \$500 for single persons, \$1100 for married persons and \$300 for each dependent}. ~~As I pointed out before, the Victory Tax exemption at the present time is \$624 and the income tax exemption is \$1500. By~~

abolishing the Victory Tax, and lowering the income tax exemption to \$300 and \$1,100, the Government retains as taxpayers most of those now paying Victory Tax who are liable on appreciable amounts of money.

The total amount of Victory Tax paid by the 9 million people who will thus be relieved ^{paying any income tax} of Federal ~~tax paying amounts~~ ^{to} 300 million dollars, all of which has been redistributed and absorbed in our proposed schedule.

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

Take, for example, a married person with two dependents; under the present law, the income tax exemption would amount to \$1,900, and the Victory Tax exemption would usually amount to \$624; under the proposal, there would be one exemption amounting to \$1700.

Such 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 Victory Tax credit. Under the new proposal, he will not be required to pay any tax at all.

If such a person is earning \$3,000 a year, he is now paying a gross tax of \$327, of which \$60 is his ^{Victory} ~~refundable~~ Tax credit. Under the new proposal, he would pay \$384, or \$57 more ^{than his} ~~present gross tax~~.

A married person with two dependents earning \$8,000 a year is now paying ^{a total of} ~~at the rate of~~ \$1,735, of which \$182 is his Victory Tax ~~refundable~~ credit. Under the present proposal he would pay \$2,523, or \$788 more ^{than his} ~~present gross tax~~.

At \$25,000 per year, a married person with two dependents is now paying \$10,171 of which \$597 is ~~refundable~~ ^{his Victory Tax credit.} Under the new proposal he would pay \$13,750, or \$3,579 more ^{than his present gross tax.}

It is my belief that the ~~proposal~~ ^{Suggestions} that I have just made ~~is~~ ^{could be suggested} as equitable as ~~any program this large for additional taxes~~ ^{to attain the results we desire.} ~~to attain the results we desire.~~ ^{Enactment} ~~could possibly be.~~ ^{of a program of this general character would, I believe,} ~~that Congress would~~ ^{serve the Nation in many ways.} ~~serve the Nation in many ways.~~ ^{It would enable us to}

~~First and foremost, of course,~~ ^{considerably} ~~we would be able to~~ ^{a larger part of our huge war costs through taxation; and by so} ~~enable us to~~ ^{doing} ~~relieve ourselves and our children of a~~ ^{would} ~~burden which could materially retard the coming period~~ ^{relieve ourselves and our children of a} ~~of reconstruction.~~ ^{burden which could materially retard the coming period} ~~of reconstruction.~~ ^{It would} ~~materially simplify our tax~~ ^{materially simplify our tax} ~~structure.~~ ^{structure.}

~~By combining the Victory Tax with the income tax, by~~ ^{abolishing} ~~abolishing the earned income credit, and by~~ ^{expanding the} ~~increasing the tax brackets~~ ^{procedures,} ~~subject to withholding, we could greatly simplify~~ ^{paper work on} ~~the part of the taxpayer.~~ ^{and administration.} ~~The~~ ^{the} ~~step in the direction of~~ ^{step in the direction of} ~~public convenience which should be taken; and~~ ^{public convenience which should be taken; and} ~~this should~~ ^{they} ~~immediately be~~ ^{followed} ~~simplified by taking~~ ^{whatever other steps are} ~~whatever other steps are~~ ^{possible} ~~indicated to simplify these parts of our tax laws which have~~ ^{indicated to simplify these parts of our tax laws which have} ~~grown too~~ ^{grown too} ~~complex.~~ ^{complex.}

In asking for an increase in excises, we are not only helping finance the war, but are directly helping to fight inflation.

In asking additional taxes of corporations, I sincerely believe we are not overburdening them, particularly in view of

the several relief provisions which are available to them.

Through an income tax increase yielding a gross amount of 6.5 billion dollars we could certainly materially strengthen our fiscal position. I believe the tax suggested is consistent with the ability of people to pay. If the Congress disagrees, I have suggested a method by which relief can be given to hardship cases.

By relieving those with inadequate incomes from the necessity to pay Federal taxes, in addition to the other taxes they must continue to pay, I believe we are repairing a wrong which has gained the Government little and has actually overburdened some of our citizens.

It would strengthen us in
~~In view of the gains which this program would make on our~~
war on inflation, as well as ⁱⁿ our war on the Axis. ~~I ask your~~
~~most thorough consideration of the suggestions I have made.~~

Mr. Paul and the Treasury staff are here ~~to answer~~
~~your questions and~~ to present to you complete schedules and
details
~~plans~~ *and to answer questions concerning*
them.

All of the tax increases I have
mentioned are suggested as parts
of a war program to be effective only
until a date following the termination
of the war to be fixed by Congress.

374L
10/4/43

Ways Statement

MEMBERS OF THE WAYS AND MEANS COMMITTEE:

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 we are presenting this program. 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 ask for a great deal of money. We need it, and the time to get it is now, when the National income is the highest it has ever been.

The budget for the fiscal year 1944 calls for 106 billions in expenditures. And while it may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for getting at this time all that the American people can possibly give us in additional taxes.

- 2 -

The additional taxes for which we are going to ask will make it necessary for people to take in their belts -- but the cold hard facts of fiscal necessity demand it. We know by now that our willingness to spend the necessary funds, no matter how large, has had and will continue to have a definite effect on the lives of our men in battle. The superior fighting equipment which we have produced and bought has been expensive, but it will shorten the war and will save the lives of thousands of American fighting men.

The money that is expended to help our allies keep the enemy engaged on dozens of fronts all over the world also saves untold lives and helps shorten the war.

- 3 -

These things -- equipment, medical supplies, lend-lease, and all the rest -- 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.

We must raise a great deal 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 of moderate means cannot pay higher taxes of any sort 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.

- 4 -

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 be met. We have, over the past several months, asked the help of every executive department 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.

We have measured these plans against:

First, the ability of the plan to raise money, and its effect on the inflation problem.

Second, the degree to which it might interfere with war production;

- 5 -

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

Fourth, its practicability and cost from the standpoint of its administration. No plan is good if it is impractical for the Government to handle, or if it unduly 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."

- 6 -

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, leaving 63 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. During the past 12 months -- that is to say, through the three drives which we have had, and the regular Bond sales which go on month after month -- we will have absorbed nearly 17 billion dollars of this "excess spending money" from individuals.

- 7 -

There are of course other forms of non-inflationary savings, such as life insurance, which also must be subtracted from the 42 billion potentially dangerous dollars.

But even taking into consideration these savings along with War Bonds, a substantial amount of excess income will still be left. There will be available spending money far in excess of the limited supply of goods available, and with this excess the danger of inflation mounts.

As you know, the seeds of inflation have been with us since the start of the war in Europe, and the Government has taken numerous measures to cope with the situation.

- 8 -

Partially because the threat of inflation seemed to many to be far away, and partially because of a lack of general understanding of the economic factors involved in inflation, not enough has been done.

In the Treasury we have taken several steps within our province to help combat inflation. We have consistently recommended higher taxes, and have succeeded in getting the people of the Nation to invest many billions in War Bonds and Tax Notes.

On March 19, 1941, we set up the Defense Savings Staff in the Treasury for the purpose of promoting the sale of Defense Savings Bonds to the general public.

- 9 -

On May 1, we 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 expenditure of these funds for consumers' goods. Altogether, the American people have invested 21 Billions net in these Bonds.

On April 24, 1941, I appeared before the Committee on Ways and Means to discuss the need of raising 3.5 billions additional revenue, one of the objectives of which was "to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production."

- 10 -

On August 1, 1941, we placed on sale Tax Anticipation Notes, designed to enable the taxpayer to save systematically for his tax bill, and at the same time to absorb purchasing power which might have been spent for consumers' goods.

On December 27, 1941, we implemented the Payroll Savings Plan for the regular and systematic sale of United States Savings Bonds to wage earners. At the present time 27 million persons are deducting a total of 420 million dollars a month.

On March 3, 1942, I appeared before this Committee and asked for an increase in revenue of 7.6 billion dollars.

- 11 -

I stated that the chief objective of the new revenue act was to help check inflation, and pointed out that "nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices and an inflationary price rise is a source of great social injustice."

In the three years 1940, 1941, 1942, I recommended to Congress tax increases totalling approximately 18 billion dollars, and I am glad to say that Congress enacted most of these increases.

These tax increases and the money that we have realized through the sale of Bonds have been substantially helpful, in connection with other Governmental actions and restrictions, in controlling inflation to the extent to which it has thus far been controlled.

- 12 -

From a statistical standpoint, we know where the bulk of the new money lies, and where, therefore, lies also the greatest danger of inflationary pressure.

Today, four-fifths of all the income of the nation is going to people earning less than five thousand dollars a year. And except for the people earning no more than a bare subsistence wage, this group presents the greatest potential danger from the inflationary standpoint. The weight of the inflationary money in the hands of this group can cause undue price rises, and can completely upset our entire economic system, unless absorbed in sufficient quantity.

- 13 -

Having this in mind, as well as the need for additional funds to finance this most expensive war, the Treasury set a goal earlier this year of 12 billion dollars as the amount of additional revenue which should be raised by new taxation.

Since this goal was set, we have gone outside the Treasury offices, outside of Washington. We knew that twelve billion dollars, when translated into individual cases, was a great deal of money; and as we progressed in our investigations, we became more and more aware of the problems we would have in levying so large an additional tax on anything like an equitable basis.

- 14 -

While it is perfectly obvious that the economic condition of the country indicates a great deal of room for additional taxation, income is not distributed in such a way that it can equitably be drawn off in huge quantities straight across any given income level.

We found this out very definitely when we made actual observations in the field. When we talked to actual people -- people who pay rent, feed their families and meet the extra bills which wartime living saddles upon them -- we found that some had ability to pay much heavier taxes, but that others earning the same amount of money could not bear as heavy a burden.

- 15 -

From our surveys, and from checking closely the response of working people and farmers and other groups in the Bond Drives, we further found that this inequality in ability to pay taxes is being compensated for in a large measure by the voluntary purchase of Bonds among people who have more than their usual amount of money to spend. We found, for example, that among war workers in industries where income has been substantially increased, the purchase of Bonds is high. In most factories where production is especially high, and where wages and overtime are accordingly high, the sale of Bonds is similarly high.

- 16 -

For example, in the former automobile plants now converted to war production, 87.6% of all the workers are regularly buying Bonds on payroll deduction plans, and those who are enrolled are regularly investing 10.3% of their wages. During the Third War Loan Drive the workers in representative automobile plants in Detroit invested upwards of an average of one hundred dollars per man in extra War Bonds. They did this of their own free will, without compulsion by the Government.

This pattern holds true throughout the war production industries. 75% of all the shipbuilders are on the payroll deduction plan, and are investing 11.3% of their wages.

- 17 -

Employees in the construction industry who are on the plan are deducting 10.4% of their pay; and -- to take a different kind of an industry -- 85% of the employees of the telephone and telegraph industry are subscribing 9.3% of their pay.

The great majority of American people are ready and anxious to do their part to cooperate in every way that will help win the war in the shortest possible time. I have seen this spirit at work in our War Loan Drives.

- 18 -

I am sure that we can count on them as individuals to see us successfully through our fight against inflation if we will only tell them what to do -- clearly and decisively. Tell them how they can help. We cannot legislate cooperation, and beyond a certain point I think we must tread lightly.

The amount of money we can take by tax legislation cannot possibly absorb enough of our dangerous dollars, but we must ask the people, so that they may protect themselves from the injustice of inflationary price rises, to do all they possibly can. And while I think we should not burden the American taxpayers at this time with additional taxes in so great an amount as 12 billion dollars, I do believe that they can pay, and will, an additional total of 10.5 billions.

- 19 -

At first glance, it may seem that a billion and a half less than our original figure is not a substantial reduction, but all of the reduction is in the individual income tax, and it amounts to a great deal in terms of a reduced burden on any given individual or family.

The proposed new schedule calls for 6.5 billions in additional individual income taxes.

We realize that these additional taxes, even in the reduced amount of 6.5 billions, will impose a heavy burden on some taxpayers.

You may therefore wish to consider some device for lessening the ultimate impact of the increased tax on the lower income groups.

- 20 -

One such device which we have considered, and which I pass along to you for your consideration, is provision for a post-war refund of a part of the tax.

Such a refund should benefit principally the lower income groups and might be in the range of between 2 and 3.5 billions of the 6.5 billion tax. If such a device should be used, it is suggested that the taxpayer be permitted to purchase with his refund credit, a fully paid-up life insurance policy. There should also be a special provision permitting the immediate use for tax payment of any post-war credit in cases where the taxpayers' income has not increased substantially.

- 21 -

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

Many of the complications which confuse and irritate the taxpayer arise out of the fact that under the present law there are two income taxes. We have the regular income tax. We also have the Victory Tax, which was passed last year, and became applicable to this year's income.

- 22 -

The Victory Tax introduces a new and different income computation which does not take account of deductions for interest paid, taxes paid, contributions to charity, or other non-business expenses. It has a different scheme of exemptions, with an exemption of \$624 for each individual taxpayer. This exemption is reduced in the case of a married couple where one spouse has less than \$624 of income. No exemption is allowed for dependents. The Victory Tax has a complicated post-war credit amounting to 25 per cent of the tax for single persons, with a limit of \$500, 40 per cent of the tax for married couples with a limit of \$1,000, and an additional 2 per cent for each dependent with a limit of \$100.

