

DIARY

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November 10, 1943
9:15 a.m.

GROUP

Present: Mr. Daniel Bell
Mr. Herbert Gaston
Mr. Randolph Paul
Mr. John Sullivan
Mr. Norman Thompson
Mr. Fred Smith
Mr. Roy Blough
Mr. Edward Bernstein
Mrs. Henrietta Klotz

H.M.JR: Mr. Gaston?

MR. GASTON: A few days ago, before you returned, I had a request from a man named Beal, formerly of the United Press. He was sent down to me by Chick. He wanted to do something on this Rolls-Royce-Merlin motor. He talked about a letter from Beaverbrook on that, that he would like to get.

H.M.JR: I am not going to do any more of these personality things. I'd give a good fat price to get out of that profile business. Do you think we can?

MR. SMITH: Not at this late date.

H.M.JR: You can tell him he can have one more session with me. It isn't worth the time to have a man sit there and ask you one thousand personal questions.

MR. PAUL: Is that the New Yorker business?

H.M.JR: Yes.

MR. PAUL: They make you sign your life away, too.

MR. SMITH: Not so bad.

MR. GASTON: Who is doing the New Yorker thing?

H.M.JR: Hellman is, all right. But I am sorry I

have to do it. I won't any more.

MR. GASTON: Do you want to let this man Beal pursue this thing? He wants to tell the Rolls-Royce-Merlin story and something about your connection with it. He spoke about a letter in connection with Beaverbrook that I don't know about.

H.M.JR: It was a telegram. Packard has the whole story in the House organ.

MR. GASTON: What he said he wanted particularly was to get a copy of that cablegram.

H.M.JR: You ask him to talk to Mrs. Klotz, and she will talk to me.

MR. GASTON: I will have Beal see Fred, then.

H.M.JR: Yes, because I am tightening up even more than ever on my own stuff.

Norman, did you get your administrative people together?

MR. THOMPSON: Yes.

H.M.JR: Did you have a good talk with them?

MR. THOMPSON: Yes.

H.M.JR: I am going to get my people together. To show you the length to which people will go to get information, a group of four men appeared at the Glenn Martin factory with a letter on White House stationery, signed by Daniels, asking to take them through the factory and show them everything; which they did. Then for some reason they got suspicious and called up the White House, and Josephus Daniels said he had never written anything like that.

The White House got excited and looked into it. A couple of Donovan's men - like joining a fraternity - have to crash a factory in order to get a job - to forge letter-heads and signatures and everything else, in order to get into a factory. That is part of their training.

MR. BELL: Nice post-war vocation!

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H.M.JR: If they'll do that--I was much worried about Military and Naval Intelligence.

Now, I heard yesterday--he is coming in here today--that Robert Sherwood had all of my cables on his desk that I sent overseas. Why?

The whole time I was in Cairo I was shadowed by a plain clothesman, Military Intelligence. Finally I said, "Come on over here; I want to talk to you. Who are you?" Intelligence. I said, "We might as well get acquainted. We might as well sit down and have a drink."

Good morning (indicating Mrs. Klotz).

MRS. KLOTZ: Good morning.

H.M.JR: The Navy people, military people, Donovan's people--and then the unfriendly people. I am talking about being careful about all these people, for instance, who were trained to get into Glenn Martin. They counterfeited White House stationery and asked to be taken through the plant. They got suspicious and checked it. It is just training they give their people in counterfeiting.

(Indicating Mr. Thompson) I am going to get all of my people together and give them a little lecture, including the operators downstairs. I want you to do the Administrative Assistants. I just told Smith to get something from you.

(Indicating Mrs. Klotz) I said you wouldn't get anything out of my records without coming to me first. You wouldn't take anybody's word.

If they go to that length, what will people on the National Republican Committee do?

MR. THOMPSON: We have security officers, and I will ask them to be on the look-out.

H.M.JR: To me, it is the stupidest thing about Donovan I ever heard of--counterfeiting White House stationery! It throws immediate doubt on anybody who writes on White House stationery.

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MR. GASTON: Maybe it was one of Donovan's men who was a phoney press agent for Warner Brothers here.

H.M.JR: What was that?

MR. GASTON: The man got away with \$20,000 acting as a phoney press agent for Warner Brothers.

H.M.JR: Maybe it was one of Donovan's men. (Laughter) Anyway, it makes you stop, look and listen.

Herbert?

MR. GASTON: I haven't anything else.

MR. SMITH: I have nothing.

MR. BELL: Speaking of Donovan, we are certainly handing out some money to him that makes me shudder every time we give it to him--unaccountable and individuals and large sums. But he assures us it is all right.

MR. PAUL: We have a record on that.

MR. BELL: He says he has a very accurate record.

MR. PAUL: I mean, we have a record. It pretty well protects us.

MR. BELL: We have a record of the money we give, but not of the expenditures.

MR. PAUL: We have a record from him saying there are military purposes involved.

MR. BELL: Sure--all from Donovan. But just the same, when you hand an individual \$500,000 in currency or gold it kind of makes you shudder.

H.M.JR: What authorization?

MR. BELL: Well, Donovan wrote us a letter and said anything of this character, any request of this nature that came over from Bigelow.

H.M.JR: Who is that?

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MR. BELL: His main assistant. We could honor him; we are doing that.

MR. GASTON: It is an appropriation?

MR. BELL: It is money, I understand, allocated from the President's fund. Of course, the President doesn't have to account for it, and that is the reason they get it. It is not audited.

H.M.JR: Hopkins was here for an hour and a half and says he can't find out what Donovan is doing. He says he has tried and can't find out.

MR. BELL: He was one of the first, I understand, to land at Salerno with the boys, and went over the top.

MR. PAUL: Serving summons for people out of whom they were trying to get some quid pro quo.

H.M.JR: Well, I'd watch it, anyway.

MR. PAUL: Every time we have gotten something from him, the burden is on him. They have told us why they wanted it.

H.M.JR: Donovan was going down the river with me and Knox two or three years ago, and asked what I was doing to protect myself. He said, "I did the investigating of the Democrats for the Wilson Administration, and don't think you are not going to be investigated. I hope you have got a good record." I said, "I have got a good record." He said, "Be sure you have, because you are all going to be investigated." Well, I hope he has a good record!

Frederick?

MR. SMITH: Nothing.

MR. SULLIVAN: Do you want a committee in the Senate comparable to the House Committee on International Stabilization?

H.M.JR: I don't know why they ask me the question.

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MR. SULLIVAN: I tried to get Barkley yesterday, and couldn't. I'll try to get him today. It is a liaison committee such as Sam Rayburn appointed from the House. He appointed a committee of eight while you were away and nothing was said about the Senate, so I'll get hold of Barkley this morning.

H.M.JR: Harry asked whether we should meet together or separately. I said that would be up to the Senate.

MR. SULLIVAN: I'll go ahead with Colonel Walsh and that joint investigation. I had a memorandum copy of Marshall's memorandum to you. I'll go ahead as we outlined.

H.M.JR: But when we go in the door, let an Army officer go in the door first. Let our fellows sort of hang back. There'll be alcohol tax fellows, anyway.

MR. SULLIVAN: It is a joint operation.

H.M.JR: But somebody has to go in the door first. Let it be an Army fellow.

MR. SULLIVAN: What does Emily Post say?

H.M.JR: A man in uniform should go first. Tell our boys to hang back a little. I'm serious.

MR. SULLIVAN: All right.

H.M.JR: (Indicating Mr. Paul) Are your men getting any suggestions to me?

MR. PAUL: I had some yesterday, but I held them back when the meeting went over to Friday in order to revise them a little bit.

H.M.JR: Could you get them to Smith today?

MR. PAUL: Any time, now. The only reason I held back was for further revision, since the meeting was put off. Smith has had the main body since Friday or Saturday last week. All that I am doing is rehashing that.

MR. SMITH: The big rebuttal--yes.

MR. BLOUGH: I talked to Smith yesterday. What is the time?

MR. PAUL: It is Friday now.

H.M.JR: As soon as Smith feels he has something.

MR. SMITH: I thought what we would do is work up a framework and get together and argue it.

H.M.JR: Let Gaston sit in on it.

MR. SMITH: All right.

MR. PAUL: On that Agriculture thing I found Roy had already talked with John, but we talked with him again. He agreed to go along with this memorandum we had. I called Wickard and told him about it. He was rather pleased not to have our opposition. I didn't say we were giving him affirmative support.

H.M.JR: Just what, roughly, is it that we're supporting?

MR. PAUL: It is a tax, very high rate, intended to be directed against speculators who buy up land for a high profit. There is a lot of that going on.

H.M.JR: I mean, what is the description of land for high profit?

MR. BLOUGH: Do you want me to answer?

H.M.JR: Go ahead.

MR. BLOUGH: Suppose hereafter I go into your county and buy a farm. It doesn't matter who I am, whether a farmer or a city slicker or what sort of fellow I am.

H.M.JR: We know what you are, see? (Laughter)

MR. BLOUGH: I'll not go into your county, then!

I sell that land within six years. I'll be subjected either to my regular income tax on the profit or this

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special tax, which would be ninety percent of the profit if sold within the first two years, and then by varying percentages down to thirty percent of the profit if sold between the fifth and sixth years.

MR. PAUL: It is very much like that provision we had in the 1934 Act.

MR. GASTON: Special capital gains tax.

MR. BLOUGH: It doesn't affect the first sale of the real estate.

H.M.JR: It's all right with me. I never sell any land. I just buy.

MR. PAUL: You understand we are not putting this forward. Agriculture is sponsoring it.

H.M.JR: I think it is a very good idea.

MR. PAUL: It has a lot of difficulties about it, such as the possibility of incorporation and evasion of the tax.

H.M.JR: In principle it is all right.

MR. SULLIVAN: In objective it is all right.

MR. PAUL: The only thing you can say about it is that nobody else has suggested any other remedy.

H.M.JR: I told you in principle I was for it.

MR. BLOUGH: I think we have guarded ourselves on our position.

MR. PAUL: Over-guarded, probably.

H.M.JR: None of you fellows reminded me I should do anything about Doughton's eightieth birthday. Did any of you fellows do anything--a birthday cake or anything? A case of liquor?

MR. PAUL: When was his birthday?

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H.M.JR: Sunday or Monday.

MR. BELL: He said he went to his office to read all of his congratulatory messages on Sunday.

MRS. KLOTZ: We never sent him a message?

H.M.JR: No.

MR. BELL: Send him a belated one.

MRS. KLOTZ: Say you were out of town.

MR. PAUL: He is a hard old guy.

MRS. KLOTZ: Send him a belated gift.

H.M.JR: I think I'll call him up.

MR. PAUL: That would be better than a gift, I think. Call him up.

H.M.JR: Okay.

MR. BLOUGH: I have nothing else.

H.M.JR: How far did I get?

MR. BERNSTEIN: I don't know what is the matter with Harry. He was all right yesterday. He called you yesterday afternoon to tell you about the resignation of Couve de Murville. I am not sure that he got you.

H.M.JR: I read it in the papers. He was part of a group that were kicked out.

MR. BERNSTEIN: One of three Commissioners--and some other people, too.

H.M.JR: Have you contacted the State Department to ask them to give me an interpretation of that?

MR. BERNSTEIN: We'll find out. Two people were in yesterday from the French National Committee and told White about that.

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H.M.JR: No, but whom do you contact?

MR. BERNSTEIN: We could find out from the people who have the liaison with North Africa.

H.M.JR: I'd like an interpretation of the whole thing.

MR. BERNSTEIN: Yes, sir.

H.M.JR: Promptly; and also who is going in as Minister of Finance.

MR. BERNSTEIN: Yes, sir.

H.M.JR: That is a funny one.

MR. PAUL: On the American end of it Currie is looking for men very madly now at various posts over there.

H.M.JR: Tell him to keep out of the Treasury!

MR. PAUL: Well, I think he had his eye on John Pehle, but he hadn't made any motions yet.

H.M.JR: Well, he had better keep out.

MR. GASTON: We have a lawyer in Foreign Funds who is about to be drafted--a man named Lesser, a very good man.

MR. PAUL: Larry Lesser. He is a very good man.

MR. GASTON: Maybe Currie would claim him and protect him from the draft, or something.

MR. SULLIVAN: Generous guy! We've lost him, anyway.

MR. GASTON: We are going to lose him. He is going to be inducted.

H.M.JR: Well, I hope Currie will keep his hands off, seriously.

MR. PAUL: He has been talking with McCollester again, trying to persuade him to make a move.

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H.M.JR: Tell Harry to call them when Harry feels well. Tell him to call up Lauch Currie and say I say he should keep out of the Treasury, if he knows what's good for him.

MR. BERNSTEIN: Yes, sir.

MR. PAUL: I can tell him that if you want.

H.M.JR. I'd rather have Harry do it, I think. Let Harry do it. If he doesn't want to do it, I'll do it.

MRS. KLOTZ: I was going to say, why don't you do it, yourself?

H.M.JR: I haven't enough evidence. This is all just talk.

Is there anything else?

MR. BERNSTEIN: No, sir.

MR. BELL: I have nothing.

MR. THOMPSON: I have nothing.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 10, 1943

TO Secretary Morgenthau
FROM Mr. Bernstein

Mr. White was advised late yesterday afternoon of the dismissal of M. Maurice Couve de Murville as Minister of Finance of the French Committee of National Liberation by M. Alphand and M. Istel, representatives in the United States of the Committee, but was unable to get in touch with you. We have not received any comments from the Treasury representatives in the field as to these developments.

One of the factors in Murville's dismissal appears to be that he has been consistently out of step with the group who are sympathetic to establishing an effective National Committee in North Africa under the direction of General deGaulle and who have desired to subordinate the French Army to the will of the French Civilian Government representatives. Though it has been known that Murville was out of step with deGaulle's in North Africa, it was not known here that any action was contemplated against Murville at this time. It would appear that your conversations with Mr. Murphy and other officials in Algiers lent considerable support to the liberal element in the Committee who have been displeased by the refusal of the Ministry of Finance to take effective action against the financial groups who have collaborated with the enemy.

Prior to March 24, 1943, Murville was an important official of the Ministry of Finance in Vichy and was responsible for negotiations concerning financial and exchange matters with the German Armistice Commission. He reportedly obtained a German exit visa from France on the pretext of continuing some official negotiations in Madrid.

On his arrival in North Africa, he was welcomed by both groups of Frenchmen as a man who was particularly able in his field and who had resisted the Germans in his duties with the Vichy Government. The diplomatic representatives of the United States and Great Britain in Algiers and London were also unqualified in their recommendations of Murville, both as to his abilities and as to his Allied sympathies.

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However, during the time in which Murville held the post as Minister of Finance in North Africa, he has lost the sympathy of other French Government Departments and has resisted the suggestions of American Government officials in respect to taking effective economic warfare and financial measures. Under his guidance, the Ministry of Finance has been extremely reluctant to examine the financial manipulations of collaborationists.

Murville's successor as Minister of Finance - Pierre Mendes-France - was Under Secretary of State to Leon Blum in the Popular Front Cabinet 1936-37. He was a member of the Chamber of Deputies and a reserve lieutenant in the Army at the time of the fall of France in 1940. On May 11, 1941, Mendes-France was court-martialed and sentenced to prison for six years for deserting the Army by embarking for North Africa with other members of the Chamber in June 1940. On June 23, 1941, he escaped from a military hospital at Clermont-Ferrand where he had been transferred after receiving sentence. He was listed on November 5, 1943, in a decree issued by the Vichy Government, as one of the Frenchmen deprived of their citizenship.

November 10, 1943

Fred Smith.

The Secretary.

(1) Would you please send a copy of the release that you gave out to the newspapers about what I said before the War Bond people yesterday to Mrs. Morgenthau?

(2) Whatever happened to that splendid statement you prepared for me for the Russian meeting in New York? I saw no reference to it in any paper. That's too good a statement to have been lost. *Finished*

November 10, 1943

Robert McConnell.

The Secretary.

I saw General Greenbaum last night and he is entirely familiar with this question of the disposal of surplus Army plants and tools. He said he'd be very glad to discuss it with you. He said, however, before the Treasury takes it on, we'd better look at it twice because it's going to be a terrific headache. General Greenbaum is Executive Vice Assistant to Judge Patterson.

WAR DEPARTMENT
THE CHIEF OF STAFF
WASHINGTON

November 10, 1943.

The Honorable,

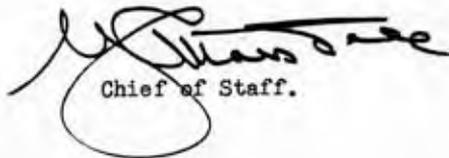
The Secretary of the Treasury.

Dear Mr. Secretary:

I have your letter of November 6th and am glad to know that you find the Joint Intelligence Committee Weekly Summary of interest.

I am sorry that we are unable to supply a summary of the censorship of soldiers' mail as you requested. Mr. Byron Price's Office of Censorship prepares a weekly summary of information collected through censorship of civilian communications. Military censorship, however, is operated along different lines since the Army is primarily concerned with the security of military information in theaters of operation, and no need has arisen for a summary of the information along the lines you indicated.

Faithfully yours,



Chief of Staff.

November 10, 1943.

My dear General Marshall:

I want to thank you for your kindness in making such successful and efficient arrangements for my recent trip to Africa and the battle front in Italy. It would please me particularly if you would convey to the officers and crew of the transport on which I traveled and to those who had a part in the arrangements my appreciation of their efficiency and their personal courtesies to me.

Particularly I want to mention Major Henry T. Myers, Captain of the flight; Captain Theodore J. Boselli, the navigator; Lieutenant Elmer F. Smith, the co-pilot; Captain John J. Farmer, the finance agent; Master Sergeants Winslow and Horton and Private Preydun, all of whom were good companions and did everything possible to make the voyage so pleasant for my associates and myself.

It was a trip from which I gained a great deal of value to me in my work and one which I shall long remember.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

General George C. Marshall
Chief of Staff, United States Army
War Department
Washington, D.C.

RMH

"Personal" on envelope

My dear General Marshall:

I would like to let you know that the following members of the crew of the ship that flew me to Cairo and back were most efficient and expert at their jobs. They did everything possible ^{to} make me feel ~~xxxxxxx~~ comfortable. I would appreciate your letting them know how much I appreciated it.

Sincerely yours,
~~xxxxxx~~

Gmarg

General George C. Marshall,
Chief of Staff,
United States Army,
War Department,
Washington, D.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 8, 1943

o Mrs. Klotz

FROM Fred Smith

You asked for the names of the crew members on the plane that took us across. Here they are:

Captain of the ship	Major Henry T. Myers
Navigator	Captain Theodore J. Boselli
Co-Pilot	1st. Lt. Elmer Frank Smith
Crew Chief	Master Sgt. Frederick A. Winslow
Radio operator	Master Sgt. Charles A. Horton
Steward	Private John Preydun
Finance Agent	Captain John J. Farmer

FS

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

November 8, 1943

TO Mrs. Klotz.

FROM The Secretary.

I want to write a letter to General Marshall complimenting the men of my crew on the plane. Let Fred Smith get the names of all the men on the ship and then I remember that I promised Major Meyers, my pilot, to send him a box of apples.

C O P Y

The White House
Washington

November 10, 1943

Dear Mr. Secretary:

Although other agencies of the Government are preparing themselves for the work that must be done in connection with the relief and rehabilitation of liberated areas, it is quite apparent if prompt results are to be obtained the Army will have to assume the initial burden of shipping and distributing relief supplies. This will not only be the case in the event that active military operations are under way, but also in the event of a German collapse. I envisage that in the event of a German collapse, the need for the Army to undertake this work will be all the more apparent.

Therefore, I direct that you have the Army undertake the planning necessary to enable it to carry out this task to the end that it shall be prepared to perform this function, pending such time as civilian agencies must be prepared to carry out the longer range program of relief.

You may take this letter as my authority to you to call upon all other agencies of the Government for such plans and assistance as you may need. For all matters of policy that have to be determined in connection with this work, you will consult with the State Department for any political advice; and upon the Treasury for such economic and fiscal direction as you may need.

Very sincerely yours,

S/Franklin D. Roosevelt

The Honorable
The Secretary of War
Washington, D. C.



TREASURY DEPARTMENT

WASHINGTON

NOV 10 1943

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

4-5

Memorandum for the Secretary:

This memorandum relates to the present status of the nontax-paid liquor traffic in its relation to the current liquor shortage and the resulting black market in taxpaid distilled spirits.

Sugar rationing and other war-time restrictions have reduced nontax-paid liquor traffic to its lowest level since repeal of national prohibition. "Mash gallons" seized at illicit distilleries--which is considered the best measure of the extent of the nontax-paid liquor traffic--decreased from 21,000,000 gallons for the fiscal year 1935 to 7,500,000 gallons for the fiscal year 1938. From that time the level of yearly mash seizures changed little until after the entrance of this country into the war. During the fiscal year 1942, including six months of war-time operations, mash seizures dropped to 5,400,000 gallons. In the fiscal year 1943, during which year sugar rationing was in full effect, mash seizures were further reduced to 1,700,000 gallons (See Exhibit No. 1, "Comparative Seizures and Arrests of the Alcohol Tax Unit, by Supervisory Districts, Fiscal Years 1935 to 1943, Inclusive.") There has been no appreciable increase in the nontax-paid liquor traffic during the first three months of the fiscal year 1944 despite the shortage in domestic whiskies in wholesale and retail channels. (See Exhibit No. 2, "Comparative Statement of Seizures and Arrests During Three-Month Period, July, August, and September, 1941, 1942, and 1943.")

The above data forcibly portray the effect of

Memorandum for the Secretary

Page 2.

war-time restrictions on the nontax-paid liquor traffic and lead the Bureau to conclude that the basic tax rate on distilled spirits could be further increased for the duration of the emergency without creating a law enforcement problem which could not be attacked successfully.

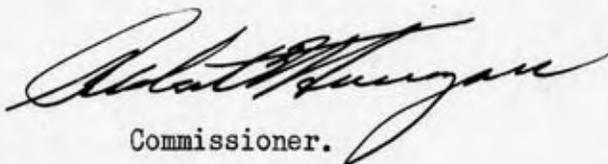
While there has been no appreciable increase in bootlegging of nontax-paid distilled spirits, there has in the past sixty days developed an extensive black market in taxpaid domestic whiskies, due to the fact that distillers--under self-imposed rationing--have taxpaid and released for consumption only about 65 per cent of the quantity taxpaid a year ago. The situation is particularly bad in the monopoly states where, due to the inability of state store systems to supply the trade, racketeers have taken full advantage of the situation. Black market prices range from \$10 to \$30 a case above ceiling prices in different sections of the country, depending on the supply.

The Bureau is now making a survey to determine the effect of industry-imposed rationing, and to determine whether the industry is participating in black market operations. This survey has included an examination of the merchandising methods of distillers, and wholesale and retail liquor dealers. Investigation indicates that in license states wholesalers are supplying fully the requirements of cocktail rooms and bars and discriminating against the package stores, with the result that this type of outlet can supply only a small fraction of the demand. Dissatisfaction of the public with this condition has undoubtedly resulted in the wave of publicity relative to the liquor shortage, black market conditions, and bootlegging. In many articles the terms "black market" and "bootlegging" are used synonymously without regard to their application to taxpaid or nontax-paid liquor.

Memorandum for the Secretary.

Page 3.

While the Bureau is not charged with responsibility of enforcing price ceiling violations, yet because of the ultimate effect of black market operations on law enforcement generally, every effort will be made to suppress these operations through enforcement of the applicable statutes.



Commissioner.

Enclosures.

COMPARATIVE STATEMENT OF SEIZURES AND ARRESTS DURING
THREE-MONTH PERIOD, JULY, AUGUST, AND SEPTEMBER, 1941, 1942, AND 1943

	<u>Year</u>	<u>Stills Seized</u>	<u>Mash (gallons)</u>	<u>Vehicles Seized</u>	<u>Persons Arrested</u>
uly, Aug. & Sept.	1941	2,782	1,454,339	1,104	5,581
uly, Aug. & Sept.	1942	1,534	423,714	386	2,835
uly, Aug. & Sept.	1943	1,471	389,286	293	2,558

Prepared by:

Procedure Division,
Alcohol Tax Unit,
Bureau of Internal Revenue.
November 5, 1943.

NOV 10 1943

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(Signed) Robert E. Hannegan

Commissioner.

Enclosures.

Exp. no. 2

COMPARATIVE STATEMENT OF SEIZURES AND ARRESTS DURING
THREE-MONTH PERIOD, JULY, AUGUST, AND SEPTEMBER, 1941, 1942, AND 1943

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Prepared by:

Procedure Division,
Alcohol Tax Unit,
Bureau of Internal Revenue.
November 5, 1943.

Ex. No. 1

COMPARATIVE RETURNS AND QUANTITIES OF THE FEDERAL TAX UNIT, BY SUPPLEMENTARY DISTRICTS
FISCAL YEARS 1937, 1938, 1939, 1940, 1941, 1942, AND 1943

Table with columns: Supervisory Districts, Year, Value added, Total output, Storage, Unemployed, Stock, Value of production, Value of output, Federal tax, State tax, Federal tax, State tax, Federal tax, State tax. Rows include districts like Boston, New York, Philadelphia, Newark, Baltimore, Atlanta, Louisville, Detroit, Chicago, San Antonio, Kansas City, St. Paul, Seattle, San Francisco, and Grand Total.

Net available by supervisory districts for fiscal years 1937 and 1943.
Includes 1938, 1939, value of 2,000 gallons of alcohol 15% below and not destroyed.
Not available.
Round to 20,000 lbs.
Available for investigation services in the agencies to other units.

OFFICE
SECRETARY OF TREASURY

NOT TO BE RE-TRANSMITTED

1843 NOV 11 PM 204

U.S. SECRET
BRITISH MOST SECRET

TREASURY DEPARTMENT

Optel No. 369

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

1. NAVAL

Last night one of H.M. destroyers sank a patrol and ammunition carrier and captured motor launch in the STRAIT OF OTRANTO, another motor launch was destroyed. Yesterday a U-Boat was sunk by an aircraft Northwest of the AZORES.

2. MILITARY Italy 8th Army Indications that the enemy has decided to limit his delaying operations East of SANGRO. 8th Indian Division have advanced West of Gissi and astride the lateral road at CASTIGLIONE. Canadians entered CAROVILLI unopposed on 8th, but met major demolitions along the roads, 2 places being still impassable even to carriers. Further left troops of 5th Division have entered FOMLI.

5th Army Determined enemy resistance all along the front. United States Divisions were counter attacked strongly on the 8th at MONTAQUILLA and ALGAMO, but the enemy was driven off with considerable losses in killed and prisoners. British formations were also counter-attacked, but held firm. Nothing to report coastal sector.

3. AIR OPERATIONS Western Front 9th Fighters damaged 14 locomotives in FRANCE and BELGIUM. 4 fighter missing. A Mosquito destroyed a ME 110 over DENMARK. 9th/10th. Aircraft despatched: BOCHUM 15, BREISGAG 3, Intruders 8 (1 missing), anti-shiping 6.

Italy 8th. 81 escorted Fortresses bombed a ball-bearing factory at TURIN dropping 183 conf. Severe damage caused to the factory, also to railway lines and buildings in the Fiat Works. Total of 153 fighters and fighter-bombers attacked objectives in the battle area.

Albania 7th/8th 6 Bostons attacked the docks and shipping at DURRES

Aegean 8th. 4 barges, 1 F-Boat and a ship were hit with cannon fire off MOROSI ISLAND. At SUDA BAY CRETE a 1000 ton ship was bombed and hit.

Dodecanese On 7th and 8th a total of 19 enemy aircraft attacked SARDIS destroying some ammunition.

November 11, 1943
9:16 a.m.

HMJr: Hello.
Operator: Mr. Patterson will be there in about twenty minutes.
HMJr: How many minutes?
Operator: Twenty.
HMJr: Well, when he gets in I'd like to talk to him.
Operator: Right.

9:41 a.m.

HMJr: Hello.
Robert
Patterson: Hello.
HMJr: Henry talking.
P: Yes, Henry.
HMJr: Have you got a moment?
P: You bet.
HMJr: How are you?
P: Fine.
HMJr: Bob....
P: I saw you in the distance after your return, but --
I saw you in the distance after your return.
HMJr: Oh. Well, I haven't seen you at all.
P: I was coming from a meeting at Harry White's
office and....
HMJr: Oh.
P:you and General Marshall were just coming out
of your door.

- 2 -

HMJr: I see. Well, I'm sorry.

P: About three or four days ago.

HMJr: Well, I'd like to throw something at you a little bit out of my line but it disturbs me and....

P: Want me to come -- want me to come over?

HMJr: Oh....

P: I'd be glad to.

HMJr: Well, do you want to do that sometime?

P: I'd be glad to, anytime. I can do it -- suppose I come at 11:00 o'clock. Is that all right?

HMJr: Well, McCloy and Hilldring are coming at 11:00 on AMGOT.

P: Well....

HMJr: What?

P: Well, anytime you say.

HMJr: How -- what -- is 2:30 good or bad for you?

P: I've got to go down and talk to the Selective Service State Directors this afternoon.

HMJr: Oh.

P: It's just a talk. I could come at 2:00.

HMJr: Uh -- 2:00?

P: 2:00.

HMJr: Would be perfect.

P: 2:00.

HMJr: Yeah.

P: I'll be there at 2:00.

HMJr: Fine. .
P: Thank you, Henry.
HMJr: Thank you.
P: Right. Good bye.

November 11, 1943

I took the attached memo up with Robert Patterson, and Patterson said he is going to send for Sherwood and talk to him about it.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 5, 1943

TO Secretary Morgenthau

FROM Fred Smith

Attached is the Readers Digest in question.

You will recall that Alexander Kirk and Russell Barnes of OWI Cairo both objected to printing this article in time to stop it. Barnes' objection was based on the fact, he said, that it is wholly untrue, and that its publication would, without a doubt, undermine the morale of soldiers.

Readers Digest complained about censorship to Jim Linen, the OWI man in charge here in Washington. Linen overruled the objections. Linen is a Time, Inc. man.

You will recall that Readers Digest deal was cooked up by Paul West of Time, Inc., who at that time was in OWI Cairo, and another man whom I understood was connected with the Special Service division. Russell reports that the latter gentleman recently left the Special Service division and became a top executive for Readers Digest.

You will also recall Barnes' report that Special Service is now planning to buy thousands of copies of Readers Digest out of Army appropriations and distribute them free of charge to soldiers. At present they are being sold at a "non-profit rate" and the Army is providing shipping space for paper to Cairo.

Please also note that copies are sold through retail book sellers in Egypt for P.T.4, which would indicate that the whole business is subsidized even for retail distribution.

The Arabic edition attached was given to me in Algiers by C. D. Jackson of OWI (and of Time, Inc.), who said it was "an OWI activity" there.

Message from Robert Sherwood via his secretary
to E. J. FitzGerald, November 11, 1943 - 1:57 p.m.

"Mr. Sherwood has received serious complaints from O.W.I. representatives in Stockholm and Chungking as well as Cairo and Algiers against the Readers Digest.

Articles have been published in Swedish, Chinese, Arabic, and English (for our own troops) slurring Russia and China and our own government. Indeed, in Sweden an anti-Chinese article was published by the Readers Digest which had previously been widely circulated there by the German propaganda machine."

November 11, 1943
3:00 p.m.

FINANCING

Present: Mr. Daniel Bell
Mr. George C. Haas
Mr. Henry C. Murphy
Mr. Wesley Lindow
Mr. Sydney G. Tickton

H.M.JR: (To Mr. Tickton) I want to talk to you about airplane statistics.

MR. TICKTON: I was talking to War Finance.

H.M.JR: How about tomorrow?

MR. TICKTON: Yes, sir.

H.M.JR: Manana, that's tomorrow. Manana Manana, that's day after tomorrow!

MR. BELL: If you say it enough, it's next week.

H.M.JR: And it usually is a week, in Spain!

Go ahead.

MR. BELL: Well, the Federal Reserve people are coming in here at three o'clock, and they have quite a proposal which I don't think we can settle today, and which I think probably the best thing to do is for you to just listen and say in the end, "Well, this is the first chance I've had at it, and I'll be glad to go over it with the boys and then maybe have another conference."

They want to raise the short-term rate of three-eighths percent on bills. I think the Board favors this proposal to issuing nine-month, three-quarter percent Treasury bills.

H.M.JR: Wait. They want to raise the three-eighths? That is an old story.

MR. BELL: Yes. And they want to substitute for the one-year certificate, seven-eighths; and for the present

- 2 -

Treasury bills a three-quarter percent, nine-month bill. And they would establish a three-quarter percent posted rate just like they have the three-eighths percent, with some addition, as Eccles explained it, as an afterthought, that they would have flexibility in that posted rate from time to time.

The System voted to change the three-months bill, three-eighths, to a half percent; or a four-months bill at five-eighths percent. Now, the System, I think, favors that scheme--keeping the two types of securities in the market, Treasury certificates and bills, but lengthening the bills by month and raising the rate by quarter. They claim that there is too much of a spread between the three-eighths percent rate at the low end of the curve and the two and a half percent on the far end of the curve; that if they keep the three-eighths percent rate there is going to be a downward trend in the two and a half percent.

H.M.JR: What do you mean, "a downward trend"?

MR. BELL: Less yield on long-term securities, or extending the securities so that they would have a post-war problem maintaining that market.

MR. HAAS: Upward trend of prices.

MR. MURPHY: It is going to get too good.

MR. BELL: Then that will increase their problem in the post-war period. They would like to keep the present curve with the lower end of it raised a little and narrowing the spread between the short-term and the long-term.

H.M.JR: It doesn't make sense to me. Listen! Are any banks not earning enough money?

MR. HAAS: They have forgotten that argument now. They have a post-war argument on the same problem.

H.M.JR: Aren't the banks doing all right?

MR. MURPHY: Even Chairman Eccles say so now. He says he wouldn't like to sell this on the basis the banks aren't earning enough money. They are doing all right.

H.M.JR: Wasn't that the argument a year and a half ago?

- 3 -

MR. TICKTON: But Mr. Ransom, who sat next to me at lunch, apologized and said they had given up that argument, except a scattered few.

H.M.JR: Isn't the Federal Reserve making plenty of money? (Laughter) I couldn't do this without referring this to Jimmie Byrnes and Vinson on stabilization of prices. (Laughter)

MR. BELL: Well, that is one of our arguments. It is breaking the line.

H.M.JR: Don't the Federal Reserves ever learn anything?

MR. BELL: Well, they have a lot of arguments. They never run out of arguments.

H.M.JR: Different arguments, but the same result.

(The Secretary left the meeting to take a telephone call) If these men should come, you show them in, will you?

MR. BELL: Yes.

MR. MURPHY: You never need to run out of arguments when you can roll the old ones over and get practically a hundred percent exchange.

MR. HAAS: Most of the argument is the same argument.

MR. TICKTON: Post-war.

MR. HAAS: That post-war is a little current setting of the thing, that is all.

MR. BELL: I think they would have a post-war problem if the thing happened that they fear would happen. If you go up to 1965 or 1970 on a two and a half percent basis, you might have a post-war problem.

MR. LINDOW: I can't see the problem is any different going from one rate to most any rate.

MR. BELL: There'll be pressure to increase rates after this war.

- 4 -

MR. LINDOW: That pressure will be there whether it is two and a half or two and a quarter.

MR. BELL: That would be between two and a quarter, two and a half, or three, wouldn't it?

MR. LINDOW: Even then the change is what is important. If the change that is needed at the present time--if there is any way of determining it was a half percent, it would be a half percent from two and a quarter to two and three quarters or a half percent from two and a half to three.

MR. MURPHY: Except, Wes, people have gotten in the groove at two and a half and have become psychologically accustomed to it. It would take them another five years to become accustomed to two and a quarter, and you would have an unsettled situation. But the worst is that you might end the war with that further than you have now. Nothing quote worse unquote than that could happen.

MR. BELL: That is the way I feel about it. I don't think that that place out there is going to get so rich with gravy. I think it is going to stay pretty stable, because everybody has been looking for another issue of two and half for the last six months. It is going to stay there.

MR. TICKTON: They have it so closely figured among the insurance companies, according to Colonel D'Olier, that when we decided to move from December to January it made a definite change in his forecast. They are figuring that the next drive is coming, so how can you get such a lot of gravy. A year doesn't make enough difference in that rate to cause all that concern.

MR. HAAS: You have got the market separated. Those are not available to bank purposes in the long run.

MR. BELL: I'd be more afraid of putting too many securities out there in the same area with the limited market and depressing the market, because the people don't want all their basket out that far. They'd rather have something back and have it diversified. I would be more scared of that than I would of their fears.

MR. MURPHY: Absolutely.

- 5 -

MR. LINDOW: My view isn't that we ought to get the rate down to two and a quarter, but I don't have as much of a feeling on this changing from one given rate rather than from another given rate. I feel the dynamics of the thing will be the main problem in the post-war period, and not the actual level. I grant Henry's point that people are more accustomed to two and a half now, and if you change it that adds uncertainty.

(Secretary returns to meeting)

H.M.JR: I'll just coast along until I see all those people coming.

MR. BELL: I can just tell you two things: The Federal Reserve System has maturing each week Treasury bills in the amount of anywhere from about two hundred million up to maybe five hundred million. There are some weeks that they may have half of your offering maturing, or an amount equivalent to half your offering, in which you are asking--when you ask for tenders of bids on a billion dollars--only half of that many in the market. People are only bidding, really, on about half of the bills. So the Federal has the other half. They haven't been bidding or exchanging, so it means that the market has to buy a billion dollars worth of bills when it may only want the half billion it has.

So they have to, in effect, have people put in bids and take them off their hands. They want to come directly to the Treasury and put in a bid--say a three-eighths--and get the maturing bills that way. If the market wants any more, of course they put in less bids. They have a problem which I think we have got to meet. The boys here feel that you are going to get some criticism from the public, that here is your first step, financing through the central banks.

H.M.JR: Well, we'll have to think about it. These things don't have to be settled today.

MR. BELL: They have done a swell job in the last year, I would say, in handling the excess reserve position, and I don't think that has to be settled this week. It may have to be settled, say, within the next week. I would suggest that you just listen to them and then say all right, you have got the story; you'd like to discuss it with your own people,

- 6 -

and then let the banking group take a look at it on Monday.

H.M.JR: I'll listen. I am not going to be rushed.

I sent you a message this morning. You may have gotten it.

MR. BELL: I don't know what the matter was.

H.M.JR: You asked Heffelfinger--we won't talk about it here.

MR. BELL: Then I think the other thing that we ought to decide today is when you are going to meet these people.

H.M.JR: (Speaking over interphone) Is Mr. Eccles here?

MR. FITZGERALD: Right, sir.

H.M.JR: Show him in.

MR. BELL: Meet them about Thursday.

H.M.JR: I am going up Thursday night to make a speech in New York. I hope to get a few days on the farm.

MR. BELL: You had better meet them Wednesday, then, don't you think?

H.M.JR: Yes, sir.

November 11, 1943
3:30 p.m.

FINANCING

Present: Mr. Bell
Mr. Lindow
Mr. Murphy
Mr. Haas
Mr. Eccles
Mr. Rouse
Mr. Piser
Mr. Paddock
Mr. Goldenweiser
Mr. Sproul
Mr. Ransom
Mr. Evans

H.M.JR: How do you want to proceed, Mr. Bell?

MR. BELL: I just told the Secretary briefly, Marriner, what the problems are that we have presented, largely in your memorandum. And I thought maybe that the best thing to do was for you to present your side of the case on the question of short-term rate and your roll-over of bills.

You have also in the picture the question of providing excess reserves, but I think it will come out in the discussion.

MR. ECCLES: Yes. I think on the replacement of our bills I would suggest that Allan present that problem, because the press release proposed was prepared by the New York Bank because they, as you know, have been for a long while favorable to a direct replacement of our maturities, and Allan has been opposed to that until recently and is a more recent convert. You have heard my argument on it. I thought that what he may have to say on that because of his closeness to the market and because of his problem of replacement each week devolves upon the New York Bank-- I would like him to give you the reasons why he feels he is opposed to it, if it weren't such a necessitous situation.

- 2 -

MR. SPROUL: My opposition to it was because I felt that we wanted to give no evidence at any time of an eagerness on the part of the central banking system to do direct financing of the Treasury to meet the deficit. I think we have now reached the situation where our holdings have become so large - our maturities run up to five hundred million or above in a week - so we are asking the market now to bid for an amount of bills far beyond what it has any desire for or capability of holding. In other words, we are asking the market each week to bid for bills to replace those which it holds and to bid for bills to replace those which we hold up to about half of the offering.

We know that the market doesn't want that amount of bills and can't hold them, that they must immediately sell them to us. We know that between now and the end of the year we are going to have to put into the market additional reserve funds up to about two billion dollars or so to meet the increased currency circulation and the increased reserve requirements against deposits, so we will have to replace our maturities.

It is a situation in which our present system of talking to banks and dealers in the market and asking them to be sure and put in bids or substantial amounts no longer is practical, in my opinion, because the amounts involved are so large that we are asking them to do something which is beyond either their capacity to hold or their capacity to distribute. It is solely a convenience to us to run the bills through the market and back to us. Therefore, I think under those circumstances we can make a statement to the public telling the public exactly what we are doing and why we are doing it, which will disarm any honest criticism and dynamite any dishonest criticism, and will enable us to replace our maturities with you directly.

