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TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Monday, November 22, 1943.

Press Service  
No. 39-62

Secretary Morgenthau announced today that the Fourth War Loan Drive would start January 18, and would run until February 15, 1944.

The goal has been set at \$14,000,000,000. Five and one-half billion dollars of this amount is to be raised directly from individuals.

The State War Finance Committees will have the task of raising this \$14,000,000,000. These committees are being strengthened and expanded to meet the necessity of increasing the number of people who are buying War Bonds. Millions of volunteer salesmen are now ready to carry this campaign for funds to every individual investor in homes and in plants throughout the nation.

The major emphasis throughout the entire period of the Drive - January 18 to February 15 - will be placed on the quota of \$5,500,000,000 for individuals. During the period from January 18 to February 1 only sales to individuals will be reported by the Treasury. The reporting of sales to individuals will be supplemented starting February 1 with reports of sales to other non-banking investors - the quota for which is \$8,500,000,000. This will not preclude the acceptance of subscriptions from other non-banking investors at any time during the Drive.

All subscriptions for Savings Bonds and Savings Notes received at the Federal Reserve Banks or at the Treasury of the United States between January 1 and February 29, 1944, will be credited to the Drive.

The goal and the type of securities to be offered were determined by the Treasury after consultation with the chairmen of the State War Finance Committees, officials of the Federal Reserve System, the American Bankers Association and other investment authorities.

The securities to be sold under the direction of the War Finance Committees will consist of:

- Series E Savings Bonds
- Series F and G Savings Bonds
- Series C Savings Notes
- 2-1/2% Bonds of 1965-70
- 2-1/4% Bonds of 1956-59
- 7/8% Certificate of Indebtedness

In view of the fact that many commercial banks accept time deposits and perform in their own communities the same functions as those performed by other savings institutions, the Treasury will permit such commercial banks

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to make a limited investment of their time deposits only in the 2-1/4% and 2-1/2% Bonds under a formula to be announced later.

The 2-1/2% Bond will be dated February 1, 1944, due March 15, 1970, callable March 15, 1965, and will be issued in coupon or registered form at the option of the buyers, in denominations from \$500 to \$1,000,000. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to own these bonds until February 1, 1954, except for the limited investment of time deposits.

The 2-1/4% Bond will be dated February 1, 1944, due Sept. 15, 1959, callable Sept. 15, 1956, and will be issued in coupon or registered form at the option of the buyers, in denominations of \$500 to \$1,000,000. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to own these bonds until September 15, 1946, except for the limited investment of time deposits.

The 7/8% Certificate of Indebtedness will be dated February 1, 1944, due February 1, 1945, and will be issued in denominations of \$1,000 to \$1,000,000 and in coupon form only.

The Treasury will request that, until after February 15, 1944, commercial banks not buy the 7/8% Certificates of Indebtedness offered, and that the market not trade in any of the marketable securities offered in the Drive.

To avoid unnecessary transfers of funds from one locality to another, the Treasury requests that all subscriptions by corporations and firms be entered and paid for through the banking institutions where funds are located. This request is made to prevent disturbance to the money market and the banking situation. The Treasury will undertake to see that statistical credit is given to any locality for such subscriptions that the corporations and firms may request; except subscriptions from insurance companies will be credited to the State of the home office as in the past.

In order to help in achieving its objective of selling as many securities as possible outside of the banking system, the Treasury requests the cooperation of all banking institutions in declining to make speculative loans for the purchase of Government securities. The Treasury is in favor of the banks making loans to facilitate permanent investment in Government securities provided such loans are made in accord with the joint statement issued by the National and State Bank Supervisory Authorities on November 23, 1942.

o o o

November 22, 1943.

Mr. Charles B. Dulean, Sr.  
Vice President and General Manager  
The Hecht Company  
Washington, D. C.

Dear Mr. Dulean:

Your Christmas War Bond windows, dramatizing as they do the way our fighting men will be spending their Christmas this year, are a most unusual and valuable contribution not only to the people of Washington, but to all America.

These three-dimensional window displays cannot help but bring home to all who view them the true spirit of Christmas, 1943 - a spirit of understanding and communion with our boys; a desire to share their Christmas here on the home front.

From my own personal observation in the actual battle zones, I can attest to the accuracy of the heart-stirring scenes you portray.

It is my hope that just as the Hecht Company helped lead the way with its inspiring presentation of the "Four Freedoms" display which later swept the Nation, so this Christmas War Bond display will serve as a model to retailers all across the land. For I believe, with you, that the best possible expression of the will to share this Christmas with our boys lies in buying and giving the one gift which will most surely and speedily bring these boys home - War Bonds.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

HEADQUARTERS SEVENTH ARMY  
APO # 758  
c/o Postmaster, N.Y.C.

22 November, 1943

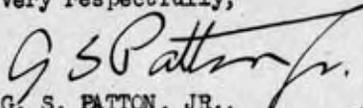
My dear Mr. Secretary:

In consonance with your wishes we sent you 85 crates of assorted property and a large number of guns, tanks, etc., totaling in all some 20 vehicles.

Owing to conditions beyond our control this shipment did not leave Sicily until about the 14th of November. I therefore fear that it may be a case of "love's labor lost," but in any event we did our best and trust that if you cannot use this stuff this time, it may be of value for a subsequent drive.

With expressions of warm personal regards, I am,

Very respectfully,

  
G. S. PATTON, JR.,  
Lieut. General, U. S. Army,  
Commanding.

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

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES G-1944

Dated and bearing interest from December 1, 1943

Due December 1, 1944

1943  
Department Circular No. 727

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, November 22, 1943.

Fiscal Service  
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series G-1944, in exchange for Treasury Certificates of Indebtedness of Series E-1943, maturing December 1, 1943.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated December 1, 1943, and will bear interest from that date at the rate of 7/8 percent per annum, payable semiannually on June 1 and December 1, 1944. They will mature December 1, 1944, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer certificates with interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

### IV. PAYMENT

1. Payment at par for certificates allotted hereunder must be made on or before December 1, 1943, or on later allotment, and may be made only in Treasury Certificates of Indebtedness of Series E-1943, maturing December 1, 1943, which will be accepted at par, and should accompany the subscription.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

  
HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

# UNITED STATES OF AMERICA

## $\frac{7}{8}$ PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES G-1944

Dated and bearing interest from December 1, 1943

Due December 1, 1944

1943  
Department Circular No. 727

TREASURY DEPARTMENT,  
OFFICE OF THE SECRETARY,  
Washington, November 22, 1943.

Fiscal Service  
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1. The certificates will be dated December 1, 1943, and will bear interest from that date at the rate of  $\frac{7}{8}$  percent per annum, payable semiannually on June 1 and December 1, 1944. They will mature December 1, 1944, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

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#### V. GENERAL PROVISIONS

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2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

**HENRY MORGENTHAU, JR.,**  
*Secretary of the Treasury.*

(Filed with the Division of the Federal Register, Nov. 23, 1943)

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE Nov. 22, 1943

TO Secretary Foran  
 FROM Mr. Haas  
 Subject: The Business Situation,  
 Week ending November 20, 1943.

Summary

Commodity prices: In the face of substantial declines in stock prices since the beginning of the month, commodity prices have failed to show corresponding weakness. Featured by a rise in wheat prices, the Dow-Jones index of commodity futures last week rose to a new high since compilation of the index was begun in 1933.

Wheat flour subsidy: A subsidy to wheat flour millers was announced last week as a measure to relieve the squeeze on millers resulting from the fixed ceilings on flour prices and the rising prices of wheat. Hard wheat prices are approaching parity and the OPA is expected to impose a price ceiling soon at 100 percent of parity.

Heavy hog marketings: Steps were taken last week to prevent the record-breaking spring pig crop from glutting hog markets and further depressing prices. Official price supports were extended to all hog markets, the ration value of pork was reduced, and the ban on farm sales of pork was lifted for 90 days.

Farm land boom: With the rise in farm land values averaging more than 1 percent a month during the past year, the Secretary of Agriculture warned last week that immediate curbs are necessary to prevent the catastrophe which followed the land boom of the first World War. He suggested that a resale capital gains tax be instituted to check the inflation in land values.