- 23 -

A further complication is the provision for taking this credit currently to the extent of debt repayment, life insurance premiums or War Bond purchases -- and this provision not only increases complexity, but for all practical purposes wipes out the post-war character of the credit.

Because of these variations from the income tax, the Victory Tax confuses the taxpayers and makes impossible any real simplification of tax forms. It has wiped out simplifications previously possible in income tax forms. For example, the complete tax computation table which we were able to provide for taxpayers in the 1941 and 1942 returns has become impossible this year because of the Victory Tax.

- 24 -

I, therefore, recommend the repeal of the Victory Tax as the first and most important single step toward tax simplification.

There are additional gains to be made by repealing this tax now. Such a step would improve the equity of the income tax system in important respects. The Victory Tax failed to take due account of family status. It loaded an additional tax on all those earning an income above \$624 regardless of the size of their families.

While it does not seem desirable simply to exempt wholly from taxation all those now liable for Victory Tax, but not within present income tax brackets, equity will be promoted by repealing the Victory Tax and lowering present income tax exemptions.

- 25 -

By lowering them to \$1,100 for married persons, and \$500 for dependents, we would retain, with about the same tax burden, those taxpayers now liable only for Victory Tax, who are best able to bear the burden of some income tax. At the same time we would relieve 9 million hard-pressed families from taxes on their incomes.

Repeal would not, of course, leave these citizens untaxed. They would continue to pay heavy indirect taxes, and most of them under existing law will have their social security taxes doubled next year.

- 26 -

In the interest of simplification, there is another recommendation I want to make again, as I did last year. I urge the repeal of the earned income credit.

The elimination of the earned income credit would make possible the achievement of a further important simplification through the consolidation of the normal tax and the surtax into one tax schedule.

Under present law, all net income up to \$3,000 is assumed to be earned income, whether or not it is actually earned. This failure to distinguish between different sources of income below \$3,000 deprives the earned income credit of its chief significance.

- 27 -

yet it complicates both the returns and the computation of the income tax. By eliminating this misnamed earned income credit, we can gain simplification without discriminating against the salaried people and wage-earners with modest incomes.

A desirable change which would further simplify filing and collection procedure would be the withholding of taxes from wages and salaries at graduated rates. Graduated withholding could keep millions more of our taxpayers on a strictly current, paid-up basis, by covering the full liability in all brackets instead of just the first bracket, as at present.

- 28 -

This would materially reduce the number of persons required to file troublesome declarations of estimated tax. Recent discussions with employers indicate that they believe withholding at graduated rates to be desirable and entirely feasible.

Let me tell you now about our specific suggestions for the tax program. 2

I am suggesting a program to increase federal revenue collections by approximately 10.5 billion dollars for a full year of operation.

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

- 29 -

Estate and Gift 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 taxpayers 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.

- 30 -

Corporation Taxes

It is recommended that corporation taxes be increased. Despite heavy increases in taxes, net corporation income after taxes has risen greatly since 1939. After paying dividends, corporations will have added to their capital out of earnings an estimated 11 billion dollars during the three years of 1941, 1942 and 1943. We therefore recommend that corporation taxes in general be raised, but that small corporations should be given special favorable treatment. Our schedule for increasing corporation taxes has been worked out along this line and will raise an additional 1.1 billion dollars.

- 31 -

Excise Taxes

It is the belief of the Treasury Department that an increase in excise tax rates has much to commend it as a means of raising additional money during a war period. Little or no increase in administrative machinery is required. Items can be selected which need to be conserved for war purposes and additional taxes can be placed upon such items of expenditure as liquor and tobacco. The tax rates that we are suggesting have been fitted to the wartime conditions of supply and demand for each item separately.

- 32 -

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 two new excises.

The tax increases just suggested -- the added Estate and Gift taxes of 400 million dollars, the new corporation taxes of 1.1 billion dollars, and the increased excises of 2.5 billions, add up to a total of 4 billion dollars.

I am suggesting increases in individual income taxes to yield 6.5 billion dollars.

- 33 -

In planning a schedule to raise this 6.5 billions in additional income taxes, we have merged the Victory Tax into the income tax. As I have indicated, the exemptions suggested are \$500 for single persons, \$1100 for married persons and \$300 for each dependent.

The total amount of Victory Tax paid by the 9 million people who will thus be relieved of paying any Federal income tax is 300 million dollars, all of which has been redistributed and absorbed in our proposed schedule.

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

- 34 -

Take, for example, a married person with two dependents; under the present law, the income tax exemption would amount to \$1,900, and the Victory Tax exemption would usually amount to \$624; under the proposal, there would be one exemption amounting to \$1700.

Such 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 Victory Tax credit. Under the new proposal, he will not be required to pay any tax at all.

If such a person is earning \$3,000 a year, he is now paying a gross tax of \$327, of which \$60 is his Victory Tax credit.

- 35 -

Under the new proposal, he would pay \$384, or \$57 more than his present gross tax.

A married person with two dependents earning \$8,000 a year is now paying a total of \$1,735, of which \$182 is his Victory Tax credit. Under the present proposal he would pay \$2,523, or \$788 more than his present gross tax.

At \$25,000 per year, a married person with two dependents is now paying \$10,171 of which \$597 is his Victory Tax credit. Under the new proposal he would pay \$13,750, or \$3,579 more than his present gross tax.

- 36 -

It is my belief that the suggestions that I have just made constitute a program as equitable as could be suggested to attain the results we desire.

Enactment of a program of this general character would, I believe, serve the Nation in many ways.

It would enable us to finance a considerably larger part of our huge war costs through taxation; and by so doing would relieve us and our children of a burden which could materially retard post-war progress.

It would materially simplify our tax structure.

It would strengthen us in our war on inflation as well as in our war on the Axis.

- 37 -

All of the tax increases I have mentioned are suggested as parts of a war program to be effective only until a date following the termination of the war to be fixed by Congress.

Mr. Paul and the Treasury staff are here to present to you complete schedules and details, and to answer questions concerning them.

STATEMENT ON SOCIAL SECURITY

There is one further suggestion 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 suggest, as enthusiastically as I know how, that you amplify and extend the present Social Security system.

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.

- 2 -

The President has announced plans to re-establish 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 ~~on~~ that, ^{on the} 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.

- 3 -

On the basis of bills already introduced in Congress, to do this would increase the Social Security taxes paid by employees by approximately 3.7 billions. The necessary additional employers' payroll tax of 1.6 billion dollars would make an annual increase of 5.3 billion dollars for Social Security purposes.

A substantial increase in the Social Security payroll taxes would be of immediate service in diminishing the threat of inflation.

There is no pretense on the part of low-income people that they could comfortably pay these additional payroll taxes.

- 4 -

It is known by them, and admitted to be a sacrifice; but it is felt by leaders and spokesmen for many such people, and by those of the people themselves with whom I have talked, that because we would be expanding Social Security's advantages and permitting workers to invest in their futures, this sacrifice will be made willingly.

If payroll taxes are increased, the income taxes should at that time be made substantially lower than I have suggested to avoid an excessive tax burden on the lower income groups.

October 4, 1943
2:30 p.m.

Fred
Vinson: Hello.

HMJr: Henry talking.

V: Yes, Henry. How are you?

HMJr: Well, I -- after three hours on the Hill, strangely enough, I feel fine.

V: Well, that's fine. You got out alive, did you?

HMJr: I got out alive. They treated me very fairly, I thought.

V: Well, they would do that.

HMJr: I only got a final okay on the draft from Mr. Roosevelt at 7:00 last night.

V: By the way, I got a telephone call....

HMJr: Yeah.

V:just three minutes ago....

HMJr: Yeah.

V:saying they wanted me to come up there and testify tomorrow. Did you talk to them about it?

HMJr: Yes. Well, I'll tell you exactly what happened. Jerry Cooper opened the hearing....

V: Yep.

HMJr:and he spoke about what we'd done and whether we'd consulted with you and which we said we had, and how did I feel about -- this was all publicly -- about your coming up and talking on inflation and I said, "That would be fine." And we were all for that....

V: Yep.

HMJr:and that they wanted to come up, and after the meeting -- Doughton and Cooper together and they sort of -- I don't know -- doing a little sparring, and 'would we ask you' and we said, "No." We didn't think that was proper -- that they should ask you.

V: I see.

HMJr: And so the what -- from what the discussion -- hello?

V: Yes.

HMJr:was that they expect you to discuss the inflationary angle.

V: I see.

HMJr: That's what they stressed. And I told Paul that either he or somebody who was up there this morning -- hello?

V: Yes.

HMJr:should make themself available to you so you could find out what happened this morning.

Operator: Operator.

V: Yes. Well, I -- when Randolph comes down....

HMJr: Yes.

V:will you have him give me a ring? I'd like to talk with him.....

HMJr: I'll do that.

V:because I'd like for him to....

HMJr: Yeah.

V: Your testimony won't be available for me, though, in the morning will it?

HMJr: No. But he can give you an outline of it.

V: Uh huh.

HMJr: I mean -- it's -- there wasn't, strangely enough, it only took one or two angles. And one of the principal things which -- was that the Republicans -- that, well, if they cut expenses by 10 Million dol -- billion dollars, did we need any taxes? And we, of course, said, we did. And then Doughton at the end took -- Hello?

V: Yes.

HMJr:a peculiar angle. He said, "Well, supposing you had this thing and you didn't have any inflation. Would you still need the taxes?" So, I said, "Well, Mr. Doughton, I've been living in this world. I can't live in another world. And in this world we need taxes." Well, he pressed me kind of hard but I stuck by it. I didn't know what he would have said. See?

V: Yeah.

HMJr: Because then he sort of ended up by saying, 'Well, he didn't think we were having much inflation.' There's a good deal of talk there, cross-examining, amongst them that they don't think that inflation is so bad, you see?

V: I see.

HMJr: So there's plenty for you to do on that angle.

V: Yep. Will you send me over by special messenger, a copy of your statement?

HMJr: Well, it was supposed to have gone an hour ago.

V: (Speaks aside) Just a second. Well, none was put on my desk and my secretary is right here and....

HMJr: Well, I -- when I came down from the Hill at a quarter past one, I asked Mr. Paul's office to send you one.

V: I see.

HMJr: But I'll check and if it -- if -- I can send you another one.

V: All right. And have you got any angles that you have any suggestions on? In regard to....

HMJr:

HMJr:

No. I -- as I say, I think that the one that the Republicans had which we tried our best, was that: One, that inflation isn't so bad; and Two, if you cut down expenses, you could -- well, you didn't need any taxes at all.

V: Well, that's a damn fool thing.

HMJr: That's right.

- 4 -

- V: Even if you cut down expenses a full \$10 billion, why if you got \$10 billion more while people have got the money....
- HMJr: Yeah.
- V:you get it -- a lot of billions that you wouldn't get after the war is over -- why, you're just that much ahead.
- HMJr: Well, I put it almost that way. I said, "Supposing we could raise \$20 billion worth of taxes and you cut expenses \$20 billion, we still would want the \$20 billion if the public could stand it."
- V: That's right.
- HMJr: I don't think anything happened that I said or Paul said but what you would be in agreement with this morning.
- V: Well.
- HMJr: But I will send you my statement and I'll leave a word, as soon as Paul comes down that he get in touch with you.
- V: All right. Thank you, Henry.
- HMJr: And I got a little change there with the President and I meant to let them know that he okayed it, so I said, "He okayed it as of 7:00 o'clock last night." And they all tittered, meaning that maybe he'll change his mind tomorrow night. But that was all right.
- V: Well, I'll go up and see 'em.
- HMJr: But I sent my statement over to the President and I only heard at 7:00 o'clock last night that it was okay with him.
- V: I see.
- HMJr: And so then we made a few minor changes, but I wanted to be damn sure that it was what he wanted.
- V: Well, I'll let you hear about what comes out when I get off the Hill.

- 5 -

HMJr: Thank you.

V: I hope I get off as well.

HMJr: Well, they were very nice to me and particularly Jenkins of Ohio surprised me. He let me off very easy.

V: Well, you know, they've got a lot to think about. When they....

HMJr: Yeah.

V:think about not paying a good part of this bill....

HMJr: That's right.

V:while war is going on.

HMJr: That's right.

V: And they've got a whole lot to think about in playing with inflation.

HMJr: That's right. Well, beginning with Mr. Doughton, who doesn't think inflation is bad, and then there's Dewey of Illinois, there's a number of those fellows up there that have got to be sold on this inflation.

V: Well, I -- I'll do my best.

HMJr: Well, that'll be damn good.

V: All right, old fellow.

HMJr: Thank you.

V: Bye.