I think it is a proposal which the facts of the situation warrant and will justify in the public mind, in the Congressional mind, and in anybody's mind who might raise any question about it.

- 3 -

H.M.JR: How are you going to prepare the public?

MR. SPROUL: By making a public statement as to just what we are doing and why. We have drawn up a draft of one which we think answers in advance the questions that might be raised.

MR. ECCLES: Are you through?

MR. SPROUL: Yes.

MR. ECCLES: This is, it seems to me, unusual. We have always been replacing bonds as they matured, and we replaced notes; when a new offering was made, we refunded what we had in our own portfolio, and more recently certificates when they matured. When they matured, we subscribed directly, see. We didn't exchange.

We were permitted to subscribe to a new security and we did subscribe directly only for an amount, however, equal to what our maturities were, which is very different from going and buying directly from the Treasury securities that don't offset what we have already. In other words, we then would be putting new money into the Treasury.

We are not proposing here to do any direct financing for the Treasury, which, of course, we are authorized to do up to five billion. But we are not proposing to use any part of that authority to give to the Treasury any new money. All we are proposing to do here in the case of bills is what we have always done in the case of notes and bonds, and, more recently, certificates, which merely is a refunding or a replacement or an exchange of what we have bought in the market. The money that is invested in these bills - you have the money from the market, and then we bought the bills from the market, so you didn't sell us direct at all. All we want to do is replace that.

MR. BELL: The only difference is that we roll over these bills every week in the market. We sell them for cash and pay the others off for cash. It is not an exchange. Whereas the bonds and notes in more recent Treasury operations have been a straight exchange.

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What Marriner is saying is that he proposes, in effect, an exchange of Treasury bills for the new bills that we would offer.

MR. ECCLES: Permitting it to everybody. What we propose here is--

MR. BELL: (Interposing) It will be, in effect, an exchange, although they would put in a bid like everybody else. For the bills they got they would use the bills that mature in payment.

MR. ECCLES: And permit everybody else to do likewise. You are not issuing any more bills; you have a bill maturing a week. Any holder of bills would be permitted to offer them in exchange for bills which were awarded him, see, the bills which he had maturing. In other words, Fed has so many bills maturing; we would be permitted to exchange the bills that we have for any bills that were allotted to us. That would be true with every other bidder. We would put no bid in for any bills in excess of our maturity. Therefore, at no time could we be awarded more bills than we have maturing. Now of course, the alternative - that is the question - when you get to the alternative of this thing it is very much worse and subject to far more criticism than this could possibly be.

H.M.JR: Quite frankly, Bell walked in here at ten minutes of three and tried to give me a resume of what you people have been talking about, I don't know, for a couple of days or weeks.

MR. SPROUL: Or years.

H.M.JR: Frankly, if I said I had it, you wouldn't value my opinion very much. I have to listen this afternoon and let it soak in and then talk about it some more. You people have been thinking about it, but it wasn't brought to my attention until just ten minutes of three. So be a little charitable with me and let it soak in a little bit. I will give it a fresh look; I promise you that.

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MR. SPROUL: I think if we give you this statement and you read it at your leisure you will get the idea.

H.M.JR: You have a statement?

MR. ECCLES: It is a proposed press release that explains it exactly.

H.M.JR: Do you have my name signed to it?

MR. ECCLES: We are taking the entire responsibility for it. The Treasury won't release it, because it is the Fed that is putting in the--

H.M.JR: (Interposing) Let me take it home and let it soak in.

MR. BELL: Have you a revised statement on the whole problem? You gave me a rough draft the other day, and you were to give us a revised statement on the rate, financing, and so forth.

MR. SPROUL: I have a statement I prepared which has been discussed with the committee and not accepted or approved by the committee, but it expresses my views. And to a considerable extent, I think, it expresses the views of the committee. I mean on this other thing.

MR. ECCLES: You saw the statement that was sent over covering the question of the rates, and so forth. There is no revised statement on that, because, as a matter of fact, I think there was no disagreement in our discussion as to what was said about everything that went in that statement.

MR. BELL: I will give that to the Secretary.

MR. ECCLES: Yes. I think the statement was sent over.

MR. SPROUL: My statement expresses my views more clearly and adequately than the other statement does. I think in general they are in agreement.

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H.M.JR: What is that?

MR. SPROUL: Eccles has it.

MR. ECCLES: Allan wrote a statement. The other statement is a statement that was prepared for the basis of a discussion at the meeting yesterday.

H.M.JR: Which is the one that Allan is so proud of?

MR. SPROUL: If it is given to you I want to be sure you read it.

MR. ECCLES: You give him the statement, Allan.

H.M.JR: I will read it if it is written in good type.

(Reference C - Press Statement of November 6, 1943 released by the Board of Governors of the Federal Reserve System - handed to the Secretary.)

H.M.JR: Does it say who this is by? This is by Sproul in person?

MR. SPROUL: That is right.

MR. ECCLES: Well, I don't think there is any disagreement at all on what Allan says in his statement. We didn't see it until yesterday.

MR. SPROUL: I think that should be clear. It is not a committee action.

MR. ECCLES: It doesn't mean that it is in any disagreement. Is this also Sproul's, "System Bill" (Reference B)?

MR. RANSON: That is another one.

MR. ECCLES: That is the background for the statement that we have just made for the press release.

H.M.JR: I see where I am not going to be able to read the Saturday Evening Post this week with the Rex Stout story.

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All right, does anybody else have any documents?

MR. ECCLES: Give the Secretary the statement I sent over the other day, Dan (Reference A).

MR. BELL: No, I didn't, because that was a rough draft.

MR. ECCLES: I say you can.

MR. BELL: All right. Why don't you go to point number two on rates? I think he has this problem.

H.M.JR: That all has to do with the exchanging of the bills.

MR. SPROUL: One is; the second is on the rates. (Reference D - Credit Policy and Treasury Financing of November 9 handed to the Secretary.)

MR. ECCLES: Well, the change is in the method of acquiring by a direct replacement of our maturities, that is all. That is what that press release is.

Well, we have been discussing the question of the short rate. I think we have felt for some little time that the spread between the short and the long rate was too great and couldn't be maintained. The three-eighths bill rate is an anchor to the short rate, and it tends, we think, or it is likely to tend to pull down the long rate. The long rate is, of course, the important rate, because the two and one-half percent rate and the two percent rate which are established have got to be maintained.

It isn't so difficult during a war period to meet the rate problem, but what is done during this period will have an important effect upon the whole rate picture of the post-war refunding, which is of the greatest importance. Anything that tends to pull down the long rate will make the refunding job that much more difficult.

H.M.JR: You are talking about when they mature?

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MR. ECCLES: That is right. You have a lot of refunding of short paper. You may have a lot of redemptions of savings bonds and other things, and you want to put out as much two or two and a half percent paper as possible. You will have all that refunding to do, and I think it is important that those rates don't go down. That is much more important than not having the short rate go up. If the short rate is tending to pull down the long rate, which we feel certain at the moment it isn't, but it was the case after the April drive, because the two percent bond went to a substantial premium, and even the two and a half's went to some premium, and there was a lot of free-riding and it became necessary to increase the maturity of the two percent bond from a seven to nine year to an eight to ten year, if you will recall, because the bond had gone up and the rate down. Now, that establishes a new floor. It would be unfortunate if that trend continued, because you may find--

H.M.JR: (Interposing) Unfortunate for whom?

MR. ECCLES: I think for the Treasury in its refunding operations. And it would be unfortunate, I think, from the standpoint of holding the market. Naturally, the higher the price of the bond and the lower the rate, the more difficulty you may have in holding and stabilizing the market when the war is over.

The market has a lot of room to sag, and, of course, it seems to me that it can't be permitted to sag from wherever a rate is established. You can't have the last issue of your securities go through par. So I feel that to have an increase in price and a decrease in rate, which the short-term rate tends to create, is a situation that should be avoided.

H.M.JR: How are the bank earnings now?

MR. ECCLES: Well, the big banks are doing exceptionally well.

H.M.JR: I don't get a smile out of anybody.

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MR. ECCLES: Some of the smaller banks are not doing anything. The average earnings of the banks are somewhere between six and seven percent according to Crowley's report. An average of between six and seven percent for a small bank is certainly not enough to enable it to build up reserves to meet much of a loss in any deflation period. I would say that the earnings of the small banks at the present time are certainly not excessive. The capital ratios are very bad.

MR. SPROUL: I don't think you should take the Secretary so seriously on that. I don't think you should be so serious about the earnings of the banks.

H.M.JR: I didn't get a smile out of anybody. I was just going back to the earlier argument for increasing the three-eighths rate. Allan got me.

MR. ECCLES: I see. Well, we didn't argue the increasing of the rate to help the earning. We argue that whether it is three-eighths or a half the earning aspect would be negligible. We argued for the increase in the rate to get a wider distribution of bills. What we contended was that the three-eighths rate would not induce a wide distribution of bills outside of the money markets. That was really what our argument was about on rates when we talked about a half; it was to help the distribution of bills.

H.M.JR: Marriner, have you gentlemen got some memoranda on this thing?

MR. ECCLES: Yes.

MR. BELL: I have a memorandum from Marriner which I thought was a rough draft; but if he is satisfied with it now, I will turn that over to you. (Mr. Bell handed Reference A to the Secretary.)

MR. ECCLES: Yes.

H.M.JR: I would like to study that.

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MR. BELL: I might briefly tell you just what their proposal is. They have two proposals, one from the Board and one from the System. Am I right?

MR. SPROUL: The Federal Open Market Committee considered both of them and passed them up as alternative proposals, some preferring one, and some the other.

H.M.JR: Do you mean the Open Market Committee when you say the System is opposed to it?

MR. ECCLES: The full committee. That is all of the Board and the presidents combined.

H.M.JR: But there is another. What is this, the executive committee?

MR. ECCLES: Yes, the executive committee of five, and there is a full committee of five.

H.M.JR: Are there two memoranda, one from the full System?

MR. ECCLES: It is all from the full. It is an expression of the meeting of the full committee that they authorized the executive committee to prepare a memorandum in line with the memorandum we have prepared of the expression of the views of the full committee.

MR. RANSOM: They suggested two possible methods for arriving at approximately the same conclusion.

H.M.JR: I see.

MR. SPROUL: I would put it in a general approach this way, that almost two years ago now we established a pattern of rates when reserve funds were very large and when demands were very much less than they are now and confidence in the long-term rate was low. And we maintained those rates right through with minor fluctuations.

We are now in a position where the amount of excess funds is greatly reduced in line with a very definite policy

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of yours and ours that the pressure on banks to participate in the financing should be reduced. We want them to do as little financing through the banks as possible where the demand has greatly increased, and where the confidence in the longer term rate has greatly increased. So we have a greatly changed situation from two years ago.

To maintain the present structure of rates much longer would require that we recreate the conditions in which the banks would be under pressure to buy Government securities; to use the reserve funds made available to them would run counter to the policy of keeping the banks out of the financing. If we do not do that, then we are faced with an impossible situation of maintaining the present rate structure; either the short rates must go up or the long rates must go down. And we think it is preferable both for the present situation and for the post-war readjustment refunding period to have the short rates go up.

H.M.JR: I would like to ask you two questions. In this recent move - I haven't watched it recently - the stock market has gone down. They think the war is a short war. Has there been any corresponding move in long-term bonds?

MR. SPROUL: The Government bond market has shown some. There has been some decline, but we are holding the line on long-term Government bonds. There is no real weakness there.

MR. ECCLES: But you have this factor that we discussed this morning, aside from the feeling that the war will soon be over, that in the April drive there was some free-riders. They found that it was very profitable for them to buy a two-percent bond and the two and a half's, not to hold, but to sell. The market went up, if you will recall, better than a point very shortly after the sale, and so they made very substantial profits by the free-ride.

So when the drive in September commenced, there was an increasing number of free-riders; that is, speculators in the market. There were a large number of two-percent

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bonds in particular, and some certificates that were bought without any idea whatever of holding them. So the sale of nineteen billion - a substantial part of that - at least a couple of billion, I would say - reflected the purchase by people who thought they could sell them again and make that profit. Now, you do have a certain amount of that pressure. They still hold some of those securities. The market hasn't absorbed them all yet, and that, I think, has more of an affect possibly on the market than any talk of peace. Those are, of course, gradually being absorbed.

H.M.JR: Could I ask Doctor Goldenweiser a question? This may seem a silly question, but could you give in just a short summary why in World War I they had to constantly keep financing at increased rates and at this time money has become cheaper and cheaper? What are the differences between the money market of World War I and World War II?

MR. GOLDENWEISER: Well, I have to get my thoughts together for a second, but I should think that the principal difference is that we had no open market operations and no excess reserves, and no habit of saving had been developed. So the whole war was financed on borrowing by the people from the banks, and by the banks from the Federal Reserve. They said the Federal Reserves were not exceedingly high either. The concept of liquidity and the concept of orthodoxy in the sense of not interfering with the market in any way - all those things together resulted in having the rate go up in the market as the demand for funds increased. It was increasing rapidly, and the rates differed. And the Treasury, not being willing to resort to any drastic methods had no alternative but to meet the market. That, I think, is the principal difference. Whereas in this war we started with a very large amount of excess reserves to begin with. In the second place, with no particular respect for reserve positions and willingness to support the market to the extent it was necessary to finance it, if it was later decided to finance it. I think that is the difference.

There is one other observation I would like to make, and that is that the last war was financed, in spite of what

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I said, at somewhat below what were then market rates, and criticisms of the Treasury and of the Federal Reserve were very rampant then at the fact that the market was being pressed down. It sounds terribly high now; it was four and a half, five, five and a half, but criticisms were very common at the time, as many of the people present may remember. It was an artificially low rate, at that; but if you want to put it in one sentence, the reason why we don't have the rate progressively increasing is that the Treasury and the Federal Reserve decided not to let it happen.

MR. ECCLES: You have an open market operation now, and you didn't have one then. You didn't have an Open Market Committee. The only control at all was the discount rate that the Federal Reserve fixed; and if they fixed the two percent or two and a half percent or three and a half percent discount rate - I don't remember what it was - that meant that a bank in order to get reserves had to go to the Federal Reserve and borrow on three and a half to get its reserves. Today it pays nothing. We create reserves for it through an open market. Then it had to borrow and pay a three and a half percent rate to get reserves.

Naturally the Treasury had to pay enough more than the three and a half to make it profitable for the bank or the individual to buy the bond.

MR. BELL: One reason for your short-term rates being high is your long-term rates, your discount rate, and you had to borrow at that rate.

MR. SPROUL: We didn't know as much then about managing the market and didn't have the machinery for managing the market.

MR. ECCLES: The central banking mechanisms didn't function.

MR. RANSOM: It is summed up in one word, Mr. Secretary, "management."

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MR. HAAS: There was a group in the Treasury that felt it could be done very similarly to the way it is being done today, but they lost out in the debate. It was felt that as you went out to get more and more money the only way to get it is - you buy potatoes, and the more you buy the scarcer the market, and the more you pay. It was the same in the Treasury.

MR. ECCLES: We agreed with you two years ago when you started the War Finance that the war had to be financed not on increasing rates; we were against it as you were and felt that the only way to do the financing was on a stabilized long-term market.

Now, so far as the bill rate is concerned, that isn't a question of financing the war. That occupies quite another position than your notes and your bonds do, and we felt at the time you fixed the bill rate at three-eighths - it was when there were large excess reserves and it was a much higher rate at that time than it is today. We felt then that it possibly should have been a half of one percent rate. We have held it at three-eighths, but in holding it at three-eighths the market has gone around the bill. They just don't buy the bills. The bills are meaningless insofar as holding the rate is concerned.

MR. RANSOM: We have felt that that short rate under the existing conditions should be increased, that the spread between the seven-eighths percent certificate and the three-eighths percent bill is, of course, too great. Immediately when a certificate is issued it goes right to a premium and sells at about three-quarters rate, and the market does not differentiate between a ninety-day piece of paper at three-eighths and a one-year piece of paper at seven eighths, certainly to the extent that the established rates would indicate.

H.M.JR: Marriner, I wish you people would let me study this a little bit and try to catch up with you; I don't know as I ever can. I have the points you have in mind. If you have any doubts, or whatever I have we can talk it over again with people here. Are we trying to meet a date on this thing?

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MR. BELL: No, not necessarily.

MR. ECCLES: Well, I think you have to meet a date pretty quickly on the replacement of our maturing bills. I think we are right square up against a snag right now. I don't think you have any--

MR. ROUSE: Next week we have four hundred and sixty-six million maturing, and the following two weeks each run around five hundred and a quarter.

H.M.JR: Can I have a week, or is this a matter of days?

MR. ECCLES: I would like to see us get at least the replacement matter settled if we could next week.

H.M.JR: That is the most pressing?

MR. ROUSE: That really is very pressing.

MR. ECCLES: So far as the rates are concerned that isn't pressing.

H.M.JR: Do you know about going up on the Hill and talking to some of the people up there?

MR. ECCLES: Personally I don't think it is necessary. But you can read that memorandum, and then I would like to talk to you about it again; and if you feel that it is necessary, I certainly have no objection to it. But I don't feel that it is necessary at all. I think that what we are proposing is completely and fully within the law, and that the statement would frankly and fully explain it. If we didn't make a statement explaining it, as we do, and if it wasn't available to other holders of bills - if we were ourselves getting some special direct purchase privilege and we didn't explain it, then I think you would get a lot of discussion, a lot of rumors in the market, and a lot of criticism because there was no understanding of it - a lot of misunderstanding.

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H.M.JR: The replacement thing is bothering you the most?

MR. SPROUL: That is the most immediate thing. The risk you run there is that some week we won't have arranged for enough bids as we thought we arranged for. They won't come in, and you find you haven't a billion dollars of bids or a billion dollars of issue; and then without preparation we will have to rig up some scheme for our taking some direct.

MR. BELL: You will have to put in a bid in that case.

MR. ECCLES: That will be direct. That will be part of the five billion authority which we got.

MR. SPROUL: After the hour for bidding and without preparation of the market or anything else - I think that would be a bad situation to get ourselves into.

H.M.JR: Of course it would.

Gentlemen, let me think this thing over a little bit. If that one is pressing I probably can give you an answer within a reasonable time.

MR. GOLDENWEISER: May I leave two thoughts in your mind? One is that in my opinion those proposals of the Federal Reserve for raising the short term rate would not increase the cost of financing to the Treasury, because I think that there will be more financing at short rates and less at long rates with a consequence that your average will not go up. Any security that you issue at less than two percent reduces your average cost, and so I think that your net result of this will not be an increase in the cost of financing for the Treasury.

The second thought is that insofar as increasing the short rate would increase the earnings of the Federal Reserve System, there isn't anyone in the Federal Reserve System who is interested in those earnings, and some plan -

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any number of plans that we have - can be devised so that any increase in the Federal Reserve earnings can in one way or another be remitted to the Treasury.

H.M.JR: I would be glad if you would remit it in the form of paying for banquets for these various meetings.

MR. SPROUL: Sales organizations?

H.M.JR: Yes, if you are going to take that, I might really get interested. (Laughter)

MR. SPROUL: We might be able to do that.

H.M.JR: After all, if you get this thing really down to a practical basis--

MR. BELL: Take some of the heat off.

H.M.JR: Why sure, pay for some of the posters or something like that. Then we might really get interested, but you people live in such rarefied air over there--

MR. ECCLES: You are not talking about the Board, are you? The Board never did pay for that. All we do is draw on the banks for our own operation.

MR. BELL: We had a good lunch today.

H.M.JR: I won't stall on this replacement thing. I will study it very hard. If I don't understand it, or I want more information, we will get together again. How is that?

MR. ECCLES: That is all right.

H.M.JR: Well, thank you all very much.

MR. BELL: Do you want to meet these gentlemen sometime about the drive, the securities?

H.M.JR: Let's do one thing at a time.

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MR. ECCLES: I told Dan that although we had no responsibility for the War Loan Committees to direct distribution of securities, yet we couldn't help but be tremendously interested in the whole thing because of its relationship to the whole open market operation, and likewise to a refunding operation that is coming here afterwards, because whatever is done through the drive, of course, doesn't directly affect--

H.M.JR: Gentlemen, I made it very clear that I want your assistance and cooperation. I would like to consult you on that very much.

MR. BELL: I thought you would.

H.M.JR: If you will stay behind a minute, Dan, we will look over the calendar and see how we stand .

W

Nov 11, 1943. Reference B

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SYSTEM BILL REPLACEMENTS

It is estimated that between now and the end of the calendar year the System will need to supply about \$2 billion of reserve funds to member banks to offset an increase in required reserves and an increase in money in circulation. In this situation, the System will undoubtedly replace all of its maturing bills by new issues. The Federal Open Market Committee feels strongly, therefore, that the Federal Reserve Banks should be permitted to place a tender with the Treasury each week at whatever buying rate for bills is established in an amount not exceeding the amount of bills that mature in both the Open Market Account and the option accounts of the individual Reserve Banks and that the Treasury should give to the System the privilege of exchanging maturing bills for whatever amount of new bills are allotted to it, adjusting the discount in cash.

We have shared the Treasury's concern about the dangers of creating the impression that the Treasury is resorting to direct borrowing at the central banks to finance the deficit. Our present situation, however, is one in which the method used to avoid creating this impression is becoming more likely than not to bring censure on the Treasury and the System, whereas a change in method has the sanction of the procedure already followed in placing subscriptions for maturing issues of certificates of indebtedness, and can be clearly and adequately explained to the public.

A suggested draft of a statement to the press, which answers in advance the questions which might be asked, and meets the criticisms which otherwise might be made, follows:

Draft of Press Statement

The Treasury Department this week revised its Treasury bill offering circular so as to permit bidders for Treasury bills to obtain new Treasury bills by the exchange of an equivalent amount of maturing bills to the extent that their tenders are accepted. Concurrently the Federal Open Market Committee authorized the Federal Reserve Banks to place weekly tenders for bills at a price approximately equivalent to a yield of $\frac{3}{8}$ of 1% per annum (99.905 for 91 day bills), in an amount not exceeding the amount of their weekly maturities. The Federal Reserve Banks will receive the same percentage allotment of bills as will other bidders at the same price. Acquisitions of bills by the Federal Reserve Banks, in this manner, will represent the replacement of bills originally purchased in the market and, like other exchanges of maturing securities for new securities, will not be subject to the limitation contained in subsection (b) of Section 14 of the Federal Reserve Act (which limits to \$5 billion the aggregate amount of government securities acquired directly from the United States which can be held at any one time by the twelve Federal Reserve Banks).

No new credit will be made available to the Treasury by the Federal Reserve Banks, as a result of this change in procedure, nor will new reserve funds be placed at the disposal of the banks of the country. Reserves which

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have already been provided to support a rising currency circulation and rising member bank deposits will merely be maintained.

These related actions were taken to relieve a situation which has become mechanically more difficult, as weekly maturities of bills held by the Federal Reserve Banks have increased in recent months, until at times they are equal to half or more of the weekly offerings. In the past the market has taken all of each week's offerings of Treasury bills and has promptly sold to the Federal Reserve Banks that portion of the offering which it did not wish to hold. Thus the Federal Reserve Banks indirectly replaced part or all of their Treasury bill maturities. This procedure worked well when the amount of maturing bills held by the Federal Reserve Banks was a relatively small proportion of the weekly offering, and allowed the market to determine directly the amount of the new issue of bills it wished to hold. Now that the amount of maturing bills held by the Federal Reserve Banks ranges up to and above \$500,000,000 each week, however, such a procedure means that the market must place tenders for new issues of bills in amounts substantially in excess of market requirements, the excess being taken for the purpose of almost immediate sale to the Federal Reserve Banks. In these circumstances, a more direct method of replacing maturing bills held by the Federal Reserve Banks has been deemed desirable.

The test of the bill market will now be found in the bids of investors other than the Federal Reserve Banks at prices slightly above the price tendered by the Federal Reserve Banks, and in the allotment to the Federal Reserve Banks and to others at the fixed price of the Federal Reserve Bank tenders. At times when there is reason to expect a substantial increase in market demand, of course, the Federal Reserve Banks can tender for less than the amount of their weekly maturities.

11/9/43.

Chairman Eccles

Nov 11, 1943 65

Reference

STRICTLY CONFIDENTIAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

R&S 100-826
November 6, 1943

Board of Governors

L. M. Piser

Replacement of Treasury bill maturities

Mr. Sproul has suggested one additional modification of the proposal for replacing Treasury bill maturities, namely, that the privilege of exchanging maturing bills be made available not only to the Federal Reserve Banks but to other holders of maturing bills. It is likely that the Treasury and the System would be subjected to less criticism under such an arrangement. The attached draft of the proposed press statement has been revised in accordance with this suggestion.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release

The Treasury Department this week revised its Treasury bill offering circular so as to permit bidders for Treasury bills to obtain new Treasury bills by the exchange of an equivalent amount of maturing bills to the extent that their tenders are accepted. Concurrently, the Federal Open Market Committee authorized the Federal Reserve Banks to place weekly tenders for bills at a price approximately equivalent to a yield of $\frac{3}{8}$ of 1 per cent per annum (99.905 for 91-day bills), in an amount not exceeding the amount of their weekly maturities. The Federal Reserve Banks will receive the same percentage allotment of bills as will other bidders at the same price. Acquisitions of bills by the Federal Reserve Banks in this manner will represent the replacement of bills originally purchased in the market and, like other exchanges of maturing securities for new securities, will not be subject to the limitation contained in subsection (b) of Section 14 of the Federal Reserve Act (which limits to 5 billion dollars the aggregate amount of Government securities acquired directly from the United States that can be held at any one time by the twelve Federal Reserve Banks).

No new credit will be made available to the Treasury by the Federal Reserve Banks as a result of this change in procedure, nor will new reserve funds be placed at the disposal of the banks of the country. Reserves that have already been provided to support a rising currency circulation and rising member bank deposits will merely be maintained.

These related actions were taken to relieve a situation that has become mechanically more difficult as weekly maturities of bills held by the

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Federal Reserve Banks have increased in recent months, until at times they are equal to half or more of the weekly offerings. In the past, the market has taken all of each week's offering of Treasury bills and has promptly sold to the Federal Reserve Banks that portion of the offering that it did not wish to hold. Thus, the Federal Reserve Banks indirectly replaced part or all of their Treasury bill maturities. This procedure worked well when the amount of maturing bills held by the Federal Reserve Banks was a relatively small proportion of the weekly offering and allowed the market to determine directly the amount of the new issue of bills it wished to hold. Now that the amount of maturing bills held by the Federal Reserve Banks ranges up to and above 500 million dollars each week, however, such a procedure means that the market must place tenders for new issues of bills in amounts substantially in excess of market requirements, the excess being taken for the purpose of almost immediate sale to the Federal Reserve Banks. In those circumstances, a more direct method of replacing maturing bills held by the Federal Reserve Banks has been deemed desirable.

The test of the bill market will now be found in the bids of investors other than the Federal Reserve Banks at prices slightly above the price tendered by the Federal Reserve Banks and in the allotment to the Federal Reserve Banks and to others at the fixed price of the Federal Reserve Bank tenders. At times when there is reason to expect a substantial increase in market demand, of course, the Federal Reserve Banks can tender for less than the amount of their weekly maturities.

By Allan Sproul - NW 11, 1943

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CREDIT POLICY AND TREASURY FINANCING

Reference D

A reconsideration of certain major aspects of credit policy and Treasury financing is necessary after two years of participation in the war, and in the light of the changes which have taken place during those two years.

Such a reconsideration must keep in mind the main objectives of policy during this period and, assuming that these objectives still hold, our future policy must contribute to their further attainment. These objectives, as circumscribed by the overall and compelling need of financing the war in one way or another, we conceive to have been:

1. Keeping the expansion of bank credit to a minimum.
2. Maintenance of an interest rate structure which would both contribute to the successful financing of the war and be tenable in the immediate post-war period.

A considerable degree of success has been achieved in both of these areas. The adoption and gradual improvement of the drive method of Treasury financing, with increasing emphasis on sales of securities to non-bank investors, has produced beneficial results, and it now appears that the present fiscal year can be completed without further recourse to the banks for new money. At the same time, the pressure for continued bank purchases of government securities, which was inherent in the existence of a large volume of excess reserves, has been greatly reduced by permitting excess reserves to decline from \$3.5 billion to \$1 billion. This has been accomplished while maintaining, in general, the interest rate structure which existed at the time of our entrance into the war and which, in the light of circumstances at that time, had to be accepted as the rate structure to be maintained during the initial financing period.

If our objectives are now the same as they were two years ago, the problems involved in achieving them are different. We no longer have to rely on the banks for any substantial amount of new money, if at all, and we do not want to recreate conditions which will again put pressure on all banks to increase their holdings of government securities. It is claimed that a comfortable margin of excess reserves is necessary to provide the "feel" of easy money. This was the claim when excess reserves were \$5 billion instead of \$1 billion, but the policy of allowing excess reserves to diminish gradually has demonstrated its effectiveness. We no longer want to impress all banks with the "feel" of easy money, and non-bank investors get that "feel" from idle holdings of currency and deposits, not from excess bank reserves.

We do have to contemplate some readjustment of the short term interest rate structure if we are to avoid again putting the banks under pressure to buy government securities, and if we are going to develop, gradually, a rate structure which will accommodate itself to the needs of the post-war situation. This does not imply a change in the long term rate of interest either now or later; quite the opposite - the long term rate is the key rate which, so far as we can see, must be maintained. It is rather a recognition of the fact that present

-2-

short term rates will only maintain themselves, now, if bank reserves are maintained at or increased to levels which encourage banks to continue to bid for government securities held by others, or if it is believed that a rise in long term rates is likely. There is no reason for accepting very low rates at short term, if the higher yields obtainable at long term can be had without serious risk of a decline in price (rise in yields) of the long term obligations. The task of financial statesmanship is to combat the belief in a higher long term rate, by demonstrating that a narrower spread between short and long term rates can be effected without changing the long term rate. In the future, this will protect investors in long term obligations, and protect the Treasury in its refunding operations in the post-war period, and currently it will protect the smaller banks against an undue concentration of their holdings in the longest term securities available to them, and to some extent, it will protect the "pattern of rates" against abuse.

What are the immediate problems involved in developing such a program? For the Federal Reserve System, primarily, there is the problem of supplying the additional reserve funds which will still be needed to support a continued rise in currency circulation and an increase in the required reserves of member banks (as War Loan deposits are converted into private deposits). For the Treasury, primarily, there is the problem of how best to bring about an adjustment in the interest rate structure so that it will be suitable to the present situation, and so that it could contribute to the development of a tenable post-war situation. The two problems must be dealt with jointly.

METHODS OF SUPPLYING RESERVE FUNDS

The methods available to the Federal Reserve System in supplying reserve funds to member banks remain the same - reductions in reserve requirements, advances and re-discounts, and open market operations.

Changing Reserve Requirements:

Further action to reduce reserve requirements appears to be inadvisable, at least until banks throughout the country have more generally shown a disposition to use fully the funds they now have. Practically all of the existing excess reserves, amounting to about \$1 billion, are held outside of the central reserve cities. If reserve requirements were reduced for all classes of banks, large amounts of reserves would be released at banks which would probably contribute little to the improvement of the market for short-term securities, and might accentuate the difficulty of maintaining an orderly market for the longer term bonds available to banks. If reserve requirements were reduced only in central reserve cities, it would be difficult to secure acceptance of a lower reserve requirement for the biggest banks of the country than for their smaller competitors in reserve cities, and only temporary relief would be obtained in any case. If, for example, reserve requirements of New York City member banks were reduced from 20% to 18%, there would be released only about \$300 million of reserves. Most banks would probably use these funds to repurchase bills from the Federal Reserve Bank or to purchase other short term securities in the market. As funds flowed out of New York to the rest of the country (this continues to be the trend) the dose would have to be repeated.

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Such repeated action with respect to one class of banks would hardly be feasible, and such action applicable to all classes of banks, in the absence of a general need for additional reserve funds, would throw doubt on the sincerity of our desire to finance war expenditures, as largely as possible, outside the commercial banking system. The desire of the Treasury to finance its requirements as cheaply as possible could be held to have taken precedence over avoiding a potentially inflationary expansion of bank credit.

Advances and Rediscounts:

There has been some development of borrowing from the Federal Reserve Banks during recent months (by large city banks no longer in a position to use the bill window freely), but this method of making reserve funds available cannot be relied upon to supply the needed funds in sufficient volume during the immediate future. We should not be led away from the possible later use of this method, however, by faulty deductions drawn from the experience of the last decade when large excess reserves made each individual bank its own central bank. There is no tradition among bankers against borrowing either from correspondent banks or at the central bank; there has only been a lapse in the use of a normal mechanism during an abnormal period. In recent months many banks have been borrowing from the Federal Reserve Banks in substantial amounts by use of the Treasury bill purchase and repurchase arrangement. The large banks like this method of borrowing because it enables them to borrow without showing bills payable, but this does not change the essential character of the transaction, nor is it desirable, from the standpoint of credit administration, to enlarge the field of this concealed borrowing. If this means of borrowing were no longer open, or if particular banks lacked means of access to it, and if direct borrowing could be done at a profit (by reason of a difference between the discount rate and the coupon rate on the securities used as collateral) there would likely be a resumption of direct and admitted borrowing. This is what has been happening in New York City and the example of the large city banks would, no doubt, help others to overcome their reluctance to resume the practice. It would be more of a break in tradition, in fact, if banks did not borrow funds from the central bank when they can do so at a profit and when the purpose would be to retain holdings of government securities in time of war. We need not be concerned about a withdrawal of banks from the market for new securities because we no longer need or want them there in any substantial way, and we do not have to be seriously concerned about their selling their existing portfolios in preference to borrowing. It should not be forgotten, also, that the most direct way for the Federal Reserve Banks to put funds into the banking system, where they are needed, when they are needed, and in the amounts needed, is through member bank borrowing. This is an important aspect of credit administration.

Open Market Operations:

Nevertheless, it appears that, for the immediate future, open market operations must be the main reliance of the Federal Reserve System in supplying reserve funds to the banks of the country, as they have been during past months. Banks have been obtaining additional reserve funds mainly through selling Treasury bills to the Reserve Banks or failing to replace maturing bills, and by selling some certificates of indebtedness (the Reserve Banks have sold Treasury bonds and notes in order to maintain the pattern of rates, and this selling, of course, took funds out of the market).

FEDERAL RESERVE HOLDINGS OF GOVERNMENT SECURITIES

	<u>January 1, 1943</u>	<u>October 31, 1943</u>	<u>Change</u>
Bonds	\$2,777,059	\$1,505,582	-\$1,271,477
Notes	1,323,799	685,900	- 637,899
Certificates	1,041,000	1,565,350	+ 524,350
Bills	1,009,996	5,546,634	+ 4,536,638
Guarantees	36,782	50,481	+ 13,699
Total	<u>\$6,188,636</u>	<u>\$9,353,947</u>	<u>+\$3,165,311</u>

Entire System Account
(000 omitted)

Because of the mal-distribution of excess reserves and because present short term rates of interest are no longer appropriate, it appears that the Federal Reserve Banks will have difficulty in continuing for long to put reserve funds into the market in this way while maintaining the existing pattern of rates. Banks in the principal money centers, which heretofore have been the chief buyers of bills, now have no surplus funds, and banks with funds are generally not interested in bills at 3/8 of 1%. As a consequence, the very short term market for government securities appears to be satiated. From the end of May to the middle of September, the outstanding amount of Treasury bills increased by \$2.2 billion and, during the same period, the Federal Reserve System's holdings increased by \$3.3 billion. After a temporary halt in this movement, resulting from changes in reserve requirements associated with the Third War Loan drive, the System's holdings of bills are again increasing. There has also been a lack of demand for certificates of indebtedness of the shorter maturities at yields corresponding to the pattern of rates.

The basic decision which must be made with respect to open market operations is whether we are going to try to force the maintenance of the short term rate structure established nearly two years ago or whether we are going to permit a modification of that structure. The rate pattern we have been maintaining at the short end of the curve does not appear to be tenable under present conditions. It was adopted and was appropriate in a period when there were large amounts of idle funds, a relatively limited demand for credit, and considerable uncertainty about the maintenance or stability of longer term rates. It is not appropriate now, when idle funds are more limited, demands are large, and a degree of confidence in the stability of longer term rates has been achieved. Only by forcing additional funds into the market, and thus abandoning in an important degree the policy of keeping to a minimum the use of bank credit in war finance, can we contrive to maintain the existing short term rate structure.

The suggestion that, in these circumstances, the cure is to increase the weekly issue of Treasury bills, seems unrealistic. Combined with a prohibition against direct bidding for bills by the Reserve Banks, it is impossible.*

*As is developed in a separate memorandum on the question of direct bidding for Treasury bills by Federal Reserve Banks, the present System whereby bids are induced in the market to assure the sale of each week's offering of Treasury bills, is becoming more and more unwieldy. To change the inducement to a promise of an immediate small profit for bidding in behalf of the Reserve Banks, would not greatly improve the situation. We have shared the Treasury's concern about the

It is argued that reserve bank purchases of government securities should be concentrated in bills; that bills are now importantly used by city banks as secondary reserves; that they have taken the place of excess reserves in providing a margin of safety for day-to-day operations; and that any substantial reduction in the amount of member bank holdings would be dangerous. This is to repeat the error which was implicit in an earlier insistence on a very large volume of excess reserves, namely, that each individual bank, and the whole commercial banking system, must protect its reserve position without regard to the existence of a central bank. The fact is that Treasury bills are not a secondary reserve in the usual market sense; they are a means of borrowing at the Federal Reserve Banks at a preferred rate. No special amount, and certainly not \$7½ billion, of such obligations needs to be maintained in the portfolios of the banks, nor can be unless an excessive amount of bank reserves is deliberately created, or unless bills are made more attractive to banks outside the money markets.**

RECOMMENDATIONS OF FEDERAL OPEN MARKET COMMITTEE

The Federal Open Market Committee has considered this problem. It believes that the only desirable approach to a solution is to bring about a narrowing of the present spread between long term and short term rates, by increasing the rates at short term. Two alternative methods of accomplishing this purpose were considered.

Under one approach, the present three-month bills and one-year certificates would be replaced by nine month bills. These bills would be issued in a total amount of not exceeding a billion dollars a week, unless a demand developed for a larger amount. Tenders for \$100,000 or less would be allotted in full at ¾ of 1 per cent, and larger tenders would be allotted to the highest bidders. The Committee would establish a buying rate and repurchase option at ¾ of 1 per cent on the new nine month bills.

Advocates of this proposal believe that commercial banks would be much more inclined to hold bills at ¾ of 1 per cent than to hold bills at ⅜ of 1 per cent or certificates, which under existing practices command increasing premiums. The new bills would attain a much wider distribution among smaller banks than do the present three month bills at ⅜ of 1 per cent. The System would no longer be faced with the increasingly difficult problem of maintaining a variable pattern of rates on maturities of less than nine months. Speculators could no longer make a profit by playing the pattern of rates on short term issues; most of the playing of the pattern has been in short term issues, and an extension on any large scale to longer term issues is unlikely because of the greater risk that it involves. Finally, the proposal would simplify the Treasury's financing program and eliminate a large refunding problem.

dangers of creating the impression that the Treasury is resorting to direct borrowing at the central bank to finance the deficit. Our present situation, however, is one in which the method used to avoid creating this impression is becoming more likely than not to bring censure on the Treasury and the System, whereas a change in method can be clearly and adequately explained to the public.

**A reference to conditions prevailing in the London money market before the war, and having regard for the substantial differences between the London money market and our money market and between the British banking system and our banking system, is not deemed to be relevant.

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Under the other approach, the problem would be met by continuing to issue one year certificates at $7/8$ of 1 per cent and at the same time diminishing the spread in yields by substituting for the present bills four month bills at $5/8$ of 1 per cent. Advocates of this proposal point out that the existing pattern of financing and types of securities would be maintained; that it would not involve a drastic change in the one day interest rate; that it would permit of some adjustment in the amount of the weekly bill offerings without a change in the aggregate amount outstanding. They also suggest that it would help to widen the distribution of short term securities among smaller banks, which have excess reserves and whose deposits are increasing most rapidly; that it would make it more expensive for banks to sell bills to the Reserve Banks than to borrow at the differential rate of $1/2$ of 1%; that it would not increase the amount of outstanding securities on which "borrowing", without showing bills payable, is possible; that it would reduce the incentive for banks to shift from short term to long term securities; and that it would also diminish the incentive for playing the pattern of rates.

The Committee believes that a narrowing of the spread between short and long term interest rates can be brought about without disturbing the entire interest rate structure. Specifically, it believes that the steep forepart of the present interest rate curve is no longer tenable, and that levelling this section of the curve will confirm, not weaken, the stability of longer term rates.

The Committee recommends to the Treasury that prompt consideration be given to the policy which it suggests, and that action be taken to implement the policy at the first appropriate opportunity.

11/9/43

November 11, 1943
3:51 p.m.

Operator: Go ahead.

HMJr: Hello. Hello.