Civilian goods: As a result of an easing in steel supplies the Office of Civilian Requirements is projecting programs for the production of electric irons, washing machines and refrigerators for civilian use in 1944. The WPB has lifted all restrictions on the use of wool for clothing, draperies and upholstery fabrics.

Retail trade: Department store sales in the week ended November 13 rose to a new high for the year and were 14 percent above the corresponding week in 1942. Total retail inventories (in dollar value) rose steadily in the third quarter, but at the end of September they were still 15 percent below year-earlier levels.

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### Stock and commodity prices strengthen

After declining to a new recent low at mid-week, stock prices strengthened noticeably near the end of last week, and at the close on Saturday the Dow-Jones average of 65 stocks was about 1 percent higher than a week earlier. Numerous favorable year-end dividend actions, and the announcement that \$13 billions in Army appropriations probably would be saved in the current fiscal year, were reported to be among the factors causing prices to strengthen.

Industrial stock prices in London rallied noticeably last week, thus reducing the net decline since the beginning of the month to very moderate proportions, in contrast to the rather sizable decline that has occurred in New York. (See Chart 1.) This may be due in part to the fact that the New York market has had to absorb some of the usual year-end tax selling, whereas the London market has been free of this influence.

In connection with the weakness in stock prices at New York in the first half of this month, it is interesting to note that corresponding weakness failed to develop in commodity prices, although brief sell-offs did occur in some commodities, such as cotton. Aided by subsidy developments, wheat prices have been strong, and largely as a result of this factor the Dow-Jones index of commodity futures last week rose to a new high since compilation of the index was begun in 1933.

### Basic commodity prices slightly higher

The BLS index of 28 basic commodities moved slightly higher last week, but it continues below the peak level reached near the end of September. (See Chart 2.) With hard wheat prices below parity, the announcement of the wheat flour subsidy, together with expectations of a price ceiling on all wheat at 100 percent of parity, tended to buoy wheat prices, which rose 2½ cents in the week. While barley prices were fractionally higher, fears that a price ceiling would be imposed now that the price of barley has reached parity tended to check the advance.

Cotton prices, after declining for 6 consecutive weeks, rose moderately last week. The rise was attributed to the continued heavy entries of cotton into Government loan stocks, Congressional opposition to the subsidy program, and inflationary implications in the prospect of a more general demand for wage increases. In the week ended November 13, Government loans on

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this year's cotton crop amounted to 1,523,235 bales, as compared with 794,830 bales at the same time last year.

Lower prices for fruits, vegetables, and hogs caused the BLS all-commodity index to decline slightly in the week ended November 13, but it continues to move in the narrow range of the past four months. The rise of the index during the past year has been only 2.7 percent. The index now stands at 102.8 percent of the 1926 average, which is 37.1 percent above the pre-war level of August 1939.

#### Subsidy to wheat flour millers announced

Despite severe Congressional opposition to subsidies, a subsidy to wheat flour millers was announced last week by Stabilization Director Vinson. The subsidy payments will be based on the bushels of wheat ground, and will amount to the difference between the level of wheat prices reflected in the wheat flour ceilings, and the market price of wheat but not more than parity. The Defense Supplies Corporation will administer the program, which is expected to cost around \$9 millions a month, or about  $\frac{1}{2}$  cent per loaf of bread.

This subsidy program was necessitated by the squeeze on flour millers resulting from the fixed ceilings on flour and the rising price of wheat. While the flour ceilings are based on a wheat price at 89 percent of parity, wheat prices have been rising during the past several months until they are now only a few cents under parity. Moreover, it was impossible to place a ceiling on wheat prices until they attained parity. Consequently, the flour business, aside from some Government buying, has approached a standstill in most markets. The alternative to the subsidy was to revise flour ceilings upward to reflect the higher wheat prices, and to permit a rise in bread prices.

With hard wheat prices approaching parity, the OPA is expected to impose a price ceiling soon at 100 percent of parity. Such a ceiling was recently placed on soft wheat when the price rose above parity.

#### Steps taken to cope with heavy hog marketings

With some hog markets beginning to be glutted, and prices sagging under the heavy marketings of the record-breaking 74 million spring pig crop (see Chart 3), steps were taken last week

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to support prices of hogs and to facilitate their marketing. The measures taken were: (1) extension of support prices, and plans for maintaining these prices, (2) reduction in the ration cost of pork, (3) lifting of the ban on farm sales of pork, (4) issuing of a daily report on hog marketing conditions, and (5) continued deferment of farm workers helping out in packing plants.

Official support prices were extended to all hog markets other than Chicago, where a support price of \$13.75 per hundred-weight has already been in effect. Prior to November 29 the support prices in the various markets will be the Chicago price adjusted by the normal price differential. After that date the support price in any market will be \$1 per hundred-weight below the ceilings which have already been fixed by the OPA for the various markets.

#### Government to purchase surplus pork

The WFA indicated that the Government stands ready to buy all federally-inspected pork and pork products that packers produce in excess of the quantity needed for civilian rationing, and at prices which will enable slaughterers to pay not less than the support prices for the hogs they purchase for slaughter. The WFA has asked the RFC to withhold meat subsidy payments from slaughterers guilty of paying lower than the support price. Government purchases have increased during the past few weeks but they are still considerably below those of May, June, and July of this year. (See Chart 3, lower section.)

The OPA reduced the ration point cost of pork and 100 percent pork sausages by two points. This cut will make some pork items point free, and will reduce the average point value of all pork items by one-third. The reduction in the ration point value is for a limited time only, and will probably be rescinded when the heavy marketings of hogs cease.

As a means of relieving the strain on commercial packers, the WFA lifted for 90 days (until February 17) all restrictions on farm sales of pork and lard. Heretofore farmers have been unable to sell more than 400 pounds of these products in one year. Under the new arrangement it is expected that farmers can supply many of the small towns direct, and thus take care of some of the surplus animals during peak slaughter months. Although persons who purchase meat from farmers are required to surrender ration points for it, it is feared in some quarters that farm sales are likely to lead to widespread violation of the rationing regulations. Moreover, the WFA only reluctantly

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lifted the farm sale ban, since farm slaughter will result in the waste of many valuable by-products that can be saved at large slaughter houses.

Finally, Selective Service is reported to have agreed not to reclassify farm help which normally moves to packing plants to assist in slaughtering during the slack season on farms. Many farmhands have been reluctant to change employment for fear of being drafted, while packers have been handicapped by manpower shortages.

#### Farm land boom developing

The farm land boom is gaining such momentum that immediate curbs are necessary to prevent the catastrophe which followed the land boom of the first World War, Secretary of Agriculture Wickard stated last week. Thus, the index of average value per acre of farm real estate rose 3 percent in the four months ended November 1, according to confidential data of the Bureau of Agricultural Economics, and now stands 25 percent above the pre-war level of March 1, 1939. Moreover, the average rate of increase during the last 12 months has been over 1 percent a month, the highest of record outside of the boom year 1919-20. For the entire war period to date, however, the rise has been somewhat less than during the comparable period of the first World War. (See Chart 4.) Pacific Coast states have had the largest increases in land value in recent months, although farm land values in all sections have risen.

Secretary Wickard advocated the establishment of a "land boom profits tax, or resale capital gains tax" to check the inflation in land values. This special tax would be levied on profits from the resale of property acquired during the national emergency, and would decrease according to the length of time the property was held. It is thought that such a curb would not interfere with or penalize the bona fide farmer.

Other controls that have been suggested to check the rise in farm land values are: (1) restriction of real estate credit, (2) a heavy transfer tax, and (3) ceiling prices on land, with permits required for purchasing.

#### Coal distribution regulated to safeguard supplies

After falling to the lowest level of the year during the first week in November, soft coal production in the week ended November 13 recovered sharply but was still about 5 percent

- 6 -

below the levels attained in the early part of October before the work stoppages began. (See Chart 5.) Some further improvement in bituminous coal output probably occurred last week, although actual production figures are not yet available. As a result of the repeated work stoppages this year, cumulative soft coal production since the beginning of 1943 has been slightly less than in the corresponding period last year, although the decline has been less than 1 percent.