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1943 OCT 4 AM 8 11

WJ11 GOVT NL COLLECT

RMBM POUGHKEEPSIE NY OCT 3 1943

HON HENRY MORGENTHAU JR

SECRETARY TREASURY

PER YOUR REQUEST REPORT THIRD WAR LOAN SALES IN DISTRICT SIX AS OF
 CLOSE OF OCTOBER FIRST BY COUNTIES DUTCHESS SALES 14,785,900 EXCEED
 REVISED QUOTA OF 9,400,000 ORANGE SALES 17,126,600 EXCEED REVISED
 QUOTA OF 16,880,000 PUTNAM SALE 1,122,400 EXCEED REVISED QUOTA OF
 794,000 SULLIVAN SALES 1,167,100 NOT UP TO REVISED QUOTA OF 1,600,300
 ROCKLAND SALES 1,923,100 NOT UP TO REVISED QUOTA OF 3,200,000 ULSTER
 SALES ~~5,073,100~~ 5,073,100 NOT UP TO REVISED QUOTA OF 9,000,000 TOTAL
 DISTRICT SALES 41,198,200 EXCEED REVISED QUOTA OF 40,794,300 ALL SALES
 FIGURE, WILL BE CONSIDERABLY HIGHER UPON RECEIPT OF FINAL REPORTS.
 PURCHASES BY LARGER INVESTORS VERY HEAVY BUT PURCHASES BY SMALLER
 INVESTORS NOT UP TO EXPECTATIONS WILL CONTINUE EFFORTS TO BOOST NUMBER
 OF INDIVIDUAL PURCHASERS BETWEEN NOW AND SIXTEENTH AND LOOK FOR
 REASONABLY SATISFACTORY RESULTS. PUTNAM ONE OF FEW COUNTIES IN STATE
 TO EXCEED QUOTA FOR INDIVIDUAL SALES DUTCHESS FIRST COUNTY IN STATE TO
 REACH ~~QUOTA~~ ORIGINAL TOTAL QUOTA. PURCHASES BY SAVINGS BANK AND BY
 LOAN ASSOCIATIONS TREMENDOUSLY INFLUENCED SALES RESULTS BETWEEN ~~SIX~~
 COUNTIES WITH SAVINGS BANKS THAT TRADE GOVERNMENTS SECURITIES BETWEEN
 SPECIAL OFFERINGS FAIR BETTER THAN COUNTIES WHERE SAVINGS BANKS DO
 NOT TRADE OFF BETWEEN ISSUES DUTCHESS COUNTY CHAIRMAN PAUL MILLER
 SENDING YOU MORE DETAILS OF COUNTY CAMPAIGN INCLUDING ACTIVITIES OF
 FISHKILL AND EAST FISHKILL. COMMEND YOU AND YOUR STAFF ON SUCCESSFUL
 EXECUTION OF THE THIRD WAR LOAN. HOLDING DISTRICT MEETING THREE PM
 OCTOBER 12TH AND EXTEND INVITATION TO YOU TO JOIN WITH US

DICK MEYER.

807 AM OCT 4 1943.

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THIRD WAR LOAN
 Beginning September 9, 1943
 (In millions of dollars)

	Cumulative						
	Through Oct. 2	Through Oct. 4	Through Sept.	Through Sept.	Through Sept.	Through Sept.	Through Sept.
7/8% Certificates	3,955	4,040					
2% Treasury bonds	4,745	4,925					
2-1/2% Treasury bonds	3,189	3,250					
Tax notes	2,336	2,367					
Total	14,225	14,582					
Savings bonds:							
Series E	1,476	1,581					
Series F	146	156					
Series G	410	435					
Total Savings Bonds	2,032	2,172					
2% bonds	151	151					
Government funds 2-1/2%	479	479					
Total Gov't. funds	630	630					
GRAND TOTAL	16,887	17,384					

OCT 4 1943

Dear Mr. Meyer:

I write to thank you for your letter of September 30 expressing appreciation of the Treasury's cooperation in connection with the "Back the Attack" show.

At the same time I want to congratulate you on the idea and on the part The Post played in making the show so great a success.

Aside from the direct effect of the exhibition on War Bond sales, which was substantial, it demonstrated forcibly the great advantage to be gained by letting the people know more about what is being done to supply and support our armies - to see the results of their own production, their own saving and their own War Bond buying.

I feel sure that knowledge of this kind can not fail to accelerate and intensify our whole national effort.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Eugene Meyer
Editor and Publisher
The Washington Post
Washington, D.C.

209

423
Mr. Dutton

The Washington Post

WASHINGTON, D. C.

EUGENE MEYER, EDITOR AND PUBLISHER

September 30, 1943

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Now that the Army-Treasury Show is over, permit me to express my appreciation of your friendly cooperation with The Post.

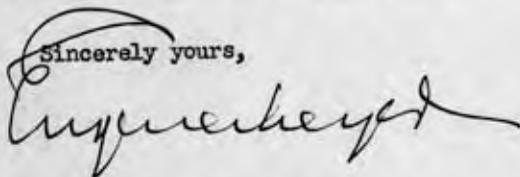
I know that some of our competitors made difficulties for you and your associates, but I assure you that I think everything was done in the best way, taking all the circumstances into consideration.

The extraordinary attendance demonstrated the interest of the everyday citizen in learning what becomes of the money they are asked to put up by you.

A taxi driver this morning coming down to my office congratulated me on the show, and when I asked him what he thought was the most important value in the show, he said, "It shows us where our money goes."

Hoping The Post may be able to have further opportunities from time to time to join your Department of the Government and other departments in useful public service, and with high regard, I remain

Sincerely yours,



Editor and Publisher

October 4, 1943

Dear Mr. President:

When we were planning the program for the Third War Loan, which has just terminated, it was agreed that commercial banks would be excluded from the Drive and that shortly after the Drive terminated a 2 percent bond and a 7/8 percent certificate of indebtedness would be offered for subscription by commercial banks for their own account. About \$1,401,000,000 of 3-1/4 percent Treasury bonds have been called for redemption on October 15, and \$2,035,000,000 of certificates of indebtedness mature on November 1.

Subject to your approval, I propose to offer the holders of the called bonds an opportunity to exchange them for the 2-1/2 percent Treasury Bonds of 1964-69 and the 2 percent Treasury bonds of 1951-53 which were sold during the Third War Loan Drive, and in addition to offer \$1,500,000,000, or thereabouts, of the 2 percent bonds for cash subscription by commercial banks for their own account. At the same time, I propose to offer Treasury certificates of indebtedness, to mature October 1, 1944, for cash subscription by commercial banks for their own account to the amount of \$1,500,000,000, or thereabouts, and to make the certificates available on an exchange basis to the holders of the maturing certificates.

The authorizing act provides that bonds may be issued only with the approval of the President. Accordingly, I trust that the proposed issues will meet with your approval. It is my intention to make public announcement of the offering on Wednesday, October 6.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

APPROVED:



OCT 4 1943

Dear Mr. President:

When we were planning the program for the Third War Loan, which has just terminated, it was agreed that commercial banks would be excluded from the Drive and that shortly after the Drive terminated a 2 percent bond and a 7/8 percent certificate of indebtedness would be offered for subscription by commercial banks for their own account. About \$1,401,000,000 of 3-1/4 percent Treasury bonds have been called for redemption on October 15, and \$2,035,000,000 of certificates of indebtedness mature on November 1.

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Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

APPROVED:

Sent by L. S. Agent 4/03

E: cak
1/2/43

10/4/43

INCOME AND EXCESS PROFITS TAXESFOR SEPTEMBER 1943AS COMPARED WITH JUNE 1943BYFEDERAL RESERVE DISTRICTS

	<u>Sept. 1943</u>		<u>June 1943</u>
ATLANTA	\$ 304,731,789.52	\$	258,490,469.34
BOSTON	948,221,818.07		1,010,525,256.15
CHICAGO	314,978,246.38		330,141,819.30
CINCINNATI	494,627,023.76		450,719,491.53
CLEVELAND	271,660,686.24		218,487,780.31
DALLAS	199,672,022.22		157,450,735.21
DENVER	712,318,098.02		694,114,598.72
KANSAS CITY	118,810,470.45		109,044,745.80
MINNEAPOLIS	74,785,077.26		74,673,867.95
NEW YORK	145,000,437.95		134,057,356.27
PHILADELPHIA	114,930,299.42		94,393,902.66
PORTLAND	346,870,690.87		257,526,696.77
RICHMOND	4,046,606,660.16	\$	3,789,626,720.01
SAN FRANCISCO	* 706,930.47		** 1,570,782.68
TERRITORY OF HAWAII	* 706,930.47		** 1,570,782.68
GRAND TOTAL	\$ 4,047,313,590.63	\$	3,791,197,502.69

* Reports Sept. 15, 16, 17, etc. not yet received.

** Reports June 15, 16, 17, etc. not yet received.

Treasury Department
Division of Monetary Research

Date Oct. 6, 1943 1943

To: Memorandum for the Files

From: Mr. White

Taken up orally with the Secretary today. The Secretary said to take this up with Mr. Thompson.

H.D.W.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE OCT 4 1943

TO Secretary Morgenthau

FROM Harry White *HW*Subject: Financing Treasury's Work in the
Liberated Area Field.

At the present time, the Treasury's portion of the work in North Africa, Sicily, etc., is being handled by Foreign Funds Control, Monetary Research and the General Counsel's Office, the expenditures being paid from the Foreign Funds Control appropriation and to a limited extent from the Stabilization Fund. Pehle hopes that by continuing the reduction of Foreign Funds Control expenditures in Washington to make it possible to carry all of the Treasury's reoccupation work in the present manner during the remainder of the current fiscal year. It is my view that it is undesirable to pay any substantial part of these expenditures from the Stabilization Fund. Consequently, it is necessary to make other plans for financing this work beginning July 1, 1944.

On the basis of discussions between Foreign Funds Control, General Counsel's Office and Monetary Research, it has been agreed that the most reasonable approach to this problem is for the Treasury to obtain for the fiscal year beginning July 1, 1944, an appropriation large enough to carry on the Foreign Funds Control activities and the Treasury work in the liberated area field. This will give us the necessary flexibility to handle work, the volume of which it is very difficult to anticipate at this time.

The Budget Bureau has required the Treasury to submit immediately its best estimate as to the amount of funds needed to carry on the Treasury's liberated area field work during the coming fiscal year. Based on the best estimates which can be made at this time, we contemplate requesting approximately \$1,500,000 for the Treasury's liberated area field. This amount should take care of the expenses in this work of Monetary Research, General Counsel's Office and Foreign Funds Control. The estimate is admittedly on a very tentative basis but was arrived at in view of the following considerations:

- 2 -

1. The Army is contemplating using approximately 60 officers in addition to clerical and stenographic and enlisted personnel for fiscal, monetary and property controls in the Italian operation for the areas south of the Po Valley. While the Treasury has no intention of matching Army's staff man for man, nevertheless this gives some guide as to the size of the task as the Army sees it. A comparable picture can be expected to develop in the area north of the Po Valley and in the rest of Europe when occupied.

2. For the operation in North Africa, which obviously is insignificant compared to any of the important European countries, the Treasury has had to send approximately 7 professional people to the field, plus the use of Army officers with Treasury training who probably would not be available in some of the other areas. In addition, it was found necessary to have a sizeable staff in Washington to back up the people in the field and do the operations job here.

3. It must be kept in mind that it is an expensive process to keep professional people in the field, since such persons are entitled to a per diem, plus travel and other incidental costs.

The requested amount of \$1,500,000 is based upon our best estimate that it will be necessary to have in the field during the fiscal year 1945 approximately 75 professional people with the necessary clerical and stenographic assistance, and that it will also be necessary to have at least a comparable number of professional and stenographic workers here in Washington to conduct the necessary operations, supporting studies and investigations at this end. Although it is impossible to allocate the \$1,500,000 among the three Divisions precisely at this time, it seems reasonable to expect that about \$800,000 would be expended directly by Foreign Funds Control, about \$350,000 by the General Counsel's Office

- 3 -

and about \$350,000 by the Monetary Research Division.

However, the total net increase to Treasury personnel in order to do this work in the liberated area field is estimated at 20 persons for the Division of Monetary Research, 15 for the General Counsel's Office and 25 for the Foreign Funds Control.

Subject to your approval, we propose to move ahead along these lines at once. The ~~Budget~~ request will, of course, be handled in the usual manner through Mr. Thompson's office and subject to the usual Treasury procedures.



OCT 4 1943

My dear Senators:

I have your letter of September 21, 1943 with reference to the issuance of currency for use by the Allied Forces in Sicily and French North Africa.

I am enclosing for your information copies of the Joint Statements released by the Treasury and War Departments to the Press on Monday, August 2, 1943 and on Tuesday, August 17, 1943, dealing with this subject.

In the initial invasion operations in French North Africa, and again in Sicily, the United States Army used the "Yellow Seal" dollar for the payment of troops. In North Africa local franc currency was employed for this purpose as soon as the French North African authorities were able to make sufficient amounts of such currency available. In the occupation stage in Sicily, as distinct from the initial invasion stage, the Allied Military Lire is being used by the Allied Forces in order to meet the requirements of their military operations. The United States Armed Forces have employed special occupation currencies only in the Mediterranean Theater of Operations.

Your interest in this matter is appreciated and I hope the enclosed statements provide you with the information you desire.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Robert A. Taft,
United States Senate.

Enclosures.

WMT:er
9/28/43

By Messinger Roberts
at 5:00 P.M.

United States Senate

COMMITTEE ON FINANCE

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September 21, 1943.

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

My dear Mr. Secretary:

I should be greatly obliged if you would send me the statement issued jointly by the Treasury Department and the War Department regarding the issue of money in Sicily.

I should also like to have a statement as to any currency issued by the United States Government in Africa or elsewhere throughout the world.

This is only for my own information, in order that I may understand what is going on.

Sincerely yours,

Robert A. Taft
and
John T. Salt

RT:Mc

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, August 2, 1943.

Press Service
No. 37-85

Joint Statement by the Treasury Department and the War Department:

Allied expeditionary forces, seeking to establish orderly relationships with the people of liberated Sicily, are introducing into its occupied areas an "Allied Military Currency," speaking a "Lira" language that will be understood by every Sicilian trader and consumer.

It may now be revealed that a distinctive currency, determined upon by British and American officials was made in the Treasury's Bureau of Engraving and Printing. It was rushed to the scene of action by huge transport planes and is being used as the medium of exchange in that part of Italy that we now hold.

A part of its legend reads "Issued in Italy."

At the same time, it was revealed, a comparable series of postage stamps will be introduced into the areas under military administration.