Mrs. Murray: Mrs. Murray speaking.

HMJr: Who?

M: Mrs. Murray, secretary to Mr. Sherwood.

HMJr: Mrs. Murray, this is Mr. Morgenthau.

M: Yes, sir.

HMJr: Would you give Mr. Sherwood this message?

M: Certainly.

HMJr: I saw Mr. Patterson, Robert Patterson....

M: Uh huh.

HMJr:about the matter Mr. Sherwood and I were talking about....

M: Uh huh.

HMJr:and Mr. Patterson is going to send for Mr. Sherwood and talk to him about it directly.

M: All right.

HMJr: And that Mr. Patterson is wholly sympathetic.

M: Yes, sir. Thank you very much.

November 11, 1943
3:52 p.m.

HMJr: Yeah.

Ted R.
Gamble: Hello, sir.

HMJr: Yep.

G: Mr. Secretary, I was going to be in Boston tomorrow and I thought I'd better let you know.

HMJr: All right.

G: We're having a little Chairman problem in Massachusetts.

HMJr: The home of the bean and the cod.

G: You could add a few other things when you're talking about Boston.

HMJr: All right.

G: When you're talking you could add those Boston Catholics.

HMJr: Oh, well, I wouldn't do that.

G: No, I know you wouldn't.

HMJr: What?

G: I know you wouldn't.

HMJr: No, I wouldn't.

G: Well, we've had a lot of fun with them.

HMJr: Okay.

G: And we've got a reorganization problem there and we're trying -- in the four states where we have problems we want to clean them up as fast as we can.

HMJr: Righto.

G: All right, sir. Right.

TREASURY DEPARTMENT

OFFICE OF THE UNDER SECRETARY

To The Secretary

Do you suppose
we could see
Stacy May tomorrow
~~or Saturday~~
morning? Monday
& Tues. will be
bad as Bankers
Committee will be
here.

dwb

11/11/43

Under Secretary.

, 19

November 11, 1943

TO: Mr. Bell

FROM: The Secretary

I would like to have Mr. Stacy May here at 3 p. m., Friday, November 12. Will you please tell him what I want to see him about, viz:

1. Future expenditures beginning with January 1.
2. Cancellations of contracts. What his estimate is, if we should have an early peace, on how many cancellations we will have. I am particularly interested in how many people would be laid off. I understand he has made all these studies and has rough estimates.

George Haas should be present also.

NOV 11 1943

This letter was cancelled and not'd by Byrd Com.

My dear Mr. Chairman:

Reference is made to the proposed additional Progress Report of the Joint Committee on Reduction of Nonessential Federal Expenditures which you forwarded with your letter of November 4, 1943 for comments, suggestions and approval.

It is my belief that, in general, it is a very able report, and that it indicates beyond doubt that economies can and should be made in nonessential spending.

However, there are two statements in the report to which I, as a member of the Committee, can not wholly subscribe.

The first statement is in the second paragraph on page seven. It is indicated that a specified amount can be saved through the curtailment of nonessential expenditures. I am not prepared to agree that any specified amount can thus be saved. I think the setting of such a figure as a goal is practical; but the establishment of that figure as definitely attainable is unrealistic.

Also, I can not wholly subscribe to the statement in the last paragraph on page six, which opposes as "reckless Federal spending" or as "unwise, inexpedient and wasteful", the program of consumer subsidies which has been recommended by the President. I believe this to be far too general a statement, and one which indicates by its wording that the idea of subsidies, as well as the specific program under discussion, is "unwise, inexpedient and wasteful." I am not ready to agree that this is an incontrovertable fact.

If the paragraphs which I question are left as they now stand in the published reports, I would appreciate your making my position clear in connection with the report.

Very truly yours,

Handwritten signature of H. Morganthau, Jr.
(Signed) H. Morganthau, Jr.

Secretary of the Treasury

Honorable Harry F. Byrd
Chairman, Joint Committee on Reduction
of Nonessential Federal Expenditures
Congress of the United States
Washington, D. C.
FS:alf

NOV 11 1943

My dear Mrs. Chairman:

Reference is made to the proposed additional report of the Joint Committee on Reduction of Nonessential Federal Expenditures with respect to Federal Land and Property which you forwarded with your letter of November 4, 1943 for comments, suggestions and approval.

It appears, from a general review of the proposed report, that it brings up to date the data with respect to land owned by the Federal Government which was originally included in a report submitted to the Congress by the President on January 16, 1939, entitled "Federal ownership of real estate and its bearing on State and local taxation", and which was based on a study made under the direction of the Secretary of the Treasury, the Attorney General and the Acting Director of the Bureau of the Budget.

I agree with the statement on page 25 of the proposed Committee report that particular care should be exercised in granting of Federal aid to States so that such contributions do not encourage needless extravagance or fiscal neglect on the part of States or local governing bodies. I cannot agree, however, that the tax value of federally-owned property should be considered a factor in Federal aid programs generally. That value is, of course, important in determining the specialized "grants"

- 2 -

on Federal properties commonly referred to as "payments in lieu of taxes." But even in the field of in-lieu payments, care must be taken to differentiate among different types of holdings. Actual tax losses, local benefits derived from Federal ownership, and demands on local governments for services vary widely from one type to another. No blanket formula can, therefore, cover Federal payments on all classes of federally-owned property. Some of the principles which should govern such payments are examined in the recent report of the Committee on Inter-governmental Fiscal Relations to the Secretary of the Treasury (Senate Document No. 69, 75th Congress).

I agree with the proposed recommendation No. 2 to the extent that it relates to an inventory of federally-owned and controlled lands. I think that all information with respect to such lands should be available in a central record office. However, I am not prepared at this time to endorse that part of the recommendation pertaining to a central agency to exercise exclusively all operational powers and duties in the consummation of land acquisition and disposition. The latter recommendation would vitally affect in a general way not only all Federal agencies having land acquisition functions, but specific functions of the Attorney General and the Federal Works Agency. Moreover, the question whether such a central

- 3 -

agency should be established is at present before the respective Public Land Committees of the Senate and the House in the form of bills (S. 1463 and H. R. 3632) to establish such an agency in the General Land Office of the Department of the Interior.

Continuing study of the effect of Federal holdings upon State and municipal tax problems is undoubtedly necessary, as contemplated in recommendation No. 3, but this recommendation apparently overlooks the work that has been and is being done by the Federal Real Estate Board at the direction of the President in Executive Order No. 8034 of January 14, 1939.

It will be appreciated if you will include these comments with the Committee report.

Very truly yours,

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

Honorable Harry F. Byrd
Chairman, Joint Committee on Reduction
of Nonessential Federal Expenditures
Congress of the United States
Washington, D. C.

November 11, 1943.

My dear Mr. Chairman:

Reference is made to the proposed Progress Report of the Joint Committee on Reduction of Nonessential Federal Expenditures which was forwarded with your letter of November 4 to Secretary Morgenthau.

It is suggested that the following changes be made in the figures appearing on page 6. The Federal debt is stated at 55 billion dollars at the start of the war and as 170 billion dollars at the present time. The 170 billion dollar figure includes the guaranteed obligations of governmental corporations of about 4 billion dollars. In order to make the debt at the start of the war comparable the figure should be 61 billion dollars.

The statement in the sentence on lines 5 and 6, page 6, should be changed to refer to "this nation" instead of "a nation". Other nations have found it necessary to express their public debts in terms of 12 figures in their local currencies.

In 1938 (June 30) the per capita public debt was \$285 and on October 31, 1943 it was \$1,204. The per capita debt following the last war, on August 31, 1919, the highest point, was \$250.

The estimated interest on the public debt during the current fiscal year is 2,700 million dollars and not 2,759 million dollars

as shown on line 13, page 6.

It is estimated that during the fiscal year 1944 collections from "pay-as-you-go taxes" will amount to about 7 billion dollars and not 3 billion dollars as stated in line 15, page 6.

The sentence beginning on line 16, page 6, should be clarified to read somewhat as follows:

"Randolph Paul, General Counsel of the Treasury Department, on the basis of budget estimates of January, 1943, pointed out that the present deficit (for fiscal year 1944) will be 70 billion dollars, stating * * *."

I assume the amount of estimated savings in the personnel reporting system, referred to at line 6, page 4, as 10 million dollars, has been verified.

Very truly yours,

D. W. Bell

Under Secretary of the Treasury.

Honorable Harry F. Byrd,
Chairman, Joint Committee on Reduction
of Nonessential Federal Expenditures,
Congress of the United States,
Washington, D. C.

wth/wth

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 11 1943

TO Secretary *Morganthau*
FROM Mr. Haas *HAAS*
Subject: Current Developments in the High-grade Security Market

I. Prices of Government Securities Declined Following Third War Loan

Since the close of the Third War Loan on October 2, the market for Government securities has been generally weak. Treasury notes, both taxable and tax-exempt, showed little change on balance but price declines were prevalent among Treasury bonds, amounting to as much as 10/32 in the case of taxable bonds, and to as much as 22/32 in the case of partially tax-exempt bonds. Average lows for the period since October 2 were reached by taxables on November 4, and by partially tax-exempts on November 9. The general declining tendency was interrupted by moderate rallies, once in the week ended October 23, and again in the last two days of the week ended November 6. Net price changes for the first three days of this week were small.

No open market support was given Treasury bonds -- the bulk of Federal Reserve purchases in the market being confined to Treasury bills and certificates of indebtedness.

II. Corporate and Municipal Bonds Rose During October

High-grade corporate bonds rose moderately in price during October; while high-grade municipals reached all-time highs only to decline sharply during the first week of November. The decline in the stock market on Monday, November 8, extended to bonds of railroads in reorganization, but had only a moderately depressing effect on high-grade corporate and municipal bonds.

Secretary Morgenthau - 2

III. Third War Loan Issues Gain Less in Market Trading Than Previous Drives' Securities

The three issues of marketable securities offered during the Third War Loan drive were traded for the first time on Monday, October 11. At the close of that day, the premiums on these issues were only slightly less than the initial premiums on the comparable securities offered during the Second War Loan drive. However, the market for the securities offered in the Second War Loan campaign improved substantially in the weeks immediately following the close of that drive, which has not been the case with those offered during the Third War Loan campaign. The following table compares the premiums of the various marketable securities offered in the three war loan drives on the first day of trading after the closing of the subscription books and at comparable later dates.

Security	: Premiums on first day : Market premiums five			: traded after closing : weeks after closing		
	: of subscription books : of subscription books			: of subscription books		
	: First	: Second	: Third	: First	: Second	: Third
	: War	: War	: War	: War	: War	: War
	: Loan	: Loan	: Loan 1/	: Loan	: Loan	: Loan 1/
	(In decimals)					
7/8% certificate	.014	.093	.039	.113	.127	.095
	(In thirty-seconds)					
1-3/4% bond	2	-	-	16	-	-
2% bond	-	8	7	-	21	6
2-1/2% bond	1	5	4	18	15	3

1/ Subscription books for the Third War Loan closed October 2, but trading in securities offered during the drive did not commence until October 11.

IV. Post-drive Liquidation of Bank Loans Slow

Total loans of weekly reporting member banks increased by \$2.6 billions from the low point before the Third War Loan, reached August 11, to a peak of \$12.1 billions on October 6. Presumably a major portion of the total increase, and not merely the increase in security loans, was for the purpose of financing purchases of Governments during the Third War

Secretary Morgenthau - 3

Loan. Liquidation of these loans in the four weeks following October 6, amounted to only \$0.4 billions, which is at a much slower rate than during the comparable period following the Second War Loan.

The table below shows the movements of loans of weekly reporting member banks from August 11 to October 6, and from October 6 to November 3:

	: August 11 - : October 6	: October 6 - : November 3
	(In millions of dollars)	
Loans by weekly reporting member banks in New York City to brokers for purchasing or carrying Government securities	+700	-290
Other loans to brokers and dealers	+399	-97
Other security loans	+755	-190
All other loans	<u>+720</u>	<u>+157</u>
Total loans	+2,574	-420

V. Excess Reserves Again Near Summer Low Point

Excess reserves of all member banks declined \$354 millions during the period September 8 through November 3, to \$1,084 millions, a point only moderately above the five-year low of \$1,020 millions established in July. This occurred in spite of the large decline, amounting to \$927 millions, in required reserves, due primarily to the transfer of deposits from private accounts to War Loan accounts. The factors which were principally responsible for the decline in excess reserves were increases of \$614 millions in money in circulation, \$371 millions in Treasury cash and deposits in Federal Reserve Banks, and \$298 millions in nonmember deposits and other Federal Reserve accounts.

During the same period, weekly reporting member bank holdings of Treasury bills, which now serve largely as secondary reserves, increased by \$835 millions, and Federal Reserve Bank holdings of bills decreased by \$213 millions.

November 11, 1943.

My dear General:

I wish to thank you for your inspiring letter received this day. I say inspiring for I feel that a tremendous amount of productive work can be done here at home through the exhibition of this materiel. Your promptness and obvious efficiency in handling this request of mine is but a further confirmation of the kind of a job that I know is being done under your command in that important theatre of action.

In closing, I want to thank you personally and on behalf of our thousands of War Bond workers who will be thrilled by the privilege of putting this consignment to good use here.

With every good wish, I am

Sincerely yours,

(Signed) H. Morgenthau, Jr.

A. W. Pence, Brigadier General,
AUS, Commanding,
Headquarters Peninsular Base Section,
APO 782,
% Postmaster,
New York, New York.

TRG:DFT



HEADQUARTERS
PENINSULAR BASE SECTION
Office of the Commanding General
APO 782

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31 October 1943

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

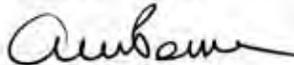
Dear Mr. Secretary,

Pursuant to your personal request on your recent visit to Naples, I am having shipped to the U. S., on the "S.S. Poinsette", marked "For War Loan Drive", six German tanks described as follows:

- a. Two Mark IV Medium Tanks weighing approximately 23 short tons each. Its principle armament in turrett is one 7.5 cm high velocity long barrel gun.
- b. Two Mark III Tanks, especially converted for use as flame throwers, with large diameter flame thrower tube projecting from gun turret in place of gun. Weight, approximately 20 short tons each.
- c. One 7.5 cm Self-Propelled high velocity gun mounted on Mark III tank chassis. Weight, approximately 21 short tons.
- d. One 10.5 cm Self-Propelled Howitzer mounted on Mark III tank chassis. Weight, approximately 25 short tons.

These tanks were knocked out by General Clark's Fifth Army near Paestum, Italy, where the VI U. S. Corps under General Dawley made its initial landing on the morning of September 9.

Sincerely yours,



A. W. PENCE
Brigadier General, AUS
Commanding

AWP/wam

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 11, 1943

TO Secretary Morgenthau
FROM Randolph Paul

I attach hereto a summary memorandum of the
rebuttal of criticism of the Treasury tax program.



See Page #3

Summary of Points in Rebuttal of Chief Criticisms
of Treasury Program

1. Is a reduction in Federal expenditures a substitute for the tax program? Even if expenditures could be reduced by a few billion dollars, the \$10.5 billion tax program would still be necessary. It is too small a program for safety, under present estimates of expenditures. It would have been set at a higher level, except for the fear of doing substantial injustice to certain groups of taxpayers. If expenditures are reduced, the \$10.5 billion tax program would have a better chance of holding the line against inflation, but even then there would not be much safety margin. Moreover, every dollar of added tax now means a smaller debt for the Government to handle in the future.

2. Is taxation a weapon against inflation? Some critics have even gone so far as to cast doubt on taxation's role as a check to inflation. But such doubting simply flies in the face of experience, in this country and other countries, in this war and former wars. Taxation is the traditional weapon to fight inflation. Price control and rationing, and the voluntary purchase of savings bonds, are necessary too. But surely it is obvious that additional tax revenue comes in part from money that consumers would otherwise spend for scarce commodities and services. In spending this money, consumers would draw merchants' inventories down to dangerously low levels and would patronize black markets at high prices.

The amount of money that consumers now have available to spend is so large that it has no precedent, here or abroad. For the past three and a half years, January 1, 1940 - June 30, 1943, consumers increased their holdings of currency and checking-account deposits by \$24 billion. On top of that, they will have another \$30 billion out of fiscal 1944 incomes that will go into Federal securities, in part, and in part will be held as currency and checking-account deposits. So, even if the large amount of \$20 billion of Federal bonds, net, were sold to individuals in fiscal 1944, there would be \$10 billion in currency and checking-account deposits

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from that year piled on top of the \$24 billion increase since January 1, 1940. In the second half of calendar 1944, another \$5 billion increase could occur.

We must slow down the rate of increase in this huge accumulation of cash and checking-account deposits - - slow it down by taxation, in addition to selling all the bonds we can to individuals. Nobody knows when and how fast consumers will draw on this accumulation in order to spend, but it is taking too great a risk to assume they will make no attempt to spend any of it, price control or no price control.

If we wait much longer, consumers will have piled up so much cash and other liquid savings that they will be able to keep on spending, almost regardless of any tax measures of the magnitudes now under consideration. It will then be too late to check inflation without taxation much heavier than has so far been proposed. A taxpayer with a cash accumulation of, for example, \$5,000, and an income of \$3,000, could meet even a 100 percent tax on his income, for one year at least, by simply drawing on his savings, letting his spendings run along unchecked. If we give him time to pile up still more cash, it becomes correspondingly harder to check his spending by taxation.

3. Can the country stand an additional \$10.5 billion in taxes? The figures show clearly that the people of the United States can stand an additional \$10.5 billion in taxes. In calendar 1944 we shall have \$135 billion personal income after paying all existing personal taxes. We shall have \$92 billion of consumers' goods and services to spend it on. Our commitments for life insurance premiums and debt repayments, and our deposits in savings banks, will take no more than \$8 billion. So, even after the \$92 billion spending and \$8 billion ordinary saving, we shall still have \$35 billion left with which to buy Federal bonds and pay more taxes. If a nation like this, with a free surplus of \$35 billion, cannot stand additional taxes, then no nation can ever stand them.

If Paul is so worried about Post War Inflation, why not to do by
- 3 - a refundable Post War Tax

4. Would the lowering of the exemptions and the repeal of the earned income credit unjustly burden the low-income groups? The Treasury proposal to lower the exemption of married persons to \$1,100 (from \$1,200) and the credit for dependents to \$300 (from \$350), and to repeal the earned income credit, would not unjustly burden the low-income groups, because along with these changes the Treasury recommends repeal of the Victory tax. Moreover, the Congress may, if it wishes, make a large part of the tax on the low-income groups refundable after the war. The earned income credit, as it now stands, is a highly artificial device, with erratic results, and is not restricted to truly earned income.

5. Do the Treasury proposals tax too lightly the incomes under \$5,000, since four-fifths of the total income goes to that group? There is an impression that the Treasury program increases little or not at all the tax on incomes under \$5,000. (These incomes account for four-fifths the total income payments.) This impression is, however, erroneous. Only in the lower part of the \$0 - \$5,000 range are the increases light. At \$4,000 net income, a married person's tax (no dependents) would be increased from \$647 to \$999. Even under the postwar refund suggestions, the net increase would be substantial. At \$3,000 net income, the net tax (under postwar suggestion No. I) would be \$532. This is a \$127 net increase on a married couple with \$3,000 income - - not an insignificant increase by any means.

Below \$2,000, there is little if any margin of income over basic family needs. Consequently, the Treasury's program calls for only small increases in tax (before postwar refunds) on these very small incomes.

6. Should a deduction be allowed for individuals who buy Federal bonds? It has been proposed that a deduction from net income be allowed to anyone who buys a certain quota of Federal savings bonds. This proposal is unsound. The deduction would result in a reduction in tax and this is of course a reward for buying the bond, like interest. But it is a reward that is greater for the high-income bond purchaser. The reduction in his

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taxable income comes out of high surtax rates. The low-income individual would gain little from a bond purchase, since he has a small tax to pay and his tax relief would be small. In effect, this proposal would give a high rate of "interest" to high-income taxpayers and a low rate to others. This is doubly unjust, since it is easier for the high-income taxpayer to buy the bonds. He usually has some other assets he can sell. The low-income taxpayer usually has to cut down his spending to buy bonds.

7. Does the Treasury program take more than 100 percent of some taxpayers' 1944 income? Some critics claim the Treasury's program takes more than 100 percent of the 1944 income of certain taxpayers. This is not a correct statement.

If it refers to the 12½ percent of the uncanceled tax on the 1942 income (or 1943, whichever is lower), it is misleading. It adds part of one year's tax (1942 or 1943) to another year's tax (1944) and compares the total with one year's income (1944). By this kind of arithmetic, of course, more than 100 percent taxation can be obtained.

If it refers instead to the combined amount of Federal and State income taxes, it is still incorrect. The State income tax paid can be deducted in computing net income subject to Federal tax. Therefore the combined tax can never be 100 percent of the income, no matter how near to 100 percent each of the two separate rates may be.

8. Are corporations being taxed so heavily that further taxation would cripple them for war or postwar effectiveness? Wartime profits of corporations, after taxes, are larger, not smaller, than in the prewar years. For the three years 1941-43 they will be \$8.3 billion a year (yearly average). This is \$5.0 billion a year more than the yearly average of 1936-1939. It is an astonishing record, and certainly shows that on an overall view the wartime tax system is far from making corporate investors bear an undue sacrifice, to say the least. The accuracy of those estimates has been questioned by some critics, but their data are less complete than those the Treasury uses. Moreover, the Treasury data agree substantially with the estimates of all other government departments.

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Small corporations are favored in the Treasury program by a smaller rate increase. Deductions for reserves are not needed, in view of the carry-back provisions, especially if specific expenses like reconversion costs and dismissal compensation are to be carried back.

9. Are the excise tax proposals unfair to low-income groups, as the sales tax would be? Excise taxes are not on the necessities of life. If the taxpayer's income is very small, he can avoid the excise taxes by avoiding the luxury items taxed by excises. He has a real chance to avoid the tax in order to maintain a minimum standard of living. A sales tax gives him no real chance. It hits necessities, and he must buy necessities.

10. Would the excise tax proposals bring on inflation by raising prices, as the sales tax would? The excise taxes would have a very much smaller effect in stimulating demands for wage increases than a sales tax. The excise tax proposals are almost wholly restricted to non-essential commodities and services that do not enter into the Bureau of Labor Statistics cost of living index. Similarly, they do not appreciably affect farm parity prices. Moreover, the excise tax proposals, with minor exceptions, do not affect business costs, hence do not put pressure on ceiling prices.

11. Would the excise proposals harm the business firms that make and sell the taxed articles? Consumers have so much money to spend that their demand for the taxed articles is very strong. Demand exceeds supply. Little or no reduction in the physical volume of sales of the taxed articles would result from adopting the excise proposals.

NOV 11 1943

My dear Eleanor:

I return Dayton Clarke's letter, which you enclosed with your memorandum to me of November 6th.

Clarke was originally appointed as a Grade 1 employee at \$1260 on January 16, 1940. His record having justified advancement, he has had several promotions to his present position as Zone Deputy Collector in Grade 5 at \$2000 per annum.

The position of Assistant to the Collector which he is now seeking is the ranking position in the Collector's organization and one which calls for the services of a man of broad experience. In view of Clarke's relatively limited service and experience, Commissioner Hannegan seriously doubts that he would be the most suitable and available man for this position. The Commissioner, however, is bringing the matter to the attention of Mr. Johnson, the new Collector, for his consideration in recommending the appointment of his assistant.

Affectionately,

(Signed) H. Morgenthau, Jr.

Mrs. Franklin D. Roosevelt,
The White House.

WNT:a ja

hu

By Miss Gaudin
4:35



TREASURY DEPARTMENT

WASHINGTON 25



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

November 10, 1943.

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE

AND REFER TO
A&C:OD

MEMORANDUM for Mr. Thompson,
Administrative Assistant to the Secretary.

Regarding the attached letter from Mr. C. Dayton Clarke, I find that Mr. Clarke was appointed as a temporary office employee in the Third New York Collection District, Grade CAF-1 at \$1260 annual rate, on January 16, 1940. This appointment terminated on June 30, 1940. On December 16th of the same year he was reappointed as a temporary in Grade CAF-2 at \$1440 per annum, and on May 16, 1941, he was given a permanent appointment at the same grade and salary. On March 1, 1942, Mr. Clarke was reassigned to the position of Zone Deputy Collector, Grade CAF-4 at \$1800 per annum, and on September 1, 1942, he was advanced to Grade CAF-5 at \$2000 per annum.

The position of Assistant to the Collector is the ranking position in the Collector's organization and is one which calls for the services of a man of broad experience, a thorough knowledge of office organization and procedure and executive ability of a high order. These qualities are especially important in view of the heavy burdens imposed upon the Collector's office in connection with the administration of the current tax laws. In view of Mr. Clarke's relatively limited service and experience, I seriously doubt that he would be the most suitable and available man for the position of Assistant to the Collector. Having in mind the importance of this position and the fact that Mr. Johnson undoubtedly will be anxious to make a good record as Collector, I rather feel that we should await his recommendation for filling the position in question.

Robert H. Ferguson
Commissioner.

Attachment.

THE WHITE HOUSE
WASHINGTON

November 6, 1943.

MEMORANDUM FOR SECRETARY MORGENTHAU:

This is Tom Lynch's brother-in-law
and you know his record.

ELEANOR ROOSEVELT

2960 Decatur Avenue
New York, October 31, 1943.

Dear Mrs. Roosevelt,

I understand that due to the recent elevation of Mr. James Johnson as Collector of our Third District of Internal Revenue, there is a position open as Assistant Collector, and that this post has yet to be filled.

I have given considerable thought to the responsibility of this position, and know that I am fully capable of filling it. I have been in this district office, going on four years now, and am well thought of by my superiors, although I have not spoken to any of them of this matter.

I can definitely promise you that any consideration that is given me in the filling of this position will be always greatly appreciated by me.

Mother and Patsy join me in sending our kindest and sincere regards,

Yours, in respect,

C. Dayton Clarke

To to...
Deps Kenny
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is...
mother...
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2960 Decatur Avenue

New York, October 31, 1943.

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I can definitely promise you that any consideration that is given me in the filling of this position will be always greatly appreciated by me.

Mother and Patsy join me in sending our kindest and sincere regards.

Yours, in respect,

(Signed) C. Dayton Clarke

MEMORANDUM FOR THE SECRETARY'S FILES

Meeting in the Secretary's Office
Mr. McCloy, Assistant Secretary of War;
General Hilldring and Mr. White.
November 11, 1943

Mr. McCloy made some remark which prompted Secretary Morgenthau to ask whether Secretary Stimson had adversely commented on his trip to the front. Mr. McCloy replied no, the only thing Secretary Stimson said was the next time General Eisenhower says he cannot go to the front, he will tell him to go to the devil.

Mr. McCloy said that Secretary Stimson had said that there were some points that Secretary Morgenthau wanted to make with respect to his trip in Europe which he, Secretary Stimson, came away from the luncheon without hearing them. Mr. Morgenthau laughingly replied that the reason was that Secretary Stimson spent almost the entire hour telling him (Mr. Morgenthau) about the book "Garibaldi and his Thousands."

Secretary Morgenthau in response to Mr. McCloy's inquiry said that he was very favorably impressed with Allied Military Government Forward and with the work that Colonel Nume was doing, and also with the work that Poletti was doing in Palermo. In fact, the one area which he was troubled about was the Brindisi area. He thought the AMG man there was not up to the job.

The Secretary also expressed the view that it might be a good idea, though that was strictly the Army's responsibility, to have General McSherry come back here and explain to Congress the good work AMG was doing. Mr. McCloy mentioned that they were thinking of having Colonel Spofford come back and didn't the Secretary think he would do. Secretary Morgenthau replied that he had not met Spofford, but he knew that McSherry could do a good job of explaining to Congressional committees and the people here what AMG was doing.

Secretary Morgenthau also said that he had seen General Joyce several times and for brief periods. He said that the Mission would be up against some very smart Englishmen and he did not think General Joyce was up to that kind of a job.

The Secretary said he thought the Army ought to give some more thought to how long it was going to continue to pay out of their appropriation for civilian goods sent to Italy to be distributed to the civilian population. General Hilldring replied that they had informed the appropriate committee that some of their funds were being so spent. That still left open the question as to how long they would continue to do so.

- 2 -

Secretary told them that he had approved having the British pay for wheat and cheese bought from the Argentine, inasmuch as we were paying for the commitments so sent acquired in the United States in order to make that a 50-50 arrangement. Secretary said that he understood that was the Army's viewpoint too and McCloy and Hildring assented.

Secretary Morgenthau told them that Murphy and McMillan had asked him for his view as to whether they ought to bring about a change in the Italian Government now or wait until our troops got into Rome. Secretary Morgenthau told them they ought to do it now and not to wait, as it may be many weeks before we got to Rome.

The Secretary also recommended that the Army ought to have a couple of Treasury accountants audit the books of the AMG Government merely to help them to get their accounts perfectly in order. He added that he would start them at Brindisi. Both McCloy and General Hildring said they would be glad to have them. Secretary added that General McSherry had also thought it would be a good idea to have such audits.

(The discussion was interrupted for a telephone call from Secretary Stimson to Mr. McCloy.)

After the call Mr. McCloy wanted to know whether we had any general comments on the way the Army worked. The Secretary replied the closer he got to the front the more impressed he was with the efficiency and competence of our Army; that he thought our Army was doing a first rate job at the front, but that in the rear he got the impression that its personnel were more lax and more inefficient. However, he added that as a layman he was not very competent to judge on that matter and that the Army had plenty of its own men who were going over that phase of the problem and doubtless with much better information on it than any he had.

He did feel he said, that there were too many men under 25 who worked at jobs that should be performed by women. He mentioned particularly work being done for the AMG and for the post exchanges. Mr. McCloy replied that the trouble was they could not get enough WACs to enlist.

The Secretary raised the question about the discussions going forward with the British and on invasion currency. Mr. White had some telegrams indicating that the British were insisting that Eisenhower solve the problem with the French in Algiers. General Hildring went on to explain that since White raised the question with him a few days ago they were going to try to settle the matter in Washington. Unfortunately, however, there were no French to

Division of Monetary
Research

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whom they could officially talk to. Mr. McCloy said that Jean Monnet had submitted his credentials for representing the French National Committee but Mr. McCloy said that he could not talk to him officially until the State Department had cleared the matter and he advised Monnet to see the State Department.

McCloy went on to explain that there had been a change in the trend of certain matters in the past month or so. Formerly questions relating to monetary, currency and directives to liberated areas were settled by his Civil Affairs Committee (on which Mr. White represented the Treasury and State Department also had representation) and matters were settled fairly expeditiously. Then the British informed them of an arrangement which the British had made with the Norwegians. When he suggested they should meet to get American approval the British said "Oh no," it was merely for American information and not for approval by the American Committee, that the matter had already been approved by the British Government and the Norwegian Government. McCloy said the British were trying to get more and more of the decisions settled in London. With General Marshall there and the exiled governments the center of authority seems to be shifting to London and that the Civil Affairs Committee here under McCloy was getting lost in the larger trend. An important development in this trend was the acquiescence of the United States to have the headquarters of the important committee emerging from the Moscow conference in London. Secretary Morgenthau remarked that he thought that was an error and did not see why Hull committed himself to agree to that. McCloy nodded and said he knew that was so.

The Secretary stated that it was his view that the best currency to be used in these operations was the allied military currency. Mr. McCloy replied that that was their view except for the spearhead currency. The British do not want U.S. dollar to be used as spearhead but wanted to use the local currency. The matter was still unsettled.

It was agreed that the exchange of views was very helpful and they ought to meet again soon for another discussion.

H. D. White

November 11, 1943

MEMORANDUM FOR THE FILES

Meeting in Mr. White's Office
November 11, 1943
2:30 P. M.

Present: Mr. White
Sir David Waley
Mr. Friedman

Subjects: China; Imports of wheat and cheese into Italy from
Argentina; International Stabilization Fund.

China

Sir David Waley called to discuss question of the Stabilization Board of China and to receive Mr. White's reaction to his letter indicating that the British favored the continuation of the Board. Mr. White indicated that the Treasury's position was still the same as at the time he had discussed this problem with Sir David Waley prior to informing the Chinese representatives of the U. S. Treasury's position. Mr. White explained again that the Treasury felt that it was in the best interests of the United States and of China not to renew the 1941 Stabilization Agreement. With regard to the British, it was, of course, possible for them to continue their agreement with China, if they so desired. Furthermore, it was the feeling in the Treasury that, if the Chinese so desired, they could still consider the matter under negotiation but that Adler would be asked to resign and the 1941 Agreement was not to be renewed.

Sir David Waley expressed regret that the United States and Great Britain did not have an identical policy on this matter. Mr. White indicated that the Treasury would have no objection to the British taking the same action as the U. S. Treasury. In this way, the two Governments would have identical policies.

Sir David asked regarding the dollar position of the Stabilization Board. It was pointed out to him that the Stabilization Board had no outstanding commitments to the U. S. Treasury. Mr. White also indicated to Sir David that he believed that there was no connection between the sterling and dollar accounts of the Board.

Imports of wheat and cheese into Italy from Argentina

Sir David then raised the question of the wheat and cheese which was being obtained for import into Italy from the Argentine. Mr. White outlined the situation as he had received it from the Army, pointing out that the U. S. Army felt that the British should bear the cost of such imports from the Argentine until the British had borne up to 50% of the total cost of such type of imports into Italy. Mr. White also indicated that on the basis of information which he had received from the Army he felt that this would be a reasonable position. Sir David said that he disagreed with this position and instead suggested that purchases of this sort from third countries should be on a 50-50 basis. He commented that the decision in this case might become a precedent for relief operations. Mr. White pointed out that decisions regarding relief operations were being made at Atlantic City and that this was purely a military problem.

Sir David then suggested that a provisional decision be made and again made the suggestion of a 50-50 basis for purchases from third countries, arguing the disparity of resources between the United Kingdom and the United States. Some discussion regarding the different contributions which were going to be made by the United Kingdom and the United States then took place and it was suggested by Mr. White that more information should be gotten regarding the total picture before any definite decision was made regarding the financing of the wheat and cheese imports.

The question arose as to whether payments for this wheat and cheese were to be made in sterling or dollars and it was agreed that this would depend on who did the procuring. Sir David indicated that he understood that the wheat was to be paid for by the United States and the cheese to be paid for by the United Kingdom. The cost of the cheese would be considerably less than the cost of the wheat.

Mr. White indicated that he had informed the Army that in his opinion financing should not stand in the way of consummating the purchases. Sir David indicated complete agreement with this position.

International Stabilization Fund

Sir David said that he proposed to visit Congressman Dewey to discuss with him the proposals for international monetary stabilization. He informed Mr. White that Congressman Dewey had attempted to make an appointment with Lord Keynes through Lord Keynes' nephew, but that Lord Keynes had refused to make the appointment. Because of this, Sir David wished to see Congressman Dewey. Mr. White indicated that Treasury would have no objection to Sir David's calling on Congressman Dewey and discussing with him proposals for international monetary stabilization.

I. S. Friedman

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**TWELFTH REPORT TO CONGRESS
ON LEND-LEASE OPERATIONS**

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**Reverse Lend-Lease Aid from the
British Commonwealth of Nations**

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TWELFTH REPORT TO CONGRESS ON LEND-LEASE OPERATIONS

Reverse Lend-Lease Aid from the British Commonwealth of Nations

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"The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose."

[From Section 5, subsection b of "An Act to Promote the Defense of the United States" (Public Law No. 11, 77th Congress, 1st Session).]

TO THE CONGRESS OF THE UNITED STATES OF AMERICA:

Since the enactment of the Lend-Lease Act in March of 1941, I have transmitted to the Congress eleven reports describing the lend-lease aid which has been furnished by the United States. These reports have also included information with respect to the types and quantities of reverse lend-lease aid provided to the United States by the various lend-lease countries. While a complete account of the reverse lend-lease aid which we have received is not yet available, the statements recently received from the Governments of the United Kingdom, Australia and New Zealand and from our Army make it possible for me to report to you at this time regarding a part of the expenditures made by the British Commonwealth of Nations for reverse lend-lease aid to the United States.

The overwhelming benefit which the United States has received from its lend-lease program has, of course, been the pooling of resources and the combined effort of the United Nations against the Axis countries. Each of the United Nations has contributed. There is, of course, no physical or financial standard of value by which we can measure the military contribution to the war on land or sea or in the air which has been made by our allies or ourselves. One thing is clear: by the help which our friends and allies have given us, and by the help which we have given them in the common cause, we have not only made progress in the war, but we have saved the lives of many of our own boys as well as those of our allies.

The Master Agreements entered into with Great Britain, the Soviet Union, China and other United Nations receiving

lend-lease aid establish the principles which govern the lend-lease relationship. The other United Nations, under the Master Lend-Lease Agreements, have agreed to contribute to the defense of the United States by providing as reverse lend-lease aid all articles, services, facilities or information which they can furnish. Under these agreements, all lend-lease supplies, such as, for example, merchant ships or cargo planes, which are not used up in the war, can be required by the President to be returned at the end of the present emergency. Article VII of the Master Agreements entered into with the United Nations receiving lend-lease aid provides that they will join with the United States in working toward some of the economic conditions which are a prerequisite to a secure peace.

The Master Lend-Lease Agreements do not determine the final settlement, but leave that for determination at some future date.

As conditions have permitted, our allies have expanded the scope and nature of their reverse lend-lease aid.

During the past summer, the United Kingdom agreed to extend reverse lend-lease aid to include not only goods, services and information for our armed forces, but also raw materials, commodities and foodstuffs hitherto purchased, for export, in the United Kingdom and the British Colonies by or on behalf of United States Government agencies. Discussions on the administration and procedure for the handling of the contracts, transfers and other details are now going forward.

This plan will make available to the United States, under reverse lend-lease and without payment, such materials and foodstuffs as rubber from Ceylon, Trinidad, British Guiana and British Honduras, sisal and pyrethrum from British East Africa, asbestos and chrome from Southern Rhodesia, cocoa from British West Africa, tea and coconut oil from Ceylon, and benzol and tar acids from the United Kingdom.

British shipping for these raw materials and foodstuffs from all parts of the British Commonwealth will also be made available under reverse lend-lease.

Discussions are also under way with the other Governments

of the British Commonwealth looking toward a like arrangement for the provision of materials and foodstuffs as reverse lend-lease aid.

As of June 30, 1943, the British Commonwealth of Nations reported that expenditures of about \$1,171,000,000 had been made for reverse lend-lease aid. The United Kingdom has expended about \$871,000,000 of this amount; and Australia, New Zealand and India have expended approximately \$300,000,000. Based upon estimates for the first six months of this year, expenditures by the British Commonwealth for reverse lend-lease aid to the United States are now at an annual rate of about \$1,250,000,000. This does not take into account the anticipated exports of raw materials, commodities, and foodstuffs for the account of the United States.

The data necessary for even an incomplete accounting of the monetary expenditures by the British Commonwealth for reverse lend-lease assistance to the United States have been gathered in the face of difficulties. British aid is rendered to the armed forces of the United States all over the world. Usually it is under conditions very different from those surrounding lend-lease from the United States, which flows from a central source. Many supplies and services have been made available by the British to United States armed forces in North Africa, Sicily and elsewhere for which no report has yet been received.

The figures set forth in this report include expenditures made by the British Commonwealth for newly constructed barracks, military airports, hospitals and other military facilities for our armed forces. They do not include such facilities made available to our armed forces where no out-of-pocket expenditures have been made for their construction since our entry into the war. These British expenditures were from appropriated funds which required financing either through taxation or borrowing. They are comparable to the expenditures made by the United States from appropriations for lend-lease purposes which include funds for capital installations in this country, such as munitions plants, shipyards and other facilities. It has not yet been determined how such lend-lease or reverse lend-lease expenditures will be entered or

treated in the final settlement under the lend-lease agreements. They will, of course, be considered when the final settlement is made. The Master Agreement provides that in the final determination of the benefits to be provided to the United States, "full cognizance shall be taken of all property, services, information, facilities, or other benefits or considerations provided by the Government of the United Kingdom subsequent to March 11, 1941, and accepted or acknowledged by the President on behalf of the United States of America."

The Governments of the British Commonwealth have submitted their statement of expenditures for the reverse lend-lease aid covered in this report in pounds. To make these figures more intelligible to the American people, these expenditures have been translated into dollars at the official exchange rates. This may be misleading because the rate of exchange used cannot, especially under war conditions, always reflect comparable values in terms of purchasing power, man-hours of work or materials. But in spite of the misconception which may result from translating the pound expenditure figures into dollars at the official rates of exchange, I think it is desirable to provide the Congress and the people of this country with the best available indication as to the expenditures made by the British Commonwealth for reverse lend-lease aid.

Exclusive of the expenditures for supplies transferred in Colonial theatres of war, American forces have received aid through reverse lend-lease channels for which the United Kingdom made expenditures of \$871,000,000 as of June 30, 1943 as follows:

Goods and services.....	\$331,000,000
Shipping.....	169,000,000
Airports, barracks, hospitals and other construction.....	371,000,000
TOTAL.....	871,000,000

We are all familiar with the role which the Eighth Air Force has played, in collaboration with the Royal Air Force, in preparing the way for the invasion of Europe. It is not as

widely known that the operation of reverse lend-lease has made contributions to the outstanding performance of our air forces based in the United Kingdom.