During the past week an acute shortage of coal was reported to exist in many communities, and in order to cope with the situation more effectively the Solid Fuels Administration tightened up on regulations governing distribution of supplies. Control over the retail distribution of domestic sizes of anthracite coal in the northeastern states was transferred from the OPA to the Solid Fuels Administration. In addition, new soft coal distribution regulations were issued with the objective of diverting a larger part of production to domestic heating purposes. This will be accomplished by cutting down on deliveries to factories, railroads and utilities in cases where inventories have risen above stipulated levels.

In the face of the tight supply situation in coal, some encouragement can be derived from the continuing gradual improvement in East Coast civilian oil supplies. The Petroleum Administrator last week stated that there was enough heating oil in the area to meet current rationed demands, and that the "Big Inch" pipeline was rapidly reaching capacity operation. Despite the substantial improvement from the low point of last May, supplies are still much below the 1940-41 "normal". Thus, light fuel oil stocks in the week ended November 13 were slightly less than 60 percent of normal while gasoline supplies were less than 37 percent of normal.

#### Wage drive may necessitate rise in steel prices

Due reportedly to labor troubles, shut-downs for repairs and lingering effects of the coal strike, steel operations last week were scheduled to decline fractionally to 97.8 percent of capacity, which is the lowest point touched since the second week in August. However, some improvement in operations seems likely during the current week. Moreover, the slight loss in production which occurred near the end of last month did not prevent the industry from breaking previous records in October, with total steel output for the month exceeding the previous record high by more than 100,000 tons.

- 7 -

Production problems are apparently of less concern to the steel industry at present than the prospect of further increases in operating costs, which may necessitate an upward revision of steel prices. The new wage agreement in the coal mining industry has increased production costs, and in this connection it is reported that Secretary Ickes has protested to Stabilization Director Vinson over the inadequacy of coal price increases proposed by OPA. Moreover, coal operators have threatened to hold up further disbursements for mine operations unless assurance is given that the OPA will grant an adequate increase in coal prices retroactive to November 1. Along with the impending rise in coal prices, some of the smaller steel producers are confronted with a further increase in costs as a result of a recent OPA authorization of a moderate rise in iron ore prices.

In addition, steel companies soon will be faced with demands for increased wages, as the United Steel Workers Union has already announced that it will formally open a drive for higher wages around December 1. Trade circles contend that higher wage rates superimposed upon other recent increases in operating costs will necessitate an upward revision in steel price ceilings.

#### Civilian goods production outlook brightens

Although steel requirements of the various claimant agencies for the first quarter of 1944 are still in excess of supply, trade reports indicate a rather definite easing in the general steel supply situation. Concrete evidence of this trend appeared during the past week when the Office of Civilian Requirements revealed that programs for the production of electric irons, washing machines and electric refrigerators for civilian use were under way as a result of the easing in steel supplies. A program for the production of 2 million electric irons is expected to be the first to get under way, as dealer stocks of irons are non-existent and the OCR places irons at the head of the list of electric appliances most needed by civilians. In addition to the anticipated partial resumption of washing machine and refrigerator production later in the year, aluminum kitchen ware is soon to be available for civilians while output of portable lamps is slated for an increase.

The outlook for increased civilian supplies of soft goods is clouded by expected needs in connection with European

- 8 -

rehabilitation. However, an encouraging development in this connection occurred near the end of last week when the WPE lifted all restrictions on the use of wool for clothing, draperies and upholstery fabrics.

Retail inventories increased in September quarter

Despite the heavy volume of sales and the restrictions imposed on civilian goods production, total retail business inventories (in dollar value) rose steadily in the third quarter of this year, and at the end of the period stood at the highest level since last December. Merchants have been expecting earlier than usual Christmas shopping, and this factor together with the relative availability of nondurable goods resulted in the expansion of inventories during the period. The value of total retail inventories at the end of each quarter since the war-time peak was reached in the second quarter of 1942 has fluctuated as follows:

June 30, 1942	\$7,496,000,000
September 30, 1942	7,350,000,000
December 31, 1942	6,384,000,000
March 31, 1943	6,106,000,000
June 30, 1943	5,829,000,000
September 30, 1943	6,248,000,000

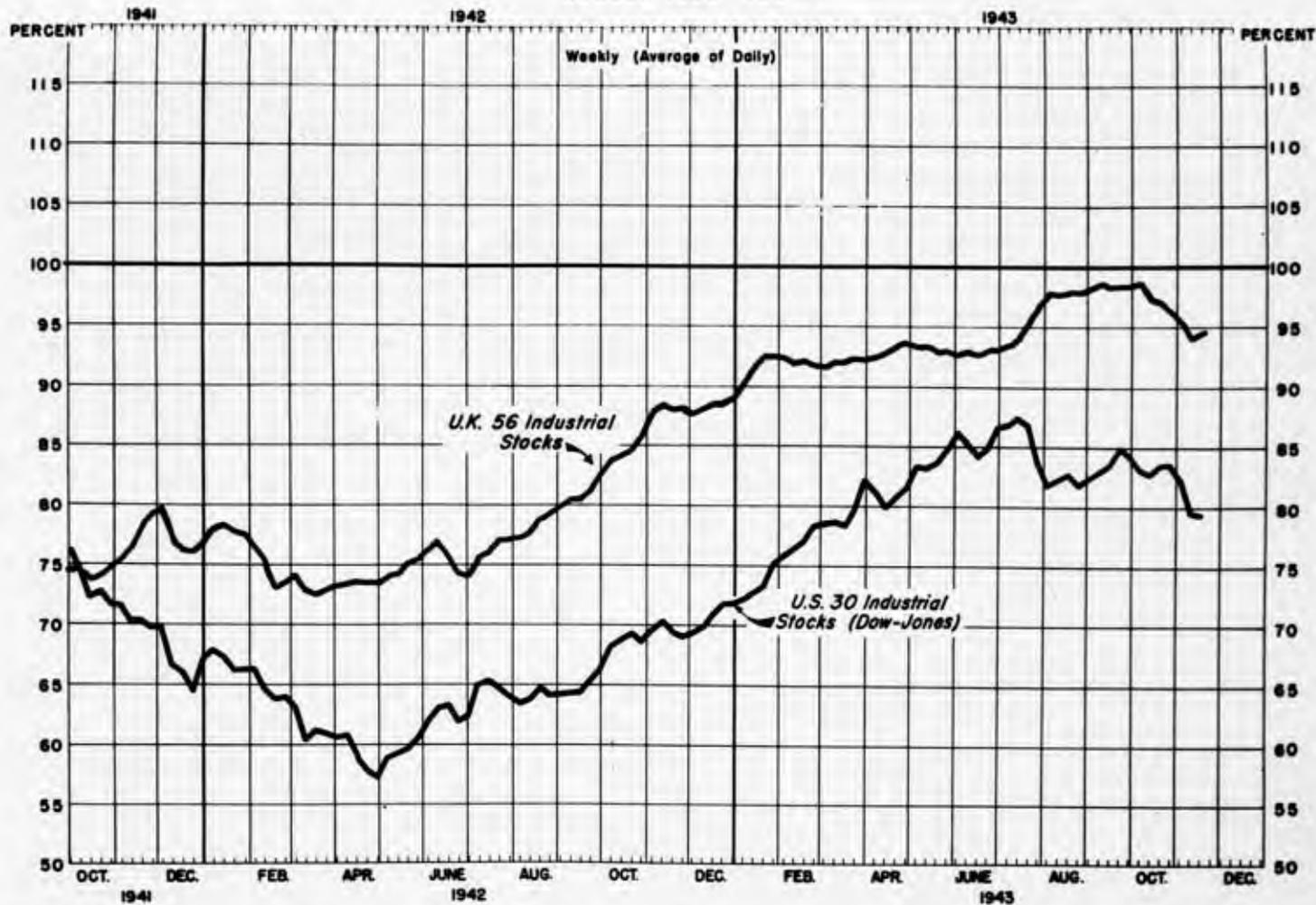
At recent levels retail inventories on the average represented about one and one-half months' sales whereas in June 1942 inventories were equivalent to about two and one-half months' sales.