This is the first truly Allied venture into the field of military monetary expedients and an undertaking without precedent so far as the United States is concerned. The distinctive lira currency will be used in the payment of troops of all the Allied nations on Italian soil, and in payment by the procurement services for local supplies.

Government officials said the undertaking is designed to give the occupied areas a currency in denominations and terms which they know.

It provides an adequate circulating medium in sections where there may be a shortage of local currency because of confiscation or destruction by retreating enemy forces, or from other causes.

- 2 -

It avoids complication of the monetary system which use of foreign currencies might cause.

Previously, the United States forces in North Africa had used a regular "back home" currency with a distinctive seal, while the British had used a "military pound." Now, authorities of the Allied Nations have worked out this cooperative use of a single medium of exchange.

The preparation of this military currency and postage in advance of the invasion of Italy is itself an amazing chapter in the story of the gigantic and minutely-detailed planning that preceded the expedition, a story that must, for the most part, remain untold until after the war. From the standpoint of the physical undertaking alone, there is no precedent for such a job. Presses of the Bureau of Engraving and Printing worked 24 hours a day, not even pausing for meal periods, for weeks, to have the stocks of notes and stamps ready for the final, revealing overprinting when the invasion actually began.

The planning of the job goes back some four months, when high officials of the Treasury, the War and Navy Departments, the Department of State, and officials of the British government laid the groundwork in a series of extraordinary conferences held in utmost secrecy.

No inkling of the project ever was put in writing, no word of it spoken over a telephone, and no discussions of it carried outside the conference rooms.

Designs for the notes and stamps had to be completed under similar conditions of secrecy, and stocks of distinctive paper and huge amounts of inks of various colors accumulated. In none of this preliminary work was the country for which the notes were intended ever identified.

On the basic designs under consideration, where now the words "Issued in Italy" appear, the words "United States" were placed fictitiously, and where the "lire" designation is printed were such unrevealing terms as "dollars" or "shillings."

Basic printing of the notes began early in June, with the name of the country and the currency designation still omitted. Huge stocks of the partially finished notes were accumulated against the day when the "go" signal should be given.

The invasion news was flashed to the world on the night of July 9. Key employees of the Bureau of Engraving and Printing stood by their telephones throughout Sunday, and continued

- 3 -

at their posts until the printing order was released by Army authorities actually on Tuesday, July 13. Huge presses immediately began to roll, overprinting the partially-completed notes with the identifying legends.

By Saturday, July 17, enough had been completed to load a huge transport plane, but transportation was not available until Monday, July 19, when two planes carrying seven tons of the distinctive money took off. Other shipments have followed, both of currency and stamps.

The currency introduced into Sicily is in eight denominations from one to 1,000 lira. The smaller denominations are half the size of United States currency, and the larger denominations the same size. It is made by a lithograph process, since the time element and the size of the undertaking did not permit steel engraving.

Except for the "lira" designation, all the legend on the bills is in English. The "Four Freedoms," Freedom of Speech, Freedom of Religion, Freedom from Want, and Freedom from Fear, appear prominently on the reverse sides of all the notes. Ornate designs in pantograph, of a neutral nature, are used in the series, so that it might be adapted to the needs of troops in further assaults upon Hitler's European Fortress merely by overprinting the proper currency designations and name of country on the basic stock.

Smaller notes, of one, two, five and ten lira bear a wheat field scene in brown on the face, with the denomination in the center. Blue, lavender, green and black borders also identify the respective denominations. The words "Allied Military Currency" appear on the upper margin of the face and in an ornate oval on the reverse side. The face also carries the legends, "Series 1943," "Issued in Italy," and a serial number. The Four Freedoms appear in the four corners of the note on the reverse side.

For notes of 50, 100, 500, and 1,000 lira, borders and ornate design of the front are in blue, lavender, green and black, respectively, with the background on all four notes a pale blue. The denomination appears in each of the four corners on the face, and in an ornate shield in the center. The words "Issued in Italy" appear in ovals at each end, and the words "Allied Military Currency" at the bottom of the note. The face also carries the designation "Series 1943," and serial numbers.

- 4 -

The reverse side of these larger notes is a subdued brown, with "Allied Military Currency" appearing in a center shield, and the Four Freedoms in ovals at either side.

The Allied Military Postage stamps are in denominations of 15, 25, 30, 50, and 60 centesimi, and in 1, 2, 5 and 10 lira. They are all of the same design, distinguished by colors of the usual United States postage series. They bear a pantograph background, with white lettering, and the denomination in the center of the stamp, are perforated, and on a gummed paper. Both the stamp design and the overprint are put on in one operation on a two-color press.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 17, 1943.

Press Service
No. 38-10

The Treasury and War Departments today made public further details concerning the special currencies employed in the Sicilian operations:

Financial and military plans are so closely interrelated in modern warfare that it is necessary, for reasons of military security, to maintain secrecy regarding financial arrangements incident to military operations until the financial as well as strictly military aspects of the initial stages of the operation have unfolded. However, military secrecy ceases to exist regarding the financial measures effective for an operation when the relative decrees of the military commander are issued in the liberated area. Accordingly, the following information can now be released supplementing the story previously made public regarding the printing of Allied Military Currency by the Bureau of Engraving and Printing.

Measures to meet the currency problems incident to the Sicilian operation were taken jointly by the United States and British military authorities and insofar as American interests are concerned, under the guidance of and in consultation with the United States Treasury.

A distinction is to be drawn between the two kinds of currencies, namely, "spearhead" and "occupation," employed by the United States forces in these military operations. The "spearhead" currency was the "yellow seal" dollar which is a regular silver certificate of the United States Government, the yellow seal being used to distinguish it from ordinary United States currency. This distinctive

- 2 -

mark was adopted partly for security reasons to permit the isolation of the currency if it fell into enemy hands, partly to prevent the influx into the area of dollar currency already in the hands of the enemy, and partly to facilitate its entry into the United States by freeing it from present restrictions on ordinary U. S. currency. The yellow seal was first used by the United States military forces in North Africa and was again used as a spearhead currency in Sicily.

In connection with the use of yellow seal dollar by the United States forces, it is of interest to note that concurrently the British forces used the British Military Authority pound note. The B.M.A. note is a special currency and not the regular British pound note. The same exchange rate for conversion purposes was established in Sicily as in North Africa between the B.M.A. note and the yellow seal dollar - one B.M.A. pound equals four U. S. yellow seal dollars.

The occupation currency employed is the Allied Military Lira which was described in a previous joint press release by the Treasury and War Departments. This currency is being used jointly in the Sicilian operation by the Allied military forces to supplement supplies of local currency when and if necessary in order to meet the requirements of military operations. For obvious reasons it was desirable that the Allied forces should not continue to use pound and dollar currencies longer than was necessary and should move into currency denominated in terms of local units as quickly as the military situation would allow. It is not intended nor desired to replace the local currency with the Allied Military Lira Currency unless absolutely necessary from a military standpoint, but rather to use the Allied Military Lira to supplement the supply of local currency.

When the United States Army obtains Allied Military Lire for expenditures in Sicily for pay of troops, supplies and

- 3 -

other expenditures that would normally be charged to its appropriation, it will charge the relevant War Department appropriation for the dollar equivalent of such expenditure. The decreed rate of exchange is 100 lire to the dollar. This procedure, it was pointed out, marks no change in the customary control by the Congress over the size and nature of Army appropriations. Congress retains its jurisdiction over such army expenditures. The British military forces are following a parallel procedure with a decreed rate of 400 lire to the British pound. In all cases complete records are being kept and a detailed accounting procedure has been set up in connection with the issuance and use of this currency. These complete records will also facilitate the adjustment of financial matters growing out of the military operations of the Allied Forces in the occupied area.

The Allied Military Lira has been made legal tender in Sicily and is interchangeable at par with local lire currency. It will be in every respect as acceptable as a medium of exchange as the local lire currency, both to the men of our fighting forces and to the local population. Insofar as our troops are concerned, arrangements have already been made so that they may remit all or any portion of their pay which they receive in lire to the United States against instant payment here in dollars. United States soldiers leaving the area may exchange lire currency held by them for dollar currency at the decreed rate of exchange.

On the other hand, for obvious reasons, War Department appropriations will not be charged for expenditures in Sicily by the Allied Military Government for local governmental operations whether financed from local taxes or revenue or through the use of Allied Military currency. Thus, for example, the Allied Military Government will not charge Army appropriations in connection with the maintenance of public schools, water systems, salaries of local officials and the like.

- 4 -

Officials emphasized the essential distinction between the regular issuance of currency within the United States and the issuance of a special currency by the military authorities within an area under military occupation such as Sicily. While the former is governed by the Constitution and the statutes of the United States, the rules governing the latter are those of the law of nations as established by international agreement and the usage of the world. Under international law, the Hague Conventions and the decisions of the Supreme Court of the United States, the Military Commander in areas occupied by the Forces under his command has all the powers necessary for the carrying out of governmental functions.

These powers include the right to provide for the currency needs of the area occupied. In fact, it is a fundamental principle of international law that an occupying authority has in addition to its powers, certain obligations to the inhabitants of the territory under its control. It must take whatever steps are necessary to secure public order. The latter cannot be maintained unless the continued operation of local trade and commerce is protected. This protection includes the establishment and maintenance of an adequate and effective circulating medium.

The Allied forces must be in a position to meet a variety of conditions which they may find in areas occupied by them. The enemy might, for example, adopt a "scorched earth" policy which, on the monetary side, may evidence itself in the withdrawal or destruction of currency stocks and the resulting depletion of the circulating medium of exchange of the area. On the other hand, the enemy might in its efforts to cause maximum difficulties to the occupying forces, flood the area to be occupied with local currency to such a point that it becomes practically worthless as a satisfactory medium of exchange; and may even resort to the use of counterfeit local currency.

- 5 -

Financial problems will vary in different areas freed by the forces of the United Nations. Although the basic principles underlying the authority of the Military Commander remain unchanged, the details of procedure must be adapted to the circumstances found to exist in liberated areas.

It should be noted that in contrast with Axis procedure, which is governed by a policy of exploitation or of outright destruction of the existing economy of a conquered area, Allied Military policy and procedure is governed by a spirit of liberation and a policy of rehabilitation and fair dealing with the liberated peoples.

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SECRET

442 ✓



TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

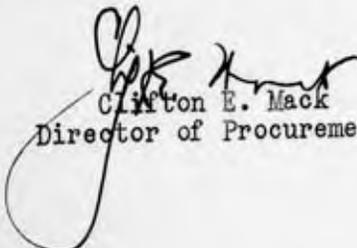
OFFICE OF THE DIRECTOR

October 4, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of September 27, 1943, the purchases against the African Program from September 27, 1943, to October 3, 1943, totaled \$982,720.65, or a total of purchases for the program thus far of \$64,572,617.55.

Attached is report giving status of shipping against these purchases.


Clifton E. Mack
Director of Procurement



(37861)

SHIPPING REPORT AS OF OCTOBER 2, 1943

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand At Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Agric. Mach. & Implem ^{nts}	1898.03	51.17	420.53	167.02
Automotive Eqpt. & Parts	827.26		107.38	130.73
Batteries	121.03		18.5	9.87
Bearings	2.46		.95	.03
Brass & Bronze	288.4	2.5	87.6	
Brushes & Brooms	.8	.15		
Bldg. Hdw. & Material	424.67		302.53	
Chemicals	*18935.81	731.32	8464.38	3538.37
Clothing, Notions & Textiles	17513.19		2798.73	4326.11
Construction Machinery				10.3
Copper in Various Forms	376.3		100.02	9.85
Elec. Eqpt. & Supplies	74.44	22.76	48.43	31.82
Explosives	14.15			
Ferro-Alloys	73.88	11.32		46.64
Food & Food Products	6032.			
Furniture & Office Eqpt.	.11	.49	.7	2.15
Glass	194.82	95.12	7.66	690.44
Graphite Products	92.98		13.23	
Hand & Cutting Tools	1144.19		402.2	286.76
Industrial Machinery	49.85	73.2	112.68	297.92
Iron	145.	810.	974.78	276.22
Jute Bags	857.47		535.	
Lead & Lead Alloys	73.18		102.5	
Medical Supplies	56.12	.68	5.02	.3
Non-Ferrous Metals, Other	435.		20.34	118.19
Paper & Paper Products	4865.94	1364.6	2789.65	3082.56
Rope & Twine	247.7	34.75	14.	12.
Rubber	810.26		317.89	454.58

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand At Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Shoes & Boots	315.68	5.34	571.66	1484.58
Steel, Alloys & Carbon	8478.48	236.09	7972.14	6696.53
Steel, Pipe & Tubing	295.44		113.39	1595.3
Tin Plate	845.	357.55	795.82	3405.87
Zinc		27.96	27.29	
 Totals	 65,489.64	 3,825.	 27,125.	 2,6674.14

*This amount has been reduced by 1000 tons, which tonnage was an overage caused by duplicate reporting.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 4, 1943

TO Secretary ~~M~~rgenthau
FROM Mr. ~~H~~agg
Subject: The Business Situation,
Week ending October 2, 1943.

Summary

Commodity prices: The Canadian Government's closing of the Winnipeg Wheat Exchange caused a flurry of buying in the wheat markets of this country last week, carrying the Dow-Jones futures index to the highest level since its compilation was started in October 1933, but lower prices for meat animals were largely instrumental in causing a slight decline in the BLS spot index of 28 basic commodities. Continuing its sidewise movement, the BLS all-commodity index was unchanged in the week ended September 25 at 102.9 percent of the 1926 average.