Under reverse lend-lease, the British have provided our bomber and fighter commands with many necessary items. Specially heated winter flying clothing to protect bomber crews from the intense cold suffered at high altitudes was supplied by the British to our air forces. When certain United States fighter gun sights proved less effective than the sights employed by British fighters, the Royal Air Force provided a substantial number of British-type sights for immediate installation. American bombers have been equipped by the British with photographic equipment effective in obtaining photographs of the target during the bomb run. The British have also provided facilities for the development and production of a new type of protective body armor designed by our medical authorities.

A variety of other aid has also been provided for our air forces by the United Kingdom. Mobile repair shops located throughout the United Kingdom recondition American bombers forced to make crash landings. A one-man dinghy, developed by the British for parachute landings at sea, provides pilots of American planes with a one-man floating raft. Specialized British radio equipment has been installed in American planes which has given greater safety to our bomber crews, and has improved the effectiveness of our bombing missions. For purposes of recognition training, the Royal Air Force has delivered to the United States Air Forces more than 60,000 items of aircraft, warship and armed vehicle recognition devices. These are but a few instances of the aid which has been provided to our air forces under reverse lend-lease and without payment by us.

Although Great Britain depends upon imports for a large portion of her curtailed food supply, she is providing American forces with substantial amounts of foodstuffs as reverse lend-lease aid. These range from fresh vegetables, flour and potatoes to corn-on-the-cob and soft drinks.

Australia, New Zealand, and India have also provided

United States forces in those areas with substantial reverse lend-lease aid, including most of their food.

The Australian Government has officially estimated the expenditures for reverse lend-lease aid to the United States at £A60,792,000 as of June 30, 1943. As the official rate of exchange of a £A equals \$3.23, this indicates a dollar value of about \$196,000,000. This sum is divided into the following major categories:

Stores and provisions.....	\$39,000,000
Technical equipment.....	7,000,000
Motor transport.....	14,000,000
Aircraft stores and equipment.....	16,000,000
General stores.....	24,000,000
Transportation and communication.....	21,000,000
Shipping.....	7,000,000
Works, buildings, and hirings.....	66,000,000
Miscellaneous.....	2,000,000
TOTAL.....	196,000,000

Australia and New Zealand have supplied American forces in the South and Southwest Pacific with the bulk of their foodstuff requirements on a ration scale comparable to the basic allowance of the American Army. This program includes fresh, dried and canned products, and in some cases in the latter category requires amounts ranging up to 100% of total Australian production. The following are the quantities of the principal types of foodstuffs the United States has received from Australia as reverse lend-lease through June 30, 1943:

Meat.....	61,480,000 pounds
Bread, biscuits, and cereals.....	48,110,000 pounds
Potatoes.....	29,762,000 pounds
Vegetables and fruit.....	49,931,000 pounds
Canned foods.....	28,340,000 pounds
Emergency rations.....	2,231,000 pounds
Sugar.....	11,782,000 pounds
Butter.....	6,628,000 pounds
Condensed milk.....	8,711,000 pounds
Fresh milk.....	11,500,000 pints
Fresh eggs.....	22,000,000 dozen

Although clothing rationing has been introduced in Australia, the Government has undertaken an extensive clothing manufacturing program for the United States forces. This program includes millions of pairs of socks and hundreds of thousands of shirts, jackets, trousers, pull-overs, underclothing, boots and shoes and blankets.

Recreational needs of American soldiers have been met by an Australian program which calls for every type of game and accessory from boxing gloves to medicine balls—in all, more than 420,000 items of such equipment.

Numerous hospitals, including the newest and most modern in the country, have been made available to the United States Army for its exclusive use.

Official air, rail, and water passenger costs and freight, and cable and telegraph expenses of our troops are paid by the Commonwealth Government as reverse lend-lease aid.

A large number of small ships of various types has been turned over to American authorities, and Australian shipyards are now turning out landing barges and small vessels for the combat use of our forces.

On September 29, 1943, the Australian Minister of Finance introduced the Commonwealth budget for the current fiscal year in the Australian Parliament. He estimated that Australia will spend approximately \$323,000,000 for reverse lend-lease during the year July 1, 1943 to June 30, 1944.

New Zealand, no less than Australia and the United Kingdom, has supplied its share of reverse lend-lease aid. For the period ending June 30, 1943, the New Zealand Government has officially reported having expended \$51,000,000 for reverse lend-lease aid to the United States, made up as follows:

Supplies, services, and foodstuffs.....	\$24,000,000
Camps.....	6,000,000
Hospitals.....	3,000,000
Warehouses.....	5,000,000
Miscellaneous building projects.....	7,000,000
Ship construction.....	6,000,000
TOTAL.....	51,000,000

New Zealand, with Australia, is the food basket of American forces stationed throughout the South Pacific area. In order better to provide for the needs of our troops in remote Pacific islands, New Zealand has greatly increased her capacity for the packing, canning and dehydration of meats, vegetables and dairy products. Although its population is less than 1,700,000, this Dominion has supplied the United States under reverse lend-lease and without charge with more than 170,000,000 pounds of foodstuffs during the year ending June 30, 1943, as follows:

Fresh meat.....	49,650,000 pounds
Canned and smoked meat.....	21,600,000 pounds
Potatoes.....	9,150,000 pounds
Other vegetables.....	24,125,000 pounds
Fruit.....	10,825,000 pounds
Butter and cheese.....	12,550,000 pounds
Other dairy produce.....	10,000,000 pounds
Sugar.....	7,100,000 pounds
Flour and other cereals.....	13,725,000 pounds
Miscellaneous supplies.....	11,475,000 pounds

New Zealand also supplies numerous articles of clothing, including shoes and textiles, to United States forces as reverse lend-lease aid. When American requirements were added to those of local forces, New Zealand found it necessary to ration the civilian supply of clothing to less than one full outfit per year.

American requirements under reverse lend-lease have also occasioned shortages in many other phases of New Zealand's civilian life. Nevertheless, the Dominion continues greatly to expand the scope and volume of her reverse lend-lease to the United States, and during the present fiscal year about \$65,000,000 has been budgeted for this purpose.

While no official report has yet been received from the Government of India, our Army reports total expenditures by India for reverse lend-lease aid of approximately \$56,900,000, divided as follows:

Military stores and equipment.....	\$5,421,000
Transportation and communication.....	3,161,000
Petroleum products.....	13,127,000
Construction.....	31,413,000
Subsistence.....	3,778,000
TOTAL.....	56,900,000

We have received aviation gasoline, motor gasoline and lubricating oil, and lesser amounts of other petroleum products from the Indian Government for use by American forces. A part of the motor fuel has been used in a number of trucks and passenger cars given our troops without payment as reverse lend-lease aid. In addition, United States Army groups have been afforded postal, telegraph, and telephone facilities, water and electric power, furnishings for buildings, and items of clothing, including mosquito- and gas-proof outfits.

Canada has received no lend-lease aid from the United States. She has paid cash for the supplies obtained in this country. It may be noted, however, that Canada has already made a billion dollars worth of aid available without payment to the United Kingdom and is now engaged in making available another billion dollars worth of aid to the United Kingdom, Russia, China and the other United Nations on a mutual aid program similar to our lend-lease program.

This statement of the expenditures made by the British Commonwealth of Nations for reverse lend-lease aid furnished to the United States, and of the expansion of this program so as to include exports of materials and foodstuffs for the account of United States agencies from the United Kingdom and the British Colonies, emphasizes the contribution which the British Commonwealth has made "to the defense of the United States" while taking its place on the battlefronts. It is an indication of the extent to which the British have been able to pool their resources with ours so that the needed weapon

may be in the hands of that soldier—whatever may be his nationality—who can at the proper moment use it most effectively to defeat our common enemies.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
November 11, 1943.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 11 1943

TO Secretary Morgenthau
FROM Randolph Paul

You inquired about the general status of Italian prisoners of war, in view of the present relationships with Italy.

Italian prisoners of war in custody of the United States at the time of the armistice with Italy remain prisoners of war pending further agreement between this government and the Italian authorities. Neither the armistice concluded nor the subsequent recognition of the co-belligerent status of Italy affects the position of these prisoners of war.

For your information, there is attached a memorandum which summarizes the position of Italian prisoners of war.



MEMORANDUM RE ITALIAN PRISONERS OF WAR

The status and treatment of war prisoners is covered in great detail in the Geneva Convention signed in 1929 and proclaimed by the President as binding upon this country in 1932. Article 75 of the Convention provides:

"When belligerents conclude a convention of armistice, they must, in principle, have appear therein stipulations regarding the repatriation of prisoners of war. If it has not been possible to insert stipulations in this regard in such convention, belligerents shall nevertheless come to an agreement in this regard as soon as possible. In any case, repatriation of prisoners shall be effected with the least possible delay after the conclusion of peace."

The armistice concluded between the United States and Italy contains no provision dealing with Italian prisoners of war held by any of the United Nations. Therefore they remain prisoners of war pending an agreement between the countries as contemplated by the Geneva Convention. In the absence of such an agreement they remain prisoners until the conclusion of a treaty of peace. Prior to the Geneva Convention there was no suggestion in the authorities on international law that there be any liberation or repatriation of prisoners during the period of an armistice. It was simply required that they be liberated and repatriated to their own countries upon conclusion of the peace treaty. 2 Oppenheim International Law (Lauterpacht's 5th Edition) Sec. 132.

The Geneva Convention contains detailed provisions to protect prisoners, insure humane treatment, require that they be given adequate food, clothing and medical care, opportunity for worship, opportunity to communicate with relatives, and an opportunity to present grievances. Officers and persons of equivalent status shall be entitled to the pay given an officer of equivalent rank in the military forces of the captor country, or his pay in his own army, whichever is lower.

- 2 -

Enlisted men may be required to work at tasks which have no direct relation to war operations. The Convention contains detailed provisions limiting the hours of work and protecting prisoners against hazardous occupations. Prisoners working apart from the administration, management and maintenance of prisoner camps are to be paid on a basis to be fixed by agreements between the belligerents. In the absence of agreement the Convention sets forth a standard for the determination of wages.

I am advised informally by the War Department that no such agreements have been concluded with either Italy or Germany. We are paying prisoners ten cents a day and eighty cents per day additional if they engage in work outside the camps. These payments are not made in cash but are credited to their accounts and can be spent in canteens.

The declaration of the United States, Great Britain and the Soviet Union recognizing the co-belligerency of Italy in the war against Germany specifically states that this declaration does not affect the terms of the armistice and that such terms remain in full force and effect. Thus Italian prisoners held here remain our prisoners, and this status is not changed until we have either come to an agreement with the Italian government, as contemplated by the Geneva Convention, or until the conclusion of a treaty of peace.



NOV 11 1943

My dear Mayor:

The President has referred your letter of November 1, 1943, in regard to remittances to persons residing in the liberated areas of Italy to me for reply. I am in complete accord with your view that limited support remittances should be permitted to go forward to Italy as soon as possible, both in that, from the standpoint of psychological warfare, it will be a factor in influencing the people of Italy to identify themselves with the cause of the Allied Nations and also in that persons in this country will thereby be enabled to bring relief to their friends and relatives in the liberated areas of Italy who have long been suffering from poverty and want under the demands of Fascist rule.

I trust you will be pleased to learn that on October 12, 1943, the Treasury and War Departments submitted a proposed procedure authorizing remittances to be made from the United States to individuals residing in Sicily to the Allied Commander in the Mediterranean Theatre for his review. The Theatre Commander has advised that the program as suggested appears to be feasible and that arrangements are now being worked out to place it into effect in Sicily. The Treasury and War Departments have since reported that the arrangements be expedited so that remittances may go forward immediately. The procedure will be extended to other liberated areas of Italy upon the decision of the Theatre Commander.

Your interest in this matter is appreciated and I will take pleasure in informing you of the details of the arrangements to effect remittances to Sicily immediately as they are placed into operation.

Sincerely yours,

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

The Honorable Fiorello H. LaGuardia,
Mayor of the City of New York,
New York 7, New York

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11/10/43

**THE WHITE HOUSE
WASHINGTON**

November 8, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

Will you reply to the
enclosed from Mayor LaGuardia?

F.D.R.





CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK 7, N.Y.

THE WHITE HOUSE
Nov 3 8 25 AM '43
RECEIVED

November 1, 1943. 8

Honorable Franklin D. Roosevelt
President of the United States
The White House
Washington, D.C.

My dear Mr. President:

There are one hundred and one matters constantly coming up that I purposely refrain from troubling you with for I know the tremendous load you are carrying. Here is something though that I am sure will not take much of your time and on which you can easily give the Green Light so that it can get started without the loss of precious time and weeks and months of inter-departmental bickering.

The time is ripe right now for the remittance of limited amounts of money to families in liberated portions of Italy from their own relatives living in the United States. The mechanics are very easy. It can be so controlled as to prevent any inflationary effect in Italy and at the same time will have some slight effect in preventing inflation in this country. I refer to inflation because I have a hunch that the semi-colon boys will raise the point.

Now here is how it can be done. First, the amount should be limited, say Ten Dollars a month to a family. I just mention this amount, the exact amount can be determined. Payments would be made in the banks here and the order would be for "the equivalent of Ten Dollars, payable in the currency used by the United States Army in Italy". That in and of itself, in addition to the limited amount will in no way have an inflationary effect in Italy. The people there are starving and the money received will partially create a better and more equitable distribution of necessary food. We must remember that the overwhelming majority of families who have relatives here are of the small earning or lower wage groups.

Honorable F.D. Roosevelt

p-2

November 1, 1943.

The banks would remit the cash to the United States Treasury as the currency to be used is that of the United States Army there. You can readily see the advantage to ourselves as well as the desirability of the purpose.

The sender would send either a flimsy duplicate order or it could be microfilmed as are "y" letters and sent direct to the families either from here or from Italy if the microfilm is used. On presentation of this the military government, having received duplicates, would authorize the payment through the post office (Italy has a very good Postal Savings System) and on presentation of the duplicate compared with the original order, the money would be paid. I think the procedure would be very simple, if not made complicated and difficult by bureaucratic red tape. This should be avoided.

I present this matter with the request that if you approve of it, it be set in motion right away. One money order of this kind will do more good than a million speeches or tons of propaganda literature.

With kind personal regards,

Sincerely yours,



~~W. S. S. S. S.~~

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Sent

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 11 1943

TO Secretary Morgenthau
FROM Randolph Paul

Subject: Gold Shipments to Argentina

As previously reported to you, two shipments of gold of approximately \$1,250,000 each, held by the Central Bank in this country, have already left the United States bound for the Argentine. The Federal Reserve Bank has advised that they have instructions to make a shipment of approximately \$1,250,000 of gold which they now hold for the Central Bank, on each of the following boats which are scheduled to sail as indicated:

Iguazu	November 10
San Juan	November 12
Mendoza	November 15
Diamantes	November 20
Chico	November 25
Gallejos	December 2
Teuco	December 5
Chubut	December 9



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

114

DATE Nov. 11, 1948

TO Secretary Morgenthau
FROM Randolph Paul

Attached are copies of despatches which we have just received concerning the Argentine problem. The first is a cable from Armour concerning a recent discussion with the Ministers of Foreign Affairs and Finance concerning the special blocking of the Banco de la Nacion and the Banco de la Provincia. The second is from Winant and gives the unofficial views of the British concerning the freezing of Argentina.

You will be interested to observe the reaction of the Argentine Government to the aide-memoire presented by Armour concerning our action in blocking the Banco de la Nacion and the Banco de la Provincia. Instead of violently objecting to this action, the Ministers of Foreign Affairs and Finance concede that "questionable transactions" have been taking place and, betraying an ignorance of the obligations already assumed by Argentina, offer vague and general assurances in an effort to have the banks unblocked.



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

Montevideo

Dated November 8, 1943

Rec'd 5:41 p.m.

Secretary of State,
Washington.

953, November 8, 5 p.m.

Unconfirmed rumors are circulating here to the
effect that the Banco de La Nacion Argentina is trans-
ferring dollar credits to the Banco de La Republica del
Uruguay.

Repeated to Buenos Aires.

DAWSON

JRL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy - Buenos Aires
TO: Secretary of State - Washington
DATE: November 6, 1943
NUMBER: 2626

SECRET

After reading the aide-memoire (see Embassy's cable of November 5, No. 2619) the Minister of Finance stated that he agreed with us (I was accompanied by Bohan) that undoubtedly questionable transactions had been carried out, but that such things would not be permitted in Argentina under the new finance administration. Because he was centralizing matters in his own hands and he could assure me that no operation would be carried out in the future which would be objectionable, for this reason he was not interested in the past history of the case. At this point in the conversation, the Foreign Minister interrupted to state "we give you our guarantees on this." That since these guarantees had been given, the Finance Minister continued, the Treasury undoubtedly would wish to unblock these two banks, especially as it would be entirely agreeable to the Minister for the bank's correspondents to submit informally full information regarding any future transactions to the United States Treasury.

Throughout the entire interview the Ministers showed a complete lack of understanding of the Rio and Washington resolutions and their recommendations could have been interpreted as assurances that such resolutions, providing the two banks are unblocked, would be effectively implemented. Because of the bland assumption on their part that everything would be all right once the banks were cleared, my attempts to obtain more specific information were unsuccessful. Our views are that such generalized statements mean nothing and I believe the Department will concur. In view of its clear tendencies and announced policies, I personally cannot see how this government could be counted upon for any effective implementation. In a vain and illusory attempt to secure such implementation, I furthermore, feel strongly that under the circumstances we should not prejudice the effective use of the material accompanying despatch No. 12448.

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I would appreciate the Department's views with respect to the next step to be taken as the Ministers clearly expect an early reply to their naive proposal.

It may be the wish of the Department for me to see the Ministers again and inform them that if they are willing officially to furnish my government with concrete information as to the specific measures their government is prepared to take in order to implement effectively the pertinent Rio and Washington resolutions, the Treasury Department will be happy to consider the elimination from the special blocked nationals list these two banks. Frankly we can see no alternative procedure although it is realized that this course of action may lead to protracted discussions.

ARMOUR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: EMBASSY, LONDON
TO: Secretary of State, Washington
DATED: November 5, 1943
NUMBER: 7710

SECRET

Spiegel of EWD was asked by Bliss, high MEW official, to see MEW regarding the proposed freezing of Argentine funds. It was stated by him that MEW had been asked for its opinion regarding joint action by British and United States in freezing Argentine balances. MEW conferred with Foreign Office and Treasury and it was decided that the United Kingdom could not join the United States and freeze Argentine sterling balances.

According to Bliss, the position of British officials is that from the British point of view the special account arrangement is satisfactory and accomplishes everything which the British feel is necessary. In this connection it was mentioned by Bliss that Argentine sterling balances amount to about 50 million pounds. MEW feels that since United Kingdom is now more than ever dependent on Argentina for certain vital supplies, notably meat, unfortunate repercussions might result should the United Kingdom take steps to freeze the sterling balances. Evidently this position has been communicated to the British Embassy in Washington. It is stated by Bliss that the leak in the American press regarding the proposed freezing action probably has lessened the effectiveness of the whole proposal. The American story on this matter was copied by London papers.

It was indicated by Bliss that United States Treasury has recently blocked on an ad hoc basis the balances of the Banco de la Nacion and the Banco de la Provincia. It was suggested by him that sterling funds in Argentine banks could not be blocked in this manner by the United Kingdom because of the necessity of financing shipments of meat to the United Kingdom from Argentina.

Evidently MEW had also received an inquiry from the British Embassy in Washington regarding MEW's attitude to the United States

- 2 -

unilateral freezing action. It was indicated by Bliss at this point that this may ultimately turn out to be an issue over which the British and United States Governments may differ with the result that each will follow its own policy. However, he wished to state that in his opinion American freezing of Argentine dollar balances without accompanying freezing by the British of sterling balances might be exploited in Argentina as indicating a split in the United Nations over this issue with the result that United States freezing action might not have the desired policy effect in Argentina.

It was added by Bliss that the possibility that Argentina might be driven in retaliation to create difficulties over meat supplies for the United Kingdom was a second more important reason for questioning the desirability of unilateral freezing by United States. It was pointed out by him that this would effect purely British civilian and military supplies and also supplies for American army personnel stationed in the British Isles.

It was further stated by Bliss that he was making this known on a purely informal and unofficial basis but intimated that it might be helpful if this opinion could be brought through appropriate channels to the notice of the appropriate American officials.

No observations on the foregoing were made by Spiegel and he confined himself to stating that the information would be transmitted to the appropriate authorities by him. It is requested that we be sent instructions if the Department desires any reply to be made.

WINANT

November 11, 1943

My dear General Strong:

Thank you very much for your letter of November 10th in regard to the Argentine public opinion. May I compliment you on this very intelligent report. Until this question of freezing the Argentine assets in this country is settled, I would appreciate receiving a similar report from you once a week.

Could you give me an interpretation of the most recent move by General De Gaulle and General Giraud, particularly with reference to the resignation of Couve de Murville, the Minister of Finance?

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Major General George V. Strong,
Military Intelligence Division G-2,
War Department General Staff,
Washington, D.C.

SECRET 121

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION G-2
WASHINGTON

BY WASHINGTON A. C. OF S., G-2

Date 10/20/43 (9/12...)

November 10, 1943.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

In accordance with your request of November 6, there is submitted herewith a brief statement of the Argentine reaction to the recent freezing of the two banks. In the preparation of this statement, the Military Attache in Buenos Aires has been consulted by cable.

There has been no expression of Argentine public opinion except in the newspapers which, as you know, are fully controlled by the government. Generally, among American and Argentine business men, and particularly among officials of the Central Bank, the reaction has been unfavorable and the belief is held that the move serves no useful purpose as this country gains nothing beyond administering a mild slap on the wrist while, at the same time inviting retaliatory measures which may be as strong as if we had frozen all Argentine assets. The financial group in Argentina is said to feel that a general freezing of all Argentine assets is justified, but that the singling out of the two banks in question, which are popular and which have branches almost everywhere, was not justified. The Argentine Government is said to be disturbed about the matter and still hopes to work out a mutually satisfactory solution; it has, therefore, made no public statement on the question, but has admitted privately that the two banks did violate the Rio agreement but will avoid such violations in the future. It is anticipated that, as soon as hope is abandoned of persuading this Government to unfreeze the banks, the Argentines will institute retaliatory measures which may include the placing of interventors in American banks and business establishments, and the refusal of export licenses. The present unfavorable reaction against the United States engendered by the freezing is not considered of sufficient strength to affect any possible revolutionary movement against the Ramirez regime.

Sincerely yours,
document contains information of the United States within the Espionage Act, 50 U.S.C., 31 and 32. Its transmission or the its contents in any manner to an unauthorized person is prohibited by law.

GEO. V. STRONG,
Major General,
A. C. of S., G-2.

SECRET



SECRET

By authority of the Joint Chiefs of Staff, G-2

Date 10 Nov 43 (9/12)

November 10, 1943.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

In accordance with your request of November 6, there is submitted herewith a brief statement of the Argentine reaction to the recent freezing of the two banks. In the preparation of this statement, the Military Attache in Buenos Aires has been consulted by cable.

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Sincerely yours,

This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, 50 U.S.C., 31-32, as amended. Its transmission or the revelation of its contents in any manner to an unauthorized person is prohibited by law.

GEO. V. STRONG,
Major General,
A. C. of S., G-2.

SECRET

CONFIDENTIAL

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION G-2
WASHINGTON

11 November 1943.

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

In accordance with your request, I have given instructions that a summary statement of developments in Argentina be prepared weekly, and will be pleased to forward it to you.

In response to your inquiry with respect to recent developments in Algiers, the following information is submitted:

Developments in Algiers indicate that General de Gaulle has obtained practical control of the entire French Committee of National Liberation so that it is now a unified body responding to his leadership with the military wholly subservient to the Committee's authority. These changes were brought about principally by pressure from the French underground which now receives greater representation on the Committee. While some of the new appointees were affiliated with moderate conservative or center parties in France, most of them were identified with Popular Front groups so that as far as internal affairs are concerned the complexion of the Committee is slightly more to the Left than previously. This would presage continued and increasing attacks on Vichy influences. In matters of external affairs, the Committee is probably even more nationalistic than before and it will continue to seek greater recognition and power among foreign countries and defend what it considers to be the French National interest.

Couve de Murville is a young man formerly in the French Ministry of Finance, originally appointed by Giraud in June 1943 as Commissioner for Finances. His successor, Mendes France, is a socialist and was under-secretary of the Treasury in Blum's cabinet of March 10, 1938. He participated in the attempt to move the French Government

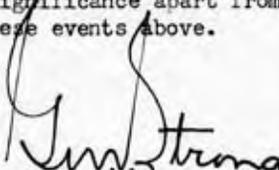


CONFIDENTIAL

CONFIDENTIAL

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to North Africa in June 1940, was arrested but escaped. He has served as a Captain in the Fighting French Air Force. There are no indications that the resignation of Couve de Murville and his replacement by Mendes France have any particular significance apart from the general interpretation of these events above.


GEO. V. STRONG,
Major General,
A. C. of S., G-2.

CONFIDENTIAL

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN CONSULATE GENERAL, ALGIERS
TO: SECRETARY OF STATE, WASHINGTON
DATED: November 11, 1943
NUMBER: 1979

CONFIDENTIAL

*Information -
No action.*

FROM MURPHY FROM ROYCE FROM HOFFMAN FOR MORGENTHAU.

You may be interested in the following preliminary and strictly informal information regarding Pierre Mendes--France new Finance Commissioner of Comite.

Generally speaking, he is reputed to have been a politician rather than a civil servant, although it is stated that he was associated for a short time with the Finance Ministry in a minor cabinet position under the Government of Leon Blum. He is not an inspecteur de Finance. For the past twelve years he has been a member of the Chamber of Deputies. He is Jewish, thirty-five years old, married to a daughter of a wealthy Egyptian merchant, has a good war record and was Mayor of Louviers and radical socialist from Department of Eure. He was one of the Bordeaux group who thought that a refugee government should be set up by France in North Africa after the fall of France. After the armistice he escaped to Morocco where he was arrested and sent to Metropolis.

-2-

Metropolis. He escaped to Switzerland and to England from there. At the present time he is said to be en route from London.

/s/ WILEY

Re funds to meet Dec.1,1943, service requirements of the French Govt 7% dollar bonds.

Mr. Bernstein's initials were on carbon but you referred back to Dr. White for approval who made slight change in last sentence on page 2.

NOV 11 1943

My dear Mr. Stettinius:

Receipt is acknowledged of the letter from your Department of November 5, 1943 (FD), concerning funds necessary to meet the December 1, 1943, service requirements of the French Government 7% dollar bonds, due 1949.

As your Department has been informally advised, the French authorities in North Africa have recently issued instructions to the French American Banking Corporation for the payment to J. P. Morgan and Co., Inc., for this purpose, of the sum of \$2,400,000, such funds to be transferred from the account of Tresorier General Aux Etats Unis du Comite Francaise de la Liberation Nationale - General Account. This Department is prepared to permit the use by the French authorities in North Africa of such funds for the purpose of servicing this issue of French Government bonds. No reference was made in your letter to this proposal of the French North African authorities. We would appreciate a prompt statement of your views on such proposal. If your Department is opposed to this proposal the Treasury would like definite instructions to deny the application which is pending for the use of the North African funds.

If North African funds are not to be used for the servicing of these bonds, the question arises as to whether or not a directive license should be issued for the transfer of the necessary funds from the official accounts of the former French Government or whether we should refuse to take affirmative action to meet the December 1, 1943 service requirements of such bonds.

By Messenger Manner 4 pm

- 2 -

In weighing the advisability of using North African funds against the advisability of issuing a directive, we would like to call your attention to the fact that this is the first instance in which Treasury has been called upon to use its extraordinary directive powers in this type of case. If this action is taken, there may be strong pressure on the Treasury to use its directive powers to pay off other creditors - a policy which we would be reluctant to follow unless it can be demonstrated that it is important to the interests of the United States to take such action. Accordingly, if you do not desire the use of North African funds and request us to employ a directive in this instance, we would appreciate receiving a statement of the views of your Department in this connection.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable E. R. Stettinius, Jr.,
Acting Secretary of State,
Department of State.

JWP;WHT:nrd - 11/9/43.



DEPARTMENT OF STATE
WASHINGTON

1 reply refer to
0

November 5, 1943

My dear Mr. Secretary:

I refer to recent conversations between officers of the Treasury and State Departments concerning funds necessary to meet the December 1, 1943 service requirements of the French Government 7% dollar bonds due 1949.

It is the understanding of the Department of State that J. P. Morgan & Company, bankers for this issue of bonds, have informed the Treasury Department that available funds held by them are insufficient to meet the December 1, 1943 service requirements of these bonds. It is understood that J. P. Morgan & Company have indicated that they will require \$2,400,000 in addition to the funds now available, to meet the contractual obligations under the sinking fund provisions of the loan contract and to meet the interest payments due December 1, 1943.

The Department of State, after a careful review of the various considerations in this case, is of the opinion that at the present time the foreign policy of this Government would best be served by the issuance by the Treasury Department of a directive license for the transfer from official funds of the former French Government a total amount of \$2,400,000 from an account in the name of the Payeur General with the French American Banking Corporation to J. P. Morgan & Company in such a manner that the funds so transferred will be dedicated solely to the payment of French Government 7% bonds due 1949 which were drawn by lot for redemption on December 1, 1943. The effect sought by this provision is to assure

that,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



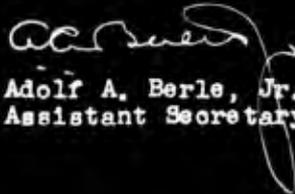
-2-

that, upon receipt of satisfactory advices covering payments made in France of bonds drawn for redemption on December 1, 1943, the corresponding amounts transferred under such directive license would then be credited by J. P. Morgan & Company to an account now carried on their books, entitled, "French Government".

I will appreciate it if you will be kind enough to inform me when the Treasury Department has acted on this matter.

Sincerely yours,

For the Acting Secretary of State:



Adolf A. Berle, Jr.
Assistant Secretary

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, MOSCOW
TO: Secretary of State, Washington
DATE: November 11, 1945
NUMBER: 1910

The following is a personal message from Harriman for Morgenthau.

I repeat a cable I sent you November 1 in care of the Legation, Cairo with request that it be forwarded, on the chance that it has not reached you:

"Molotov asked me this evening whether there was any chance you would be willing to come to Moscow now that you were so close. He said Mikoyan was most anxious to see you and discuss matters of mutual interest. I feel strongly that it would be of real value for you to accept the invitation to come if it is at all possible. The conference has been a great success and even a brief visit by you at this moment would carry on where the conference left off. It is needless to say that it would be a real pleasure to have you stay with me."

Kirk has informed me and I have informed Molotov that you left Cairo before receiving my cable. However, I believe it would be useful for you to cable me for me to deliver to Molotov in your name some courteous expression of your appreciation of the invitation and your regrets.

HARRIMAN

NOT TO BE RE-TRANSMITTEDU. S. SECRET

COPY NO

12

BRITISH MOST SECRETSignal No. 379

Information received up to 10 hrs. 11th November 1943.

1. A.V.E. Levant During 9th/10th LEVIKRA ISLAND was bombarded by two of R.M. Destroyers in company with a Polish Destroyer. These ships were subsequently bombed off STAMPALIA during 10th and one was hit being taken in tow. During past few days large number enemy assault craft reported moving eastwards in Aegean towards KOS and KAYMAIOS.

U-Submarine Operations 10th U-boats probably sunk by aircraft off CAPE ORFEDAL.

2. MILITARY Italy 8th Army During 9th and 9th/10th patrols crossed RIVER SANGRO near Com. without making contact with enemy. Further inland our troops are operating in direction of ATESIA (8 miles south east of CASOLI) on extreme left, we reached RIODESIO (9 miles north west of Isernia). Weather bad on whole front with snow falling in mountain areas.

5th Army 10th. Enemy still offering stiff resistance. U.S. troops drove enemy from south east slopes of MOUNT MADDALIA (8 miles south west of VENAFRO).

Russia 10th. Russians captured several localities west and northwest of NEVEL and made further progress in KIEW Sector.

3. AIR OPERATIONS Western Front 10th. 119 Escorted Typhoon bombers (1 mi. in.) and 22 Mitchells (B25) attacked Military objectives near GERMIA and BRIS NEZ. Escorted Marauders (B26) dropped 78 tons on CHINESES airfield.

10th, 11th. Aircraft despatched - MODANE 313 without loss, DORMUND 2, Spanglers 7, Leaflets 25, Intruders 28 (2 missing), anti-shipping 16. Preliminary reports MODANE indicate a concentrated attack with target identified visually.

Italy 8th/9th. Wellingtons hit railway bridge over river ORBASSO (South of GROSETO).

5th. 48 U.S. Heavy Bombers attacked factories near TORIN and GENOA. 128 Light Bombers and Fighters attacked targets in Battle Area.

Assam 9th. 28 escorted enemy bombers attacked airfields at IMPHAL and PALAL. Enemy casualties 2.1.1.

OFFICE
SECRETARY OF TREASURY

NOV 12 1943

TREASURY DEPARTMENT

November 12, 1943

My dear Mrs. Parran:

I received your letter this morning.

I think there was some misunderstanding about what was said in the meeting.

I shall be very glad to see you if you will give me a call and set a time.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. Thomas H. Parran
3734 Oliver Street, Northwest
Washington, D. C.

(Envelope was addressed: Mrs. Carroll K. Parran
Office of War Information
marked "Personal"
Del. by hand (Schey) at 10:45

FS:gr
JP

OFFICE OF WAR INFORMATION

WASHINGTON

November 11, 1943

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

My dear Mr. Secretary:

When our third son enlisted last fall I went down to Civil Service and applied for a government job in the hope of replacing an able-bodied man for combat duty. Civil Service sent me to the Office of War Information where I was given a modest post in the Management Services Branch. In the course of a few months, I was transferred to the Overseas Branch where I now am an assistant in the Office of the Director, Mr. Robert E. Sherwood.

I have worked with all my heart and soul to do an honest job on the home front for the sake of your sons and mine and the millions of others on the fighting front. How effective that job has been I do not know. I do know that none of my superior officers have questioned my loyalty and devotion until this morning when Mr. Sherwood told me that you--of all the people in the world!--had intimated that because previously I had done some work for Reader's Digest, it might be through me that the Reader's Digest organization was informed of incoming cables concerning them.

Since I have had no communication of any kind with any Reader's Digest representative since the war began, it is difficult to understand upon what evidence you could have made such a statement so damaging to my reputation ~~and~~ integrity. Will you give me the opportunity of clearing that reputation by telling me what your evidence is?

Very truly yours,

Carroll K. Parran
Carroll K. Parran



November 12, 1943¹³⁶
9:26 a.m.

HMJr: Hello.

Operator: Mr. Sherwood.

HMJr: Hello.

Robert Sherwood: Hello.

HMJr: Bob.

S: Yes, Henry.

HMJr: What a pal you are.

S: What?

HMJr: I got a long letter this morning from Mrs. Parran.

S: Oh, well, I spoke to her the minute I got back.

HMJr: But why did you drag me in the picture?

S: Well, hell, I wanted to find out what -- what was in back of it all.

HMJr: Well, are you satisfied?

S: Well, I certainly am. I'm sure of it because of all people she is one that I just could not believe would be guilty of anything like that that un....

HMJr: Well....

S:necessarily on a charge of disloyalty but on a charge of such terrible indiscretion.

HMJr: Well, Bob, all I said was that she had been very close to Readers Digest.

S: Yeah.

HMJr: And I said to you....

S: And you said that un -- she had seen those cables so undoubtedly they had already got back to the Readers Digest.

- 2 -

HMJr: Did I say that?

S: Yes, sir. And that is a grave charge.

HMJr: Well, I don't remember saying that. I don't remember saying that she'd get in touch with....

S: Well, I may have misunderstood but that certainly was the impression I got, Henry, and that's a thing you can't let go.

HMJr: No, I don't remember saying that. I do say -- did say that she had been very close to them.

S: Oh.

HMJr: And had seen the -- evidently seen the cables and you said, "Oh, my God, has she seen the cables -- all the stuff that I've said about them?"

S: Yeah.

HMJr: And I said, "You...."

S: No, I said, "If the Readers Digest has seen those cables...."

HMJr: That's right.

S:they've seen all the stuff that I've said, too."

HMJr: That's right. And, so you -- I said, "Well, you'd better check up for yourself."

S: Yeah. Well, that's exactly what I did.

HMJr: Well, are you satisfied?

S: Oh, sure.

HMJr: Well, she has asked to see me and I'm going to see her.

S: Well, I should think you don't need to bother with that. I think that's....

HMJr: Well, she's written....

- 3 -

S: Yeah.

HMJr: Well, what did she tell you?

S: Oh, she told me that she had not seen anybody from the Readers Digest for a couple of years and she said, "I admit I may have been naive and I may have been slow but it wasn't until about six months ago that I caught on to the trend that the Readers Digest was taking of terrible disloyalty and even sabotage." And she said she wouldn't have anything to do with them.

HMJr: Well, I think I'd better see her. I mean, the woman writes me a letter and demands to see me, I'd better see her. But I....

S: Well, I should think that....

HMJr: I -- I....

S: Oh, I'll speak to her and tell her I spoke to you and....

HMJr: If she wants to come over at 11:30, I'll see her.

S: Well, I don't think she can today, Henry, because we've got to go up before the Senate....

HMJr: Yeah.

S:and she has to stay here in the office in case -- uh --

HMJr: But....

S:we have to call back for any material on embarrassing questions.

HMJr: Yeah.

S: You know how those things are.

HMJr: Yeah. I -- but I think you could have asked her about her connections without dragging me into it.

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- S: Well, I'm sorry if I embarrassed you but I didn't know....
- HMJr: Well, you have terribly -- I'm terribly upset over the whole thing, because I thought everything we were saying was sort of under the rose, but....
- S: Well....
- HMJr: You tell her whenever she's ready I've got the time. I'll see her anytime that she wants to come over.
- S: All right. Oh, I should think that -- hell -- you don't have to be bothered with that but I can speak to her and a telephone call would....
- HMJr: Well, I....
- S:finish the matter.
- HMJr: Well, if it doesn't and she wants to see me, I'm available.
- S: Yeah.
- HMJr: But my own recollection was that I was simply trying to say that if she saw the cables and was friendly to the Readers Digest that you'd better check up on how friendly she still was.
- S: Yeah.
- HMJr: And, but I thought that you would sort of do it with less of a sledge hammer.
- S: Well, I'll tell you, Henry, I, myself, would like very much to see you again because there were some pretty serious charges yesterday and I feel God damn badly about them and I just cannot -- cannot let them stand without further clarification.
- HMJr: Yeah. What are you referring to?
- S: Well, Smith said to me, "There's not one person of any competence in that whole North African set-up."

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HMJr: Well, he....

S: And all that stuff about 800 people on the payroll -- My God, I -- uh

HMJr: Well, I'm available. No, we were very enthusiastic about your man in Cairo.

S: Yeah, I know, but I'm talking about the other one -- the man in Cairo is part of the same thing. He's under Jackson in Algiers and Italy and now Jackson is being moved up by agreement with the highest authorities to a much more important post which I'll tell you about.

HMJr: All right, Well, I'm of the....

S: There were such charges of incompetence that involve a hell of a lot more than anybody as insignificant as I am.

HMJr: Well, anyway, I'm available but I'm going to ask you please to tell Mrs. Parran -- because I don't -- anybody asks to see me, they can always see me.

S: Yeah.

HMJr: I wish you'd tell her I'm available anytime.

S: Yeah. Okay, Henry, I'll tell her.

HMJr: Thank you.

S: All right.

HMJr: Bye.

November 12, 1943
10:00 a.m.

HMJr: Hello, Fiorello.

Fiorello
LaGuardia: Gee, I'm glad you're back safe.

HMJr: Thank you. How are the Sunday spaghetti dinners?

L: (Laughs) They're going on. That's what I want to talk to you about.

HMJr: Yeah.

L: Henry, I got your very encouraging letter....

HMJr: Yeah.

L:in reference to remittance.

HMJr: Yeah.

L: This is what I want to ask you. If, without any definite assurance but that this is in the works, could I use that on my short wave? I've just got to give them something. I've run out of bedtime stories. It's not published here, you know.

HMJr: You'd better read Ilka Chase's "I Cry in Bed."

L: (Laughs) Is that what he says?

HMJr: Ilka Chase -- she's this woman writer.

L: Yes.

HMJr: She's written a book. I think it's called "I Cry in Bed."

L: Well, I think both of us have done that, too.

HMJr: Uh....

L: What do you think of it?

HMJr: Well, I'd have to check it -- uh -- I'll get -- you go on Sunday, do you?

L: Well, I make my record tomorrow morning.

- 2 -

HMJr: Oh, we work fast -- we'll get you word sometime today.

L: Yes, I make the record and then it's used short wave and it's not used here at all.

HMJr: I'll get our -- I'll have word to you positively this afternoon....

L: Yes. And tell them, Henry, that it will be very helpful because all we've been giving those people is a lot of axioms and mottos and epigrams and here's something concrete.