Department store sales at new peak

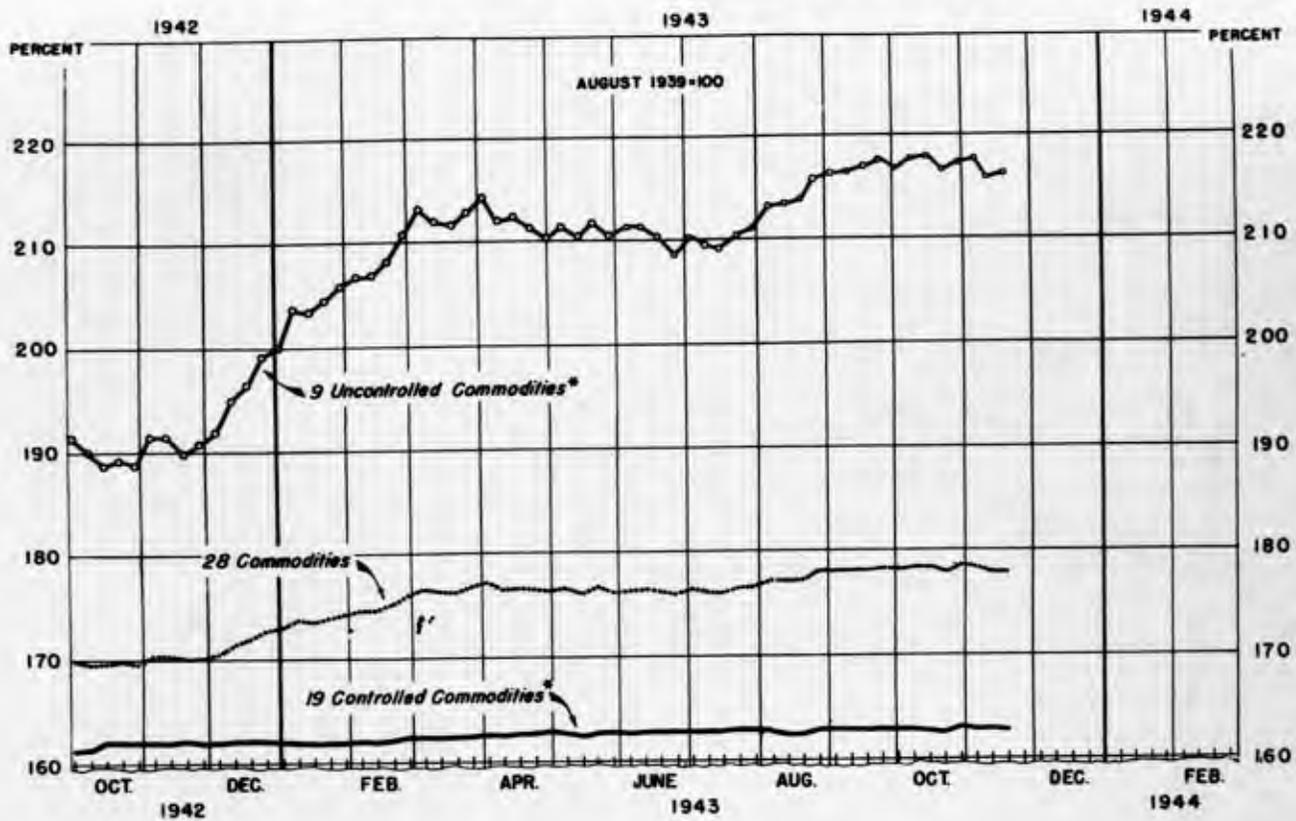
Stimulated by earlier than usual Christmas shopping, department store sales showed a further rise to a new high for the year in the week ended November 13. The gain over last year's levels widened to 14 percent, from 10 percent in the week ended November 6. All districts shared in the year-to-year gain, although the increase varied from only 1 percent in the Boston district to 44 percent in the Dallas district.

# INDUSTRIAL STOCK PRICES IN U.S. AND U.K.

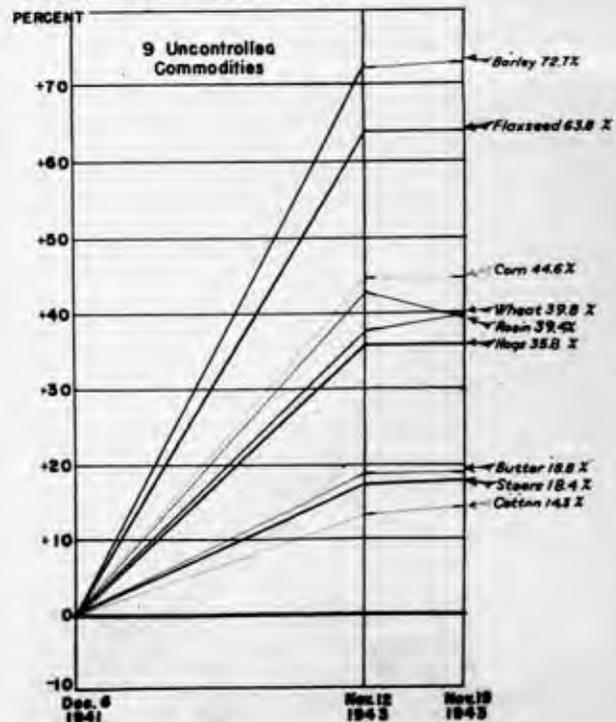
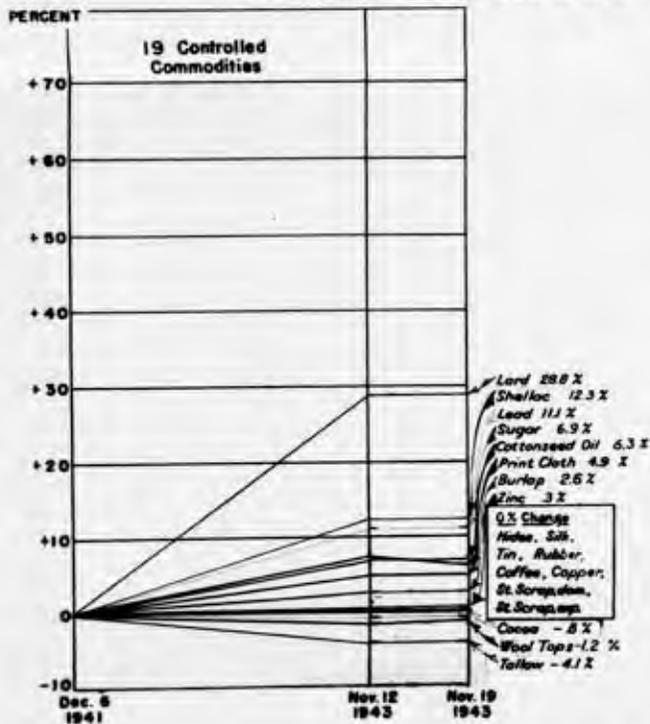
AUGUST 1936 = 100