Farm prices: The index of prices received by farmers in September showed no change from the previous month, as small advances by most of the important groups of farm products were offset by a 16 percent decline in potato prices and minor down-turns in prices of tobacco and wool. Farm prices have risen 119 percent during the four years of this war as compared with a rise of 101 percent during the comparable period of the first World War.

Railroad traffic: With the seasonal peak in traffic close at hand, the railroads must haul the heaviest volume of freight in their history in the face of a very low surplus of freight cars and a serious manpower shortage. Estimated ton-miles of freight carried in August were 134 percent above the 1935-39 average, although freight carloadings were only 45 percent higher.

Coal production: Output of soft coal in the week ended September 25 improved slightly and was about 6 percent above the corresponding week last year. However, Secretary Ickes has reiterated his concern over the coal situation, and has stated that output is running behind goals by about 500,000 tons a week.

Employment: Manufacturing employment showed further expansion in August, but total nonagricultural employment was 88,000 less than in the previous month. Gains in employment in the aircraft, automobile and food industries featured the rise in manufacturing employment.

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- 2 -

Commodity markets active but prices irregular

Trading in the commodity markets was stimulated last week by the Canadian Government's closing of the Winnipeg Wheat Exchange, and by the approval of the House Agricultural Committee of a bill to increase farm commodity loans to 100 percent of parity or to levels which would assure farmers "fair prices under OPA ceilings". Commodity prices, however, moved irregularly. Rising grain prices carried the Dow-Jones futures index to a new high since its compilation was started in October 1933, but lower prices of meat animals were instrumental in causing a slight decline in the BLS spot index of 28 basic commodities. (See Chart 1.) With cattle receipts expanding sharply, steer prices declined 5 percent, and hog prices turned substantially lower as the effective date of the live hog ceiling (October 4) approached.

The flurry of buying in the wheat markets of this country following the closing of the Winnipeg market caused a sharp rise in grain prices, and wheat and barley prices at the end of the week were 2 cents a bushel higher than at the close of the previous week. It was intimated that the primary reason for the closing of the Winnipeg Wheat Exchange was to safeguard the Canadian price control program. The recent rise in wheat prices was threatening to force an upward revision in bread prices or to force a large increase in Government subsidy payments. With the closing of the exchange, the Canadian Wheat Board has taken over all unsold wheat in commercial positions, and the remainder of wheat stores now held on farms will probably be handled by the Board in due course.

The all-commodity index continues to level out. In the week ended September 25 the index held unchanged at 102.9 percent of the 1926 average, which is only 3.5 percent higher than in the corresponding week of last year but is 37.2 percent above the pre-war level of August 1939. The sidewise movement of the all-commodity index during the past three months has been in contrast to the gradual rise shown by the basic commodity index. (See Chart 2.) The chief reason for this divergence is that advancing prices of grains and meat animals have been pushing up the basic index, while in the all-commodity index these advances have been offset by declines in prices of fresh fruits and vegetables and other products not included in the basic index.

Farm price index steady

The index of prices received by farmers in September was unchanged from a month earlier, as small advances in most of

- 3 -

the important groups of farm products were offset by a 16 percent decline in potato prices and minor downturns in the prices of tobacco and wool. Under the stimulus of a tight feed situation, grain prices continued their rise of the past 10 months.

Since the index of prices paid by farmers (including interest and taxes) showed no change from August to September, farm prices averaged 17 percent above parity, the same as in August. Grains continued to be the only group of farm products whose prices were not above parity. Corn is selling about at the parity level, and last month's rise carried oats above parity, but wheat, barley and rye are still below parity.

While the rise in farm prices during the present war has been very similar to that during the first World War, farm prices have shown a greater rise during the 4 years of this war than in the comparable period of the last war. (See Chart 3.) From August 1939 to September 1943 farm prices rose 119 percent, as compared to a 101 percent rise from July 1914 to August 1918. It is of interest that during the last war period, farm prices did not reach their peak until May 1920, a year and a half after the end of hostilities. The same heavy post-war demand for food relief which helped bolster farm prices in the months following the end of World War I will probably tend to raise prices after this war.

Increase in proposed apple price ceiling ordered

The plan to establish a retail ceiling price of 9 to 10 cents per pound of apples, recently announced by the OPA, has been replaced by a directive of Stabilization Director Vinson which would establish a ceiling price at 10 to 11 cents per pound, according to press reports last week. Mr. Vinson had originally directed the OPA to set growers' maximum prices at parity plus 60 cents on each 48-pound box, and to use this as a basis for working out a regulation on retail ceilings. The establishment of ceiling prices at this level was strongly opposed by an apple industry committee, including members of Congress, with the result that Mr. Vinson issued a new directive for the OPA to set growers' maximum prices at parity plus 92 cents on the 48-pound box. This change would involve an increase in the proposed retail ceiling price of 1 cent per pound.

Apples are one of seven foods upon which reductions in prices are contemplated by the OPA in order to achieve a 2.3 percent rollback in the cost of living. While the increase

- 4 -

in the proposed retail ceiling price of apples will have only a slight effect on the cost-of-living index, it indicates the difficulty confronting the OPA in carrying out a lowering of the index.

Farm prices of apples have increased 90 percent in the past 12 months, and the increase of 71 percent in the retail price from August 1942 to August 1943 was exceeded only by the 76 percent increase in the price of onions, among the foods in the cost-of-living index.

The WFA issued an order last week requiring that lower grades of apples grown in 8 major-producing states be sold only to authorized processors. About 20 percent of the apple crop is estimated to be affected by this order. The order was deemed necessary to fill essential war and civilian needs of manufactured apple products. Ordinarily the lower grades of apples would be used for processing, but this year the demand for fresh fruit is so great, it was stated, that fresh markets would receive a disproportionate share, leaving processors with inadequate supplies.

1944 farm production goals to be presented to Congress

Details of the 1944 farm production goals will be presented by the WFA to Congress this week, and to State Agricultural War Boards at meetings to be held this month. The program calls for an increase in total farm production, but the emphasis will be placed on crops for direct consumption as foods, with but small increases and some decreases for feed crops. In line with the smaller feed supplies anticipated, the goals call for a reduction in some types of livestock production, particularly hogs, chickens, and turkeys. The WFA will later announce price supports for various farm commodities.

Civilian butter supplies continue at low levels

Indicative of the low level of civilian butter supplies, the ration point value of butter has been increased to 16 points per pound, effective October 3. This marks the third increase in the ration value of butter, which now costs twice as many ration points as three months ago. The principal causes of the tight civilian butter supply situation are: (1) a seasonal decline in milk production, (2) large purchases during the peak production months for the armed forces and lend-lease, (3) the diversion of cream from butter production

- 5 -

to fluid cream consumption, (4) a decline in milk and butterfat production due to high feed costs and to difficulty in obtaining feed in some areas, and (5) meat shortages, diverting ration points to butter purchases.

As a step in helping to prevent a decline in butter production, restrictions on fluid milk sales were imposed in 13 Eastern and Midwestern areas effective October 4. Quotas for fluid milk sales have been set at the levels of last June, but sales of cottage cheese, chocolate milk and buttermilk must be cut 25 percent under the June figures. Individual dairies have been given their quota allotments for October, and they must govern their distribution accordingly. Restaurant sales will be cut before home consumption. This program is expected to be extended to all cities of 100,000 population by November 1 and eventually to all markets of at least 50,000 population.

The payment of cash subsidies to all dairy producers to offset higher feed costs and thus stimulate production became operative last week. This subsidy program has been severely criticized by representatives of the dairy industry at hearings of the Senate Agricultural Subcommittee.

Despite these measures, the WFA stated last week that civilian butter supplies will continue at low levels for at least the remainder of this year. Furthermore, the Bureau of Agricultural Economics predicted that "butter production in 1944-45 is likely to be reduced unless the production of milk can be increased substantially above the level now in prospect".

Railroad freight traffic at new peak

With the seasonal peak in freight traffic close at hand, the hard-pressed railroads are now facing their severest test of the war period. In the week ended September 25, freight carloadings rose to a new high for the year and totaled 907,000 cars. While this figure is within 3,000 cars of the 1942 fall peak and 16,000 cars of the October 1941 peak, it fails to reflect adequately the record volume of freight which the railroads are now handling. This is due to the fact that longer hauls and heavier loadings have caused freight car-loading figures to understate actual railroad freight volume. Thus by August 1943, freight carloadings were only 45 percent above the 1935-39 average, whereas estimated ton-miles of freight carried was 134 percent higher. (See Chart 4.)

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In the first half of this year freight carloadings actually dropped 5 percent below year-earlier levels, but the volume of freight, measured in ton-miles, increased nearly 21 percent during the same period.

Despite the mounting burden of traffic, Class I railroads in the first 8 months of 1943 were able to install only 15,700 new freight cars as compared to 53,700 in the corresponding period of 1942. Likewise, the number of new locomotives installed dropped to 408 as compared to 514 in the first 8 months of 1942. Reflecting the heavy pressure on existing equipment, the average daily freight car surplus around the middle of last month was only 21,400 cars as compared to 46,200 cars a year earlier.

Railroads hard hit by manpower shortage

Shortage of manpower, however, has become even more troublesome to the railroads than the tight supply situation in equipment. Following ODT Director Eastman's statement last month that "the United States is headed for a crisis in railroad manpower unless drastic remedies are undertaken at once", the President of the Association of American Railroads recently characterized the manpower shortage as the railroad's No. 1 problem. The railroads are working in cooperation with the ODT and WMC to effect a solution of their manpower problems, but it remains to be seen to what extent such efforts will be successful.

In coping with the railroad manpower shortage, Defense Transportation Director Eastman last month formulated a 13-point program calling for action on the part of management, labor and Government. Among other features, the program advocates the suspension in certain instances of train and engine service mileage limitations as well as state full-crew laws.

Railroad earnings drop below last year's levels

After running above year-earlier levels since November 1941, net railway operating income of Class I railroads (earnings after taxes but before interest and other fixed charges) in June dropped 8 percent below last year's levels. This decline widened to 10 percent in July, the latest month for which figures are available. (See Chart 5.) The drop in operating income in June was due in part to the freight rate reductions which went into effect on May 15, and to

- 7 -

the loss in traffic arising from the coal strikes. While the last-mentioned factor was only a temporary development, the freight rate reductions will stay in effect until at least January 1, 1944.

On the basis of the present outlook, net railway operating income of Class I railroads for the year 1943 is expected to be less than in 1942, despite the increase in freight and passenger traffic and the 38 percent gain in net railway operating income shown in the first 5 months of the year. The most important factor in the prospective earnings decline is the large increase in tax payments, due in part to the fact that most railroads have now exhausted tax credit carryovers from earlier years.

Another factor is the rise in operating expenses. In addition to other items, the railroad wage outlay will be increased when the pending wage demands of the operating and non-operating employees are finally settled. Last week an Emergency Board recommended an increase of at least 4 cents an hour, retroactive to April 1, for railroad operating employees, following a previous recommendation of 8 cents an hour which the Economic Stabilization Director had disapproved. The present recommendation is far short of what the workers had requested, and it remains to be seen what action will be taken in the matter by both the Stabilization Director and the railroad workers.

Coal production short of goal

Bituminous coal production in the week ended September 25 rose slightly above the previous week and was 6 percent higher than in the corresponding week last year. Moreover, despite the work stoppages in the mines earlier in the year, soft coal output thus far in 1943 has been about 2 percent greater than in the same period in 1942. (See Chart 6.)

Nevertheless, Secretary Ickes last week reiterated his concern over coal production and stated that output was running behind goals by about 500,000 tons a week. Bituminous coal stocks were said to total about 75 million tons or the equivalent of about 6½ weeks' production at the current rate. While expressing the opinion that the miners had made a creditable showing in coal output despite the manpower shortage, the Secretary also expressed the belief that maximum efficiency would not be obtained until the United Mine Workers and the coal operators sign a wage contract.