HMJr: Okay.

L: Thank you very much.

HMJr: Thank you.

November 12, 1943
10:30 a.m.

TAXES

Present: Mr. Herbert E. Gaston
Mr. Fred Smith
Mr. Randolph Paul
Mr. Stanley S. Surrey
Mr. Roy Blough

H.M.JR: (To Mr. Paul) Are you interested in this contract termination business?

MR. PAUL: I talked about it up at the Murray Committee.

H.M.JR: I told Joe O'Connell to be in on it. I told Joe to be here at a quarter of twelve. I don't know what it is all about.

MR. PAUL: I'll come in if you want. You can't keep away from it.

H.M.JR: It is a question of who is to represent the Treasury on a committee.

MR. PAUL: I know. I'll come in. I really think Joe would be pretty good for that. He has been doing a lot of work on it--but let's see. I'll come in and learn what it is all about.

H.M.JR: At a quarter of twelve.

I haven't read this thing (referring to Draft #1 of the speech before Members of the Senate Finance Committee - attached). I got all upset over another matter this morning.

When do you people think I am going to have to appear?

MR. SURREY: It is uncertain. They may try to pass the Bill some time next week--Thursday of next week.

MR. PAUL: The following Monday, then?

MR. SURREY: In which case it might be the following Monday. On the other hand, if they can't pass it around

- 2 -

Thursday, they won't bring it up in the House until about the following Monday.

MR. PAUL: That would be the 22nd, wouldn't it?

H.M.JR: Have you people got a copy of this? (General agreement) Do you want to read it out loud?

MR. SMITH: This is a very rough thing.

H.M.JR: Why not read it out loud, and I'll have to listen.

MR. SMITH: Poor you!

MR. GASTON: I think it is a very good job.

H.M.JR: Read it, then. You do think it is a good job?

MR. GASTON: Yes.

(Mr. Smith reads paper aloud. At the close of the first paragraph on page 6 the following comments are made:)

H.M.JR: Didn't they put a tax of three percent on these people?

MR. PAUL: That was in lieu of the Victory.

MR. GASTON: On the minimum, yes.

H.M.JR: They'll have to pay a three percent on what--exemptions?

MR. GASTON: Five hundred; seven hundred for married and one hundred exemption per dependent.

MR. PAUL: Same impact. A total of about three hundred-odd million on the nine million.

H.M.JR: Where will they start to pay?

MR. SURREY: A married person would start paying at seven hundred dollars; if he had two children, he would

- 3 -

start paying at nine hundred dollars.

H.M.JR: A single person would start where?

MR. SURREY: Five hundred dollars.

H.M.JR: And a married person?

MR. SURREY: Seven hundred; with two children, nine hundred. He gets a hundred dollars for each child.

H.M.JR: If his income was nine hundred and a thousand-- on that hundred dollars he'd pay what?

MR. SURREY: Three percent.

H.M.JR: Up to a thousand dollars a married man with two children would pay three dollars?

MR. SURREY: No, a married man with two children-- the regular income tax doesn't come on until a thousand dollars.

MR. GASTON: Under our proposal it would come on at eleven hundred.

MR. PAUL: No, eleven hundred, plus.

MR. BLOUGH: Seventeen.

MR. GASTON: Yes, that is right: for the two children, seventeen hundred.

H.M.JR: At a thousand dollars a married man with two children would pay three dollars. Try and collect it!

MR. SURREY: Yes, sir.

MR. PAUL: When you get right above that, they begin to pay.

H.M.JR: But our exemptions for married men with two children start at eleven hundred.

MR. GASTON: Eleven hundred for the married man without

- 4 -

dependents; seventeen hundred for the married man with two children.

H.M.JR: Do you have some tables? You could have those early next week?

MR. BLOUGH: Yes.

MR. GASTON: These figures may not be accurate; they were taken off the tables.

(Mr. Smith completes reading of the draft)

H.M.JR: Well, I like the tone very much just the way Gaston does. I would suggest, Paul, if these two men (indicates Mr. Blough and Mr. Surrey) have the time today that they get together with Smith and sort of sweat this thing out and get the thing going. How are you two?

MR. PAUL: The Committee is not meeting.

MR. SURREY: I can work part of the day.

H.M.JR: How are you fixed right now?

MR. SURREY: This morning I can do it.

H.M.JR: How about you? (Indicates Mr. Blough)

MR. BLOUGH: All right.

H.M.JR: Why don't you do this Sunday night, leaving me out at this stage?

MR. PAUL: I would like to raise a couple of basic questions--not the details.

H.M.JR: All right, go ahead, please.

MR. PAUL: There are a lot of things about this I like. The chief fault I have to find is it doesn't meet certain issues which have been discussed in the Press. We have to deal with the economy arguments, to say something about that. I think we have to deal with the argument a little more specifically--that five thousand dollar argument--because they have

- 5 -

tried to turn that against us, "Why don't you tax down there?" I think we have to deal somewhat more specifically with the capacity to pay, the fact that the people are able to pay.

Those are some of the things.

H.M.JR: I think that those are all important. I think this economy thing--I mentioned that to Smith, myself, that even if you cut twenty million dollars off at the top, it still wouldn't make one bit of difference as far as inflation and scarcity of goods are concerned.

MR. PAUL: Yes, I think it is important to scotch that thing.

MR. SMITH: I think that ought to go in, too.

MR. GASTON: Those are all good points. Fred does deal with this five thousand dollar income class, the fact that we are lifting the tax; but you can perhaps strengthen that.

MR. SMITH: The one basic thing, the only thing that I feel about this whole business is that it would be wise to pitch the whole thing on the amount of money, and try not to get tangled up in details and technicalities, because as soon as you do that then you give them an opportunity to obfuscate the whole business with arguments about little things. And the big point is whether they will raise the money or not. I don't think they want to raise the money. What is happening now, as you know, is that they are trying to say if we will let them have a sales tax we get more money. I think, actually, if we told them to go ahead, they still wouldn't vote the sales tax, but just an alibi to get out of the amount of money.

MR. SURREY: Doesn't that raise a question as to whether there should be a second statement? The Senate does not know what the program is.

MR. SMITH: I think that is true. I think there should be a statement or some mimeographed thing that would have the whole problem in it.

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MR. SURREY: The Senate is getting to be a pretty peremptory group now--the Senate Finance Committee. In the pay-as-you-go session, they didn't even listen to us. In executive session they spent about half an hour on the whole thing.

MR. BLOUGH: They left a lot of stuff to executive session, and then there was no executive session.

H.M.JR: On the pay-as-you-go they had a sub-committee.

MR. SURREY: I mean, on this Ruml plan business.

H.M.JR: Yes, they had a sub-committee of three.

MR. PAUL: That was way back, the year before.

H.M.JR: Yes, but they did go into it before. That committee reported back to the whole Committee.

MR. PAUL: They turned it down, thirteen to three. That was the year before.

H.M.JR: Go ahead.

MR. SURREY: Then there is another aspect of it. Assuming they don't want to raise any money, the House Bill with the so-called minimum tax is going to leave us with all the complications, practically, we have today with respect to the difficulties of the income tax. It will get rid of the Victory Tax, but put in another system that is nearly as bad.

H.M.JR: Do you want me to hit back--criticize it?

MR. SURREY: It would have to be done in some detail, I think. It is a question of whether it should be done in this statement or in a statement by, say, Randolph. It hasn't been done at all by the Committee.

MR. GASTON: I think both, Stanley. I think that is basic. What they have before them is a House Bill. There needs to be some more specific reference to the House Bill. I think that needs to be elaborated by Mr. Paul's statements and your statements to follow. But I think there should be some reference in here to the House Bill, itself.

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MR. PAUL: I think you ought to take advantage, in the Secretary's statement--even if I have a statement that follows going into some detail, I think the Secretary should go into detail.

H.M.JR: May I say something, Stanley? I think you are raising a good point. I think for me to say that this thing that the House has done from the standpoint of simplification isn't any better--or just as strong as you want to make it--than the Victory Tax is just swapping one horse for another and not a very good bargain. We could say, "Now this is a complicated subject, and the experts of the Treasury will be glad to go into the thing."

MR. SURREY: You mean, put that in a statement? You say the experts of the Treasury will be glad to go into it. You mean in a separate statement before the Committee? You see, we were not given a chance in the House to criticize the House Bill. It has never been done yet.

H.M.JR: Let me make the thing plain, and then I want to stop this discussion. You fellows can discuss this thing and we'll have another meeting.

I, as Secretary of the Treasury, am always glad to be the spearhead, and I should in my statement lay down what the Treasury policy is. Then it is up to you fellows to follow through and amplify it. Now, I'd like to have the first brush among the three of you. I don't mean to exclude Paul, but I am trying to save Paul's time. It will save me a lot of time. You may find Smith will say, "Sure, the boss should say this." But I am saying to you, whatever the Treasury position, whether it is on that or whether they have done something else, I am more than willing to say it in my statement. Then if they come to me afterwards and say "Explain it," and I'll say, "I am not going to explain it. The Treasury people are here to explain it."

MR. BLOUGH: I think that is right. I think it is important to this case that you don't wait for questions, but indicate that you would like to have the detail of this position discussed.

MR. PAUL: In a formal statement.

MR. GASTON: I am inclined to think the Secretary should

- 8 -

have first a review of what the Treasury first proposed, and then a review of what is in the House Bill and what, in general, the Treasury finds wrong with it.

H.M.JR: I would love to find something wrong with the House Bill!

MR. GASTON: There is a good memorandum from the Bureau, by the way, on the difficulties of this stand on amalgamation.

MR. SURREY: You can find something wrong with it, all right!

H.M.JR: I think this time--we haven't ever done it before, I haven't--the new Commissioner should have a look at this thing. I think we should pull him more into this picture. We have never done it, and I think he should be pulled in at this level at this time.

MR. PAUL: He is away until Tuesday. We will get him in at that time.

H.M.JR: Yes, I think he should be pulled in.

Now, look, gentlemen, I'll meet with you as frequently as necessary, but I do think if you people had an hour or two hours together you would get along faster.

All right, Herbert?

MR. GASTON: Yes.

Draft #1

Members of the Senate Finance Committee:

At the time I presented to the House Ways and Means Committee the Administration's suggestions in connection with a new tax bill, I made it clear that the Administration felt we should ask for an additional 10.5 billion dollars in taxes next year.

The additional levies necessary to secure this large amount, it was stipulated, were to be strictly temporary, and were to be eliminated after the war.

Our basic reason for making this suggestion arose out of the quite obvious fact that the war is costing 200 million dollars a day more than our present tax receipts, and thus we are piling up a debt of 200 million dollars a day which some day must be paid -- perhaps by American taxpayers far less able to pay it than we are today. The time to pay for the war is while we are fighting it, and while the stimulation of war production has expanded the incomes and tax-paying ability of a majority of taxpayers.

It is vital to the maintenance of a sound Government fiscal policy, that we finance a much greater portion of the war through taxation than at present. Every dollar that we raise through taxation is a dollar less that will have to be returned, with interest, when the war is over. Therefore, securing additional taxes at this time would not only improve our present position, but

would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems in connection with reconstruction and the readjustment of the economic system.

The Administration had a second major reason for asking 10.5 billion dollars; and that was to help hold the line on inflation.

You all know the facts about inflation, which threatens more seriously each time that our price and wage structure are threatened, as they have been over and over again in recent weeks.

It seems obvious that out of our huge national income, only a small portion can be spent without driving prices upwards; and that at least one satisfactory way of keeping this money from being spent, and causing trouble, is to take it out of circulation before it has a chance to be spent; to drain it off in taxation which, however painful it may seem to the taxpayer during 1944, will certainly help to make times easier for him in 1945, and perhaps 1955, and throughout future generations.

So, for these two reasons -- to raise money that is badly needed, and to protect ourselves now and in the future against the ravages of inflationary price rises, we suggested that the Congress raise these 10.5 billion dollars.

Nothing has happened since I made that presentation to the Ways and Means Committee to change our minds, or to amend our

- 3 -

estimates of the amount needed. The fact that the Committee could not agree in principal with our thesis does not in any way change the facts in the case. We still need the money, and we believe it advisable to collect the money now, when it is available, and when there is a scarcity of consumer goods to spend it on. And we still must fight inflation.

Since making the presentation to Congress, I have been abroad and have talked to our soldiers -- to the men who are actually fighting the war -- men living for the most part on \$50 a month and trying to hold together their families until they can get back, get jobs, and pick up the broken threads of their lives.

I can tell you that if they had the power to pass a tax bill, it wouldn't stop at 10.5 billion dollars. And I think they have earned the right to have their feelings in the matter considered seriously.

All of you know the nature of the suggestions which we made to the House Ways and Means Committee. Let me outline them: We suggested a rise of ___ millions in selected excises; ___ millions in corporation taxes; and ___ billions in increased income taxes.

However, I want to put all the emphasis here today on the necessity for raising a substantial amount of revenue rather than on any particular plan to raise it. That is, I sincerely believe, the basic problem, and the basic source of disagreement on this proposal.

You know, and the public knows, that the war is costing us a fantastically large amount of money. It is mounting into a bill that we and our returning soldiers and our children will be paying off for the next quarter or a half century unless far more of it is paid off currently than we are now doing.

It is not comforting to project your vision so many years ahead and see little possibility of relief from high taxes, regardless of the state of our national income or whether we happen to be in periods of prosperity or depression. It certainly seems neither intelligent nor very fair to mortgage the futures of our children without having a better idea than we have of what that future may bring.

We have asked for 10.5 billions. In many quarters this request has been held as thoroughly unreasonable, and the protests have been long and loud. Obviously, it was not a popular request to make. We knew that when we made it. Obviously, it could be considered politically unwise to suggest raising taxes to such an extent in an election year. We also knew that. But the question

is not one of political expediency, but of financing the war, and of reducing as much as possible the national debt, so that soldiers returning from the battle fronts could concentrate on the reconstruction of their lives and business and the re-establishment of their incomes without having hanging over them, like the sword of Damocles, a huge bill for the costs of the war, which we refused to pay when we had the money to do it.

And we do have the money to do it.

I am as aware as anyone that we are faced with great problems in setting up a system of taxation that will get this money without injustice; and that we have reached the saturation point on taxation in the case of many people throughout the Nation. There are literally millions of people whose incomes have not increased as a result of the war; and there are millions whose wages are so low that they can not maintain even a reasonable standard of living, and still pay the taxes which are even now levied against them.

I have said many times before that four-fifths of our entire national income rests with those people earning less than five thousand dollars a year. I should like to make it very clear, however, that among those people earning less than five thousand a year, there are 21.5 million people -- a third of all the Nation's salary and wage earners -- who make less than a thousand dollars a year. These 21.5 million people earn a total of only 18.5 million

dollars. Thus, it is obvious that these 21.5 millions who earn, on an average, less than \$18 a week must be given special consideration in times like these, when we speak of tax programs. In fact, some of them -- nine million of them now paying Victory taxes whose incomes are pitifully small, we should relieve even of their present taxes. I don't believe that is an unreasonable request. I believe it is a case of simple justice.

And because of these millions with sub-standard earnings, we have consistently opposed the sales tax as a means of raising additional revenue. The cold facts are these: on a straight dollars and cents basis, a sales tax on all commodities including food and the necessities of living would fall with a devastating thud on these 21.5 million people earning less than a thousand a year. From the standpoint of food, which is usually the largest item in a low-income budget, perhaps it would fall even more heavily, for the simple reason that most of these people are laborers whose food and basic requirements are greater than those of the higher income groups. The percentage of their earnings paid in taxes, in relationship to their incomes, would be, of course, entirely out of proportion.

There is only one way of sparing these 21.5 million people an inexcusable injustice under any sales tax scheme -- and that is by eliminating from taxation food and the necessities of life --

and that, gentlemen, would make the revenue to be secured from the sales tax almost too small to be worth the bother. An over-all, unjust sales tax might get us about six billion dollars. If the necessities of life were eliminated, we would be fortunate to get two billion dollars, much of which we propose to get anyway through selected excise levies. Most of that extra four billion would come from the blood and sweat of people who honestly can't afford it. It's unthinkable. Badly as we need the money, we can not take it from those who would face certain hardship as a result of new taxation.

The bulk of the money, therefore, must come from those outside of lowest income group, yet within the up-to-\$5,000-a-year group. And lacking any more precise method of separating out the ones who have the greatest ability to pay, we believe we must resort to an increase in income taxes.

Of the total of 8 billions of new income taxes in our suggested program, _____ billions would come from those 43 millions of taxpayers who earn, after present taxes, between \$1,000 and \$5,000 -- or a total of 97 million dollars. At present, these taxpayers are paying a total of about 10.6 millions, or a little more than half of all the income taxes levied against all taxpayers. Under the suggested new plan, they would be paying a slightly higher proportion of the total -- the increase being due to a smaller increase in the lowest and the higher brackets.

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I hope you will consider the long-term significance of this tax bill before you decide upon a course of action. I hope you will never lose sight of the fact that to the extent that the 10.5 billion figure is reduced, just to that extent we will be levying additional taxes upon the men who are now fighting the war and upon their children and ours. We can not forever put off the payment of the huge war bill which is accumulating at the rate of 260 million dollars a day -- less than a third of which is being met in Government revenue at the present time.

And I hope you also will remember that every dollar taken in taxes is one less dollar which can cause an inflation that will burden us, that will unnecessarily increase our war bill, and that will make the job of reconstruction infinitely harder once the war is over.

I should like to say one thing more. On my recent trip to Europe, I spent a great deal of time investigating our war expenditures abroad. I wanted to know whether or not reasonable care was being given to the spending of money at the front. I did not, of course, make a detailed study, but I came away with the distinct impression that the war is being fought as economically as it is possible to fight against Nazi fanatics who are perfectly willing to throw their every resource into battle.

I am convinced that our commanding Generals are not wastrels either of money or men, which is a comforting thought. And I gained the distinct impression that our money, translated into war equipment, and into the training which makes our soldiers the best in the world, is winning the war for us, and it is our money and resources which turned away the huge tidal wave of Nazi oppression which, not so long ago, seemed irresistible.

That is certainly ample recompense for any sacrifice we may have made or will be called upon to make.

Higher taxes are little enough of a sacrifice if it means Victory, and a sound peace and the opportunity to rebuild our Nation as we want it, not as some dictator wants it.

Higher taxes are little enough compared to the hardships that most of our allies are facing today. We have no bombs dropping on our homes. Our friends and neighbors have not been lined up against a wall and shot, as literally hundreds of people in Naples were viciously murdered by the Nazis. Our streets are not filled with rubble like I saw obstructing the streets of Malta.

In short, we have been spared the horrible destruction of war, so very horrible that no one who has not seen it can possibly imagine it. For this, we must be truly thankful -- so thankful that we will willingly tighten our belts and pay whatever it costs to fight the war to a finish -- to so complete a finish that it can never happen again.

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These are the things I hope you will bear in mind above all else when you are debating the disposition of the tax program for 1944.

November 12, 1943
11:45 a.m.

COMMITTEE REPRESENTATION

Present: Mr. Daniel Bell
Mr. Randolph Paul
Mr. John L. Sullivan
Mr. W. N. Thompson
Mr. Joseph J. O'Connell, jr.
Mr. Robert McConnell

H.M.JR: Norman, I thought you might as well get in this thing, because somebody is going to go on a committee of some kind. I don't know what it is.

MR. SULLIVAN: Well, you recall walking back from the Statler the other day I discussed with you Mr. McConnell's position on all this post-war stuff, and I understood from you that he--

H.M.JR: (On the inter-phone) If Dan Bell is not busy, ask him to step in a minute.

MR. SULLIVAN: My understanding of Bob's situation was that he was the overall man on all post-war things in which the Treasury was interested, and that in all of these meetings that are to be held over there Bob would attend all of them and he would take with him the particular fellow who was specifically interested in the problem that was then under discussion--just as the other day he took me to the discussions on the contract terminations.

H.M.JR: Can I interrupt you?

MR. SULLIVAN: Yes.

H.M.JR: You are giving me a little bit more than I want to get.

(Mr. Bell enters meeting)

Sit down, Dan. Some new committee is up. You have been in on part of this. What I am saying and what Bell has said is this: You don't want to quote me. Mr. McConnell will represent the Treasury, vis-a-vis Mr. Baruch and Mr. Byrnes

- 2 -

on what they are doing over there, see? That doesn't necessarily mean that that includes all post-war things, because there are a lot of monetary things--stabilization, world bank, etc.

MR. SULLIVAN: I think that amendment is proper, and that is what I had in mind.

H.M.JR: When you said he does everything post-war, I don't think anybody can do that. I don't think he wants to get on Harry's world bank or stabilization of currency, and so forth.

MR. SULLIVAN: They spoke of this meeting this week as one of twenty-eight different things they had on their calendar. Now, insofar as those are concerned, I think Bob should attend all of them--some one man follows the whole business through, just as Dan said.

H.M.JR: Bell and I discussed it.

MR. SULLIVAN: If it is post-war tax, he will take Randolph; if it is post-war procurement, he will take me. He will take a particular fellow with him.

Now, there is a committee of seven set up to handle this, called the Joint Contract Termination Board. It calls for the appointment of a member and an alternate.

MR. MCCONNELL: That is a sub-committee of the Baruch committee?

MR. SULLIVAN: That's right. Now, we talked in there, and whereas Bob attended the meeting that set this up, this is more or less a sub-committee, an operating committee, to put into effect the things that were decided at the bigger meeting. Our view was that I should be the member of that and that Joe O'Connell should be the alternate, because the work of that Termination Board will be procurement work. We just wanted to discuss the matter with you and see if it was in accord with your ideas that we follow the general principle that Bob be in on the overall and when it got down to an operating level it would be the fellow who was concerned with that specific problem.

H.M.JR: Let me restate the thing: Mr. Bell and I have

- 3 -

talked the thing over, and we agreed that in setting up this thing under Byrnes, McConnell would represent the Treasury and would take people along on the various things. Is that right, Dan?

MR. BELL: That is right.

H.M.JR: So far, so good. I don't think there is any disagreement as to that. I called up Mr. Baruch and asked him whether Mr. McConnell would be agreeable to him. He said, "None better."

Now, I gather there is a sub-committee.

MR. McCONNELL: That is right; chairmanned by John Hancock, Baruch's assistant.

H.M.JR: Have you an opinion as to who you think should be there?

McCONNELL: On contract terminations, I think Mr. Sullivan should be a member of the committee and Mr. O'Connell should be his alternate on the committee, because it concerns immediately drafting of uniform clauses of contract.

MR. BELL: You are going to have a lot of sub-committees, no doubt, if they are going to tackle these twenty-eight different problems and Mr. McConnell just couldn't attend anywhere near all of them, so he is going to have to have representatives around the Treasury to sit on these sub-committees and keep him advised and go with him when they discuss this particular problem in the full committee.

H.M.JR: Is this contract thing in the Bill?

MR. PAUL: No, it comes in incidentally. We have been fighting against reserves and for quick terminations, and I think essentially that is a good arrangement.

H.M.JR: Does that fit in all right with your work?

MR. PAUL: Yes, it does.

H.M.JR: Have any of you any ideas?

MR. THOMPSON: That is proper.

- 4 -

MR. O'CONNELL: It is all right with me.

MR. PAUL: I assume that as you get different sub-committees you are going to make some different arrangements?

MR. SULLIVAN: Yes, we are not asking the Secretary to referee a difference of opinion; we are just wanting to set the pattern that will be followed in many, many other instances.

MR. PAUL: This affects procurement, so it is logical you should take it and have counsel available or as an alternate. You will be working together on everything. If some other thing comes up there will be somebody else.

MR. MCCONNELL: I think the second one is also the same pattern, because it looks as though they will take up surplus property taxes.

MR. O'CONNELL: Yes, which really ties in with termination and also is a procurement problem from the standpoint of the Treasury, because that is where our problem is.

H.M.JR: I like to have a happy family and I want to know.

MCCONNELL: It is very happy as far as I am concerned.

H.M.JR: That is all. I was attracted to John Sullivan in the first instance because of the contract he handled with Consolidated Aircraft.

MR. SULLIVAN: I saw Fleet at the Washington Hotel dining room the day before yesterday, and he looked at me and sort of blinked. I hadn't seen him since December, 1939. I waved to him and he waved back, and then he had to call over the waiter to find out who I was. He didn't even remember me.

H.M.JR: He knew you then, all right.

MR. SULLIVAN: I'll say he did!

H.M.JR: Well, is there anything else on this Baruch work involving Byrnes?

- 5 -

MR. McCONNELL: I think there will be when they get moving. Byrnes has been acting as Chairman at the first meeting.

H.M.JR: Is there anything else you wanted to bring up?

MR. McCONNELL: There is only one question in my mind. I don't think we are going to get an agenda of the group meetings. Without an agenda it is going to be kind of hard to keep the individual men posted.

H.M.JR: The way to do, send a memorandum to me with copies to the other people.

MR. O'CONNELL: It will all have to be after the meetings. You will sometimes go there without the fellow that you find when you get there you need, because he wouldn't be sure each time.

H.M.JR: I have never seen Byrnes or Vinson have an agenda.

MR. SULLIVAN: We are luckier than anybody else that it is across the street. Bob can phone anybody.

MR. BELL: I think sometimes they can call the man who is going to handle it and ask them what they are going to discuss, and he might be able to tell you. I think that is Lubell.

MR. PAUL: Sam Lubell.

H.M.JR: Isn't he a writer for the Saturday Evening Post?

MR. O'CONNELL: That is right.

MR. PAUL: Yes, he has a piece coming out very shortly in the Saturday Evening Post on the program.

H.M.JR: The Treasury?

MR. PAUL: Yes, we gave him an enormous amount of help on it. He is a little fellow. He wrote the rubber report.

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H.M.JR: Okay - if everybody is happy.

MR. PAUL: Did you see the amusing thing in the Post this week? A story about seeing the President. Pictures of Connally and everybody waiting to see the President.

MR. SULLIVAN: By Norman Rockwell. It is very much worthwhile.

MR. PAUL: They have a little square in the illustrations, and they put in that square our meeting with the President-- Byrnes and you.

November 12, 1943
12:00 Noon

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Lord
Halifax: Hello.

HMJr: Morgenthau.

H: Good morning, Halifax here.

HMJr: How are you?

H: You told me to call you on Friday morning.

HMJr: Oh, that's right.

H: Now, any chance of seeing you over the week-end?
I'm -- I seem to be tied up in the evening tonight
and tomorrow night.

HMJr: I see.

H: But, would there be any chance of seeing you
quietly on Sunday evening?

HMJr: Uh....

H: Will you -- I could either offer you a quiet
dinner here or offer you a drink here before
dinner or let me come and have a drink with
you.

HMJr: I see. Well, could I call you back this
afternoon?

H: Yes, surely.

HMJr: Because my wife's had a very bad cold.

H: Uh huh.

HMJr: And she seems to be better and I would know
better this afternoon.

H: Righto.

HMJr: And I will, if I may, call you back and I am
available Sunday afternoon as far as I know --
or evening.

- 2 -

H: It would be later -- rather sort of after sixish.

HMJr: I see.

H: As far as I am concerned, I think -- if....

HMJr: Right. Well, if you....

H:that's possible for you.

HMJr:keep that open a little bit and then I'll get in touch with you later.

H: Good. Lovely.

HMJr: Thank you for calling.

H: All right. Good bye.

HMJr: Bye.

November 12, 1943
4:28 p.m.

HMJr: Hello.

Elmer
Davis: I wonder if I could see you the end of this evening or tomorrow morning.

HMJr: Sure. What have you got on your mind?

D: Well, our work in Africa.

HMJr: What?

D: Our work in Africa.

HMJr: I see. Uh -- I'm just trying to think -- has Sherwood been talking to you?

D: Very little.

HMJr: Yeah. (Pause) Hello.

D: Yeah.

HMJr: I'm just trying to think....

D: Would you be free around six o'clock this evening?

HMJr: No. You and I work opposite ends of the day.

D: I see.

HMJr: How about 9:30 tomorrow morning?

D: 9:30 would be fine.

HMJr: Thank you very much.

D: All right. Thank you.

November 12, 1943
4:52 p.m.

HMJr: Hello.

Oscar Cox: Hello, Mr. Secretary.

HMJr: Oscar.

C: Yeah.

HMJr: Somebody has just sent me over "Lend-Lease for Victory" by E. R. Stettinius.

C: Yeah. Harry White told me that you hadn't seen it yesterday and asked me if I could get a copy of the manuscript for you and a copy for him.

HMJr: He -- well, he certainly did a beautiful job on leaving me out of the picture.

C: Well, I kept telling him all the way through that if there's any guy that did a job for his country in that thing, his name is Henry Morgenthau.

HMJr: Well, you wouldn't know it from this story. Why, just the thing of how we got the weapons -- the rifles and all that after Dunkirk...

C: Yeah. Well, that's in there.

HMJr: Well, I know, but the whole meeting, Marshall and Biddle and the whole thing took place in my room.

C: That's right.

HMJr: Stettinius had no more to do with that than the Cop on the corner.

C: That's right. Well, except on the follow-up which was after the tough job was done.

HMJr: No, we gave his Company an order at that time.

C: That's right.

HMJr: He didn't -- but the things -- we got the stuff in the boat and got the boat and it got over there. He had nothing to do with that.

C: That's right.

HMJr: What did he have to do on the follow-up? The stuff was there before he had anything to do with it.

C: Oh, the only minor thing in that thing was U.S. Steel Export.

HMJr: Yeah, but that was his Company.

C: That's right.

HMJr: And he wasn't even connected with the Company at that time.

C: That's right.

HMJr: And he doesn't claim it for his Company.

C: Oh, no, he -- what he -- of course, on all the past stuff when he's writing the book, he's talking about stuff he had nothing to do with.

HMJr: No, but it's -- God, he does -- he must break his arm patting himself on the back.

C: Yeah.

HMJr: I suppose the book is all finished.

C: Well, I don't know -- I think we can probably do something about it. I've been telling them-- all those fellows that were working on it.

HMJr: Stettinius gave me all that talk of -- he talked to me and so forth and so on but....

C: Yeah. Well, I'll tell you what I think is the way to possibly straighten that out. I think there are two or three spots where the impression is that the guys who really were dragging their feet did this job. I mean, you take some of those references to the War Department people and State people -- well, anybody that was in it knows that the only thing they couldn't stand was the pressure and the success of the thing -- that as far as initiation and contribution was concerned, you could charge it up to zero.

- 3 -

HMJr: Well, Monnet's coming over -- he said, "Hello" to me and that's all. Well, my God, I lived with that fellow for a year and a half.

C: That's right. Well, I think the way, probably, to straighten it out would be if you could get somebody in your shop to point out in terms of the record of the thing that some of the emphasis is wrong and I'll do the same because I -- I don't think it....

HMJr: Well, who's writing the book anyway?

C: Most of the writing is being done by a fellow named Louis Hector.

HMJr: Who?

C: Hector, H-e-c-t-o-r.

HMJr: Yeah.

C: He's a good man.

HMJr: Who is he?

C: He's over on the Lend-Lease Staff.

HMJr: I see.

C: And he's a competent fellow but the one thing I've said to Stettinius all the way through on this book is, "I don't think it's worth publishing unless you give a correct impression, and if you don't want to knock the fellows who were dragging their feet, the way to do that is not to mention them, but for God's sakes mention the guys that really did a super-human job."

HMJr: Well, it's the -- it's the most glowing thing -- he takes credit onto himself when he had absolutely nothing to do with the thing.

C: That's right.

HMJr: God damn it! When he -- why doesn't he -- when this thing was happening he was on raw materials which he was wrong on.

C: Yeah.

HMJr: Then they kicked him out of that thing and they put him into priorities and in front of Knudsen, Knudsen told him that he was nineteen thousand priorities behind.

C: Uh huh.

HMJr: When Knudsen took it over.

C: Yeah.

HMJr: And it's very unsportsmanlike, the whole book I mean.

C: Yeah.

HMJr: I mean -- but maybe this -- well, I don't care -- it's what I would expect.

C: Well, I care on it because I....

HMJr: It's what I would expect.

C: How about....

HMJr: I mean, I've just been glancing at it and you wouldn't know that you and McCloy or Ed Foley had anything to do with it.

C: Uh -- how far did you glance? I think....

HMJr: I just was glancing at the part of -- just the beginning.

C: Yeah.

HMJr: Before lend-lease came into existence. Then he gives the stuff about how he opened up the hearings. Hell, he never appeared at the hearings on lend-lease.

C: That's right. Why, he doesn't -- does he say that?

HMJr: Yeah, about what he said before the Committee. Christ, he never was -- he never had anything to do with it.

C: That's right. I haven't seen that part.

- 5 -

- HMJr: It's just as bad as the picture "Mission to Moscow."
- C: Yeah. Well, that's bad business. Has Miss Kistler got a lot of corrections she has in mind? I think....
- HMJr: I don't know.
- C: Well, maybe between the two of us we can get some of that prior stuff straightened out.
- HMJr: Well, it takes hours to do the thing but -- well, I didn't expect that of Stettinius. I thought that he would -- I -- you know the stuff -- I thought you would tell it to him, too.
- C: Well, I told it to him about -- those fellows -- about fifty times and I can keep on doing it the fifty-seventh time.
- HMJr: Yeah.
- C: Because I think it's bad, quite aside from the question of "credit where credit is due", I think the impression that this thing may give in terms of the historical thing is that it ought to be right.
- HMJr: Well, it isn't right -- it's wholly unfair -- it puts him in a position which he doesn't deserve and the people that sweated the thing through and got the legislation through and all that just don't get any credit at all.
- C: Well, the only chapter I've been over semi-carefully is the Chapter Six which -- they intended to put some of that stuff in....
- HMJr: Yeah.
- C:and I haven't reread the redraft of the other chapters yet which I am going to do over the week-end, so maybe I can get them to get the impression straight.
- HMJr: They never asked to see any of my stuff as far as I know. Did they?

C: I think they did.

HMJr: Did they?

C: Yeah. But I think one way of curing it might be to let a fellow like Louis Hector look at parts of it if you feel free to do it.

HMJr: Louis Hector?

C: Hector, H-e-c-t-o-r. Because he's an honest, able guy.

HMJr: Well, anyway, I feel better but I don't expect anything to happen out of it.

C: Well, we'll try.

HMJr: Well.

C: I just wanted to tell you we've done a little more checking on this Culbertson thing.

HMJr: Yeah.

C: And he didn't make the statement in the C.C. & A. meeting....

HMJr: Yeah.

C:but he made it in passing to one of the State Department fellows as he was walking -- as he blustered out of the meeting.

HMJr: I see.

C: So, I'll follow that up.

HMJr: Well, it's only a pin-prick.

C: Oh, I know, but those things aren't right.

HMJr: Okay.

C: Thanks.

HMJr: Bye.

C: Bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 12, 1943

TO Secretary Morgenthau

FROM Fred Smith

Two things for your consideration:

1. Montagu Norman has been elected Governor of the Bank of England for the twenty-fifth consecutive time. *no*

Do you want to do anything about it?

2. J. L. Houghteling is having in his labor representatives for a conference the first three days of next week. *yes*
He would like to have you say a few words to them on one of the days. He can assemble them in the Chart Room.

What do you think?

JS

November 12, 1943

Norman Thompson

The Secretary

Please speak to me about why there are women operators
on all night on the switchboard. I don't like it. *Done -*

November 12, 1943

Herbert Gaston

Secretary Morgenthau

I don't know who is in charge of Security at Fort Knox but General Greenbaum was down there and he says that all the practice alarms are on the hour and if anybody wanted to steal some gold, if they did it one minute after the hour they would have ten minutes in which to get away with it. He, therefore, suggests that each week the time be changed for the test because everybody down there knows that the test is on the hour. Please have somebody look into this and make a report to me. Thank you very much. *Gaston*

copy finished -

NOV 12 1943

Dear Mr. Lilienthal:

I have just learned that the Tennessee Valley Authority is the first Federal agency or department whose employees are regularly devoting over 15 per cent of their pay checks for the purchase of war bonds. I want, through you, to congratulate your entire organization for this outstanding achievement.

Last February, the President expressed a desire that Government employees lead the way in this essential part of our war program. Applying 15 per cent of every pay check to the purchase of war bonds is not only a sure method for the individual to accumulate financial reserves, but it also is a positive means whereby every citizen can render an additional essential service to his country at home and abroad. I hope that this standard of investment in war bonds achieved by Tennessee Valley Authority employees will soon be attained throughout the Federal service.

I wish to commend you and your entire organization of over 24,000 employees for the whole-hearted support of this part of our national program to defeat tyranny abroad and to combat inflation at home.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable David E. Lilienthal,
Chairman,
Tennessee Valley Authority,
Knoxville, Tennessee.

EFB:FS:gr
11/12/43

November 12, 1943

Dear Mr. Harrison:

I want you to know that I appreciate your letter concerning my visit to the Evansville Shipyard.

I am glad to know that telling the story of the LST's had a good effect on your people. I am quite sure that more of this sort of thing should be done. In fact, in a speech which I am making on November 15, I am going to urge that advertisers and advertising people consider this one of their major jobs.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Frank Harrison, General Manager
The Missouri Valley Bridge & Iron Co.
Evansville, Indiana

FS:gr
11-12-43

November 12, 1943

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Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Frank Harrison, General Manager
The Missouri Valley Bridge & Iron Co.
Evansville, Indiana

FS:gr ⁷⁵
11-12-43

THE MISSOURI VALLEY BRIDGE & IRON CO.**(SHIPBUILDING DIVISION)****P. O. BOX 59****EVANSVILLE 6, INDIANA**JOINT VENTURERS
WINSTON BROS. COMPANY
C. F. HAGLIN AND SONS, INC.JOINT VENTURERS
BECHTEL-MCCONE-PARSONS CORP.
BOLLITT CONSTRUCTION COMPANY, INC.

November 9, 1943

Address Reply To Office
Not To Individuals
In Reply Refer To:

The Honorable Henry Morgenthau, Jr.
Secretary, United States Treasury
Treasury Department
Washington, D. C.

Dear Mr. Morgenthau:

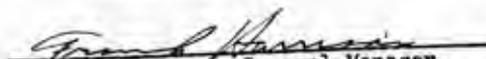
You will undoubtedly be gratified to know that your recent visit to the Evansville Shipyard has accomplished much more than its primary purpose of announcing to the nation the success of the Third War Loan Drive from the locale of one of the vital war industries. Since your address, which revealed to the Evansville Shipyard employees how the LSTs they build came into being, the details of how these ships had acquitted themselves in action and their vital importance in the pattern of Victory, we have had the opportunity to evaluate the effect of your personal appearance upon production by our workers.

It is our observation that there has been a definite strengthening of determination and morale among our employees, inspired by your story of the importance of our ships and the manner in which you impressed upon each individual his responsibility not only to produce, but also to help to pay for the ships he builds with his war bond investment.

It was an honor and a pleasure to have you with us for the day and we assure you that your visit has contributed greatly toward a fuller appreciation of our deep responsibility to the war effort.

Sincerely yours,

THE MISSOURI VALLEY BRIDGE & IRON CO.
(Shipbuilding Division)


Frank Harrison, General Manager

Copy to
Thomas Lane,
Treasury Department,
Washington, D. C.

11/13/43 ✓
-181

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

November 13, 1943

FROM Fred Smith

After you presented the tax bill to Congress, I had Secret Service send us leading newspapers from throughout the country from October 5 to October 16. We received 108 newspapers regularly, and in these were 117 editorials about the tax proposal. Mrs. Bowman of Public Relations made an analysis, and here are the highlights:

1. 92 editorials (78% of the total) immediately blasted the program, chiefly because "it fails to spread out the taxes to all in proportion to ability to pay; it would do much to discourage the spirit of individual enterprise."
2. Of these unfavorable editorials, 25 (21%) said point-blank that the country would be unable to meet the new tax demands that the saturation point is about reached in all brackets.
3. One reason for the great editorial unpopularity of the program may be found in the fact that 53% of the editorials (included among the 78% unfavorable) called for a sales tax, and criticized the Treasury program because it did not include a sales tax. Only 6% of the editorials made any unfavorable comment about sales tax. It is interesting to note that the Gallup poll on November 3 found that 53% of the public preferred a sales tax to increased income taxes.
4. 15 editorials (13%) said that the Treasury deserved commendation for a courageous tax plan.
5. 10 editorials (9%) said the program appeared to be a mixture of good and bad proposals, and the Congress should only make practical and helpful changes.
6. 9 editorials (8%) strongly disapproved of Secretary Morgenthau. All but three of these, however, appeared in the Scripps-Howard press, or originated with the Scripps-Howard management.

- 2 -

Five columnists; Lawrence, Krock, Mallon, Gould, and Porter, also commented on Morgenthau, personally. Lawrence said that Morgenthau was an excellent manager of the Treasury Department, but complained of his staff, and indicated that he shouldn't delegate to his subordinates the responsibility of dealing with Congress.

Krock complained that the ideological factor in tax bills has always guided Morgenthau, and still does.

Mallon said "Mr. Morgenthau is unpopular with the legislators, but in a mild way."

Gould said "while Morgenthau takes the rap for much that comes out of the Treasury, the man responsible for the tax programs is a little ex-Wall Street lawyer -- Randolph E. Paul."