# MOVEMENT OF BASIC COMMODITY PRICES

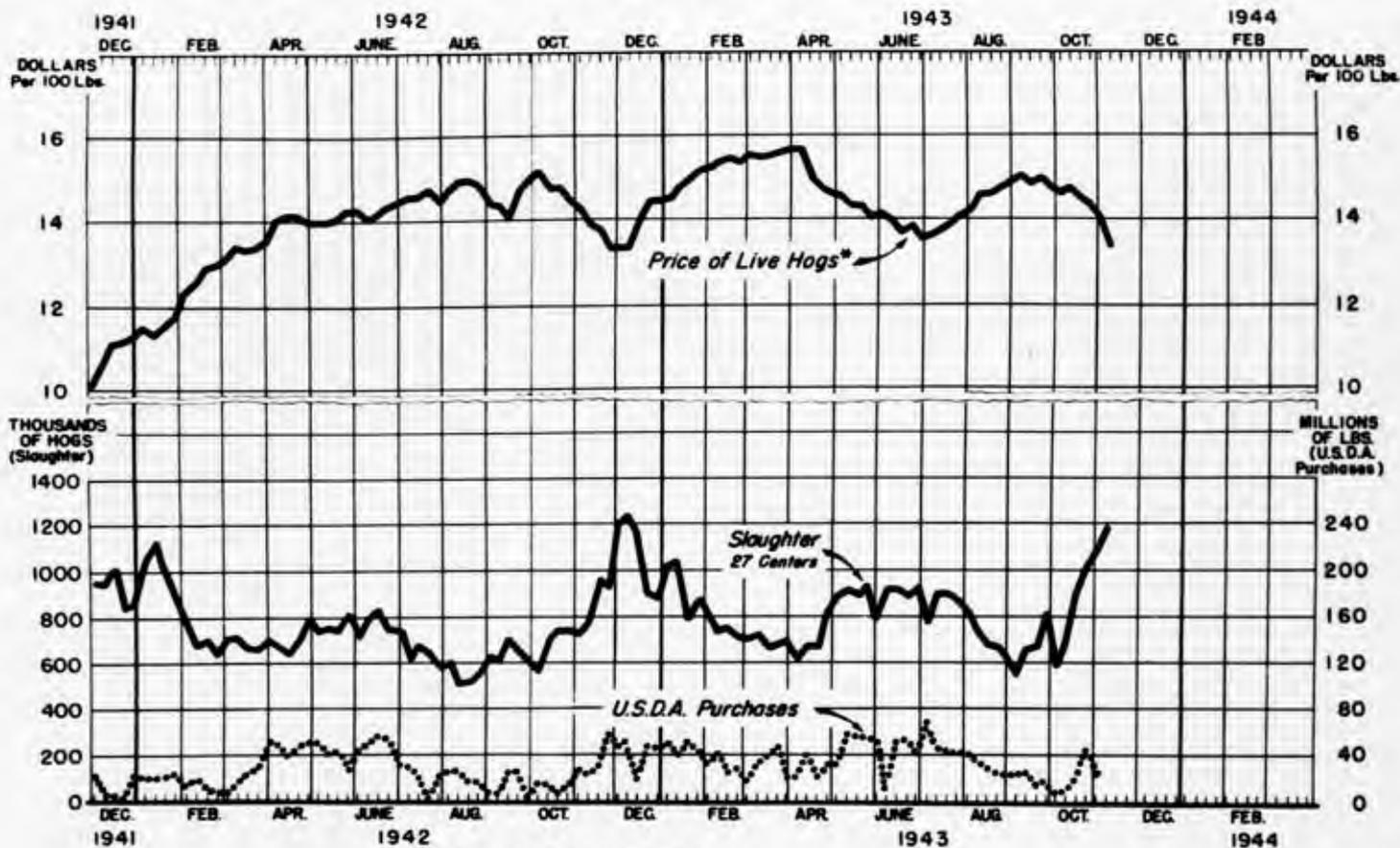


PERCENTAGE CHANGE DEC. 6, 1941 TO NOV. 12, AND NOV. 19, 1943



\* 20 Controlled & Uncontrolled previous to June 26, 1942

# HOG PRICES COMPARED WITH HOG SLAUGHTER AND U.S.D.A. PURCHASES



\* Chicago, good to choice, 180-200 pounds

Source: Department of Agriculture

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

P-248-A

Regraded Unclassified

Chart 3

# FARM REAL ESTATE VALUES IN TWO WORLD WARS

World War I, 1914=100; World War II, 1939=100

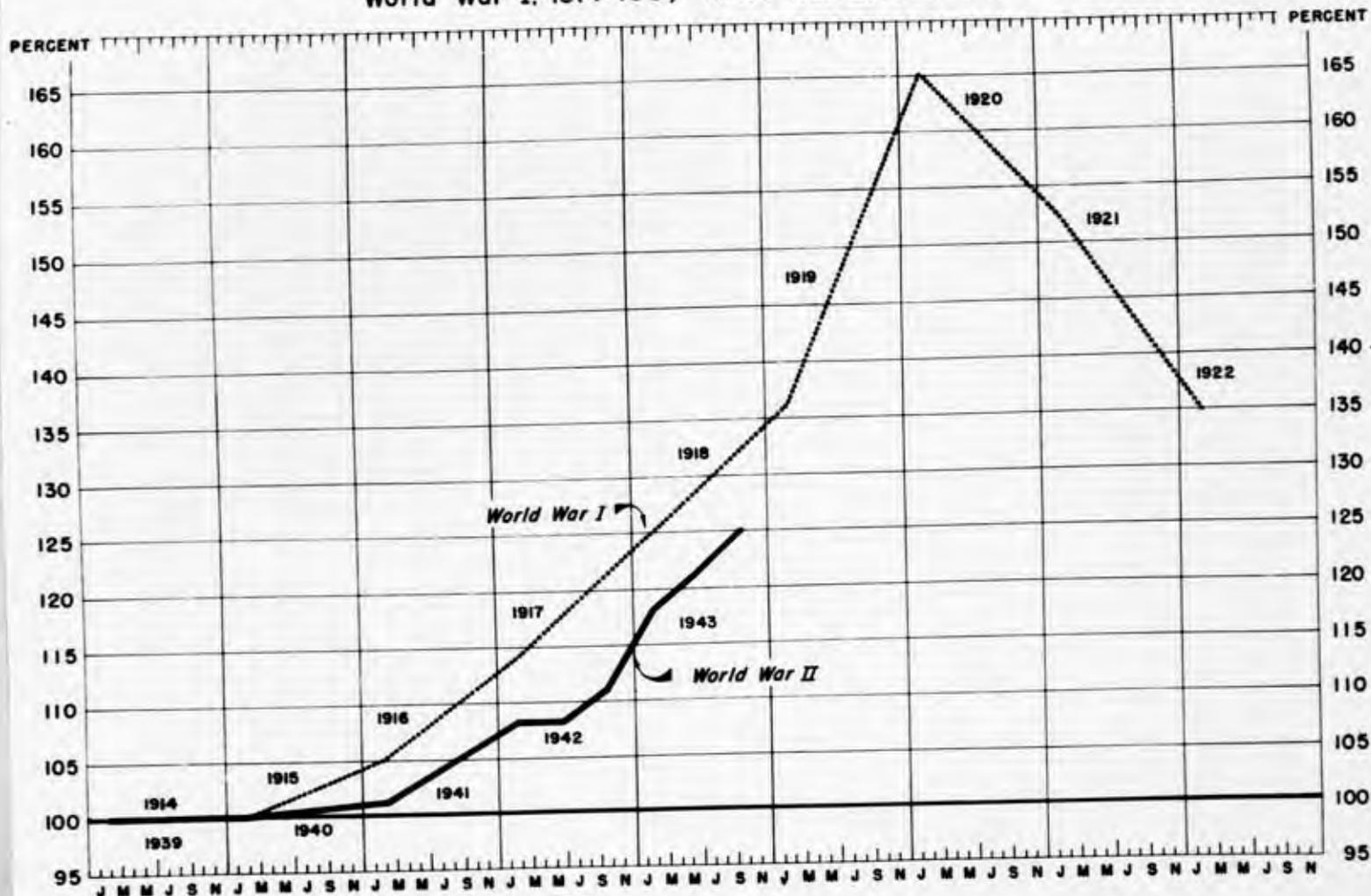
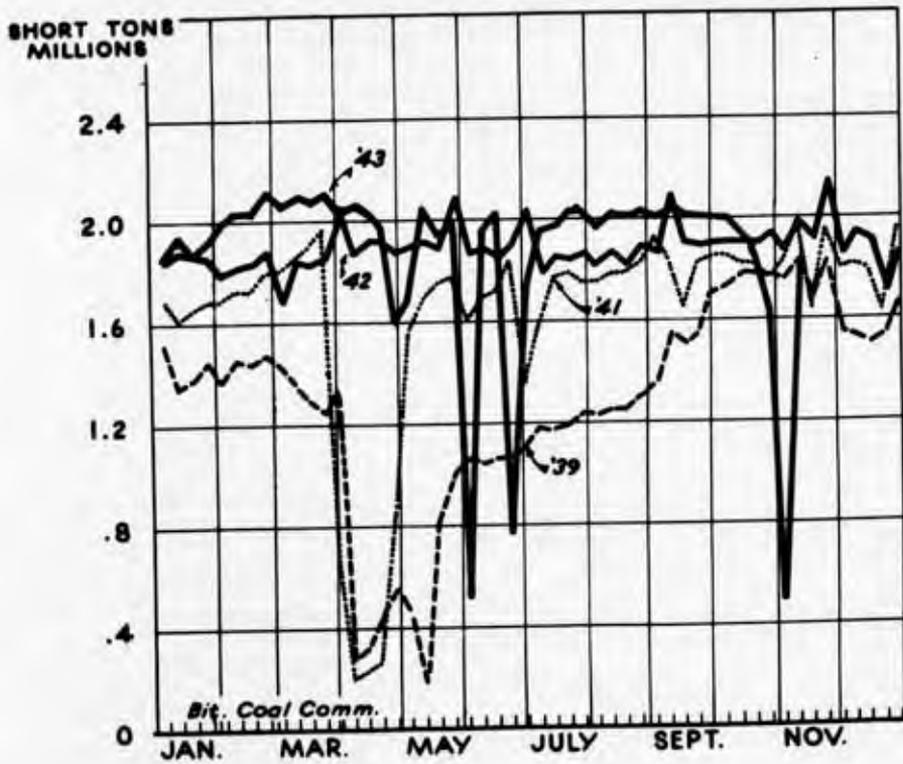