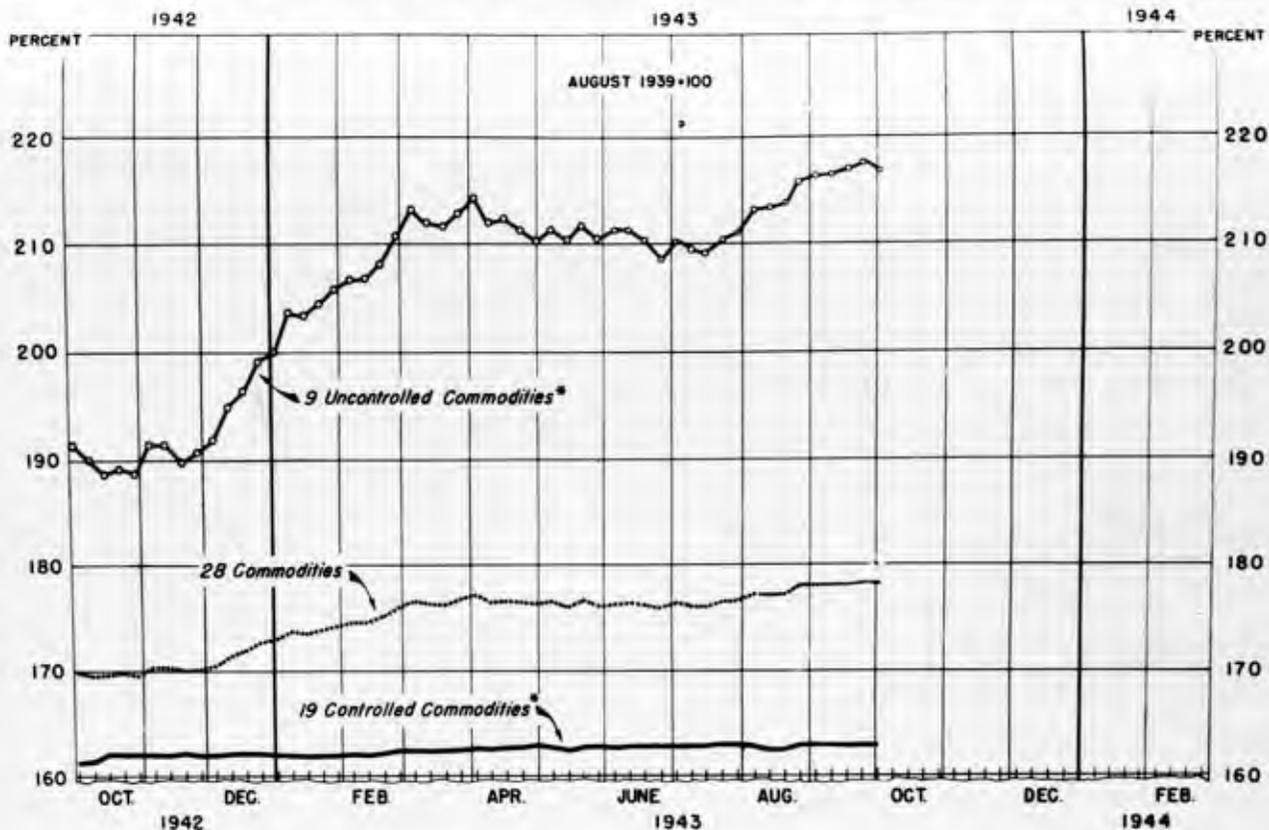
- 8 -

Nonagricultural employment declined in August

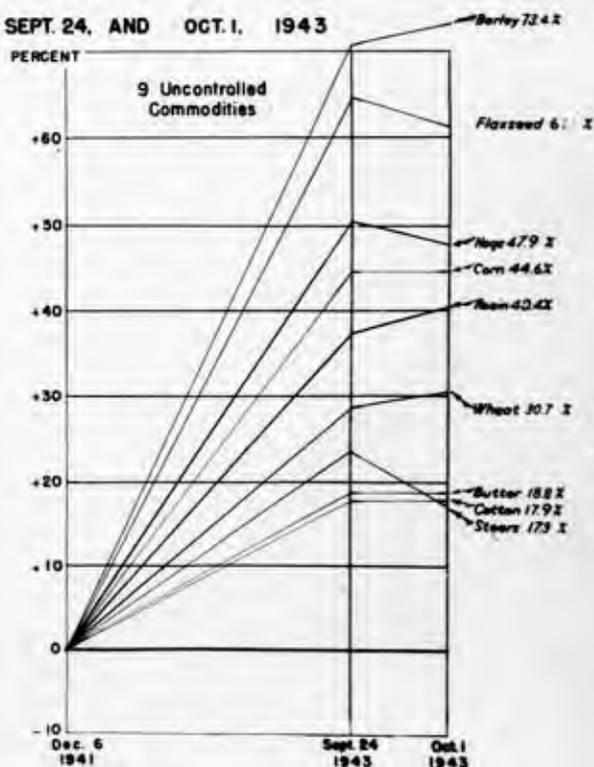
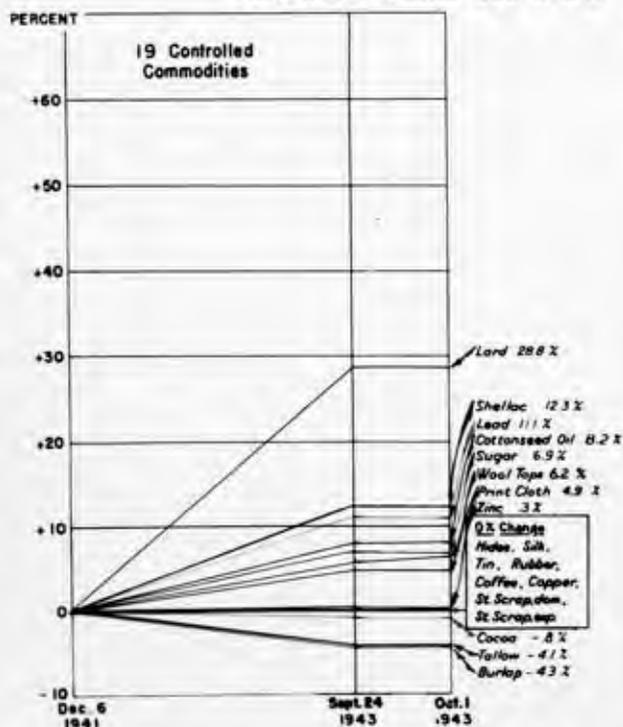
Although manufacturing employment continued to expand in August, other major employment groups showed declines, and total employment in nonagricultural establishments was \$8,000 less than in July. Further expansion in aircraft employment and a gain of 24,000 workers in automobile plants largely accounted for the rise in manufacturing employment. Shipbuilding employment declined, and the other durable goods industries showed little change during the month. The number of workers engaged in the nondurable goods industries decreased in August, as expansion in the food industry was more than offset by declines in the leather, chemical and textile industries.

Despite the decline from the previous month, total non-agricultural employment in August was nearly 500,000 greater than in the corresponding month last year, with manufacturing employment showing a rise of nearly 1,200,000, or about 8 percent. Government workers, (excluding Federal force account construction workers and personnel in the armed services) during the past year increased by nearly 540,000 or 10 percent, thus showing the widest percentage gain of any major group. On the other hand, construction employment dropped 1,000,000, or 46 percent, the largest decline of any group.

MOVEMENT OF BASIC COMMODITY PRICES



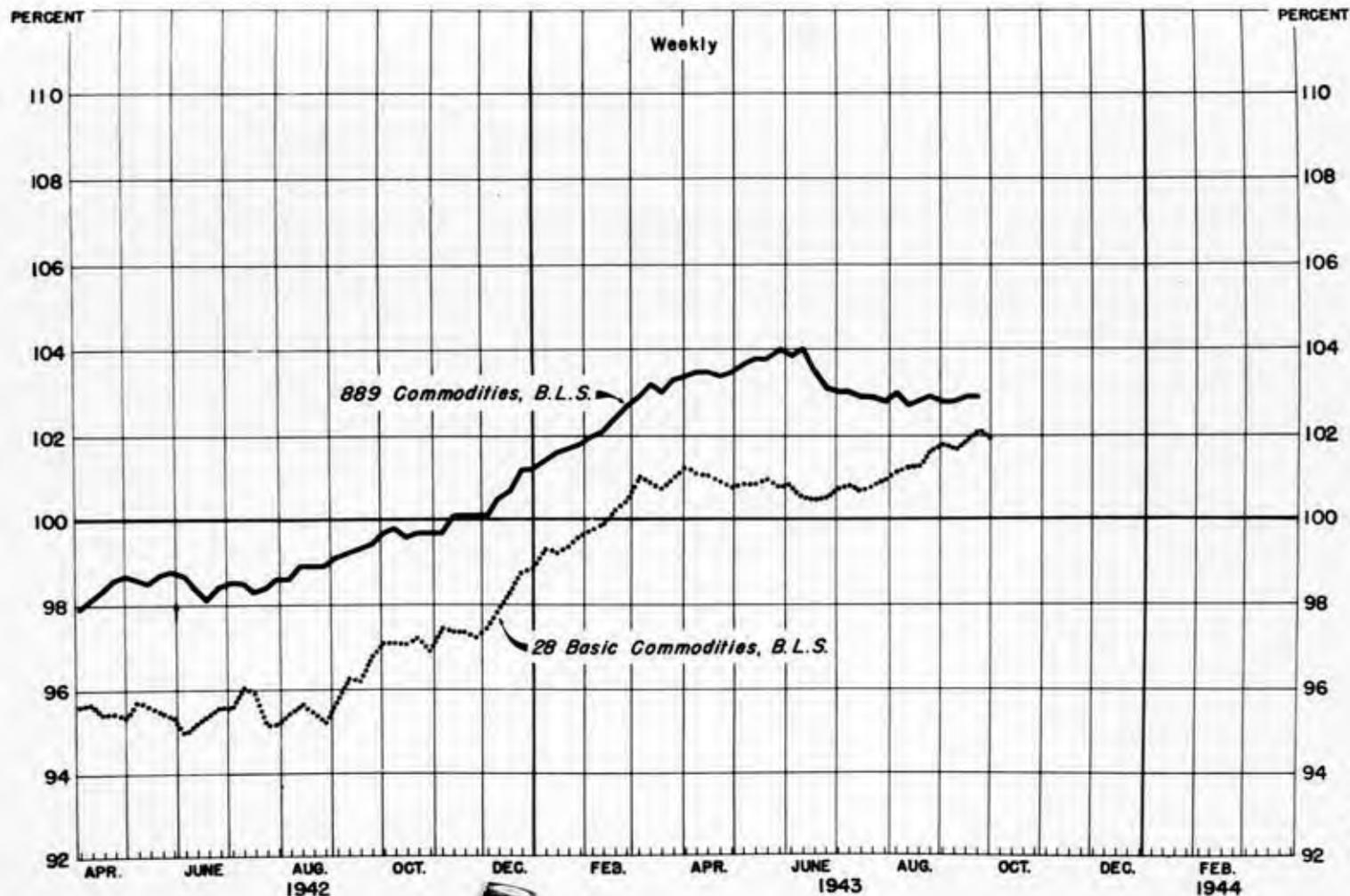
PERCENTAGE CHANGE DEC. 6, 1941 TO SEPT. 24, AND OCT. 1, 1943