Porter said "Morgenthau walked into this. He certainly asked for a Congressional attack when he presented a bill with such rough edges so obvious that even a casual observer could find them."

7. 10 editorials (9%) discussed Vinson, and none was friendly. The Scripps-Howard newspapers who nominated him for Secretary of the Treasury, refrained completely from comment after his appearance. The list of the criticisms are as follows:

"It doesn't seem probable that a change of Secretaries would make much difference." (San Diego Tribune Sun).

"He had no better arguments to offer in justification of the measure than did Mr. Morgenthau." (New York Herald Tribune)

"He doesn't believe it possible to hold the line against inflation if a sales tax is enacted ... this newspaper doesn't believe that. Furthermore, it suggests that anyone who really does believe it and who is willing to accept and give way to such a condition, comes pretty near a state of mind which unfits him to hold the office which Judge Vinson does hold." (Wall Street Journal)

"Judge Vinson came off second best in his Ways and Means colloquy on taxes with Representative Knutson." (Washington Post)

- 3 -

"He had no ready answer." (Philadelphia Inquirer)

"Congress should not, and it looks now as if it will not, accept the Treasury's blue print just because Judge Vinson and other Administration spokesmen say the country will go to the dogs if the dot on an I or the cross on a T is changed." (Detroit Free Press)

"Judge Vinson, who is an assistant to Economic Stabilizer Byrnes, has been nominated to front man. So he comes out swinging. The sales tax, he says, will be bad because it will tax the consumer. It would, in fact, be inflationary because it would set in motion a series of demands for compensatory wage increases, which (Judge Vinson implies) the Government would be unable and unwilling to resist. And that is one of the strangest arguments of the year." (Omaha World Herald)

The full report is attached.

TS

ANALYSIS OF EDITORIAL COMMENT
ON THE
TREASURY TAX PROGRAM

Based on 117 editorials appearing in 108 leading newspapers throughout the country. (This includes 13 Scripps-Howard and 5 Hearst newspapers.) From October 5, to October 16, inclusive.

THE TREASURY TAX PROGRAM

Favorable - 13%
(15 editorials)

The Treasury's tax plan merits more serious consideration than members of the House Ways and Means Committee seem disposed to give it. It is a courageous tax plan and the Treasury deserves to be commended. The American people will meet any sacrifice necessary for the winning of the war, and if higher taxes are imposed they will be paid.

General - 9%
(10 editorials)

The Treasury tax program appears to be a mixture of good and bad proposals. Congress should make sure that only helpful and practical changes are made.

Unfavorable - 78%
(92 editorials)

The Treasury tax program causes deep concern because it is believed that it fails to spread out the program to all in proportion to ability to pay; it would do much to discourage the spirit of individual enterprise; neither Congress nor the Administration is forgetting that 1944 is an election year.

INABILITY OF THE COUNTRY TO MEET NEW TAX DEMANDS - 21%
(25 editorials)

This group believes that the saturation-point is about reached in all brackets, and any assumption that increased rates will bring proportional revenues must be seriously challenged. They suggest that the proposed bill mistakes willingness for ability to pay.

PERSONAL CRITICISM OF SECRETARY MORGENTHAU - 8%
(9 editorials)

Scripps-Howard and Hearst editorials voice the strongest disapproval of Secretary Morgenthau. They accuse him of playing politics, shirking his duty, inability to lead and demand an explanation of why he is allowed to continue as head of the Treasury.

CRITICISM OF THE TREASURY DEPARTMENT - 4%
(5 editorials)

They say the Treasury lacked the vision and leadership which Congress and the public had the right to expect.

REACTION TO VINSON'S TESTIMONY - 9%
(10 editorials)

Judge Fred M. Vinson may have helped the cause of the Treasury's tax program, but he had no better arguments to offer in justification of the measure than did Mr. Morgenthau.

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VARIOUS THINGS ABOUT TAX BILL WHICH WERE CRITICIZED

Corporation Taxes

Increased corporation and profits taxes are opposed on the ground that they would weaken incentives to efficient production, reduce needed reserves, threaten post-war unemployment, and be of no aid against inflation. Justice to business, not subsidies, should be the goal of our law-makers.

Life Insurance Policies

This is no time for reforms which are political.

Luxury Taxes

Luxury taxes would increase imposts on a few articles already over taxed, leaving without any tax whatever other articles which cannot be classed as necessities. Mr. Morgenthau is destined for disappointment on returns. The luxury tax would discourage production of needless things, thereby defeating the revenue purpose.

Refundable Taxes

Confuses revenue with borrowing. Any refundable tax is in the category of borrowed money. There is reason to believe that the confusion of the two may dry up tax sources without increasing lending. Any money for refunds could be had only by collecting it in more taxes.

Social Security Taxes

This tax is, and always has been, only a subterfuge to raise money to be spent by the Government. It is not true war finance, since a new debt in equal amount would be created for future Social Security benefits.

Victory Taxes

The political usefulness of shifting the \$300 million levy upward along the income levels need not go unobserved. Tinted by consideration of politics to bolster New Deal vote getting strength in the pre-election year.

Withholding Taxes

The American wage earners cannot well stand another withholding tax. There are millions whose salaries have not gone up.

SURVEY OF EDITORIAL COMMENT ON SALES TAX

Based on 117 editorials appearing in 108 newspapers throughout the country, from October 5, to October 15, inclusive.

Favorable	61	editorials	53%
Unfavorable	7	editorials	6%
General	9	editorials	7%
No opinion	40	editorials	34%

NEWSPAPERS INCLUDED IN SURVEY
OF
TAX PROGRAM

NEWSPAPERS INCLUDED IN SURVEY OF TAX PROGRAM

ALABAMA	Birmingham News Birmingham Post - (Scripps-Howard) Mobile Register
ARIZONA	Phoenix Arizona Republic
ARKANSAS	Little Rock Arkansas Gazette Little Rock Arkansas Democrat
CALIFORNIA	Los Angeles Examiner - (Hearst) Los Angeles Times Redwood City Tribune San Diego Tribune-Sun San Francisco Chronicle San Francisco Examiner - (Hearst) San Francisco News - (Scripps-Howard)
COLORADO	Denver Rocky Mountain News - (Scripps-Howard)
CONNECTICUT	Hartford Courant New Haven Journal Courier New Haven Register
DELAWARE	Wilmington Journal-Every Evening
D. C.	Washington Post Washington News - (Scripps-Howard) Washington Star Washington Times-Herald
FLORIDA	Miami Herald Miami News
GEORGIA	Atlanta Constitution Atlanta Journal
ILLINOIS	Chicago Daily Times Chicago Sun
INDIANA	Indianapolis Star Indianapolis Times - (Scripps-Howard)
KENTUCKY	Louisville Times
LOUISIANA	New Orleans States New Orleans Item New Orleans Times-Picayune
MARYLAND	Baltimore Sun

MASSACHUSETTS	Boston Globe Boston Traveler Boston Daily Record
MICHIGAN	Detroit News Detroit Free Press
MINNESOTA	St. Paul Pioneer Press
MISSISSIPPI	Jackson-Clarion Ledger
MISSOURI	St. Louis Globe-Democrat St. Louis Star-Times Kansas City Star Kansas City Times
MONTANA	Butte Montana Standard
NEBRASKA	Omaha World-Herald
NEVADA	Reno Gazette
N. H.	Manchester Union
NEW JERSEY	Newark Star-Ledger Hoboken Observer Hackensack Bergen Evening News
NEW MEXICO	Albuquerque Journal Albuquerque Tribune - (Scripps-Howard)
NEW YORK	New York Times New York Post New York Herald Tribune Buffalo Courier-Express Utica Rome Daily Sentinel New York Journal of Commerce Buffalo News New York Sun New York Journal and American - (Hearst) Utica Observer-Dispatch Poughkeepsie New Yorker New York Daily News Wall Street Journal New York Daily Mirror - (Hearst) Syracuse Herald-Journal New York World-Telegram - (Scripps-Howard)
NORTH CAROLINA	Raleigh News and Observer Charlotte Observer
NORTH DAKOTA	Fargo Forum

OHIO	Columbus Evening Dispatch Columbus Ohio State Journal Cincinnati Post - (Scripps-Howard) Cincinnati Enquirer Cincinnati Times-Star Cleveland Press - (Scripps-Howard) Cleveland Plain Dealer Cleveland News
OKLAHOMA	The Daily Oklahoman, Oklahoma City Oklahoma City Times
OREGON	Portland Oregon Journal
PENNSYLVANIA	Pittsburgh Press - (Scripps-Howard) Philadelphia Inquirer Philadelphia Record Philadelphia Evening Bulletin Scranton Tribune
RHODE ISLAND	Providence Journal Providence Evening Bulletin
SOUTH DAKOTA	Sioux Falls Argus-Leader
TENNESSEE	Memphis Press-Scimitar - (Scripps-Howard) Memphis Commercial Appeal (Scripps-Howard) Nashville Banner Nashville Tennessean
TEXAS	Dallas Morning News El Paso Times El Paso Herald Post - (Scripps-Howard) Fort Worth Press - (Scripps-Howard) Houston Chronicle & Herald Houston Press - (Scripps-Howard) San Antonio-The Light - (Hearst) San Antonio Evening News San Antonio Express
VIRGINIA	Richmond Times-Dispatch
WASHINGTON	Seattle Times
WISCONSIN	Milwaukee Journal

No coverage from the following states:

IDAHO	SOUTH CAROLINA
IOWA	UTAH
KANSAS	VERMONT
MAINE	WYOMING
WEST VIRGINIA	

The New York Times.

NOV 9 - 1943

SALES TAX LEADS
IN GALLUP'S POLLIt is Preferred to a Rise in In-
come Levy by 53% of
Persons Queried

These surveys are made by a system of highly selective samplings in each of the forty-eight States in proportion to voting populations. Thereby, the American Institute of Public Opinion holds, is obtained a result which would not vary from that of a much larger canvass.

By GEORGE GALLUP

Director, American Institute of
Public Opinion

PRINCETON, N. J., Nov. 2—If Congress follows President Roosevelt's suggestion to increase taxes this year and the decision has to be made between a national sales tax and increased income tax rates, the public can be counted on to favor a sales tax.

This fact is brought to light in a nation-wide study of public opinion in which field reporters put this question:

"If the Government decides to raise taxes, which would you pre-

fer—that the extra amount be raised by a national sales tax on everything people buy, or that the extra amount be raised by increasing everybody's income taxes?"

The vote:
Prefer national sales tax . . . 53%
Prefer increasing income tax . . . 34%
No Opinion . . . 13%

In surveys taken during the last two years, the institute has found that the public does not oppose the sales tax as such. The majority of voters have been willing to accept a national sales tax of 2 percent, but have consistently opposed sales taxes calling for larger amounts.

With nearly seven out of every ten families in the country now paying income taxes, resistance to higher sales taxes as a means of raising revenue may be expected to decline.

When the question in the present survey is limited to those who pay income taxes, the vote in favor of the national sales tax is higher than that of the entire voting population. This is shown as follows by vote of income taxpayers.

Prefer national sales tax . . . 57%
Prefer increasing income tax . . . 31%
No opinion . . . 12%

The majority of persons in all occupations, with the exception of the unskilled labor group, favor the sales tax. Even among the laboring group more persons prefer the sales tax than prefer the increased income tax.

Although the House Ways and Means Committee recently voted against a sales tax in next year's revenue bill, observers say a 10 percent sales tax may be proposed when the bill goes to the Senate.

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

NEWS STORIES

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

NEWS STORIES

10/6/43 - United Press Service - Congressional sentiment for the removal of Secretary Morgenthau increased today as rebellion over the Administration's program spread to Democratic and Republican House Leaders.

The favorite to replace him is Economic Stabilizer Fred M. Vinson, former member of the House Ways and Means Committee and one of President Roosevelt's chief advisers.

At least three committee members and one House Democratic leader have expressed belief that relations between Congress and the administration on fiscal matters would be clarified if Morgenthau did not head the Treasury Department.

Carried by the following newspapers:

Brooklyn Eagle
Los Angeles Herald Express
San Antonio Evening News
Fort Worth Press
El Paso-Herald Post

Philadelphia Inquirer - Hugh Morrow - It looks as if the President had better get a new Secretary of the Treasury if the Administration is going to get anywhere with Congress on tax questions.

Congressional candidate to succeed Secretary Morgenthau appeared to be Economic Stabilization Director Fred M. Vinson.

10/7/43 - Pittsburgh Press - Morgenthau tax plan stirs calls for his dismissal.

Scranton Times - Ouster by Congress of Morgenthau is talked as tax revolt grows. The favorite to replace him is Economic Stabilizer Fred M. Vinson.

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

EDITORIAL COMMENT

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

EDITORIALS

10/5/43 - Twenty Two Months Late - There is one gleam of hope. Congress has tired of letting Secretary Morgenthau fix fiscal policy. Congress has waited for Mr. Morgenthau to provide leadership. It is now quite apparent that Mr. Morgenthau doesn't know how to lead. So it is likely, yea imperative, that Congress itself write the ticket.

Carried by the following newspapers: (Scripps-Howard)

Houston Press
Memphis Press-Scimitar
Birmingham Post
San Francisco News
Albuquerque Tribune
Pittsburgh Press
Cincinnati Post
Cleveland Press
New York World-Telegram
El Paso Herald-Post

10/6/43 - Washington News
Denver Rocky Mountain News

10/7/43 - Indianapolis Times

10/8/43 - Fort Worth Press

New York ~~World~~-Telegram

OCT 5 1943

22 Months Late.

One thought keeps coming to mind as we read of the Treasury's war tax program submitted to Congress yesterday:

So far as revenue is concerned, and so far as the impact upon individual taxpayers is concerned, there is not a thing which the Treasury proposed yesterday which might not just as well have been proposed on the day after Pearl Harbor.

And with much better prospects of enactment.

Twenty-two months have passed while the Treasury has diddled—putting through one puny tax increase and wasting much precious time delaying Congressional action in placing our tax system on a pay-as-you-go basis, which was something that had to be done before a real war tax program could be considered. And largely because of the Treasury's opposition to a clean-cut pay-as-you-go, there is still a 25 per cent lag which many taxpayers must meet in addition to the higher rates now suggested.

Little and late the Treasury proposes a tax increase of 10½ billions, to boost total revenues to around 50 billions, or about half as much as the government is spending.

Around Pearl Harbor time individual taxpayers could have accepted this proposed increase with much less hardship. Millions of taxpayers who have profited from the war boom, and whose incomes have jumped 25 or 50 or 100 or 200 per cent, or more, can pay the higher levies without much belt tightening. But other millions of taxpayers, whose incomes have not increased one dime, face a grim prospect. Their living costs have spiraled upward.

Their wages and salaries buy less in pork chops, beefsteak, ham and eggs and rent—that is if they can find pork chops, beefsteak, ham and eggs to buy, and a home to rent. The irony of it is that this rise in living costs has been promoted largely by the absence of an adequate fiscal program to siphon off the accumulating excess of spending money which has forced prices upward.

On the Pearl Harbor day the public debt was around 55 billions. It is now above 162 billions. If an adequate revenue program had been put into effect then, the rise in the public debt would have been much less, not only because greater revenues would have been collected, but also because the government would have had to pay a lot less for the things it has bought.

There is the tragedy: The absence of a realistic fiscal policy has made it all the harder for taxpayers of fixed incomes to bear the added burden now to be imposed, and has needlessly swollen the public debt burden which future taxpayers must support.

Yet there is one gleam of hope. The Congress has tired of letting Secretary Morgenthau fix fiscal policy. Congress has waited for Mr. Morgenthau to provide leadership. It is now quite apparent that Mr. Morgenthau doesn't know how to lead. So it is likely, yea imperative, that Congress itself write the ticket.

There is no escape from higher taxes. Taxpayers will just have to grin and bear it. But fortunately both the Constitution and the situation that has developed dictate that Congress, rather than the Secretary of the Treasury, shall say how much the tax shall be, and how it shall be laid.

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

EDITORIALS

3/6/43 - Why Not Save 10½ Billions - It is about time for Mr. Morgenthau, the politician, to confess to Mr. Morgenthau, the revenue searcher, that after he has extracted all the blood out of the one-fifth turnip, he will still have to get the bulk of revenue from the four-fifths. Mr. Morgenthau tries to juggle the rates to keep the people from learning the truth. People are not as dumb as he thinks.

Carried by the following newspapers: (Scripps-Howard)

Albuquerque Tribune
El Paso Herald-Post
Houston Press
Birmingham Post
Memphis Press-Scimitar
Columbus Citizen
Pittsburgh Press
Cleveland Press
Cincinnati Post

4/7/43 - Rocky Mountain News
Fort Worth Press

WHY NOT SAVE 10½ BILLIONS?

Secretary Morgenthau thinks we should realize there is a war on. So he proposes 10½ billion dollars in new taxes. The fact that we're already paying 10 times as much in taxes as we were paying three or four years ago doesn't faze the secretary.

But Mr. Morgenthau also knows that an election is coming on. And apparently he is bothered by the realization that the number of direct taxpayers likewise has multiplied. Forty million taxpayers in voting booths could do wrong. So one of Mr. Morgenthau's proposals is that nine million people be relieved of the obligation of contributing directly to the Government's support. That would be done by the process of merging the victory tax into the income tax in such a way that nine million of the victory taxpayers would not become income taxpayers. The \$300,000,000 loss in revenue would be more than recovered by higher rates on those who remain in the tax-paying fold.

Mr. Morgenthau's politics, however, run counter to his own statistics of income. He admits that four-fifths of all the people's income is received by persons getting less than \$5000 a year. Yet Mr. Morgenthau's new tax program, like all of his others—and he has proposed at least one a year since he became Treasury chief—is aimed primarily at the other one-fifth of the total income. It is about time for Mr. Morgenthau, the politician, to confess to Mr. Morgenthau, the revenue searcher, that after he has extracted all the blood out of that one-fifth turnip, he will still have to get the bulk of revenue from the four-fifths. Of course, most of the revenue he's now getting comes from the four-fifths, by indirect taxation.

President Roosevelt never spoke truer than when he said "Taxes are paid in the sweat of every man who labors," but Mr. Morgenthau still tries to juggle the rates to keep the people from learning that truth. The people are not as dumb as he thinks.

One think this country learned and taught the world is the lesson of mass production. A lot of wise guys tried to get rich manufacturing automobiles to sell for \$5000 with a profit of \$3000 on each vehicle. They all went broke. But Henry Ford became a billionaire making cars to sell for a few hundred dol-

lars, with only a few dollars' profit on each model-T or model-A.

If Mr. Morgenthau were thinking in terms of taxes for revenue instead of taxes for politics, he would frame a tax program to fit the market—to get the revenue where the money is. If the Treasury is ever to get itself in a sound position, it will have to do as Henry Ford did—fashion a product which the mass of people will buy and pay for and believe is giving them their money's worth.

"Their money's worth"—ah, there's the rub! All the taxes that Mr. Morgenthau has persuaded Congress to enact add up to only a little more than one-third as much as the Government is spending. And if he were to get this additional 10-billion-plus, that would still be less than one-half the spending. Present indications are that if the war ends two years hence the public debt will be around 300 billions. At 3 per cent interest, that would mean an annual carrying charge of nine billions—as much as the whole wasteful pre-war New Deal cost per year.

The people who get \$1000, \$2000, \$3000, \$4000 a year—which means more than 95 per cent of us—are not so dumb but that they know this will mean food out of the mouths and clothes off the backs of all off them and their children and their children's children.

So we ask: Why is it that the United States is spending more money on this war than all of our Allies combined? Why is it we must continue to pay cost-plus-fixed-fee prices for things the Government buys, and time-and-a-half for overtime labor? Why not buy the materials of war at what they are worth, rather than submit to this hijacking? And why this swarm of bureaucrats feasting on our taxes and our credit while you preach sacrifice?

The people are willing to pay for every gun, every bullet, every plane, bomb, tank, cargo vessel and warship, and all the food needed to supply our troops, and to provide our share of the supplies to our Allies. We're ready to spend any amount of money actually needed to save a single life or to shorten the war one minute. But couldn't we shed a few parasites from the payroll and get just a little commonsense management? Couldn't we adjourn New Deal politics for the duration?

Wouldn't it be a good idea for the committee on ways and means, considering the 10½ billion in new taxes, to resolve itself into a committee on ways and means of not wasting 10½ billions?

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

EDITORIALS

8/7/43 - Not Even Smart Politics - The deeper the Ways and Means Committee delves into the Treasury's Tax Program, the more obvious it becomes that the measure was not designed primarily to raise revenues or curb inflation but to get votes. Mr. Morgenthau seems to have forgotten what Abe Lincoln said: "You can't fool all the people all the time." Taxpayers are not as dumb as Mr. Morgenthau thinks. (Or as Mr. Morgenthau.)

Carried by the following newspapers: (Scripps-Howard)

New York World-Telegram
Washington News
Pittsburgh Press
Houston Press

8/8/43 - Memphis Press Scimitar

8/9/43 - El Paso Herald-Post

Poor Politics

THE deeper the Ways and Means Committee delves into the Treasury's tax program the more obvious it becomes that the measure was not designed primarily to raise revenue or to curb inflation, but to get votes.

Its first purpose is to unbroaden the tax base—to diminish the number of voters who contribute directly and consciously to the Government's support. By merging the victory tax into the income tax it would completely relieve 9,000,000 voters of their obligation to pay direct taxes. Then through the operations of a "refundable tax"—the Treasury's pet name for forced savings—it would decrease the net contributions of 14,000,000 more taxpayers. In all, 23,000,000, out of a total of 43,000,000, would get their backs scratched in the year of the fourth-term campaign.

But we doubt that this clever little trick will work. Those 23,000,000 taxpayers are not as dumb as Mr. Morgenthau thinks. (Or as Mr. Morgenthau, Perfidy, They understand simple arithmetic. They know that a government borrowing two-thirds of the money it is spending is piling up a mortgage against their future. They know that when their backs are being scratched with one hand their pockets will be plucked with the other. The people understand the workings of hidden taxes. They see through the political hokum of soaking-the-rich and socking-the-corporations—knowing that in the end the bills are paid by the rank and file in higher prices and lower wages—that, as President Roosevelt himself said, "Taxes are paid in the sweat of every man who labors."

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New York ~~World~~-Telegram
OCT 7 1943

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TREASURY TAX PROGRAM

EDITORIALS

1/9/43 - Repudiation of Administration - Promptly and contemptuously the Ways & Means Committee has dismissed the fantastic new tax measure proposed by the Secretary. Had such an incident occurred in England, even Winston Churchill would have been forced to resign as Prime Minister unless he immediately reassured the House of Commons and the English people by the acceptance of the resignation of the Chancellor of the Exchequer.

Apparently the Secretary of the Treasury, attuned to New Deal philosophy, sees no virtue in economy and being utterly lacking in business experience does not even sense the danger of breaking the back of industry and individuals while they are engaged in the greatest production job in the world.

Certainly it is time for the American people to demand an explanation of why Henry Morgenthau Jr. occupies the seat of Alexander Hamilton while Bernard M. Baruch occupies a park bench in the city of Washington.

Carried by the following newspapers: (Hearst)

1/9/43 - Milwaukee Sentinel

12/43 - Boston Record
San Antonio Light
Los Angeles Examiner
San Francisco Examiner
New York Journal American

Repudiation of Administration

PROMPTLY and contemptuously, the democratic ways and means committee of the House of Representatives has dismissed the fantastic new tax measure proposed by the democratic secretary of the United States treasury.

Had such an incident occurred in England even Winston Churchill would have been forced to resign as Prime Minister unless he immediately reassured the House of Commons and the English people by the acceptance of the resignation of the chancellor of the exchequer.

However, we have become caloused to the spectacle of the repudiation of the administration by the members of its own party in the legislative branch of the government, and of a defiant bureaucracy flouting not only sound traditions but even statutory enactments.

Unfortunately, in the rubber stamp days the congress, with a reckless disregard of its own constitutional responsibility, blindly voted great powers to the executive branch of the government and simultaneously voted blank checks for billions of dollars which were used to build up a bureaucracy more costly and incompetent than has ever burdened any people in the history of the world.

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TODAY that bureaucracy, even while the nation is at war and is being drained of its youth and treasure, cynically and sneeringly ignores every demand for economy while recklessly devising new tax measures which are

so transparently designed for political purposes as to rouse disgust even among the administration's most ardent supporters.

While concealing the fact that the drastic tax measure enacted only last year will probably yield seven or eight billion dollars more than was estimated, and while the country is not yet advised whether the third war loan of \$15,000,000,000 was over-subscribed by \$3,000,000,000 or \$4,000,000,000, the treasury evolved a new tax measure which has all the earmarks of a campaign document in an election year.

In view of the probable excess of the treasury estimates of seven billion dollars in tax revenue and three billion dollars over-subscription of bonds, ordinary common sense dictated a policy of conservative increase, if any, at this time.

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FOR more than two years past such outstanding democratic senators as Byrd, of Virginia, and George, of Georgia, have pointed out that several billion dollars a year could be saved by reducing some of the profligate waste in Washington.

Apparently the secretary of the treasury, attuned to New Deal philosophy, sees no virtue in economy and being utterly lacking in business experience does not even sense the danger of breaking the back of industry and individuals while they are engaged in the greatest production job in the history of the world.

Democratic Chairman Doughton, of the house ways and means

— committee, pointed out this danger.

The incident is one which might well give the country a shiver of dread as to possibilities.

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IT SHOULD be borne in mind that the very treasury officials who have demonstrated such an utter lack of judgment are those who administer the fiscal policies of the United States and are now engaged in conversations affecting American currency and our whole position in the postwar world.

Fortunately, in relation to domestic financial matters the proposals must be submitted to the congress and there is an opportunity to examine them before the country is committed. On international matters, however, it should be borne in mind that secret conferences have been in progress for more than a year, in which the United States may be committed normally, at least, to agreements which might spell disaster.

Every person of the slightest experience knows that the English government is represented by men who have achieved distinction in

the conduct of the British treasury or of the Bank of England, and that this highly efficient team works under the direction of Winston Churchill, who did an outstanding job as chancellor of the exchequer.

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REPRESENTING the United States in conference, insofar as the public knows, there has not been one single individual who was ever identified as an experienced or outstanding financier. And it is an accepted fact that in money matters the President is not only inexperienced but seems bored by the whole subject.

The most tragic aspect of the situation is that the nation has at its disposal men of worldwide reputation and vast experience, but they are either ignored entirely or consulted grudgingly because of political considerations.

Certainly it is time for the American people to demand an explanation of why Henry Morgenthau Jr. occupies the seat of Alexander Hamilton while Bernard M. Baruch occupies a park bench in the city of Washington.

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

EDITORIALS

6/6/43 - Newark Star-Ledger - Tax Program - The Treasury, under Mr. Morgenthau has suffered a growing loss of confidence.

Providence Bulletin - How Much Taxes? - The core of the tax problem, as related to individuals, is to develop some plan for adequately taxing the whole national income now being paid to them without economically strangling those whose incomes are virtually the same as when the national income was half its present size or less. Regrettably enough, Mr. Morgenthau did not point the way.

Oklahoma City Times - Beware of the Last Straw - If Mr. Morgenthau had his way, some people, because of state and other taxes, would have to pay more than 100 percent of their incomes to the tax gatherers, and if that makes sense, let's hear how.

7/7/43 - San Diego Tribune-Sun - Taxes and Election - Morgenthau receives a verbal trouncing and not without reason. Congress always waves Morgenthau away with one hand while writing its own tax bill with the other. However, it does not seem probable that a change in secretaries would make much difference. Were Fred Vinson to succeed Morgenthau, as has been suggested in Congress, the White House would continue to dictate the general outlines of Treasury tax proposals.

12/12/43- Baltimore Sun - Powerful New Support for a Federal Sales Tax - Mr. Morgenthau pictured the inflation danger and then shirked the precautions which the danger required.

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

~~SECRET~~
COLUMNS

PERSONAL CRITICISM OF SECRETARY MORGENTHAU
ON THE
TREASURY TAX PROGRAM

COLUMNS

- 10/6/43 - David Lawrence - Henry Morgenthau, Treasury Secretary, is, of course, an excellent manager of the Treasury Department but until quite recently he has had a staff which followed the original New Deal practice of soaking the thrifty and the successful. Mr. Morgenthau has been delegating to his subordinates the responsibility of dealing with Congress. Taxation should not be a political football and in time of War it is most regrettable that politics in either the legislative or executive branch of the government should interfere with the levying of the highest taxes commensurate with the capacity of business and individuals to pay such taxes.
Carried by the following newspapers: Washington Star, Phoenix (Ariz.) Republic, New York Sun, Newark Evening News.
- 10/8/43 - Arthur Krock - New York Times - Senator George once said the Democratic concept of law was that it must be written as equitably for the one as for the ninety-and-nine, and this concept must guide any taxation which is honest and nonpolitical. But the contrary has been the Treasury's guide ever since Mr. Morgenthau became Secretary, as the records amply disclose. An analysis shows that the ideological mentor remains the same in time of war, despite the fine words uttered during the bond drive.
- 10/9/43 - Paul Mallon - Mr. Morgenthau is unpopular with the legislators, but in a mild way. The Senate and Finance Committee especially is personally antagonistic. Yet he is regarded as such a close family friend of both Mr. and Mrs. Roosevelt, that most congressmen would as soon demand the President's resignation.
Carried by the following newspapers: Newark Star Ledger, Boston Herald, Cleveland Plain Dealer, Poughkeepsie New Yorker, Philadelphia Inquirer.
- 10/10/43 - Leslie Gould - While Mr. Morgenthau takes the rap for much that comes out of the Treasury, the man responsible for the tax programs is a little ex-Wall Street tax lawyer - Randolph E. Paul.
Carried by the following newspapers: New York Daily News and New York Journal-American.
- 10/14/43 - Sylvia Porter - New York Post - Morgenthau walked into this. He virtually asked for a Congressional attack when he presented a bill with rough edges so obvious that even a casual observer could find them.

CRITICISM OF THE TREASURY DEPARTMENT

EDITORIAL COMMENT

CRITICISM OF THE TREASURY DEPARTMENTEDITORIALS

- 0/5/43 - N.Y.H.T. - Mr. Morgenthau on Taxes - The fact is that the Treasury Department, under Mr. Morgenthau, has ceased to determine, or even constitute the major influence in determining, the nation's tax policies.
- N.Y. World-Tel. - Twenty Two Months Late -
- 0/6/43 - Newark Star-Ledger - Tax Program - The Treasury, under Mr. Morgenthau, has suffered a growing loss of confidence. Certainly the Department has not manifested the vision and leadership the Congress and the public had the right to expect.
- Manchester Union - The New Tax Program - Treasury officials appear unable to think in any other terms than the methods of taxation that are already employed.
- 0/9/43 - Milwaukee Sentinel - It should be borne in mind that the very Treasury officials who have demonstrated such an utter lack of judgment are those who administer the fiscal policies of the United States and are now engaged in conversation affecting American Currency and our whole position in the postwar world. Fortunately, in relation to domestic financial matters the proposals must be submitted to Congress and there is an opportunity to examine them before the country is committed.

REACTION TO VINSON'S TESTIMONY

EDITORIAL COMMENT

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10/7/43 - San Diego Tribune-Sun - Taxes and Election - Congress always waves Morgenthau away with one hand while writing its own tax bill with the other. However, it does not seem probable that a change in secretaries would make much difference. Were Fred Vinson to succeed Morgenthau, as has been suggested in Congress, the White House would continue to dictate the general outlines of Treasury tax proposals.

N.Y.H.Tribune - Confused Tax Thinking - Judge Fred M. Vinson, Director of Economic Stabilization, may have helped the cause of the Treasury's tax program by his personal appearance on its behalf yesterday before the House Ways and Means Committee, but he had no better arguments to offer in justification of the measure than did Mr. Morgenthau.

10/8/43 - Wall Street Journal - A Defeatist Statement - Vinson told the Ways and Means Committee that he does not believe it possible to hold the line against inflation if a sales tax is enacted. This newspaper does not believe that. Furthermore it suggests that anyone who really does believe it and who is willing to accept and give way to such a condition comes pretty near a state of mind which unfits him to hold the office which Judge Vinson does hold. We venture to suggest that he does not hold the beliefs his statement implies. He is in the uncomfortable position of having to defend a tax plan which does not make sense and under the circumstances it is not difficult to see why he has resorted to forensics in place of sound reason.

Richmond Times-Dispatch - Sales Tax Alternatives - Mr. Vinson knows that the tax bill presented by Mr. Morgenthau, and backed by him, bears most heavily on those with incomes from \$5000 to \$25,000. Yet he calls a sales tax, which would drain off the surplus incomes of those under \$5000 "inflationary." Why does he think it would be less inflationary if this low-income excess purchasing power was left practically untouched, while great additional burdens were piled on elements of the population which, according to Mr. Vinson's own ally, the Secretary of the Treasury, are not the chief source of inflation?

Washington Post - Tax to Cure - Judge Vinson came off second best in his Ways and Means Committee colloquy on taxes with Representative Knutson.

REACTION TO VINSON'S TESTIMONY

EDITORIALS

10/8/43 - Philadelphia Inquirer - Director Vinson on a Hot Spot - While members of the House Ways and Means Committee generally agree that Mr. Vinson has done his best to support the Treasury's tottering tax program, it's not strange they remain unconvinced that it would help to curb inflation. When asked how the anti-inflation fight would be helped by the Treasury plan to exempt 23 million persons from any additional taxes, "he had no ready answer."

Detroit Free Press - Vinson on Taxation - Congress should not, and it looks now as if it will not, accept the Treasury's blueprint just because Judge Vinson and other Administration spokesmen say the Country will go to the dogs if the dot on an "i" or the cross on a "t" is changed.

Indianapolis Star - Sales Tax the Answer - Mr. Vinson apparently overlooks the fact that the increased tax proposal, primarily supposed to get the surplus cash of war workers, would bear heavily on millions whose income has not kept pace with wages in the munitions industries. They practically would be asked to pay taxes they cannot afford.

10/9/43 - Scranton Tribune - Vinson Favors Treasury Tax Plan - Fred M. Vinson, economic stabilization director, has joined the lists in behalf of Secretary Morgenthau's new tax program, describing the Treasury proposal as the minimum fiscal assistance needed to prevent runaway prices. Vinson viewed the Morgenthau tax proposal as a bar to inflation.

10/12/43 - Omaha World-Herald - The Dreadful Truth - Judge Vinson, who is assistant to Stabilization Director Jimmy Byrnes, has been nominated as front man. So he comes out swinging. The sales tax, he says, would be bad because it would tax the consumer. It would in fact be inflationary because it would set in motion a series of demands for compensatory wage increases which (Judge Vinson implies) the government would be unable or unwilling to resist. And that is one of the strangest arguments of the year.

THE TREASURY TAX PROGRAM

FAVORABLE EDITORIAL COMMENT

THE TREASURY TAX PROGRAMEDITORIALS - FAVORABLE

10/5/43 - N.Y.T. - The Treasury Tax Program - Calls tax program courageous in much detail too, the Treasury deserves to be commended. But the Treasury proposals will require the closest critical study.

N.Y. Post - Bigger and Better Tax Proposals - We certainly are not going to boggle over higher taxes. We know they are necessary and we are glad that this time the Treasury has a definite plan.

Chicago Sun - The Tax Alternatives - There are two good reasons for a tax program of the magnitude proposed to Congress yesterday by Secretary Morgenthau. First, we are spending this year 105 billion dollars, and collecting under the present tax laws only 38 billions. Second, individuals are receiving income payments totaling 150 billion, while goods and services available total only 89 billion.

Louisville Times - Not Without Merit - Despite all its harshness the Treasury's tax plan contains suggestions that merit more serious consideration than members of the House Ways and Means Committee seem disposed to give in their haste to reject the program in toto.

Detroit News - Heavier Taxes - Secretary Morgenthau has one compelling argument in his demand for higher taxes - the fact that millions of people still have money to spend on unecessaries, and do so spend it. His problem is to get as much as possible of that "loose" money for the Government, for the conduct of the war. The difficulty is that to get a good deal of it, he will also have to hit plenty of people whose incomes are not going into luxuries or unneeded goods.

Cincinnati Enquirer - Principle for Taxation - The administration is taking action which has been too long delayed in advocating a tax program which is in closer relationship to the actualities of war than have been in our past efforts.

St. Paul Pioneer Press - The Treasury's plan for new taxation, steep as it is, does not exceed the requirements of sound finance, but probably does run well beyond what Congress is willing to vote this year.

Cleveland News - The New Tax Bill - The administration has produced its tax bill recommendations. Congress ought to lose no time in starting them through the legislative mill. The taxpayer is entitled to know as soon as possible what is going to happen to him in 1943.

Miami News - Unbearable Taxes - The man who goes into the Army after making any of the above incomes in civilian life has his income cut to \$50 a month. Do the congressmen still say the taxes outlined cannot be borne by the American Public?

EDITORIALS - FAVORABLE

10/5/43 - El Paso Times - Higher, Higher Taxes - The American people might as well make up their minds that the cost of this war is going to be tremendous and that they will have to pay the bill. Higher and higher taxes in all forms may be expected.

Birmingham News - The Tax Issue - There is no doubt that sound procedure, with respect both to the nation's financial position and to control of prices, calls for additional levies against the greatly increased income of the American people.

Providence Journal - As to interfering with war production as little as possible, it can only be said that both corporate industry and individual citizens long since recognized that burdensome taxes are a natural part of war. What they ask of the Government is that the money raised will not be wastefully spent.

10/6/43 - Portland Oregon Journal - Congress Is Still Out of Step with the Nation on War Taxes - Congress has yet to prove, when it comes to taxes, that it has caught up with the country, which, all along has been more willing to buy, pay and give than vote-conscious legislators have thought possible.

Atlanta Constitution - Spreading the Cost - Large segments of the population are already burdened about as close to the limit as possible without causing wide-spread suffering and economic breakdown. Nevertheless, there is no American worthy of the name who is not prepared to meet any sacrifice necessary for the winning of the war. If higher taxes are imposed they will, somehow, be paid.

10/7/43 - El Paso Times - Lives Better Than Taxes - Taber's statement sounds more like Republican doctrine than a winning war doctrine. Being practically unversed in painting an entire picture of the required tax structure, we will sign off with the admonition that it is preferable to pay taxes in dollars rather than in men in uniform.

THE TREASURY TAX PROGRAM

GENERAL EDITORIAL COMMENT

THE TREASURY TAX PROGRAMEDITORIALS - GENERAL

6/5/43 - W.S.J. - The Treasury Tax Plans - The Treasury program appears to this newspaper to be a mixture of good and bad proposals.

Houston Chronicle and Herald - Treasury Tax Program - While there probably will be no such long drawn-out and bitter battle over the Treasury's tax program as occurred when the most recent revenue measure was complicated by the fight over the pay-as-you-go principle, a lengthy and rocky road no doubt lies ahead of the administration proposal. Indications thus far have been that Congress may not agree to increases totaling more than \$5,000,000,000, or approximately half of the Treasury goal.

Buffalo Courier Express - New Taxes and Foxholes - No matter what attitude one takes toward these proposed new taxes, they are not conducive in themselves to happiness. They sting like an adder. But, there is no getting away from the fact that the war must be financed and that excess purchasing power must be siphoned off to prevent runaway inflation and ruin for all.

Detroit News - Low Incomes Hit Hardest - Morgenthau urges haste in strengthening the Treasury to meet the huge war costs. While we agree that there should be all possible haste, we foresee a justified struggle perhaps continuing into 1944 before a tax bill of this type is enacted.

St. Louis Star-Times - New War Taxes - In other words, Congress had better make up its mind to face the inescapable--to collect the money from those who have it, to collect it fairly, and to eliminate waste so that it will not have to collect a penny more than is necessary.

6/6/43 - Los Angeles Times - Doughton Takes Snap Judgment on Tax Program - The details, rather than the over-all productivity, of the Treasury plan, should be the subject of criticism.

Sioux Falls Argus Leader - Higher Taxes - Fault may be found with some of the specific details of the new tax program but no one can say with logic that the goal is too high. If anything, it is too low.

6/7/43 - Little Rock Arkansas Democrat - Four Billion-Dollar Economy - The American people have given evidence that they are willing to pay anything within reason to help win the war. But that hasn't carried assurance that they will stand for an orgy of spending, even though the money might come out of a supposed "surplus." Congress knows that. Furthermore, it knows there is an election next year. We shall wait and see what happens.

THE TREASURY TAX PROGRAMEDITORIALS - GENERAL

- 7/43 - Raleigh News & Observer - The Income and the Out-go - The income must be increased, but the outgo should not be neglected. Every dollar of taxation that is used unwisely and extravagantly is indefensible and wrong. But nothing but eternal vigilance will reduce expenditures and thus reduce taxation.
- 10/43- Milwaukee Journal - Taxes and General Policy - The important thing for Congress to do at this time is to consider our whole fiscal policy and to make sure that only helpful and practical changes are made.

THE TREASURY TAX PROGRAM

UNFAVORABLE EDITORIAL COMMENT

THE TREASURY TAX PROGRAM

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ARTICLES - UNFAVORABLE

5/43 - Wash. Post - The taxes suggested by Secretary Morgenthau can be more accurately described as "mild," "moderate" and "inadequate." Citizens who are called upon only to pay these taxes ought to realize that the sacrifice they are making is, comparatively speaking, a privilege.