Chart 4

### BITUMINOUS COAL PRODUCTION



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

C-484

25

November 22, 1945.

Dear Anna:

It was fine to hear that you had just had a long letter from John, and I hope that everything is going well with him.

I am delighted to send you, at your request, a copy of the letter which Colonel Hume wrote me in connection with the German evacuation of Naples. The name is as you remember it, and it is given in full at the end of his letter.

Elinor has had a severe cold, but nothing like a return of her difficulties of last spring and summer. I suppose it will be quite awhile before her strength is built up again, but she is trying to take good care of herself, and we hope that she will soon be entirely well again. She joins me in sending love and best wishes to you.

Sincerely,

(Signed) Henry

Mrs. John Boettiger,  
Associate Editor,  
Seattle Post-Intelligencer,  
Seattle, Washington.

Enclosure. *copy of ltr from Col. Hume*

*air mail*

20 October 1943

Hon. Henry Morgenthau,  
Secretary of the Treasury,  
Care of Lieut. General Mark W. Clark, U.S.A.,  
Headquarters, Fifth Army,  
N A P L E S.

My dear Mr. Secretary:

In compliance with your request I give you herewith a brief report of acts of German cruelty and wanton destruction committed in Naples, chiefly during the three weeks before our capture of the city. This period is called "The Reign of Terror" by Neapolitans. I am, of course, not giving any instances of damage to the city or to individuals which took place as a result of acts of war (bombings, etc.). The things that I list were unnecessary from any military point of view.

OFFENSES AGAINST THE CITY  
AS A WHOLE

1. Water Supply: When the Fifth Army reached Naples we found that there was an almost total failure of the water supply. People were carrying water in pails, jugs, bottles and every type of container. There was a small trickle of water from some of the hydrants but many persons standing in line were unable to receive enough to quench thirst. Naples had been famous for an abundant supply of pure water. The Germans had blown up the main aqueduct in seven places and all of the reservoirs save one had been drained. By chance an Italian had saved one reservoir by cutting the fuse after it had been lighted by departing Germans. Allied Military Government took charge of the remaining reservoirs and by rationing made the supply go as far as possible. The hardship on the people of Naples, particularly those unable to go for water was great and there was much suffering, until the supply was rationed and until we established water distribution points for water distilled from the bay. The Germans were well aware that there was ample facility for our bringing in water for the troops, as was done in the desert campaign, so that this destruction of the city supply was an act of cruelty against civilians, young and old. The enemy likewise destroyed the pumping plants, thereby making it impossible to raise the water, had any been available, to the higher parts of the city. The water mains in many parts of Naples were deliberately cut.

- 2 -

2. Sewage System: The pumping facilities of the sewage disposal system of Naples were destroyed. Thus, even had there been enough water to enable sewers to function, they would have been unable to do so because much of the Neapolitan sewage disposal depends not on gravity but on a series of pumps. The city is built on volcanic rock so that, even had there been space available for them, it was all but impracticable to dig latrines. The danger of epidemics of intestinal diseases, such as typhoid fever and dysentery, was obviously very great particularly at this season of the year.

3. Electric Light and Power Systems: Naples was in darkness when we took over. The Germans had destroyed both the generators of the current and likewise the transformers. The Italian metropolis depends largely on hydro-electric power not only for lighting, but for the water and sewage pumps, the mills for grinding wheat, the newspaper presses, the heating of buildings, cooking, and indeed practically all power machines. This was one of the most serious conditions we had to meet. By hard work by our engineers the current is now restored, in part, though we have had to follow a certain priority in allotting it at first.

4. Transportation System: The street car system was wholly out of commission both because the electric current had been cut off (see above) and because the Germans carried away or destroyed the greater part of the rolling stock. Buses also were taken away. A large number of them were found to the north of the city where the enemy, unable to carry them further, had burned them. There are of course no taxicabs other than a few old wrecks, and only a few horse-drawn vehicles in the city. People who are not physically strong enough to walk from one locality to another are practically prisoners. This has seriously affected the earning capacity of many. The Germans carried away every automobile, both passenger and truck, that they could find. In some instances they took only the tires and destroyed or abandoned the bodies of the cars. Ambulances and fire-fighting vehicles were not spared.

5. Communication Systems: The telegraph lines were put out of commission. The main telephone exchange was blown up. Fortunately the Germans overlooked two small subsidiary exchanges. By splicing the lines we were able to give the military authorities a limited number of lines within ten days. However business firms and private families are still without telephones. The Post Office was looted and destroyed (see below).

- 3 -

6. Demolition of Hotels: The group of magnificent hotels along the Via Partenope, facing Vesuvius, used to be one of the outstanding groups of such institutions in the world. Such names as the Excelsior, Vesuvio, Santa Lucia, Royal, etc., are known to travelers everywhere. These buildings, without exception, were blown up and fire set to what remained. They cannot be repaired. The only first-class hotel left was the Park Hotel (Parker's Hotel), which was mined (see below).

7. Blocking of Tunnels: There are a number of tunnels in Naples built to give ready access from one quarter to another at a saving of much hill climbing. These were blown up.

8. Bombing of Public Buildings: Besides the bombing of various public buildings for their immediate destruction, the Germans showed their usual cunning in setting time bombs so as to explode after our arrival, thereby both destroying property and causing human death and suffering. A few instances will illustrate. On October 7, at 2:30 P.M., a violent explosion, caused by a time bomb hidden in the corner of the Post Office, destroyed the end of that building and tore an enormous hole in the street. There was considerable loss of life, chiefly civilians. In all 30 people were killed, 84 were severely injured (hospitalized), and 25 were slightly injured. I was in my office across the street when the explosion occurred. I went to the scene at once and helped give first aid to the wounded. Many were women and children. In the Via Partenope a time bomb in the street exploded on October 3rd, at about dusk. Fortunately nobody was hurt though a few minutes before a group of workmen had passed over the spot. On October 11th, at 8:55 A.M., a time bomb set in the Italian Artillery Barracks, occupied by our 307th and 36th Engineers, exploded. Some 24 of our men were killed and 47 wounded. This cannot be justified as an act against our armed forces, for it was only by chance that we were using the barracks for soldiers. It had been previously used by Italian families. Every effort has been made to locate unexploded bombs and with much success. A time bomb and about 1500 pounds of TNT were removed from the basement of the Park Hotel on October 2nd, before explosion occurred. On October 16th, an unexploded time bomb and 1600 pounds of TNT were removed from the building housing a part of the 82nd Airborne Division. Ordnance officers estimated that the bomb had about 3 days and 17 hours more to run, on the timing device, before explosion.

9. Opening of Prisons: Before their departure, the Germans released all prisoners in the jails and prisons of Naples, of which there are about a dozen, one of them the largest in Italy. While we have been able to re-arrest many of the criminals, this act of the Germans has been productive of danger and loss of morale to the civil population.

- 4 -

10. Demolition of Flour Mills: Naples, like most Italian cities, grinds its wheat a little at a time, rather than converting a whole crop to flour at once. Thus flour mills are an essential feature of the city's economic and welfare system. All of the large mills were wrecked by the Germans.