* 20 Controlled & Uncontrolled previous to June 26, 1942

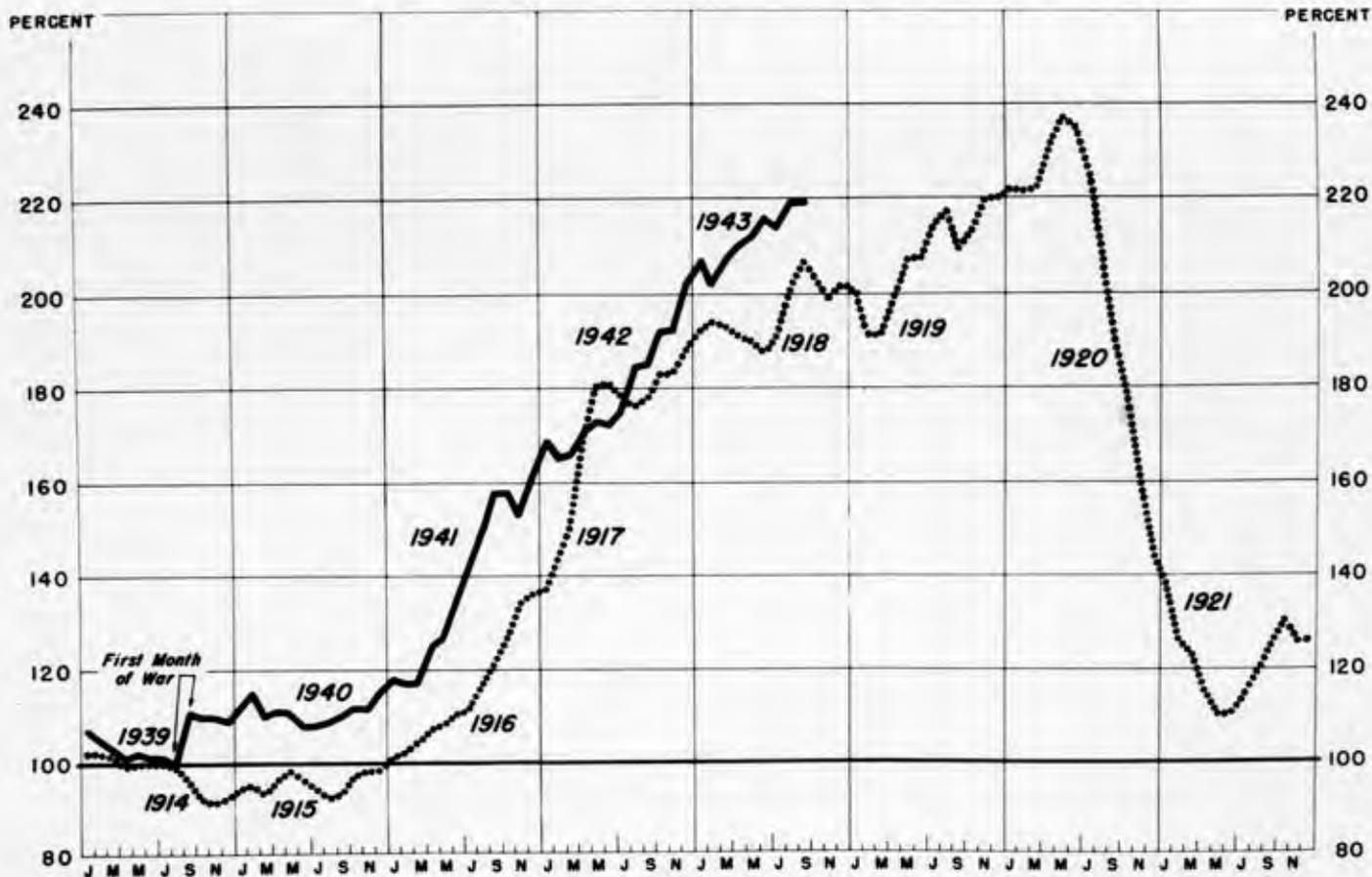
COMMODITY PRICES

1926 = 100



FARM PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1921

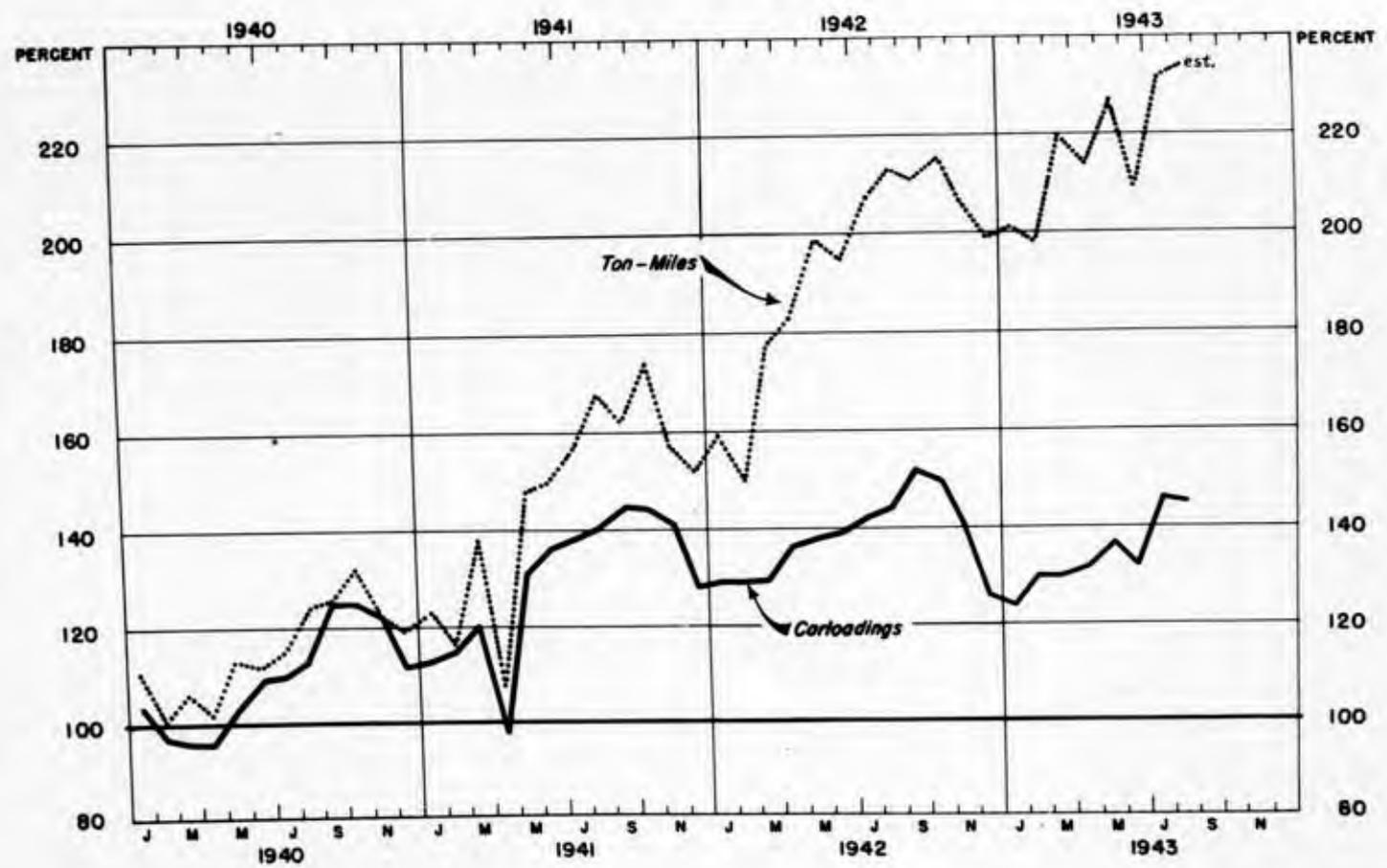
July 1914 = 100 World War Period; Aug. 1939 = 100 Present Period



Source Department of Agriculture

RAILROAD FREIGHT TRAFFIC

1935-'39 = 100



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

C-448

Chart 4 456

Regraded Unclassified

RAILROAD EARNINGS

Net Railway Operating Income, Class I Railroads

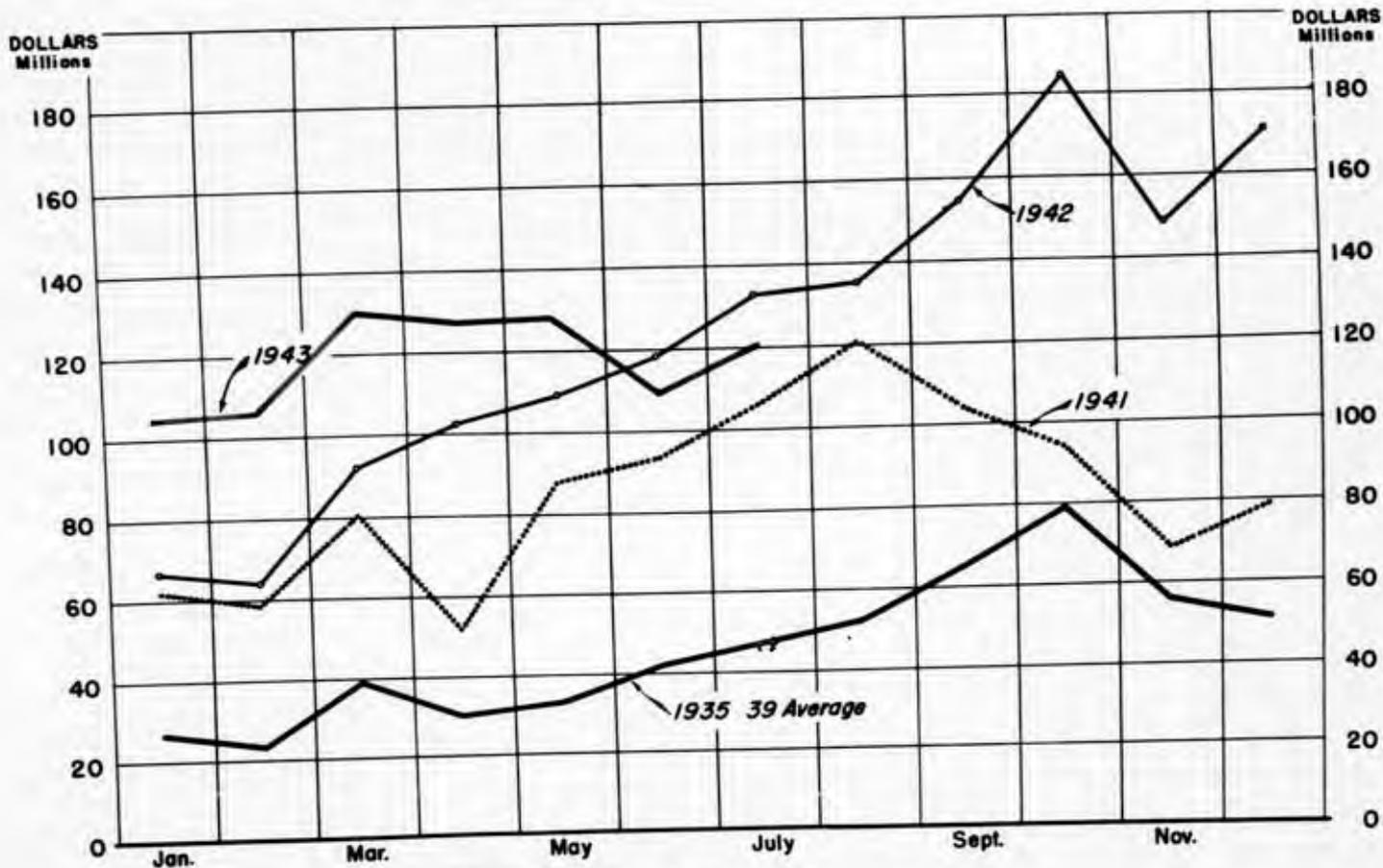
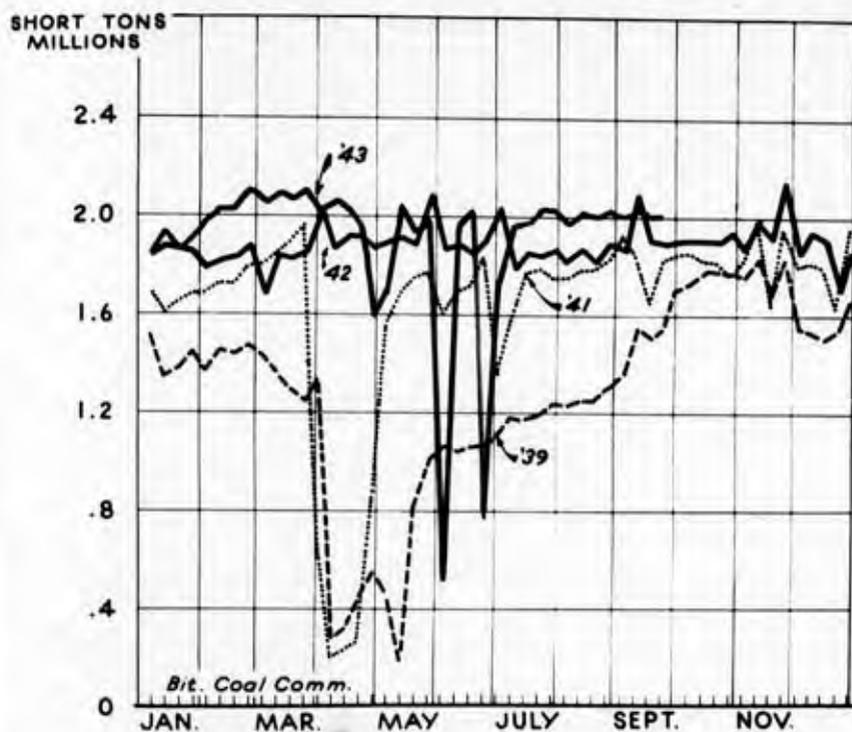


Chart 5 45

Earnings after taxes, but before interest and other fixed charges.

BITUMINOUS COAL PRODUCTION



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

C-484

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October 4, 1943.

Dear Averell:

In common with those who have worked with you in Washington during the past difficult years, I was very much pleased to learn that the President had appointed you our new Ambassador to Russia. I knew that this is not going to be an easy assignment, but that it will be in every way a stimulating one, and feel that the affairs of our country will be in good and capable hands.

My warm congratulations and all good wishes to you as you take up the duties of your new office.

Sincerely,

(Signed) Henry

Honorable W. Averell Harriman,
United States Ambassador to Russia,
c/o Department of State,
Washington, D. C.

GEF/dbs

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STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT
Washington

October 4, 1943

Guiding Principles for a Proposed
United Nations Bank for Reconstruction and Development

Purposes of the Bank

The Bank will encourage private financial agencies to provide long-term capital for the sound development of the productive resources of member countries, and when necessary will cooperate with and supplement private capital for such purposes.

Capital of the Bank

The capital of the Bank would amount to approximately \$10 billion subscribed by member countries according to an appropriate formula. Member countries will make an initial payment of 20 percent on their shares.

When the Bank needs additional funds for its operations, it may make calls upon the unpaid portion of subscriptions as needed, but not exceeding 20 percent in any one year. A large part of the capital would be reserved, in the form of uncalled subscriptions, as a surety fund against securities guaranteed or issued by the Bank.

The initial and subsequent payments are to be made partly in gold and partly in local currency. The proportion paid in gold, not exceeding 20 percent of the payment, will be fixed by a schedule which takes into account the adequacy of the gold holdings of each member country. The local currencies held by the Bank are to be repurchased by member countries with gold at the rate of 2 percent of the subscriptions annually.

Powers and Operations of the Bank

The Bank may guarantee loans made with private capital to any member government, and through the government to any of its political subdivisions and to business and industrial enterprises in the member country.

The Bank may participate in loans made with private capital or make loans out of its own resources only when the borrower is unable to secure the funds from private investment sources on reasonable terms.

The decisions of the Bank will be based exclusively on economic considerations. In passing upon any application to guarantee, participate in, or make a loan, the Bank shall give consideration to the soundness of the investment project or program, to the budgetary position of the member government guaranteeing the loan, and to the prospective balance of payments of the member country.

All loans which the Bank guarantees, participates in, or makes must fulfill the following general conditions: (a) payment of interest and principal must be fully guaranteed by the national government of the member country; (b) The investment project or program must have been investigated and approved by a competent committee; (c) The terms of the loan must be reasonable, and (d) On guaranteed loans the Bank must be compensated for the risk it assumes.

The Bank will impose no conditions as to the member country in which the proceeds of a loan are to be spent. When a loan is made by the Bank, it will credit the account of the borrower with the amount of the loan, and payments in the appropriate currency or currencies will be made from this account to meet audited expenditures. No loan may be made in the currency of any country without its approval.

Payments of principal and interest must be made in free currencies, or by agreement, in the currency in which the loan was made. In the event of an acute exchange stringency, payments of interest or principal may be made for a reasonable period in local currencies to be replaced subsequently with free currencies.

The Bank will deal only with or through the governments of member countries, their central banks and fiscal agencies, and with or through international financial agencies that are owned predominantly by member governments. However, with the approval of the member countries, the Bank may guarantee international loans placed in their countries, and may sell or pledge any of its own securities, or securities taken from its portfolio in the markets of such countries. With similar approval, the Bank may sell gold or foreign exchange held by the Bank after consultation with the International Stabilization Fund.