N.Y.H.T. - Mr. Morgenthau on Taxes - The newest Treasury proposals will do little to increase its prestige in the field of revenue legislation.

J. of C. - An Income Redistribution Program - Adoption of the Treasury's latest proposals would set a precedent for so far-reaching an extension of the progressive principle that it would cause deep concern to those who fear for the future of private enterprise system and profit motive.

N.Y. World-Tel. - Twenty Two Months Late - So far as revenue is concerned and so far as the impact upon individual taxpayers is concerned, there is not a thing which the Treasury proposed yesterday which might just as well have been proposed on the day after Pearl Harbor. And with much better prospects of enactment. Twenty-two months have passed while the Treasury has dawdled. Millions of taxpayers have profited from the war boom. But millions of others, whose incomes have not increased one dime, face a grim prospect. There is the tragedy: The absence of a realistic fiscal policy has made it all the harder for taxpayers of fixed incomes. There is one gleam of hope -- that Congress will write its own ticket. Carried by the following newspapers: N.Y.W.T., El Paso Herald Post, Houston Press, Memphis Press Scimitar, Birmingham Post, San Francisco News, Albuquerque Tribune, Pittsburgh Press, Cincinnati Post, Cleveland Press.

Albuquerque Journal - Stiffer Taxes - The Treasury proposal probably faces revision downward.

Seattle Times - Country Confident Congress Will Keep Lid on War Taxes - Immediate reactions to the plan of Secretary Morgenthau to raise 10½ billion more a year in wartime taxes, are such as to suggest that Congress isn't likely to adhere strictly to the lines Mr. Morgenthau has laid down. Congress, we may be sure, will provide all that is necessary. The spread of the additional load, however, calls for a degree of discrimination to avoid injustice and an adverse effect upon the whole domestic economy.

New Haven Register - Icy Reception - The need for large revenues and for prudent inflation-detering measures is plain. It ought to be just as plain, however, that the country will be just as far behind in the long run, and farther, if taxing is extended into confiscation and the result is industrial paralysis. It ought to be just as plain, also, that demoralization in family budgeting is just as evil when caused by steeper tax increases than can be borne when there has been no rise in income, as when caused by inflation.

THE TREASURY TAX PROGRAMTORIALS - UNFAVORABLE

1/5/43 - New Haven Register (cont'd) - Together with its sprinkling of financial hypocrisy in the form of "refunds" which can be refunded only through taxes anyway and "paid-up life insurance" which of course would have to be paid all over again over the years, the Treasury program well deserves the going-over which the House committee evidently is about to give it.

Buffalo Evening News - The Treasury's Tax Program - From the immediate reaction in Congress to the Treasury's 10½ billion program for additional taxes, it is apparent that the proposals, calling for the stiffest tax levies in our history on incomes and luxury consumption articles, is unacceptable. The feeling in Congress is that income taxes have reached the point of diminishing returns in the upper brackets and a point where further general increases would work social and economic inequalities in the middle and lower brackets.

Columbus Evening Dispatch - The Power to Tax - New Deal Subverts It - Congress can serve the nation well if, in devising a federal tax bill, it devises one to raise money for the prosecution of the war and the operation of necessary federal functions of government, and eliminates any tendency in the bill to raise money for reforms which are purely New Deal of purposes which obviously are political.

Columbus State Journal - Honest Tax Bill Needed - We need an honest straightforward tax bill. It should speak plainly and be simple. Proper authorities should set the amount we have to pay, tell us exactly what it is, do away with the confusing and complicated types of tax forms we had to fill out last Sept. 15, and let it go at that. The people will pay necessary tax levies. They will pay quicker and with a great deal less reluctance if they know where they stand and what they are paying. The political and economic chicanery being practiced in Washington smells to high heaven.

Cincinnati Times Star - Mr. Morgenthau's "Cold, Hard Facts" - The cold cold hard fact of the Morgenthau program is that it would not only annihilate the wealthy but would also annihilate the middle class, the most numerous class of people in the country. These are the people who, by and large, have not profited at all from the war, whose saving habits and whose enterprise in the professions, in white-collar jobs, in little businesses and on small farms, have made them, in a peculiar sense, the backbone of America.

Mr. Morgenthau would not dare to offer such an inequitable tax plan if the American middle class knew what was happening to it. But Congress cares about the future of average Americans even if the Administration does not. With a promptness and vigor unique in our history, Representative Doughton has denounced the program as unreasonable, unbearable and unfair. This Congress will not permit the needs of war finance to be made an excuse for overturning the free economy of the United States.

THE TREASURY TAX PROGRAMEDITORIALS - UNFAVORABLE

5/43 - Nashville Banner - Keep Politics Out - There is not, we have said and we repeat, room in a tax bill for vote pandering, or for cutely contriving to play the "haves" against the "have-nots." The very idea of that is repulsive, and endangers that unity of effort, unity of sacrifice, unity of burden-bearing on which victory depends, to say nothing of that individual and national self-respect which alone will make victory worthwhile.

San Francisco Chronicle - Taxes and Candor - What we do object to is dealing the cards off the bottom of the pack; trying to pretend that taxes are not taxes, and setting up a mumbo jumbo of equivocation. We know taxes have to be raised, but we are utterly opposed to letting this necessity be used to put the social schemes of zealots over on us, and we should like to see the Secretary of the Treasury deal with this necessity as squarely as the citizens have to meet it.

Wilmington Journal-Every-Evening - Indefensible Is the Word for It - Chairman Doughton is guilty of no extravagance of statement when he characterizes Secretary Morgenthau's new tax program as "indefensible." It is indefensible because it would lay upon the backs of the people of this generation a burden which they could not bear without extreme suffering. It is indefensible because it would weaken the national morale and tend to destroy individual and corporate initiative. It is indefensible because, through its failure to include a sales tax, it ignores and rejects the experience of every other nation at war.

Cleveland Plain Dealer - Back to Taxes - It is indeed a sad commentary on the financial leadership of the country, with expenditures for the current year estimated at 109 billions, and tax revenues somewhat below 40 billions, that serious consideration of a revenue program that will more adequately meet the costs of the war should be delayed until the last quarter of the year. Even worse is the fact that the program of taxation recommended by the Secretary of the Treasury contains nothing new.

St. Louis Globe-Democrat - Belt-Tightening Tax Plan - Whatever measures Congress sets up for passage should be most carefully framed. With heavy taxation already scraping bottom in some categories, further levies demand extreme caution to prevent injustices and a tax saturation that would imperil production.

Kansas City Star - Taxes - How Much and What Kind - As to ability, the Treasury, like most Washington spokesmen, greatly overestimates the surplus cash from national income.

Milwaukee Journal - The Treasury Tax Plan - The Treasury seems to forget that many states also have income taxes and that in 1944 the taxpayer will be required to pay 12 $\frac{1}{2}$ % of his 1942 tax.

THE TREASURY TAX PROGRAMEDITORIALS - UNFAVORABLE

1/5/43 - Phoenix Republic - Congress Must Determine How Far It Can Go in Added Taxation - Congress must solve a problem which apparently doesn't concern tax experts of the Treasury Department. It must determine the point of saturation beyond which it cannot go without breaking down the domestic economy of the nation.

Detroit News - Low Incomes Hit Hardest - The additional tax on corporations is sought notwithstanding that many businesses are finding it impossible under their present taxes to amass reserves they will need to finance conversions to postwar conditions. Morgenthau urges haste in strengthening the Treasury to meet the huge war costs. While we agree that there should be all possible haste, we foresee a justified struggle perhaps continuing into 1944 before a tax bill of this type is enacted.

St. Louis Star-Times - New War Taxes - Last year Congress spread the income tax to everybody receiving \$600 or more a year. It is obvious, in the light of wartime living expenses, bond purchases and the like, that there is no sense of adding very much to the rates on the lower-bracket incomes. People in these groups simply do not have the money to pay.

1/6/43 - Miami Herald - Sales Tax Solution - How drastic the proposed measure is can be best judged from the opposition of Chairman Doughton. With both Democrats and Republicans condemning the measure and the sentiment of the Senate already reflected in Finance Chairman Walter F. George's declaration that the Treasury's goals are too high, the Treasury's tax plan is apparently doomed.

Denver Rocky Mountain News - Twenty-two months Late.

Cincinnati Post - Saving 10½ Billions - If Mr. Morgenthau were thinking in terms of taxes for revenue instead of taxes for politics, he would frame a tax program to fit the market—to get the revenue where the money is. Wouldn't it be a good idea for the committee on ways and means, considering the 10½ billion new taxes, to resolve itself into a committee on ways and means of not wasting 10½ billions?
Carried by the following newspapers: Cincinnati Post, Albuquerque Tribune, El Paso Herald-Post, Houston Press, Birmingham Post, Memphis Press-Scimitar, Columbus Citizen, Pittsburgh Press.

Newark Star-Ledger - Tax Program - Almost invariably submission of a tax program by the Treasury Department in recent years has been immediately provocative of protest and opposition. The Treasury, under Mr. Morgenthau has suffered a growing loss of confidence.

Detroit Free Press - Wholly Indefensible - The Ways and Means Committee will write the next tax bill. Secretary Morgenthau's suggestions are not very helpful. They fail to face realities. Congress should face reality even if the Administration won't.

THE TREASURY TAX PROGRAMEDITORIALS - UNFAVORABLE

1/6/43 - Oklahoma City Times - Beware of the Last Straw - Why not have some government economy, already badly overdue, instead of the never-ending assault on the taxpayer.

Indianapolis Star - Tax Bill Inequalities - The position taken by Chairman Doughton of the House Ways and Means Committee on the proposal of another Federal tax increase totaling 10½ billion is much more realistic than that of Secretary Morgenthau of the Treasury Department. In the effort to get at the swollen incomes of one class the proposed tax increase would seriously penalize those who already are paying a burdensome percentage of normal incomes.

Dallas News - Heavier Taxes - There has been a tremendous waste of money. Some of it was unavoidable because of the greatest speed that has been necessary in the building of the war machine. But this does not mean that improvements cannot be made. It is obvious that we cannot go on very long maintaining the 100 billion dollars a year national budget without resorting to totalitarian control of the national economy.

San Antonio Express - Still Clumsily Evading a Federal Sales Tax - Mr. Doughton is right. Though one sees virtually no limit to the Government's war needs, there is an obvious limit to the masses' ability to pay. The citizen is willing, no doubt; but there is such a thing as riding a willing horse to death.

Kansas City Times - A Tax Principle to Follow - The fact is that the Treasury or administration bill is extreme to the point of impossibility and violates the principle of "equitable" taxes which its framers assume they are applying. For it fails to spread out the program to all in proportion to ability to pay.

Seattle Times - Mr. Morgenthau in Need of Arithmetic Lessons - It is easy to understand that Congress will completely by-pass the Treasury proposal and will enact a tax bill more in accord with the actual necessities of the case and with the ability of the people to pay.

Utica Observer-Dispatch - Tax Bill Slapped Down - Nobody wants to shirk a war duty and everybody should desire to back the attack with all possible dollars. The Treasury, however, hasn't gone at the job the right way, or used judgment on the amounts to be levied. It's unfortunate the Treasury has wasted time on this sort of bill.

Arkansas Gazette - Democracy Asserts Itself on Taxation - It is heartening to see democracy in action at Washington. We have seen the Ways and Means Committee of the House, which represents the people and holds, as in all Anglo-Saxon government, control over the public purse, virtually rejecting the oppressive tax bill proposed by the Roosevelt administration.

THE TREASURY TAX PROGRAMARTICLES - UNFAVORABLE

1/6/43 - New Haven Register - As Good As Taxing - Instead of trying to figure out ways in which to tax the people more, U.S. Representative Taber, of New York, proposes to get rid of the cause of some of the taxing. Saving is just as good as taxing.

New Haven Journal Courier - Treasury's Tax Proposals Call for Congressional Scrutiny - It is entirely possible that Congress will add to the taxes payable in 1944, but if it does, it is likely to write its own revenue measure. This latest Treasury plan hasn't aroused the enthusiasm of the Ways and Means Committee, and it isn't probable that it will enlist much support in the country.

Milwaukee Journal - Is the Treasury Blind - The people of the country, whatever their opinion of Congressional perspicacity in other directions, will join Congress in this particular protest. So far as they have examined the plan, they just cannot understand what Mr. Morgenthau and his assistants were thinking of when they conceived it. When will the Treasury stop pretending that conditions are normal though needs are increased?

Philadelphia Inquirer - Because There's No Ruml Plan - In asking for six and a half billion dollars of additional revenue from individual income taxes, Secretary Morgenthau made no mention of the 12½ percent extra levy to be imposed on 39,000,000 taxpayers next March 15, which is to be repeated on the corresponding date in 1945. Congress should think twice before approving the Treasury's enormous program as it stands.

Philadelphia Record - Treasury Tax Plan Meets a Welcome Demise - The Treasury's proposal has apparently died a-borning. Most taxpayers will welcome the forthright opposition of Chairman Doughton. "Any benefit which might arise from the effect of the Treasury's plan in curbing inflation would be more than offset by such unbearable increased burdens, which may well have a tendency to break down the morale of the taxpayer." In short there's a limit to what the citizen can pay in taxes and still pay his bills.

Jersey Observer - Administration's Astronomical Tax Proposal - What the country needs at this time is a drastic curb on governmental spending, otherwise we shall soon reach the point where we shall find the pocket-books in America as bare as Mother Hubbard's cupboard.

Wash. Times-Herald - How About Some Economies - Taxes and war bond contributions are biting now into virtually everybody. Isn't it conceivable that a lot of people would welcome some genuine gestures of forcing some Government economies?

Also carried by N.Y. Daily News.

THE TREASURY TAX PROGRAMARTICLES - UNFAVORABLE

6/43 - Nashville Tennessean - There Are Limits - Already, the people are digging down into their pockets to finance the war, and it must be said that they are doing this with a minimum of complaint. They are ready to do more, but they are not prepared for a stratospheric rise, along the whole line.

Cincinnati Enquirer - Mr. Doughton Speaks Out - No tax, however necessary the income it might bring, can accomplish any worthy purpose if, by its very nature, it strikes at the heart of the economy which our soldiers are fighting to protect. Excessive levies, such as suggested by Mr. Morgenthau, would do much to kill completely in America the spirit of individual enterprise and the principle of industrial order through profit system.

Poughkeepsie New Yorker - New Taxes - The problem facing the country today is not so much income as it is spending. Since that is so, why not direct corrective measures at the latter?

Boston Globe - Taxes, Taxes - It seems as if we were just recovering from one tax headache, and here is another. Bad news any way we look at it.

Butte Standard - New Taxes Would Hit Where It Hurts - The Morgenthau tax should remove the threat of inflation in the higher paid war production industries, but at the same time it would come as a crushing blow to the middle class, the professional man, the salary workers, and the white collar class.

Manchester Union - The New Tax Program - One would wish that the Treasury would show a little more ingenuity in devising methods of raising this volume of taxes.

7/43 - Wall Street Journal - Taxes and Lending - Indeed its deficiencies are so glaring that Congress will have none of it and Washington dispatches question whether the Secretary himself did not entertain unexpressed reservations.

Cleveland Press - Why Not Save 10 $\frac{1}{2}$ Billions?
Carried by Cleveland Press, Rocky Mountain News, Fort Worth Press.

Indianapolis Times - Twenty Two Months Late.

N.Y. World-Tel. - Not Even Smart Politics - The deeper the Ways and Means Committee delves into the Treasury's Tax program, the more obvious it becomes that the measure was not designed primarily to raise revenue or curb inflation but to get votes.
Carried by the following newspapers: N.Y.W.T., Pittsburgh Press, Houston Press.

San Diego Tribune-Sun - Taxes and Elections - Apparently neither Congress nor the Administration is forgetting that 1944 is an election year, and the prospects of a tough but fair tax bill are accordingly rather dismal.

THE TREASURY TAX PROGRAMMEMORIALS - UNFAVORABLE

7/43 - Philadelphia Inquirer - Economy Before Higher Taxes - Representative Taber's economy program, which includes Navy yards, barracks and military posts as well as numerous independent agencies, may be too sweeping. But if only half the savings he outlines could be effected, the morale of millions of taxpayers, now facing the future with fear and forebodings, would be materially strengthened.

Miami Herald - Sales Tax Solution - There is no question about the American people's willingness to sacrifice everything for victory. The proposed Administration bill mistakes willingness for ability to pay.

Fort Worth Press - Sales Tax Support - Objections are evident against the Treasury tax plan and against a flat sales levy of 10 per cent. Both are evidence of inexpertness which is ill-befitting the war and the necessity of financing it and averting inflation.

St. Louis Star-Times - Time and Taxes - The politicians--for their own sakes--ought to consider whether keeping the voters on tenter-hooks may not be as costly at the polls as breaking bad news cleanly and promptly. And, further, they had better find ways of eliminating the waste which makes tax rates inordinately high rather than ways of camouflaging the burden by postponing part of it.

El Paso Herald-Post - New Move for Economy - Economies in the Army and Navy are just as useful to the taxpayers as economies in the civil functions of the Government. And economies anywhere in the Government are quite as effective as new taxes in the same amount.

New York Daily Mirror - True to Form - The Congress, in revolt against it, recognizes the program for just what it is. Another timid and paradoxical attempt to meet an emergency by avoiding the issue.

San Antonio Evening News - Tax Framers' Choice - If they would avoid lowering living-standards to a dangerous minimum even for wartime--when the people naturally expect and prepare for privations--thereby undermining civilian morale, the revenue bill-framers at Washington will go slowly as to increasing income taxes. In fact the saturation-point is about reached in all brackets.

Atlanta Constitution - Federal Sales Tax - The American wage earners cannot well stand another withholding tax or additional "victory taxes." There are millions whose salaries have not gone up along with those in war plants because their businesses were not enjoying war contracts and profits.

Kansas City Star - Save More and Tax Less - Taxpayers should demand economy in the Government before another huge tax bill is laid on their backs.

THE TREASURY TAX PROGRAMOPINIONS - UNFAVORABLE

5/7/43 - San Antonio Express - Federal Economy: More Power to Byrd, Taber, et al - To be sure, a nation at war cannot pinch pennies, but it need not throw away money excessively on contracts and the like.

Cincinnati Times Star - How About the Middle Class - There has been a considerable increase in the cost of living and a tremendous increase in the burden of taxation. The middle class has often been called the back-bone of America. If things continue as they have been going, America will have to get on without that backbone before long.

Cincinnati Enquirer - Postwar Cash Reserves - We would suggest a middle course which takes into consideration both these important factors. Law-makers must not devote so much of the new program to current income that they build bleak and barren depression years ahead. Industry must bear its fair share of the immediate tax load, but to dip too deeply into the financial blood of our industrial structure would be a most unwise and short-sighted move.

N.Y.H. Tribune - Confused Tax Thinking - The weakness of Mr. Morgenthau's program, in short, is that it is an economic anachronism. It has just about as much relation to the 1943 economic scene as a policy of drastic disarmament would have as an expression of 1943 military policy.

New Orleans Item - Stop This Waste - Winning the war is not enough. We must win it and stay solvent. To defeat our enemies is not enough if we impoverish ourselves and go down with them to all the miseries and disorders that national penury begets.

5/8/43 - Little Rock Gazette - Closing That \$4,000,000,000 Gap - By the simplest arithmetic we see that a saving of \$4,000,000,000 would close the gap between the \$10,000,000,000 Mr. Morgenthau and Mr. Roosevelt are demanding and the \$6,000,000,000 that Congress spokesmen say is all the new tax bill should attempt to raise.

Washington Post - Tax to Cure - There is no alternative, it seems to us, but to put a brake on this spending and mop up the dangerous money by means of a general sales tax. As far back as January 5, 1942, the President himself envisaged such a levy as a temporary wartime necessity. Yet nearly two years later the Treasury still is unable to shed business-as-usual idea in tax policy.

N.Y. Times - What Limit to Taxes - The Treasury has been squeezing close to the last drop of revenue out of the highest incomes. Any assumption that increased rates will bring proportional revenues must be seriously challenged.

Memphis Press-Scimitar - Not Even Smart Politics -

Fort Worth Press - Twenty Two Months Late -

THE TREASURY TAX PROGRAMEDITORIALS - UNFAVORABLE

10.
 1/8/43 - New Orleans States - Accept His Offer - Representative Taber's implied offer to point out how expenses could be reduced 4 billion should be accepted with alacrity. Let economies be effected before the new tax measure is drawn.

Indianapolis Star - Sales Tax the Answer - Mr. Vinson apparently overlooks the fact that the increased tax proposal, primarily supposed to get the surplus cash of war workers, would bear heavily on millions whose income has not kept pace with wages in the munitions industries. They practically would be asked to pay taxes they cannot afford.

Dallas Morning News - Slash in Spending - There will certainly be no handicap in ability to contend that the war was maintained in full speed on reduced expenditures.

Syracuse Herald Journal - Treasury Tax Proposals Should Be Killed - High taxes are an inevitable concomitant of modern war. - But not even the American people with all their genius have yet been able to perfect a system in which they can pay taxes that exceed their earnings.

Philadelphia Inquirer - Director Vinson on a Hot Spot - The natural conclusion is that the Government should "go where the money is" and tax proportionately the possessors of this four-fifths of the income. But instead of pursuing that sound policy, the Treasury has proposed to lay the heaviest burden on one-fifth of the income and on the persons whose spending has the least effect in causing inflation. Carried by the Cincinnati Enquirer.

Omaha World-Herald - The Treasury Plan - It is not unreasonable to conclude that this is more than the result of the Treasury tax plan. It is deliberately intended for a purpose. That purpose is to reduce, as drastically as is at all practical, private sources of capital for investment in industry and commerce. From that would follow, necessarily, the eventual elimination of private enterprise. That is the goal toward which many of the bright boys in Washington have been directing their efforts ever since 1933.

Cincinnati Inquirer - Let's Cut the Budget - We agree with Mr. Taber that costs must be cut if we are to head-off national bankruptcy and chaos.

Fargo Forum - Taxes and Policy - It is necessary to do more than lay additional taxation, since the debt will be stupendous in any event. We must know whether we intend to have prudent management or follow the no-limit theory. Certainly, we should get on as solid ground as we can as quickly as we can.

THE TREASURY TAX PROGRAMEDITORIALS - UNFAVORABLE

8/43 - Detroit Free Press - Vinson on Taxation - Congress should not, and it looks now as if it will not, accept Judge Vinson and other administration spokesmen say that the Country will go to the dogs if the dot on an "i" or the cross on a "t" is changed.

Cleveland Plain Dealer - Why Congress Balks - The sad truth of the matter is that Congress does not have, and the nation as a whole does not have, much confidence in the Secretary of the Treasury and his present advisers. In both matters of taxation and in public borrowing they lend their support to measures and policies which bear much less relation whatever to total war than they do to the political considerations which so profoundly affect public finance.

9/43 - El Paso Herald Post - Poor Politics -

Milwaukee Sentinel - Repudiation of Administration - Certainly it is time for the American people to demand an explanation of why Henry Morgenthau, Jr. occupies the seat of Alexander Hamilton while Mr. Bernard Baruch occupies a park bench in the city of Washington. (Also carried by the following newspapers: San Francisco Examiner, Los Angeles Examiner, New York Journal American.)

New York Daily News - The Tax Fight - For our part, we think several of Morgenthau's proposals are foolish; and we don't like the manner of their presentation to Congress. Revenue bills, according to the Constitution, are to originate in the House. The proper function of the Treasury Department, if it is to be heard from at all when the House is considering a revenue bill, is to advise and furnish statistics.

Boston Traveler - Treasury Tax Plans - Congress has been writing the tax bills and apparently intends to continue doing so.

Charlotte Observer - An Exception Noted - Some scheme should be devised by which the government would get most of its new revenue from those groups who are immune from the repressions and restrictions imposed upon the frozen-income bloc whose tax burdens have already reached back-breaking weight.

N.Y.W.Tel. - The New Move for Economy - Economies in the Army and Navy are just as useful to the taxpayers as economies in the civil functions of the government. And economies anywhere in the government are quite as effective as new taxes in the same amount.

N.Y.Sun - Taxes and Politics - It may be asking a lot of Congress and of the Administration to ask them to forget politics and write a tax bill. It may be expecting a lot to expect the American people to insist that a realistic tax bill be written. But it is neither asking nor expecting more than the situation demands.

THE TREASURY TAX PROGRAMARTICLES - UNFAVORABLE

10/43 - Cincinnati Enquirer - Base for a Tax Program - Let's cut out the billions of dollars in unessential spending first. Then we can find exactly where we stand. We can build a sane, sound taxation program on that foundation.

Washington Star - Tax Fantasy - It probably will not happen, but just in case the Administration's newest revenue program should be adopted by Congress without a change, we shall see the poor, underprivileged rich walking around the streets dressed not in fine clothes but in barrels.

Philadelphia Inquirer - The Answer to the Tax Problem - The Treasury's specific program has been weighed and found wanting. Except for the staggering amount of revenue demanded, it seemed to have been framed for peacetime, without regard for special wartime conditions.

Charlotte Observer - New Taxes and Federal Economies - It is the business of the Congress, in its consideration of the new tax bill, to explore every possibility of intelligent economy that can be made and then to have the courage to face the issue fairly and squarely and gauge its final action accordingly.

11/43 - Chicago Sun - Needless Tax Wrangle - The Secretary might just as well make up his mind that the House, not he, is going to frame the tax policy, and act accordingly.

Boston Traveler - Taxes Are Already Up - In asking for a ten per cent rise in the income tax rate, has Mr. Morgenthau forgotten the joker in the withholding tax system? Only seventy-five per cent of the past year's tax was "forgiven."

12/43 - Omaha World-Herald - The Dreadful Truth - Still official Washington refuses to face the dreadful truth. The dreadful truth which is that the people will be obliged to pay for this war out of their own standard of living.

Boston Daily Record - Why Do We Tolerate Incompetency - or - Repudiation of the Administration.
Also carried by San Antonio Light.

Memphis Tenn. Commercial Appeal - Secretary Morgenthau now appeals to Congress with a tax plan which is not only economically reprehensible but politically vicious.

THE TREASURY TAX PROGRAM

COLUMNS

THE TREASURY TAX PROGRAMCOLUMNS

10/4/43 - Sylvia Porter - New York Post - Unquestionably there'll be a terrific amount of opposition from our vote conscious legislators and the big insurance companies to the Administration's tax bill introduced into Congress today.

10/5/43 - Sylvia Porter - New York Post - Even a casual study of the bill submitted by the Treasury to the House Ways and Means Committee reveals its hodge-podge aspects.

Leslie Gould - New York Journal-American - If the schedules proposed by Mr. Morgenthau yesterday are enforced, the white collar class which is not sharing in this war boom had better get ready to peddle apples. For they are on the way out. They are being liquidated as surely as they were in that revolution that made comrade Stalin.

10/6/43 - Danton Walker - Washington Times-Herald - Tax recommendations have become so snarled up between Marriner Eccles, Vinson and Morgenthau that Barney Baruch may have another headmaster's task on his hands.

David Lawrence - The Treasury makes its own studies and keeps its own figures, works them up in estimates, which are held for release at a given time, and then a program is announced which, on its face, is unscientific, and therefore has the effect of producing alarm, if not confusion, in the economic world.

Carried by the following newspapers: Washington Star, New York Sun, Newark News.

10/7/43 - Paul Mallon - The Congressional committee attitude is not hard to explain. The Morgenthau plan seemed to lack a convincing ring of either sense or security. Indeed, it appeared to have only a feeble political justification.

Carried by the following newspapers: New York Journal-American, Syracuse Herald-Journal, Boston Herald, Chicago Herald-American, Birmingham News, Memphis Commercial Appeal, Little Rock Arkansas Democrat, San Francisco Examiner, Seattle Post Intelligencer, New Orleans Item, Fargo Forum, Omaha World-Herald, New York Daily News, Butte Standard.

Walter Lippmann - What is lacking in the Treasury tax program is a convincing and intelligible explanation of the problem which it is designed to deal with. The program cannot be supported effectively or criticized constructively until there is a general understanding and agreement on what we are trying to do and why.

Carried by the following newspapers: New York Herald Tribune, Washington Post, New Orleans Times-Picayune, Los Angeles Times, Memphis Commercial Appeal, Chicago Sun.

THE TREASURY TAX PROGRAMCOLUMNS

- 10/7/43 - Raymond Clapper - Both the Administration and Congress are doing some politicking with the new tax program and it is important not to allow ourselves to be deceived by any of this.
Carried by the following newspapers: Washington News, New York World-Telegram, Syracuse Herald-Journal, Boston Traveler, Chicago Times, Kansas City Star, St. Louis Star-Times, Minneapolis Star Journal, Memphis Press-Scimitar, Albuquerque Tribune, Fort Worth Press, Oklahoma City Oklahoman, Charleston News & Courier, New Orleans Times-Picayune, Fargo Forum.
- 10/8/43 - Ernest Lindley - The bias of the Treasury and the weakness of Congress combine to frustrate the prospects of getting taxation that is comprehensive and tough, that imposes the hardships which a great majority of civilians are doubtless willing to bear—so long as they feel that all are sharing alike—and narrows the disparity between the contribution of those who are in the armed forces and those who work at home.
Carried by the following newspapers: Washington Post, Newark Star-Ledger, Brooklyn Eagle.
- Leslie Gould - New York Journal-American - The man most responsible for the Treasury's new income program is a little lawyer out of Wall Street by the name of Randolph E. Paul. There must be something the matter with the air of the Wall Street law offices, for it is hard to see how any man who knows anything about business could draw up such a tax program. It isn't a tax program. It's a social reform.
- Arthur Krock - New York Times - As the plan has been subjected more and more to analysis—by members of Congressional committees, by commentators who hoped the Treasury was turning over a new leaf by the public—the familiar outlines of politics and social-economic "reform" via taxation route have again emerged.
- 10/10/43 - Leslie Gould - It is one of the trickiest and most deceptive pieces of figuring attempted in Washington. It is so flagrantly a reform measure, that even such an all out New Deal Congressman as Doughton squawked.
Carried by the New York Daily News and New York Journal-American.
- 10/11/43 - Paul Mallon - Sub-surface evidence also indicates the Treasury tax program was not a personal Morgenthau opus. Most congressmen fervently suspect Mr. Roosevelt had as much of a hand in it as anyone else.
Carried by the following newspapers: Newark Star-Ledger, Boston Herald, Cleveland Plain Dealer, Poughkeepsie New Yorker, Philadelphia Inquirer.
- Frank R. Kent - The sad truth is that the Administration's war time financial leadership is political, hypocritical, hollow, unsound and inadequate. It reflects credit upon neither the President nor Mr. Morgenthau.
Carried by the following newspapers: Washington Star, Baltimore Sun, Louisville Courier-Journal, Des Moines Register.

THE TREASURY TAX PROGRAMCOLUMNS

10/14/43 - Sylvia Porter - New York Post - The Administration's \$10,000,000,000 tax bill has been drowned in a torrent of abusive words. The tax situation as it shapes up today is in a bigger mess than at any time in recent months.

SALES TAX EDITORIALS

Favorable

SALES TAX

EDITORIALS - Favorable

- 10/5/43 - JOURNAL, Wilmington, Del. - Chairman Doughton of the House Ways and Means Committee is guilty of no extravagance of statement when he characterizes Secretary Morgenthau's new tax program as "indefensible". It is indefensible because it would weaken the national morale, and because through its failure to include a sales tax, it ignores and rejects the experience of every other nation at war.
- 10/5/43 - TIMES-PICAYUNE, New Orleans, La. - Congress seems to favor either a retail sales tax or a "spending tax" over the Treasury proposal to sharply increase the income tax rates.
- 10/5/43 - ST. LOUIS GLOBE-DEMOCRAT - A far more satisfactory plan, from every angle, would be a sales tax on all spending except food, medicine, rents and other absolute necessities of living. This has been opposed by the administration consistently.
- 10/5/43 - J. of C. - A general retail sales tax of, say, 10 per cent would be one way to raise up to half the money required without altering the pattern of national income distribution in fundamental respects.
- 10/5/43 - PLAIN DEALER, Cleveland - The persistent opposition of the Treasury to a Federal sales tax, and also to enforced saving in any form must be due also to political factors.
- 10/6/43 - THE EVENING BULLETIN, Providence - National necessity dictates that a penalty should be placed on unnecessary individual spending now. That is the virtue of a stiff general sales tax, discriminatingly applied to selected types of merchandise.
- 10/6/43 - REDWOOD CITY TRIBUNE, California - By all means, let us have the luxury tax with its stiff increases in levies. But since it can be no effective substitute for the general federal sales tax, let us have the latter levy as well.
- 10/6/43 - THE DETROIT NEWS - Occasionally a Treasury spokesman calls the sales tax itself inflationary, which is simply not true, unless the reference is to a tax at other than the retail level.
- 10/6/43 - SAN ANTONIO EXPRESS - He would tax all sales a flat 10 per cent, to raise an estimated 5 billion dollars a year.

SALES TAX

EDITORIALS - Favorable

- 10/6/43 - MIAMI HERALD - The sales tax is fair. It requires no costly machinery to collect. It would provide a steady flow of revenue to the Treasury and in all likelihood would make a greater return than the proposed income tax bond increases.
- 10/6/43 - NEWARK STAR-LEDGER - It is not surprising that in the circumstances the plan of a general sales tax, estimated to produce \$6,000,000,000, should be revived with increasing favor.
- 10/6/43 - CINCINNATI ENQUIRER - Perhaps an over-all sales tax will present itself as a channel through which a great portion of the necessary increases may be raised.
- 10/6/43 - GLOBE, Boston - Sales tax advocates say it is the easiest to collect, reaches a lot of income now untouched, and as a direct tax on expenditure, it is a sure safeguard against inflation.
- 10/6/43 - THE DETROIT FREE PRESS - Why does the Administration refuse to expand excises into a general sales tax, which would relieve tax pressure in other directions? The answer is political expediency.
- 10/6/43 - THE SUN - Criticisms of the general sales tax voiced before the Ways and Means Committee by Mr. Randolph Paul, General Counsel of the Treasury, were far from convincing. In an emergency like the present, when purchasing power threatens to burst all bounds, a sales tax is urgently needed not only as a means of providing the Treasury with revenue but also as a means of bringing demand into balance with supply.
- 10/7/43 - BERGEN EVENING NEWS, Hackensack, N.J. - There is one tax which would cut simply and easily into the bulk of the new money which has come into being as a result of the war.
- 10/7/43 - FORT WORTH PRESS - Objections are evident against the Treasury tax plan and against a flat sales levy of 10 per cent. Both are evidence of inexperience which is ill-befitting the war and the necessity of finishing it and averting inflation.

SALES TAX

EDITORIALS - Favorable

- 10/7/43 - NYT - Since the presentation of the drastic Treasury tax plan, sentiment is reported to be growing in Congress, in spite of Treasury opposition, in favor of a general sales tax.
- 10/7/43 - DAILY MIRROR, N.Y. - "If ever a Federal sales tax is justified, now is the time."
A general sales tax is anti-inflationary!
- 10/7/43 - NYT - Among the very few important sources of revenue that remain are a general sales tax and higher excise taxes. We must never forget, as the doctrinaire opponents of a sales tax do forget, that one of the alternatives to a general sales tax which would really reach mass income is inflation.
- 10/7/43 - P.M., New York - It's those guys in the lower brackets who are making more money than they ever saw before. Let's put on a sales tax and get some of that money.
- 10/7/43 - N.Y.SUN - Some members believe that a general sales tax would be better than sharp increase of tax rates on a few categories. There are many excuses, but only one reason for delaying action on excise taxes. That one reason will be provided by serious consideration of a sales tax.
- 10/7/43 - THE SUN, Baltimore - There remains the question of taxes aimed at draining off inflationary purchasing power. For this purpose, no tax would be more effective than the general sales tax, the very logic of which seems to be gaining fresh support for it in Congress.
- 10/7/43 - EVENING BULLETIN, Phila. - Sentiment for a sales tax arises from its largely voluntary character. If an individual reduces his buying he can avoid by so much the payment of the tax.
- 10/7/43 - BULLETIN, Providence - An estimate that a ten per cent general sales levy would yield six billions annually has been submitted to Congress.

SALES TAX

EDITORIALS - Favorable

- 10/7/43 - MIAMI HERALD - The sales tax is fair. It requires no costly machinery to collect. It would provide a steady flow of revenue to the Treasury and in all likelihood would make a greater return than the proposed income tax bond increases.
- 10/7/43 - THE ATLANTA CONSTITUTION - A Federal sales tax, for the duration of the tax emergency brought on by the war, now seems the most practical and sensible plan.
- 10/7/43 - SAN ANTONIO EXPRESS - The Taber Plan--economy plus a sales tax--first would lighten the load and then distribute it over the broadest base possible. Both effects would be salutary, indeed.
- 10/8/43 - TIMES-DISPATCH, Richmond - The Times-Dispatch has fought the sales tax consistently in the past, for in the depression years it was an aid to deflation, and it placed a disproportionate burden upon the poor. But this is not a time of depression.
- 10/8/43 - WASH. POST - There is no alternative, it seems to us, but to put a brake on this spending and mop up the dangerous money by means of a general sales tax.
- 10/8/43 - HERALD TRIBUNE - The Chamber of Commerce of the State of New York yesterday urged the Federal government to adopt a general retail sales tax as a means of raising revenues and combating inflation.
- 10/8/43 - SYRACUSE HERALD JOURNAL - The sensible thing for Congress to do would be to kill the proposals submitted by the Treasury on behalf of the Administration, and adopt a national sales tax.
- 10/9/43 - N.Y. DAILY NEWS - A general sales tax would slow down some of the warplant workers' buying which is such an inflationary influence; but, as always, the Administration is dead set against that. (TIMES HERALD)
- 10/9/43 - MEMPHIS COMMERCIAL APPEAL - The sales tax is direct and it is sure. It is reasonable easy to collect, and the amount of it is in direct ratio to the money spent by the individual.

SALES TAX

EDITORIALS - Favorable

- 10/10/43 - PHILA. INQUIRER - No tax is painless, but the sales tax is the least burdensome of all, and for three good reasons.
- 10/11/43 - WSJ - Mr. Robertson said a 10% Federal retail sales tax would yield \$6 billion and permit present income tax exemptions to be raised instead of lowered, thus simplifying the entire tax structure.
- 10/11/43 - HERALD TRIBUNE - From a practical standpoint, such a tax measure coupled with an increased drive to place war bonds in the hands of those with war-created excess incomes, would be at least as anti-inflationary and far less disruptive economically than the seemingly more ambitious program of Mr. Morgenthau.
- 10/11/43 - NYT - It seems clear, therefore, that the bulk of the new taxes must come from those earning under \$5,000 and that they are in a position to pay them. The most effective way of reaching these incomes would be through a general sales tax.
- 10/12/43 - NYT - The present unbalance can be in part corrected only by a general sales tax.
- 10/12/43 - COMMERCIAL APPEAL, Memphis - A sales tax is a good remedy for inflation because it taxes spending.
- 10/12/43 - PHILA. BULLETIN - A sales tax would put a needed brake on spending by this considerable part of our population.
- 10/12/43 - BALTIMORE SUN - Mr. Robertson now says that a retail sales tax is the method by which excess purchasing power in the lower brackets can best be drained out of the restricted market for consumers' goods.
- 10/12/43 - WORLD-HERALD, Omaha - We are trying to dry up the huge pool of spendable money which has gathered in the land— which certainly the sales tax would help to do.
- 10/12/43 - BALTIMORE SUN - Sentiment favorable to a sales tax has been heard from members since the hearing on the Treasury's new revenue bill began.
- 10/13/43 - BALTIMORE SUN - The principal argument for a general retail sales tax now, the organization spokesman asserted, is that it is "definitely deflationary," and "would spread the burden of any new revenue fairly throughout the population of the country."

SALES TAX

EDITORIALS - Favorable

- 10/14/43 - WASH. POST - Edward Ryan - One member predicted the committee would approve a sales levy before agreeing to the Treasury's program of increased income rates.
- 10/14/43 - HERALD TRIBUNE - John Hanna - The sales tax is the best method to reach the flush spenders of war profits. It bears upon those who spend in proportion to their spending.
- 10/14/43 - W.St.J. - Hardly any other tax follows so closely the principle of taxing according to ability to pay. It leaves the taxpayer some power to adjust his tax bill to his means. It taxes most those who spend most, who are necessarily those who have most to spend.
- 10/14/43 - W.St.J. - If all retail sales are taxed the rate can be so low as to inflict no excessive hardship upon anyone and still yield a substantial amount of revenue.
- 10/15/43 - NYT - As a matter of fact, the elimination of the Victory Tax will modify the impact of a general sales tax upon many in the lower incomes group by furnishing a partial offset to the payments they would have to make.
- 10/15/43 - BALTIMORE SUN - We must reach the untaxed purchasing power and the sales tax is the best way to do so.
- 10/15/43 - TIMES HERALD - A 10 per cent sales tax would raise about \$5,000,000,000—the figure House and Senate tax leaders consider a satisfactory goal if Federal economics can be achieved.
- 10/17/43 - NYT - Let us all work for the speedy enactment of a progressive sales tax. As a producer of revenue, it will tax new sources which to date have unjustly escaped direct taxation. Nine out of every ten people with whom I have discussed the sales tax favor its adoption. It is high time that the general public makes known its wishes to Congress.
- 10/18/43 - J. of C. - President Philip Murray of the Congress of Industrial Organization has served an ultimatum on the House Ways and Means Committee to the effect that enactment of a Federal sales tax would bring demands for compensatory wage increases, in defiance of the economic stabilization program. Unfortunately, he is very badly advised in the formulation of his stand on the fiscal program.