11. Destruction of the University of Naples and of its Famous Libraries: The University of Naples is one of the oldest and most famous in existence. The library of the Royal Society of Naples, one of the great learned societies of the world, was housed therein. It was put to the torch on 12 September, a little more than a fortnight before we took the city. We are collecting affidavits of the Rector and many faculty members and students. They agree that at about 3:00 P.M., a party of some 600 Germans entered the University and announced that they were about to burn it, in retaliation for the fighting of Neapolitans, including students, against their troops. Cans of gasoline were brought in and the walls, furniture and books covered with it, and the fire was started. The firemen arrived soon thereafter but the officer in charge refused to allow them to enter. Two Carabinieri (military police) who tried to stop the destruction were taken to the front entrance and shot. Many of the nearby houses were robbed, not only those of professors but of others. Several witnesses agree that the notorious Col. Scholl, Commander of German troops garrisoned in Naples, arrived in person when the work was finished and read a proclamation in German and Italian announcing that the university had been wrecked as a punishment to Naples. When I first visited the ruined buildings the ashes of the Library of the Royal Society were still warm and the pool of blood on the front steps, where the shooting of the Carabinieri was reported to have occurred, was still evident.

12. Robbing of Hospitals: Directors of the several hospitals of Naples agree that the Germans before departure, carried off all of the hospital equipment and supplies that they could find. Some of these institutions had practically no medicines or dressings when we arrived. Even establishments of the Italian Red Cross were not spared.

#### OFFENSES AGAINST INDIVIDUALS

In a report of this kind, prepared on a few hours notice, it is not possible to give a detailed account of offenses against individuals. That must wait until our final report on German misdeeds in Naples is completed. The following incidents are taken at random from a mass of documentary evidence thus far gathered.

- 5 -

There is general agreement that Germans collectively and individually robbed shops, homes and even people in the streets. This varied all the way from ordinary highwayman's technique to burglary. Many individuals, not excepting those in high position, were carried off as hostages. Among such hostages were the Bishop of Cava dei Terreni and the Abbot of Badia at Corpo di Cava. Many people were beaten to make them disclose the whereabouts of supposed valuables. Women as well as men were subjected to such treatment. There were many murders, some of a sadistic nature, with mutilation of dead bodies, particularly those of women. One deposition says that the eye witness saw a man buried in a grave he had been forced to dig himself, being bayoneted before being thrown in. Often the populace were told to help themselves after the Germans had begun looting. Many of the more intelligent witnesses state that the killing of Italian civilians was not merely acts of individual German soldiers, but often in response to direct orders of their officers, all as a part of a campaign to terrorize the people. "Booby traps" were placed not only in places where they might be set off by our troops, but where children and other civilians would find them. Many such people have been mutilated or killed. There was much wanton destruction of property, frequently associated with physical harm to people. Furniture not desired was smashed or burned, live-stock killed, supplies of food destroyed or fouled so that it could not be used. Particularly cruel were the measures against those Italians between 18 and 35 who failed to respond to the German proclamation of September 22nd, requiring them to report for forced labor with the German Army.

I wish that there were time to give you more details and to complete the report of the first two weeks of the work of the Allied Military Government of this great city. I should like to give you further particulars beyond what I could tell you in a few minutes last night. I think that I may say, however, that we have achieved our dual goal. First that of keeping the burdens of governing this war torn city from the shoulders of our military Commander, whose entire attention is needed for the leading of a great army. Secondly, we have been able to keep the city running in something like a normal fashion, despite the handicaps imposed by war and by the German studied policy of destruction.

May I wish you a safe journey home and once more thank you for your interest in what we are doing.

Respectfully yours,

(S) Edgar Erskine Hume

EDGAR ERSKINE HUME,  
Colonel, General Staff Corps,  
United States Army,  
Chief of Military Government.

268 28

Seattle Post-Intelligencer  
ESTABLISHED 1861

November 16, 1943

ANNA ROOSEVELT BOETTIGER  
ASSOCIATE EDITOR

6507.0

Dear Henry:

I got a wonderful long letter from John today in which he asked me to ask you to send me a copy of the letter his commanding officer gave you describing conditions in Naples. I gather that his immediate commanding officer is Colonel Hume. Is this correct? I would certainly appreciate it if you could let me read the letter.

Love to you and Elinor.

Affectionately,

*Anna*

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

P. S. - a letter from Ma says Elinor feels miserable again. I'm so very sorry & do hope she'll soon be over this long period of trouble. Seems to me there's enough trouble in that world today without having personal troubles added!

*A*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

29

TO Secretary Morgenthau  
FROM Mr. O'Connell

November 22, 1948

This morning's Washington Post carries an editorial on the census the Treasury Department is taking of American investments in foreign countries.

The editorial, a copy of which is attached, is approving in tone. It recites some of the advantages of such a census that the Department has pointed out from time to time, and goes on to suggest that "the wartime census of overseas holdings will be continued and kept up to date when the war is over."

Attachment

## WASHINGTON POST

November 22, 1943

**Overseas Investments**

Since last June the Treasury has been acquiring information in regard to the investments of Americans and alien residents in foreign countries. The returns tabulated to date show holdings of approximately three billion dollars, but the final total will probably amount to between 10 and 12 billions. Of the investments so far reported 40 per cent are Canadian, while assets held in Germany rank second in value.

Obviously a large proportion of the securities and tangible possessions representing claims on Axis-dominated countries will eventually have to be written off as total losses. Indeed, some of these holdings had little or no value before war was declared. Nevertheless, the assembled data will be very valuable in future negotiations looking toward restitution of property and the establishment of claims for losses suffered.

Furthermore, there are numerous ways in which the data may prove useful to the Government while the war is in progress. The military and occupational authorities may, for example, want to get in touch with individuals who have knowledge of conditions in occupied territories. In carrying on discussions with neutral countries in regard to wartime business, financial and economic matters, it is also highly important to know to what extent American investors would be affected by any agreements that might be made. The Army, too, might turn American-owned property in occupied countries to good use in producing war materials, buying war supplies, or developing sources of raw material.

When the war is over, problems of exchange control, questions as to the amount of private loans that can safely be made to foreign countries, and related matters can be handled much more intelligently if we have advance knowledge of the volume and value of amounts already due us on investment account. We have always been handicapped by lack of precise knowledge of the extent and character of foreign investments. Hence, it is to be hoped that the wartime census of overseas holdings will be continued and kept up to date when the war is over.

November 22, 1943.

Dear Mr. Foyers:

In the absence of the Secretary, I am acknowledging your letter of November 18, which encloses a copy of the fourth monthly report of the progress under the Third Soviet Protocol. I shall be glad to bring this to the Secretary's attention and know that he will particularly note the figures in regard to the progress made during October, and during the four preceding months.

Sincerely yours,

Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Mr. E. A. Foyers,  
Director, Foreign Division,  
War Production Board,  
Washington, D. C.

GEF/dbs

## WAR PRODUCTION BOARD

WASHINGTON, D. C.

IN REPLY REFER TO:

November 18, 1943

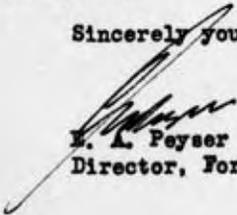
Mr. Henry Morgenthau  
Room 280  
Treasury Department  
Washington, D. C.

Dear Mr. Morgenthau:

I am enclosing a copy of the fourth monthly report of the progress under the Third Soviet Protocol.

I wish to call your attention to the tabulation showing the progress made during October and during the four months ending October 31 towards the fulfillment of the Third Protocol materials and equipment production programs.

Sincerely yours,



E. A. Peyser  
Director, Foreign Division

attachment



## WAR PRODUCTION BOARD

WASHINGTON, D. C.

November 16, 1943

**SECRET**  
Security Restricted - Not for Release Abroad

IN REPLY REFER TO:

My dear Mr. President:

Attached hereto is a tabulation showing the progress made during October, and during the four months ending October 31, towards fulfillment of Third Protocol materials and equipment production programs for the Union of Soviet Socialist Republics.