The resources of the Bank shall be used for the benefit of the member countries.

Management of the Bank

The administration of the Bank will be vested in a Board of Directors consisting of one director, or his alternate, appointed by each member government. The Board will appoint an Executive Committee, and an Advisory Council, and such other committees as it finds necessary for the work of the Bank. The voting power of the member countries will be closely related to their share holdings.

A country may withdraw from membership by giving one year's notice. The shares of any member country that withdraws from membership would be repurchased by the Bank over an appropriate period at par or at book value if that is less than par.

One-fourth of profit should be applied to surplus until surplus equals 20 percent of the capital. The remaining profits will be distributed in proportion to shares held.

OCT 4 1943

My dear Mr. Secretary:

Thank you for your letter of September 15, 1943 enclosing a copy of a strictly confidential memorandum of August 26, 1943 entitled, "Economic Policy Towards Argentina"

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State.

Dr1
7/1/43

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DEPARTMENT OF STATE
WASHINGTON

In Reply refer to
28 CRK

September 15, 1943

Strictly Confidential

My dear Mr. Secretary:

I am enclosing for your information a copy of a strictly confidential memorandum of August 26, 1943 setting forth this Government's economic policy towards Argentina which is a revision of, and supersedes, the policy memorandum of March 4, 1943. This revised policy has my full approval.

Sincerely yours,

Cordell Hull

Enclosure:

Copy of strictly
confidential memo-
randum of August 26,
1943.

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

DEFENSE
BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

COPY

Department of State

Special Assistant to the Under Secretary

Economic Policy Towards Argentina
(Revised as of August 26, 1943)

Strictly Confidential

Objectives of Policy

1. To secure the optimum utilization of those critical materials or supplies which Argentina produces and which are essential for the conduct of the war;
2. To assure the maximum utilization of critical materials by the United Nations for supplying their needs and those of the countries cooperating with them in the war effort;
3. To make available to Argentina such critical materials as it may require for the attainment of the objectives set forth in paragraph (1) above; for public health and safety; and, in unusual circumstances, as compensation for goods or services furnished by Argentina which imply sacrifice to its internal economy.

Implementation of Policy

1. Purchase of Argentine products.

(a) The British to continue their purchases of meat and other critical items.

(b) The United States to purchase such Argentine products as are necessary to the prosecution of the war and which cannot be obtained elsewhere. There is attached a statement of present procurement objectives in Argentina.

(c) Investigate at once the Argentine fuel situation in an attempt to obtain elimination of the present consumption as fuel of linseed, linseed oil, and even wheat and corn by stepping up exports of coal to Argentina.

2. Exports

2. Exports to Argentina.

- (a) Permit no exports to the Argentine armed forces with the exception of restricted items and parts for maintenance and upkeep of existing matériel;
- (b) Permit no export of railway locomotives or rolling stock, or automotive vehicles;
- (c) Approve no Argentine development projects;
- (d) Permit no exports of fourdrinier phosphorus bronze screens until the Argentine Government desists from its present practice of purchasing locally manufactured newsprint for distribution to totalitarian media;
- (e) Limit allocations and exports of materials in scarce supply to the requirements of those industries in Argentina whose products are necessary to the United Nations' war effort, plus (1) minimum amounts in other fields for the maintenance of public health and safety and plus (2) minimum amounts for the maintenance, repair and operations of industries and public utilities in Argentina contributing to the United Nations' war effort.
- (f) Press joint export programming with United Kingdom and Canada to effect the maximum diversion of their east coast exports to Brazil and Uruguay and with special reference to coordinating policy as outlined herein;
- (g) Utilize the joint informal arrangement with the Brazilians to eliminate or limit the exports from Brazil to Argentina of any of the products above banned or limited for export from the United States to Argentina;
- (h) Limit Swedish exports to Argentina to paper, woodpulp for paper-making and rayon pulp but in exceptional instances permit shipments of critical materials from Sweden when it would be of advantage to us for that country to export them to Argentina

for

for the uses stipulated under (e), provided that such orders from Sweden be approved in advance by a small British-American Committee in Buenos Aires.

(i) Control, through navicerts and any other appropriate means, trade between Argentina and Spain and Portugal;

(j) Endeavor to have exports of strategic materials from any country to Argentina eliminated or limited to the end uses stipulated under (e).

(k) Permit no export of petroleum equipment, including operational equipment used in connection with the production of petroleum products as well as boring and oil field equipment, with the exception of items of equipment already manufactured for the Y.P.F. which items are to be selected after consultation with the Embassy at Buenos Aires with a view to the maintenance but not the increase of Y.P.F. petroleum production.

(l) In order to maintain the availability to the United States of northbound shipping provided by Argentine vessels, apply no restrictions on exports to Argentina of materials not classed as critical materials, with the exception of restrictions prescribed elsewhere in this memorandum or restrictions applicable in general in connection with export control.

3. Merchant Shipping.

(a) Allocate no United Nations-controlled ships to the United States-Argentina run except for the loading of northbound

strategic

strategic cargo, and continue to request the Swedes not to place any of their vessels in this trade;

(b) Operate on the basis of the Agreement informally concluded between Admiral Stewart and Mr. Franz Schneider of the War Shipping Administration;

(c) Take all appropriate measures, within the limitations of the general policy outlined herein, to assure the continuance of the present satisfactory operation of the informal shipping agreement between the War Shipping Administration and the Flota Mercante del Estado.

4. Petroleum

Take no action regarding petroleum negotiations pending completion of the investigation of the entire Argentine fuel situation as referred to in 1 (c).

5. Financial and Other Measures.

(a) Extend no government credits of any kind to Argentina.

(b) Continue to increase the effectiveness of the Proclaimed List through proper consignee control and supervision of imports from the United States and, through cooperation with the British, limiting imports from that country to proper consignees;

(c) Increase the effectiveness of Navicert Control by again giving the Embassy the right to examine proposed Argentine consignees;

(d) In collaboration with the Treasury Department, continue to strengthen the measures designed to cut off transactions involving assets within the United States or United States concerns, when such transactions may directly or indirectly benefit the Axis.

PROCUREMENT OBJECTIVES IN ARGENTINA
(All figures long tons.)

	1943	1944
	<u>August through December</u>	
<u>Fats and Oils</u>		
Linseed	250,000, of which approximately 100,000 has already been bought and including British purchases	750,000 (including British purchases)
Sunflower seed oil	10,000	170,000/200,000
Rapeseed oil	2,000	15,000
Tung oil	1,000	2,000
Peanuts (shelled)	7,500	150,000
Glycerine	1,000	3,000
Olec Acid	1,000	2,000
Tallow (British)	7,500	30,000
Neatsfoot oil	600	2,000

Foods

Amount not presently determinable, awaiting result of study now being made in Argentina.

Metals and Minerals

<u>1943*</u>	
Beryl or beryllium ore	1,100
Mica	500
Tantalite	10
Tungsten Ore and Concentrates	2,500
Vanadium Ore and Concentrates	600
Zinc Ore and Concentrates	80,000

Miscellaneous

<u>1943*</u>	
Cattle Hides, wet or wet salted	87,000
Leather, sole	8,200
Quebracho extract	137,800
Canned beef	30,400
Wool	40,000
Bones and Bone Grist	27,000
Casein	15,000
Tankage	25,000/40,000

Foregoing does not include British purchases (which will be especially large in case of meat) except in the case of fats and oils

A number of items of minor quantities, such as hog bristles, are omitted.

*1944 estimates not available.

October 4, 1943

TO: Mr. Harry D. White
Assistant to the Secretary of the Treasury

FROM: Mr. James E. Wood
Financial Attache
Lisbon

Appended hereto is a report on military
and other conditions in and around Marseille. It
comes from a source which is considered reliable.

Incl.

SS information from Marseille, dated
September 20, 1943.

Three regiments of German police have recently arrived here. They consist of the 5th Polizei Regiment, the Police Regiment Techt, and the SS Polizei, the latter armed with heavy machine guns and anti-riot equipment. There has also arrived recently numerous Feldgendarmarie. It is possible that the French police will be replaced by the German police.

In the surrounding country there are 30,000 troops of Infantry and motorized field artillery with its staff at Aubagne.

In the area between Arles and Avignon there is a new formation of H. Goering SS Panzer regiment which has come from Charkow. These troops are quartered in tents in the fields.

More troops are now beyond the seashore building second-line defense works which are not considered very important. There are installed at the entrance of villages and at important crossroads anti-tank guns and trenches with heavy machine guns. No heavy artillery is to be seen and generally few other artillery. Only a few Italians remain here having distributed their food and equipment to the French population before being disarmed by the Germans. Many Italians have escaped in plain clothes, the great mass of their troops having returned to Italy before the armistice. According to news received from Germany, recent bombardments have been terrific. The official dead in Hamburg are estimated at 150,000. Workers clearing streets there are obliged to wear gas masks because of the stench of decaying bodies. Phosphorous bombs are the most feared. The spirit of the population is low but the people do not dare to react as they are terrified by the SS police replacing the Schuppo (ordinary police officers) in the cities. Numerous arrests have been made among the former adherents of the Socialist and Communist parties. Anyone showing the least opposition is shot. There is great discontent among the people who have been obliged to leave their homes because of the bombardments and others who have been transferred to Poland. The latter are suffering from lack of food and inadequate housing facilities. All men from 30 to 60 years are expected to be mobilized.

Lisbon, September 30, 1943.

PARAPHRASE OF TELEGRAM RECEIVED
FROM: AMERICAN EMBASSY, CHUNGKING, CHINA
DATE: October 4, 1943, 4 p.m.
NO.: 1858

STRICTLY CONFIDENTIAL.

Reference is made to the following telegrams from the Embassy: No. 1800, September 5; No. 1847, October 2.

It has been confidentially affirmed by the Minister of Economic Affairs that no decision has, as yet, been reached by the Government as to the utilization of gold. It is the Minister's opinion that inflation will not be materially retarded by the sale of gold here because of the following reasons:

- (1) Very few Chinese will be in a position to buy even a small amount;
- (2) Even a considerable sale of gold would not sufficiently reduce the currency in circulation so as to be greatly beneficial, especially since the currency issue will necessarily continue to expand by over three billion monthly. However, it is the Minister's belief that, to some extent, gold could be used to stabilize commodity prices -- the gold being emphasized for purchase of commodities, which are to be sold at fixed prices, by the Government.

No solution for the inflation problem of China was, in general, envisaged by the Minister. According to a statement made by the Minister, the tax system--especially collection in kind--was ineffective. Its ineffectiveness is due to (1) corruption on the part of poorly paid tax officials and (2) the unbearableness on the part of the people - as evidenced by the result and peasant revolts - against such a system. The Minister further stated that the optimistic utterances of Chiang Kai Shek before the CEC -- reference: No. 1693, September 12, 1943, from the Embassy -- were made because it was Chiang's desire to encourage the people and, too, the Generalissimo 'liked to be an economist'. The Minister then stated that it would not be possible to predict the length of the disheartening situation. It was his thought that within a year or a year and a half a bad crisis was unlikely.

GAUSS

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COPY NO. 13

OPTEL NO. 326.

Information received up to 10 a.m. 4th October, 1943.

(1) NAVAL Home Waters. 3rd

One of H.M. Trawlers mined and sunk off Humber.

Dodecanese. Early morning 3rd. A German sea-borne force of transports escorted by 2 destroyers and light craft effected a landing on Kos. About 800 troops and some tanks reported near town of KOS with paratroops landing near ANTIMACHIA.

Anti-Submarine Operations. Home Waters. 3rd. 4 U-Boats were attacked S.W. of Iceland (C).

(2) MILITARY Italy. 8th Army

A successful assault landing made south of TERNOLI where an enemy counter attack was repulsed with considerable losses.

5th Army Enemy resistance north of NAPLES has stiffened. Armoured troops have reached MARANO DI NAPOLI.

Russia See W. O. Telegram MI 17 of 3rd October.

(3) AIR OPERATIONS Western Front 2nd/3rd

963 tons dropped on MUNICH. 3rd. Marauders (B.26) dropped 258 tons on 4 airfields in FRANCE and HOLLAND. Medium and light bombers dropped 69 tons on power stations in North FRANCE. Typhoons attacked harbours at FLUSHING, BOULOGNE and FECAMP. 78 squadrons of fighters provided escort and carried out sweeps. Enemy casualties 25: 0: 10; ours 4 light bombers and 11 fighters.

3rd/4th Aircraft despatched. - Kassel 547 (24 missing), Hanover 10, Aachen 4, Cologne 13, Sea-mining 7, Leaflets 7, Intruders 31, Anti-shipping 7. At KASSEL weather good and fairly good concentration of bombs, good fires reported. 8 enemy aircraft over East Anglia causing little damage and few casualties. 1 M.E. 410 destroyed.

Italy 1st. 152 fighters/bombers attacked communications North and North East of NAPLES., enemy M.T. destroyed or damaged.

1st/2nd. Wellingtons dropped 50 tons on bridges 18 miles N.W. of NAPLES and 59 tons on coast road near FORMIA

2ND. 76 fighter bombers attacked transport in ISERNIA area.

Dodecanese. 1st/2nd 5 Beaufighters bombed MARITZA and CALATO air fields on Rhodes Island.

OFFICE OF TREASURY DEPARTMENT
5 PM 4 10
Late News. KOS - Later reports indicate enemy has landed more than 2,000 troops and controls most of island. British troops surrounded in KOS and ANTIMACHIA. Italians not fighting. Ends.