SALES TAX

EDITORIALS - Favorable

- 10/18/43 - BALTIMORE SUN - And yet Mr. Philip Murray, the head of the CIO, says the unions, whose members are usually paid better than the average, will not stand for a sales tax.
- 10/19/43 - WSJ - J. Cheever Cowdin, spokesman for NAM, urged Congress to reject all proposals for new taxes, but added that if the legislators decide more revenue is essential, then a national retail sales tax should be imposed.
- 10/19/43 - NYT - (President Roosevelt) "All through the years of the depression I opposed general excise and sales taxes, however, we may be compelled to reconsider the temporary necessity of such measures."
It is now twenty-one months later. Has not the time come, if ever, to reconsider the temporary necessity of such measures?
- 10/19/43 - HERALD, Miami - The national sales tax is the sensible approach to setting up any new revenue source.
- 10/19/43 - POST-DISPATCH, St. Louis - If Congress does think more revenue is needed, there is one mighty good way to get it. How? Yes, it's the national retail sales tax.
- 10/21/43 - NYT - I am among the growing number to favor a retail sales tax, believing that the impost should logically fall upon consumption and spending, rather than upon savings and thrift.
- 10/22/43 - NYT - The argument that a sales tax would be "inflationary" does not deserve serious discussion. It is, in fact, perhaps the greatest single weapon remaining to us to curb inflation.

SALES TAX EDITORIALS

General

SALES TAX

EDITORIALS - General

- 10/5/43 - PIONEER PRESS, St. Paul - Fundamental to the Treasury's plan, and evidently one of the controlling motives behind it, is its well known wish to avoid a sales tax. And all this is done to get away from a sales tax on social grounds, the validity of which during wartimes is questionable to say the least.
- 10/5/43 - EVENING NEWS, Buffalo - There is more than a suspicion that the Treasury, in proposing to multiply the so-called luxury tax rates, is trying to "get out from under" the political consequences of a general sales tax.
- 10/5/43 - THE BIRMINGHAM NEWS - The administration still is standing out against proposing a general sales tax, although the excise taxes on "luxury items" are special sales taxes.
- 10/5/43 - DETROIT NEWS - No mention is made of the general retail sales tax as an available substitute for the enormous addition to income taxation.
- 10/6/43 - COURANT, Hartford - Under a progressive sales tax those persons wishing to buy luxuries would pay more than those confining their purchases to essential commodities.
- 10/6/43 - INDIANAPOLIS STAR - It is significant that the Treasury Department and the Administration have consistently opposed the sales tax which has been urged by many in Congress and out as the most effective and easily administered method of reaching those who have money to spend and are spending it.
- 10/8/43 - CLARION-LEDGER, Jackson, Miss. - Mr. Taber, however, also endorses a ten per cent Federal sales tax to raise new revenue and because it "would have a greater effect than any other means of curbing inflation." That will be far less popular than his proposal that government expenditure be reduced.
- 10/9/43 - INDIANAPOLIS STAR - The factor that seems to have controlled in the fight against a Federal sales tax is that it would be paid by all the people.
- 10/10/43 - BUTTE STANDARD - Preliminary congressional sparring revealed some opposition because a federal sales tax--which chiefly affects low-income groups -- had not been recommended.

SALES ~~TAX~~ EDITORIALS

Unfavorable

SALES TAX

EDITORIALS - Unfavorable

- 10/7/43 - NEW YORK POST - A sales tax is a device for making the poor pay a disproportionate part of their incomes in taxes as compared with higher income groups.
- 10/8/43 - CHICAGO SUN - They prefer to complain about "staggering" income taxes and to exploit the wartime emergency to saddle the nation with a sales tax.
- 10/9/43 - EL PASO TIMES - The Administration is solidly opposed to the sales tax, and Economic Stabilization Director Fred M. Vinson, advised the House Ways and Means Committee Thursday that such sales tax "would break the Government's 'hold the line' home-front policy and open the way for wild inflation."
- 10/9/43 - SCRANTON TRIBUNE - The Administration isn't enthusiastic about a general excise and sales tax, in fact the President last year pointed out in his budget message that throughout the depression he opposed any such measure.
- 10/10/43 - COURIER-EXPRESS, Buffalo - The Administration won only in opposing a general sales tax.
- 10/10/43 - THE SUN, Baltimore - The Treasury is fervid in opposition to open sales taxes on the workers who are to be paid \$127,000,000,000 in 1944, but the Treasury is able to recommend savage hidden sales taxes on these same workers.
- 10/11/43 - NYT - Some Congressmen revived the demand for a Federal sales tax. This idea the Administration has consistently opposed on the ground that taxing necessities would mean a disproportionate burden for people with low incomes.
- 10/16/43 - CHICAGO SUN - Philip Murray of the C.I.O. has given notice that general wage increases will be demanded if a sales tax is imposed.
- 10/21/43 - THE SUN, Baltimore - The statement issued by Representative Knutson yesterday makes it appear that the House minority is not only opposed to the Treasury program but to any substitute program calling for tax increases, including sales taxes.

MEMORANDUM FOR THE SECRETARY.

November 12, 1943.

Mail Report

This week's light fan mail was counterbalanced by an unusually heavy official mail, much of it relating to bankruptcy and reorganization proceedings. There were therefore very few quotable letters.

For the fourth week, interest in tax matters remained low. Only a dozen correspondents expressed opposition to the Treasury's new tax measures, or to higher rates in general. A few pointed out sources of additional taxes, particularly stressing the profits of bowling alleys, beauty parlors, and barber shops. A number of letters and wires from church affiliates solicited support of the Congressional Bill providing that gifts to churches and charity be deductible before the withholding tax is levied.

Except for occasional amusing or pathetic human interest stories revealed through some of the inquiries, Bond mail definitely lacked interest. Questions about procedures and suggestions for new types of Bonds or promotional techniques were just what they have been for a number of weeks. There are now no new angles to the complaints from War Department personnel. The latter were low again this week, while reports of interest not received dropped from 30 to 23. Bonds submitted to the Secretary for redemption totaled 92, with no community particularly represented.

Two or three comments about the recent trip abroad, several communications in regard to the census of Foreign-owned property, 5 detailed and well prepared protests against the Salary Stabilization Amendment, and a number of inquiries from school children about the work of the Treasury Department made up the miscellaneous mail.

Ge. Forbush

General Comments

Senator W. Warren Barbour transmits the following letter he has received from F. C. Jones, President of The Okonite Company, Passaic, N. J.: Attached to my letter you will find copy of Treasury Department letter to The Russ Building Company in San Francisco. * * * My company has its San Francisco office in the Russ Building, where we have been for many years. The bulk of our business on the Pacific Coast, which necessitates this office today, is Navy and Maritime Commission business with the yards up and down the Pacific Coast, together with considerable business with the airplane companies on the Pacific Coast. You can realize how essential our products are, either directly or indirectly to the war, when I tell you every pound of copper we use is allocated to us by the War Production Board. It looks to us from this letter that we would probably be dispossessed from the Russ Building, and not only we, but a good many other companies who are engaged in critical war work may also be dispossessed. * * * There is ample office space in other downtown buildings in San Francisco, at much lower rentals than the Russ Building rentals, to take care of the Treasury Department; but apparently, as is evidenced by everything our present Administration does, any saving of money is to be ignored, and the desire of some Treasury Department bureaucrat to be in the Russ Building is of paramount importance. I object seriously to this whole-handed, wasteful proposition, and am requesting that you look into this and see what can be done to stop it.

Rose of My Heart, N.Y.C. PEACE I thank Father to give to our country two more Bonds, making \$425 so far at maturity to be paid to our U.S.A. This, with other goodly sums, pays for the fraudulent business carried out years ago in the Southlands. Yours in Bonds of Peace for the whole world -- under our documents, living them, not pretending to do so. P.S. Please send receipt for \$75 in Bonds to Rev. M. J. Divine, Philadelphia, Pa.

- 2 -

Favorable Comments on Bonds

H. R. Hollenbeck, For the Executive Committee, National American Balloon Corps Veterans Association, Battle Creek, Mich. This letter is not written in the spirit of braggadocio but merely as a statement of what a small group can do as an organization to help the War effort. * * * During our reunion at Omaha, Nebraska, September 21, 22 and 23, our organization purchased a \$1,000 War Bond. * * * The purchased Bond not only emptied our treasury, but actually created a deficit of nearly \$50. It was our second Bond in less than a year. With an annual dues income of less than \$1,000, this action might appear to be foolhardy from a strict business standpoint, but we are confident that our members will come through and provide us with operating funds for the coming year. Knowing our members as we do, we also predict that our organization will be on the "Bond Wagon" again before the year is out. * * *

- 3 -

Unfavorable Comments on Bonds

J. Francis Potter, Real Estate - Insurance, Los Angeles, California. * * * Frankly, many of us are beginning to worry about the future value of all United States War Bonds. We see the Government squandering billions of dollars in the War effort, apparently without any thought of repayment. We are not unmindful of the fact that the 4 $\frac{1}{2}$ United States Liberties of 1947 issued during World War I, sold at below 90 within a few years after the War. It would appear that unless the United States Government immediately enacted a rigid policy of economy in Governmental expenditures, that these present Bonds, bearing approximately 2 $\frac{1}{2}$ % interest, cannot possibly be worth par after World War II. * * *

Mrs. Mary Chelle, R.D. #2, Camp Meeting Road, Sewickley, Pa. My husband left me with a six weeks' old baby, and my two Bonds disappeared at the same time. I have given him a chance to return these Bonds, but no such luck. How will I go about locating the Bonds and him, too? * * *

Mary B. Thomas, Taunton, Mass. For the period July 1, 1942, to November 15, 1942, the amount of \$180.00 was deducted from my pay under the Class "A" pay reservation plan while an employee with the United States Engineers at Camp Miles Standish, Mass. * * * To date I have neither received Bonds nor refund for the amount deducted. * * * After contacting various War Bond officers including the U. S. Engineers Office in Providence, R. I., and the War Bond Division in Chicago, Ill., and not having received a coherent explanation, I have decided to write to you since you are the Secretary of the Treasury, and the one person who can straighten things out for me. I would like to continue buying War Bonds to do my share in the winning of this horrible war, but how can I do so when the Bonds paid for a year ago haven't been received? * * *

- 4 -

Favorable Comments on Taxation

Copy of letter addressed to Hon. Robert L. Doughton, House of Representatives, by P. W. Hutson, Pittsburgh, Pa. I write to express my long pent-up feelings of dismay -- yes, despair -- at the deplorable weakness of the Congress in meeting the numerous crucial issues which face the country. How could anything be more apparent than the necessity of taking more of our excess money by taxation in order to cut down the inflationary danger? The figures of excess income have been given to us over and over again. Yet you and your Committee cringe before your obvious duty for all the world like a child with an aching tooth who can't bear to go to the dentist. You whimpered, Mr. Doughton, about how you could face your constituents back home if you recommended the Treasury tax program. Now, I haven't had time to evaluate the various elements of Mr. Morgenthau's plan, but I do know that the refusal of you and your Committee to recommend substantially increased taxation is nothing short of criminal. You are willing to sell the country down the river in fear of next year's election, not realizing that the country is way ahead of you and believes in the necessity for higher taxes. * * *

- 5 -

Unfavorable Comments on Taxation

Miss Helen Attwell Miller, Newark, N.J. Will you please do whatever is in your power to render me some assistance in a financial matter? In September 1943 one of the clerks in the Internal Revenue Bureau computed my income tax for me. His deductions were grossly wrong. He computed my September tax as \$87.95. After I paid the tax, I learned of the mistake he had made. The Chief Clerk figured my tax and said I should have paid absolutely nothing. I applied for a refund but to date have received none. I would like very much to have the refund because I borrowed the money from a loan company and am paying a high interest rate on it. Will you please assist me in getting the refund? * * *

M. A. Pollak, Vice President, Draper and Kramer (Real Estate Management and Sales), Chicago, Ill. The taxing policy of the Internal Revenue Department in connection with reorganized real estate bond issues is proving to be manifestly unfair to thousands and thousands of people who have actually suffered tremendous losses because of having invested in real estate bonds. The Administration has done many things to help the homeowner and small investor by the creation of the Home-Owners' Loan Corporation and the Federal Security & Exchange Commission, while, at the same time, the Bureau of Internal Revenue has so interpreted the law as to tax unfairly the same type of individuals who, during the 1920's, put their life savings into real estate bonds. Almost without exception these real estate bond issues were foreclosed, and the title to the property vested in corporations or trusts. * * * The earnings were such over the years that the dividends received by these former bondholders have been negligible. Many of the properties are now being sold at prices which will pay the former bondholders anywhere from 40 to 70 cents on the dollar on their original investment. The sale price,

- 6 -

naturally, is in excess of the value at the time the property was foreclosed. * * * The ruling of the Internal Revenue Bureau is that these former bondholders, while actually having a substantial loss on their original investment, in addition to having practically no interest over a ten-year period, must now pay a tax on the difference between the value of the building at the time of reorganization and the sales price today. It is true that had these bondholders known at that time, they could have taken a loss; however, not one in a thousand knew that he was entitled to such a loss and it is questionable whether lawyers would have so advised the bondholders at that time, because no one then anticipated that the tax law would be so construed. You do not create good citizens by forcing people to pay a profit tax when they are actually sustaining a loss, and unless something is done to change this, we can expect that there will be thousands of otherwise honest people who will endeavor to find some way of beating the tax laws. * * *

Frederick Waite, Orange, N.J. * * * We all are willing to pay taxes and buy Bonds, but we are not feeling happy about the way we are being wiped out by reckless Governmental spending. We all want to win the war, and we will win the war, but we will win it by the long steady pull, and not by this constantly changing pace of taxes. * * * Let me say that the attitude that Congress took recently on your multi-billion dollar tax bill is just a sample of what we the people think. Congress knows that sometime they will have to go home to live with us, and they want to live in peace with us. They will have no peace at home if they pass any such tax bill as that.

ALLIED FORCE HEADQUARTERS
Office of the Commander-in-Chief

12 November, 1943.

Dear Mr. Secretary:

I have just received your note expressing your feeling of satisfaction with the opportunities you were afforded for looking around while in this theater. As I assured you while here, you were a most welcome visitor and I am delighted that the arrangements made suited your convenience.

At the time of your departure I was still absent from Base Headquarters but hurried through several errands I had in an effort to get back before you left. They tell me I missed you by only a few hours. I should very much have liked a chat with you to learn your personal impressions of the things you saw. In any event, it was nice to have had one good talk with you.

With best wishes,

Very sincerely,

Dwight D. Eisenhower

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

HEADQUARTERS FIFTH ARMY

Office of the Commanding General

A. P. O. #464

November 12, 1943

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

Dear Mr. Morgenthau:

Your letter of November 6th reached me yesterday, the 11th. It certainly came in fast time. I was delighted to hear from you and to receive the clippings. I deeply appreciate the nice things you have said with regard to our conduct of the war in Italy, and I appreciate your passing them on to the President, Secretary Stimson and General Marshall.

I wrote you on November 4th, telling you of the shipment of six tanks for your war bond effort. I hope they reach you, for they should stimulate interest in the States. We knocked them out on the Salerno beaches.

The clippings from the NEW YORK TIMES are most interesting and flattering. It helps us to go on when we know the people at home are satisfied with our efforts.

Sincerely,

Mark W. Clark

MARK W. CLARK
Lieutenant General, USA,
Commanding.

November 12, 1943

Dear Paul:

I thought you would like to know that the moving pictures you were kind enough to take have turned out very well. I have not forgotten my promise, and I will give you a copy when you get back home.

I want to take this opportunity to thank you for the excellent care which you took of me while you were acting in the capacity of Aide. I had the pleasure of talking to your mother and letting her know that I found you well and hearty.

With kind regards,

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Captain Paul S. Warburg, O-885629,
Civilian Affairs Section,
Force Headquarters,
APO 512,
c/o Postmaster,
New York, New York.

Air mail

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
November 12, 1943TO Mrs. McHugh.
FROM The Secretary.

Please see that I write a letter to Captain Paul Warburg today. I want to tell him that the motion picture turned out very well.

Dr. Ernest Ling

261

(Mrs. Ling is a relative of Mr
Henry Morgenthau, family Levinger,
formerly Munich)
address: Jerusalem - Romana
Najjar House.

interview appointment - - -

262

Henry Morgenthau Esq.
Secretary of State
King David Hotel

Mrs. and Mr. Hermann STEIN 263
née Riegelmann
Jerusalem
Gan Rehavia Entrance 5
Cousin of Mr. Charley Riegelmann
160 Broadway New York
extend their best greetings to you
and would be very glad to meet you.

263

Mrs. Stein can also be reached by tele-
phone - No. 2172, Dr. Michman - son-in-
law of Mrs. Stein.

11/12/43

260

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

260

RUN 7 STOP 273

MA
from FC

Mr. Henry Morgenthau.

Treasury Dept

(Messages left at the American
Consulate General, Jerusalem.)

JOHN CLIFFORD FOLGER
730 FIFTEENTH STREET
WASHINGTON, D. C.

264
Submitted to Council
MA
11/15/43

November 12, 1943

Dear Mr. Secretary:

Thank you very much indeed for your thoughtful and generous letter of November 6th commenting on my election to the Presidency of the Investment Bankers Association of America.

I was very much impressed with your talk at our meeting last June. It has been my earnest belief that investment bankers should support the Treasury in every way possible.

My predecessor, Jay Whipple, has agreed to serve as Chairman of the National War Finance Committee, the purpose of which will be to cooperate with your Department and aid the Treasury in its war effort. My office is right across the street and I am desirous of helping out in every way possible.

With assurance of my high esteem, I am

Sincerely yours,

JC Folger

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

November 12, 1943.

Dear Herbert:

As you might guess, Elinor and I were most deeply pleased to read this morning that you had been elected Director General of the United Nations Relief and Rehabilitation Administration.

It is hard to think of any greater opportunity to work for the general good of humanity than this place offers you and we know that you will be more than equal to it.

We are happy over the appointment but are sure we'll have greater occasion to be happy over the record you will make in doing the job superlatively well.

Sincerely,

(Signed) Henry

Honorable Herbert Lehman
Director General
United Nations Relief and Rehabilitation Administration
Washington, D. C.

envelope "Personal"

November 12, 1948

Dear Herbert:

Elinor and I were simply delighted to read in this morning's paper that you have been appointed Director General of the United Nations Relief and Rehabilitation Administration. We are confident that you are the best person for the job, and that in the difficult period following the Armistice, with millions of people without homes or sufficient food or clothing, you, of all persons, will see that everything is done to bring them relief and succor.

Sincerely yours,

Honorable Herbert Lehman,
Director General,
United Nations Relief and Rehabilitation Admin.,
Washington, D.C.

UNITED NATIONS RELIEF AND REHABILITATION ADMINISTRATION

Atlantic City, New Jersey
November 14, 1943

Dear Henry:

Many thanks to you and Elinor for your note of congratulations which I much appreciate.

I think we are off to a good start here. The feeling seems to be a friendly and cordial one and the delegates, I think, are taking a realistic and practical point of view of what we hope to accomplish.

With affectionate greetings to you and Elinor, I am

Sincerely,

Hubert

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

November 12, 1943

Copies to Mr. Sullivan
Mr. McConnell

(Mrs. Klotz notified Mr. Byrnes' office
that Mr. Sullivan would attend the
meeting)

OFFICE OF WAR MOBILIZATION

WASHINGTON, D.C.

November 11, 1943.

James F. Byrnes
Director

MEMORANDUM FOR THE SECRETARY OF THE TREASURY
SECRETARY OF WAR
SECRETARY OF NAVY
SECRETARY OF COMMERCE
THE ATTORNEY GENERAL
FOREIGN ECONOMIC ADMINISTRATOR

I am enclosing a memorandum of the Attorney General to which is attached a memorandum of Assistant Attorney General Berge raising a number of very serious points with respect to the administration of the renegotiation statute.

I should appreciate it if you would study the criticisms of the existing practice of administering the renegotiation statute which have been made by the Attorney General and meet with me in my office next Wednesday, November 17, 1943, at 2:30 P.M. to consider what action if any should be taken in view of the position taken by the Attorney General.

James F. Byrnes
Director.



OFFICE OF THE ATTORNEY GENERAL

Washington, D. C.

November 8, 1943.

MEMORANDUM FOR MR. BYRNES

I am attaching a memorandum prepared by Assistant Attorney General Berge that raises a number of points with respect to the administration of the renegotiation statute. It occurred to me that you would be interested in this and that you might wish to give the agencies which are renegotiating contracts an opportunity to study the criticisms made in the memorandum.

/sgd/ Francis Biddle
Attorney General

Wendell Berge
Assistant Attorney General

COPY

DEPARTMENT OF JUSTICE
Washington

October 4, 1943

MEMORANDUM FOR THE ATTORNEY GENERAL

Since your memorandum to the President of July 15, 1943 on the subject of the then proposed renegotiation of the aluminum purchase contracts with the Aluminum Company of Canada, Ltd., we have been gravely concerned to discover that the misinterpretation of the renegotiation statute described in that memorandum and certain other misinterpretations thereof, are having the effect of exempting from renegotiation a substantial portion of the excessive profits which should be renegotiated.

The salient portions of the renegotiation statute are as follows:

Section (c)(1) directing the secretary of a department to require renegotiation of the contract price whenever in his opinion "the profits realized or likely to be realized from any contract ... or from any subcontract thereunder whether or not made by the sub-contractor, may be excessive;" Section (c)(6) making this requirement applicable "to all contracts and subcontracts hereafter made and ... heretofore made" unless (a) final payment thereunder was made prior to the enactment of the statute, or (b) the contract itself or certain other sections of the act specifically exempt them or give the agencies authority to do so, or (c) the aggregate sales thereunder do not exceed \$100,000. The exemptions referred to in Section (c)(6) are the only exemptions to be found in the act.

Section (A)(5) defines sub-contract to mean:

Any purchase order or agreement to perform all or any part of the work, or to make or furnish any article, required for the performance of any other contract or subcontract ... The term 'article' includes any material, part, assembly, machinery, equipment, or other personal property.

Section (i)(1)(ii) provides:

(i)(1) The provisions of this section shall not apply to -

* * * * *

(ii) Any contract or subcontract for the product of a mine, oil or gas well, or other mineral or natural deposit, or timber, which has not been processed, refined, or treated beyond the first form or state suitable for industrial use; and the Secretaries are authorized by joint regulation, to define, interpret, and apply this exemption.

The misapplications of these provisions which seem to be operating most seriously to the detriment of the United States are found in the Joint Statement of the War, Navy and Treasury Departments and the Maritime Commission of March 31, 1943, as amended, interpreting the Renegotiation Act. These misapplications are (1) the classification as exempted products under Section (i)(1)(ii) of a long list of commodities which have clearly been treated beyond the first form or state suitable for industrial use, (2) appraisal of the products so classified at their market price rather than their actual cost when renegotiating contracts for commodities produced out of them by the same concern which produces the exempted product, (3) exemption under Section (a)(5) of subcontracts for the furnishing of personal property which is to be incorporated in the real estate of a prime contractor and of subcontracts for the performance of work on such real estate, (4) exemption under Section (a)(5) of subcontracts for the furnishing of personal property, such as coke products, fuel, power and tools and equipment for use in the manufacture of other tools and machinery, assumed to be employed only indirectly in the processing of a final product covered by the prime contract.

(a) In your memorandum to the President of July 15, 1943 you pointed out that by the Joint Regulation of February 1, 1943, which classifies a large number of commodities as exempted products under Section (i)(1)(ii), the departments involved may have exceeded their power by exempting from renegotiation contracts for materials falling within the express terms and intended operation of the statute. You pointed out specifically the misapplication of the regulation to aluminum ingot, since it is abundantly clear that both bauxite and alumina are prior states in the industrial process. We are informed, however, that the Secretaries and other agencies, to which the renegotiation statute as amended applies, refused to amend the Joint Regulation pursuant to the suggestions contained in your memorandum, chiefly for the reason that although both bauxite and alumina are suitable for industrial use, some 90% thereof goes into the production of aluminum. Hence, it was thought that the remaining 10% could be disregarded and the ingot classified as a product of a mine which had "not been processed, refined or treated beyond the first form or state suitable for industrial use." No warrant can be found for avoiding the plain dictates of the statute because the product is not equally distributed between industries using it for different purposes.

The interpretation of the statute moreover does not turn upon whether given products are employed for industrial uses other than further processing toward the final product. It depends solely upon an interpretation of the words "first form or state suitable for industrial use." "Industrial use" in this clause cannot refer to the use of a final product, since this would vitiate the entire renegotiation statute. I have been unable to conceive of any industrial use of a product intermediate between the point of severance or extraction and the final product which could be more properly defined as an "industrial use" than the first use to which the product is put in industry upon its severance or extraction. It therefore seems indisputable that the form of the product immediately upon severance or extraction is in all cases "the first form or state suitable for industrial use." Such an interpretation, moreover, gives purpose, not otherwise present, to this exemption by excluding contracts involving depletion of natural resources—a technical consideration which might unduly complicate renegotiation. The statute is unambiguous. Congress by authorizing the Secretaries "to define, interpret and apply this exemption" cannot be thought to have intended to authorize them to alter the plain meaning of the Act, but only to apply it by defining and naming the products which are exempted because they are the first form or state upon severance or extraction.

It should also be pointed out that the term "joint regulation" as used in Section (i)(1)(ii) requires unanimous concurrence by the departments involved in the formulation of regulations defining and interpreting the exemption. It would, therefore, further seem that the Joint Regulation can have no validity until the four corporations brought within the statute by the amendment of July 1, 1943 have given it their concurrence. I am informed that this has not been done as yet.

(b) The second misapplication of the statute above referred to results from the provision of the Joint Regulation, as amended, which permits products therein classified as exempted to be taken at their established market price rather than their actual cost in the renegotiation of the price of a subsequent product (J-PAB-2(b)(ii)). In the common case of an integrated concern which produces the natural products out of which it also manufactures the final product, this regulation often results in exempting from renegotiation a substantial portion of the profit on the final product, — a result surely nowhere authorized in the statute.

For example, the profits of Wheeling Steel Corporation on \$73,427,000 of renegotiable sales were \$10,220,000. By adjusting the difference between actual cost and the market price of pig iron, pursuant to the above regulation, \$8,550,000 of these profits were eliminated (by War Department Renegotiation Contract dated May 12, 1943) with the result that the \$1,670,000 readjusted profits were determined to be not excessive. Similar results have been or are being obtained in the American Rolling Mill Company War Department re-

negotiation contract of July 1, 1943 and the Wickshire-Spencer Steel Company War Department renegotiation now pending.

(c) A good example of the abuses resulting from the first, third and fourth of the above listed misapplications of the statute is the War Department renegotiation contract with Koppers United Company of July 26, 1943. Out of total 1942 non-commercial sales of \$86,600,000, \$47,200,000 were exempted as a result of such misapplications. \$29,300,000 of such sales were exempted in whole or in part because deemed related to products exempted under Section (1)(1)(ii). Of this \$29,300,000, \$16,100,000 represented the construction of coke plants to make coke which is used by the pig iron, an exempted product; \$3,900,000 represented commodities such as valves, couplings, wood preservatives and coke products to be used by the prime contractor in the making of an exempted product and \$9,300,000 represented sales of pig iron and other molten metals, pitch and coke products, all of which had been refined or processed beyond the first state upon extraction or severance. Strangely enough, even the Joint Regulation of February 1, 1943 does not purport to classify pitch and coke products as exempt.

Of the \$86,600,000 of non-commercial sales of the Koppers Company \$32,300,000 were exempted in whole or in part because they were considered subcontracts for "realty" exempted from renegotiation under the misinterpretation of Section (a)(5). Articles classified as "realty" in the Koppers United renegotiation included road tar, roofing, pipe coating, the construction of coke plants upon real estate of the prime contractor, valves, couplings, and wood preservatives. It is not clear how the exemption can be made to apply to materials destined to become a part of the realty, yet delivered by the subcontractor in the form of personal property, nor how it can be made to apply to a construction contract which is clearly an "agreement to perform all or any part of the work" within the statutory definition.

(d) Of the non-commercial sales, \$10,900,000 were exempted in whole or in part under the fourth of the above mentioned misapplications of the statute on the theory that the article contributed only indirectly to the processing of a final product. Examples of items deemed to fall under this exemption are: wood preservatives, coke, tar and pitch products and gas apparatus.

It is obvious from the above that the operation of the renegotiation statute is being subjected to serious abuses and I would therefore recommend that the President be requested to ask the Secretaries of the War Navy and Treasury Departments, Chairman of the Maritime Commission and

the Boards of Directors of Defense Plant Corporation, Metals Reserve Company, Defense Supplies Corporation and Rubber Reserve Company to conform their Joint Regulations and practices to the requirements of the statutes.

/sgd/ Wendell Berge

Assistant Attorney General

NOV 15 1942
SECURITY DIVISION
OFFICE

NOV 12 1943

My dear Cordell:

As previously reported to you, two shipments of gold of approximately \$1,250,000 each, held by the Central Bank in this country, have already left the United States bound for the Argentine. The Federal Reserve Bank has advised that they have instructions to make a shipment of approximately \$1,250,000 of gold which they now hold for the Central Bank, on each of the following boats which are scheduled to sail as indicated:

Iguazu	November 10
San Juan	November 12
Mendoza	November 15
Diamantes	November 20
Chico	November 25
Gallejos	December 2
Teuco	December 5
Chubut	December 9

Thus the total of \$10,000,000 in Argentine gold is scheduled to leave the United States by December 9.

Sincerely,

(Signed) Henry

Hon. Cordell Hull
Secretary of State
Washington, D. C.

P.S. Welcome home! at your convenience I would like to see you

REP/hkw
11-11-43



THE SECRETARY OF THE TREASURY
WASHINGTON

My dear Cordell:

As previously reported to you, two shipments of gold of approximately \$1,250,000 each, held by the Central Bank in this country, have already left the United States bound for the Argentine. The Federal Reserve Bank has advised that they have instructions to make a shipment of approximately \$1,250,000 of gold which they now hold for the Central Bank, on each of the following boats which are scheduled to sail as indicated:

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Thus the total of \$10,000,000 in Argentine gold is scheduled to leave the United States by December 9.

Sincerely,

H. M. Smith

Hon. Cordell Hull
Secretary of State
Washington, D. C.

*P.S. Welcome home. at your convenience
I would like to call on you.*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 12 1943

TO Secretary Morgenthau
FROM Randolph Paul

There is attached a letter from Congressman A. C. Schiffler suggesting that the Argentine gold in this country be frozen.

There is also attached a proposed reply to Congressman Schiffler, together with a memorandum to the Secretary of State transmitting the letter and proposed reply for his consideration.



Attachments.

NOV 12 1943

MEMORANDUM FOR THE SECRETARY OF STATE

I am forwarding to you herewith for your consideration a copy of a letter from Congressman A. C. Schiffler suggesting that the Argentine gold in this country be frozen. There is also attached a reply to this letter which we propose to send, unless you perceive some objection.

As you have already been informed, Argentina is moving gold out of this country on each Argentine ship leaving the United States and by December 9 the total contemplated withdrawals will aggregate \$10,000,000.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosures.

JEDuBois:ecr
11/12/43

My dear Mr. Schiffler:

Reference is made to your letter of November 8, 1948 suggesting that the Argentine gold in this country be frozen.

For your information the question of the freezing of Argentine assets in this country, including the gold held by the Argentine Central Bank and the other dollar assets held in this country by Argentina and her nationals, has been and still is the subject of careful consideration by the State and Treasury Departments.

Although there are cogent reasons for the freezing of Argentina on economic warfare grounds since Argentina is recognized as the base from which the Axis conducts its financial operations throughout the Western Hemisphere, you will appreciate that there are important political considerations involved in any such action by this Government. Since the evaluation of these political considerations is the responsibility of the State Department, I have referred your letter to the Secretary of State for his consideration.

I appreciate your interest in this matter and will keep you informed of any developments in connection therewith.

Very truly yours,

Secretary of the Treasury.

Hon. A. C. Schiffler

House of Representatives.

JEDuBois:ecr
11/12/48

In reply please
refer to: 55954

My dear Mr. Schiffler:

For the Secretary I wish to acknowledge and thank you for your letter of November 8, 1943, suggesting that the gold in this country belonging to Argentina be frozen.

This matter is receiving our attention and you will be further advised as promptly as possible.

Sincerely yours,

Administrative Assistant
to the Secretary

Honorable A. C. Schiffler,
House of Representatives.

LSolomon:gr 11/10/43

55954

COMMITTEE FILED COPY TO: Mail & File. ENC. NO Ans. RND..... INITIAL..... DATE.....

A. C. SCHIFFLER
HARRIS, WEST VIRGINIA
Home Address
HARRIS, W. VA.

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.

November 8, 1943

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

My dear Mr. Morgenthau:-

I am intensely interested in winning the war, and also equally interested that nothing in this country that would be helpful to the Axis Powers reach them.

In view of the attitude of Argentine towards the United Nations and its present efforts to remove its gold from this country, which will undoubtedly be used to aid the Axis Powers, I urge that such gold be frozen in the possession of its present custodians, in that it shall not in any manner be of aid to the Axis Powers and their war against the United Nations.

Most Respectfully Yours,

A. C. Schiffler
A. C. Schiffler, a. c.

S:L

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

AM

DATE

TO Secretary Morgenthau

November 12, 1948

FROM Randolph Paul

As you are aware, Mayor LaGuardia wanted to give a statement of his own wording in his short wave broadcast to the people of Italy. His secretary read the statement, which is attached, over the telephone. We have no objection to it. It has been cleared with the Office of War Information and the War Department is also aware of its contents.

This information has been transmitted to Mayor LaGuardia's secretary, Miss Cohen.

[Handwritten signature]

Attachment

In these days we must think not only of the destruction of the enemy but of the reconstruction of countries and of the welfare of the people. I am sure that the Italian people are thinking about their internal problems and about the preparation of a new Italy. As I have told you time and again it is our desire to come to you with succor, not suggestions; bread, not politics.

Last Thursday the new world-wide Institution for the Relief of Occupied and Liberated Countries was formed. This agency under the auspices of the Government of the United Nations will be ready to start work just as soon as military conditions permit. The leaders of this organization will know what to do. But we have to think of the present and do everything possible to send you immediate aid knowing that these are the most difficult days of all. As you well know, President Roosevelt, having the interest and well-being of the Italian people at heart, now has a plan in preparation for permitting the sending of money from residents of the United States to families and relatives in Italy. According to the

- 2 -

decision of the American Military Command, it will be possible for people here in America to send money to their families in Sicily. This is the beginning, and I am sure that as soon as established the plan will be extended to other parts of liberated Italy. According to the decision of the Military Command the plan provides for the sending of limited support remittances for the purpose of aiding distressed families. I also hope that as soon as the military situation will permit it will be possible to reestablish postal service between the United States and liberated Italy. This too is being prepared. You see, therefore, that conditions are beginning to show an improvement, slowly perhaps, but an improvement nevertheless, and the reestablishment of normal conditions between the two countries is developing day by day. The Secretary of the Treasury, the Honorable Henry Morgenthau, has just returned to the United States and has first hand information of the civilian situation in Italy. This alone makes it very helpful.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 12, 1943

TO Secretary Morgenthau
FROM Randolph Paul

We see no objection to Mayor LaGuardia using a statement along the following lines in his short-wave broadcast:

"I am advised by the Secretary of the Treasury that the policy of permitting the remittance of funds by persons in this country to their friends and relatives in Sicily has been approved by the Treasury Department. Secretary Morgenthau expects that satisfactory arrangements will shortly be worked out in Sicily for effecting these remittances."



PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, CHUNGKING
 TO: Secretary of State, Washington
 DATED: November 12, 1943
 NUMBER: 2136

CONFIDENTIAL

I herewith refer to my previous telegram dated November 5, 1943, no. 2095.

It is reported by the Consul at Kunning that there is unwillingness on the part of APO Kunning to cash Foreign Service drafts other than his own for Kunning needs as a special exception and that it is stated by the Finance Officer of Army at Kunning that he cannot cash Foreign Service drafts because of regulations. Neither of these sources would have sufficient funds for the purpose of cashing checks or drafts in the amount required for civilian agencies concerned. However, it is understood by us that if War Department were to issue instructions and authorizations to finance officers or APO, sufficient funds might be available from Karachi. It would be preferable that the funds be sent to Kunning for cashing checks and drafts there as resulting United States currency proceeds would have to be sold in the black market there to obtain Chinese national currency to meet monthly requirements for Embassy and other civilian agencies for balances of salaries and allowances. Since new personnel for other agencies is arriving, possibly more may be needed.

It is suggested by the Naval Attache that Navy Department might be disposed to cooperate if War Department is unable or unwilling to.

We might possibly be denied special exchange rate equal to about 30 to 1 now granted to diplomatic and consular establishments and missionaries if we use United States currency for salaries and allowances. United States Army using United States currency for pay and allowances receives only 20 to 1 for its expenditures for other purposes through bills or checks sold to government banks.

Possibly it would be desirable to consider the possibility of encashment of checks and drafts in India for Indian rupees and the sale of these rupees in Kunning market for Chinese currency either by telegraphic arrangements or by sale of checks on rupee accounts in India. Unfortunately no information concerning financial regulations and controls of the Indian Government which might have bearing on any such procedure is possessed by me. At the present time we cannot consult Adler of Treasury, who recently made a study of India's financial situation, as he is absent from Chungking. Our use of actual United States currency would be avoided if any arrangement such as this could be made and it is felt by me that Indian rupees would be as equally saleable as United States currency in the Kunning black market. Can consultation regarding this suggestion be held with Treasury by the Department?

GAUSS

sh:ccpy 11-20-43

NOT TO BE RE-TRANSMITTED

COPY NO. 12

BRITISH MOST SECRET
U.S. SECRET

OPTCL NO. 371

Information received up to 10 A.M., 12th November, 1943.

1. NAVAL

LEVANT. 10th/11th. KOS Roads and PORT KALYMOS were each bombarded by 3 destroyers.

EAST INDIES. 11th. One of H.M. Submarines sank a medium sized ship off PENANG.

FRENCH FORCES. After repair in UNITED STATES, Battleship (French) is working up from West African ports prior to joining operational squadron. 11th. 5 ships totalling 38,000 tons hit by glider bomb or torpedo in air attack on east bound convoy off ORAN.

2. MILITARY

ITALY. 8th Army. 10th. We carried out successful reconnaissance in Coastal area and improved our positions near ALISSA. Progress on central mountain road hampered by bad weather and demolitions.

5th Army. Stiff enemy resistance continued but counter-attacks against U.S. forces commanding MIGNANO-CASINO road from north and against right flank of British forces were ineffective.

RUSSIA. Russians occupied important communication centres 55 miles west, 45 miles west-south-west and 50 miles southwest of KIEV.

3. AIR OPERATIONS

WESTERN FRONT. 10th/11th. 1,122 tons were dropped at MODANE. 11th. 293 medium bombers dropped 409 tons on military objectives in CHARBORG Peninsula with "fair to good" results and S.W. of GRIS NEZ with hits in centre target. 58 escorted Fortresses (B. 17) dropped 111 tons on MONSTER in cloudy weather with unobserved results. Enemy casualties 20, 3, 2. Ours 4 Fortresses and 3 Thunderbolts (P. 47). In addition 1,164 fighter sorties were flown.

11th/12th. Aircraft despatched - CANNES Marshalling yards 14 (5 missing); Antheor Viaduct (near CANNES) 10; NUSSELDORF 12; BERLIN 8; HANOVER 6; BOCHUM 3; Intruders 22; anti-shipping 11; sea-mining 45 (2 missing); leaflets 6. Antheor Viaduct not hit but first reports on CANNES indicate attack concentrated and successful.

ITALY. 9th/10th. 10 tons were dropped at PONTASSIEVE (9 miles east of FLORENCE) hitting railway bridge. 10th. 131 tons were dropped at BOLZANO (90 miles N.W. of VENICE) cutting railway lines and damaging much rolling stock. Invaders (A. 36) successfully attacked targets in battle area and south of ROME.

ALBANIA. 10th. 12 Mitchells (B. 25) attacked docks and shipping at DURAZZO.

YUGOSLAVIA. 10th. 16 tons dropped on harbour area at SPLIT where large ship and several small craft were hit.

DODECANESE. 10th. 10 tons dropped on LEROS attacked by 70 sorties by JU 8 and JU 87 (1 destroyed).

OFFICE
SECRETARY OF TREASURY

TREASURY DEPARTMENT
NOV 13 1943
10 10 PM