A noteworthy recent development has been increased, or accelerated, shipments of certain critical raw materials. To meet requirements resulting from expansion of Soviet alloy steel production, appreciable quantities of ferrotungsten, ferrovanadium, and ferromolybdenum, which previously were not included in the Russian Aid Program, have been authorized. For the same purpose, arrangements have been made for advance shipment of 1120 short tons of metallic nickel. Because nickel is still in short supply in the United States and Canada, this shipment is being made from United Kingdom stocks. In the case of aluminum, information has been received that production of planes by the USSR can be increased in direct proportion to an increase in supplies of aluminum from the United States. It has been decided, therefore, to maintain through the first quarter of 1944 aluminum shipments at the rate of 6,720 short tons per month from the United States and Canada jointly, despite the very large over-shipments authorized for the third and fourth quarters, 1943. By the end of March, more than 75,000 short tons of fabricated and ingot aluminum are scheduled to have been made available under the Third Protocol. This compares with a United States-Canadian commitment for that period of 40,320 S.T. In addition, 2,240 short tons of secondary aluminum have been supplied from United Kingdom stocks.

With reference to industrial equipment, the War Production Board is currently in process of attempting to schedule orders authorized, but not yet placed under the Third Protocol. As pointed out previously, in the case of a number of industrial equipment categories, the USSR delayed several months before presenting necessary requisitions. This has resulted in difficulties in arranging for completion of the orders in question before June 30, 1944. In some instances, notably pumps and cranes, it seems that these difficulties will be so great that it will not be possible to schedule production of the full quantities offered under the Protocol. A portion of several Third Protocol offers will consequently have to be cancelled or taken up with substitute equipment.



The War Production Board is also currently engaged in surveying production possibilities in regard to equipment programs which the USSR has requested for completion after June 30, 1944, i.e. during the Fourth Protocol period. It is felt that advance planning in the case of these programs is very important in that it makes possible working the programs into production lines, and thus enables their fulfillment without undue interference with urgent domestic programs. Such advance planning also insures that there will be no interruption in the flow of equipment to the USSR during the first part of the next Protocol period.

The stocks situation continues to improve. On the basis of Treasury and Ordnance data, stocks of both materials and industrial equipment held in warehouses and depots on USSR account declined during the past month. Particularly noteworthy is the fact that warehouse stocks of steel dropped from 271,000 tons at the end of September to 241,000 tons at the end of October. I am attaching a brief table showing in greater detail the stocks situation as of October 31.

Respectfully yours,

/s/

Donald M. Nelson

The President  
The White House  
Washington, D. C.

Attachments

**SECRET**  
Maximum Permissible Only Extension Act

**SECRET**

STOCKS HELD IN TREASURY AND ORDNANCE WAREHOUSES  
AND DEPOTS ON USSR ACCOUNT a/

(Short Tons)

<u>Item</u>	<u>As of June 30</u>	<u>As of Sept. 30</u>	<u>As of Oct. 31</u>
<u>I. Materials</u>			
Aluminum	274	377	601
Nickel	47	X	X
Molybdenum	0	0	744 b/
Copper base alloys	17,588	9,490	8,599
Magnesium	154	154	0
Zinc	0	0	0
Copper Products	3,482	3,089	3,071
Ferro-Alloys	4,362	4,599	2,754
Steel	408,325	271,775	241,142
Copper Wire and Cable	43,323	58,241	58,767
Paper Products	2,471	3,439	2,910
Wire Cloth	81	107	71
Other Materials	6,522	6,032	4,488
<b>Total Materials</b> <b>(Excluding Chemicals)</b>	<b>486,629</b>	<b>357,263</b>	<b>323,147</b>
<u>II. Industrial Equipment</u>			
Machine Tools and Forging Presses & Hammers	26,960 a/	58,581 d/	55,686 a/
Power Equipment	9,773	18,804	20,107
Industrial Boilers	6,309	12,072	14,590
Misc. Electrical Equip.	4,183	6,558	7,331
Electric Furnaces	2,013	5,388	4,336
Oil Refinery Equipment	12,259	1,798	4,348
Tire Manufacturing Plant	2,244	888	1,553
Aluminum Mill	331	442	950
Various Indust. Machinery, n.e.s.	28,784	55,445	38,194
Bearings	99	333	457
Graphite Electrodes & Related Products	861	1,137	1,015

- 2 -

<u>Item</u>	<u>As of June 30</u>	<u>As of Sept. 30</u>	<u>As of Oct. 31</u>
<b>II. Industrial Equipment (Cont'd)</b>			
Abrasives	972	488	590
Instruments & Laboratory Equip.	701	1,799	869
Misc. (Incl. Treas. Procured Machine Tools)	734	1,117	2,146
<b>Total Indust. Equip.</b>	<b>96,223</b>	<b>164,850</b>	<b>152,172</b>
Tires and Tubes	4,575	725	2,470
<b>Grand Total Excl. Chemicals</b>	<b>587,427</b>	<b>522,838</b>	<b>477,789</b>

X - Less than 1 S.T.

- a/ Excludes materials and equipment in transit or at seaboard.
- b/ In transit
- c/ Stocks as of June 30, 1943
- d/ Stocks as of Sept. 30, 1943
- e/ Stocks as of Oct. 30, 1943

**SECRET**  
Unauthorized Release Prohibited

STATUS OF MATERIALS AND EQUIPMENT PRODUCTION PROGRAMS UNDER THE THIRD RUSSIAN PROTOCOL AS OF NOVEMBER 1, 1943

(OCTOBER DELIVERY DATA SUBJECT TO REVISIONS)

**SECRET**  
Return This Data to the Office of Strategic Services

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Oct. 1, 1943 - Oct. 31, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Oct. 31, 1943	Percent of 3rd Prot. Program Completed as of Nov. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Nov. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>NON-FERROUS METALS</b>									
3	Alumina (Ingot and Fabricated)	S.T.	35,760	9,520	29,660	83	250	6,060	} Aluminum shipments to date consist of 806 S.T. rod; 448 S.T. hard tubing; 8,028 S.T. hard sheet; 14,762 S.T. primary ingots; and 5,600 S.T. secondary ingot.
4	Nickel								
A	Pig Nickel	S.T.	3,600	300	1,200	33	100	2,400	} A total of 600 S.T. of nickel in metal scrap was offered, but except for 50 S.T. for experimental purposes, the U.S.S.R. has not taken advantage of the offer.
B	Nickel in Monel Scrap	S.T.	-	0	50	-	-	(50 Excess)	
C	Nickel in Steel and Other Non-Ferrous Products	S.T.	2,400	177	803	33	100	1,597	
5	Molybdenum	S.T.	4,000	512	1,517	38	115	2,483	} Electrolytic copper figures refer to copper contained in various materials requiring copper which are being supplied the U.S.S.R. Deliveries to date include 17,860 S.T. contained in copper base alloys; 3,685 S.T. contained in copper goods and tubes; 95 S.T. contained in bismetal; and 7,267 S.T. contained in wire mill products.
6	Copper, Electrolytic	S.T.	(121,400)	(9,352)	(28,907)	(24)	(73)	(92,493)	

**SECRET**  
Return This Data to the Office of Strategic Services

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Oct. 1, 1943 - Oct. 31, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Oct. 31, 1943	Percent of 3rd Prot. Program Completed as of Nov. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Nov. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments	
<b>NON-FERROUS METALS (Continued)</b>										
7	Copper Base Alloys	S.Y.	107,580	5,634	29,863	24	73	81,657	<p>October production of copper base alloys exceeded the monthly rate called for by the Protocol. Production at about the October rate is scheduled to continue until the deficit accumulated during the July-September period because of the stocks situation is eliminated.</p>	
8	Magnesium	S.Y.	4,032	336	1,344	33	100	2,688		
9	Zinc	S.Y.	13,440	1,120	4,480	33	100	8,960		
11	Copper Goods and Tubes	S.Y.	15,000	1,142	3,676	25	76	11,324		
29	Special Non-Ferrous Alloy Wires	S.Y.	73	15	42	58	176	31	<p>The Third Protocol provides that up to 269 S.Y. of special non-ferrous wires may be ordered. Until the present, however, only 73 S.Y. have been requisitioned. The Third Protocol production schedule is therefore limited to this amount. Deliveries to date include .1 S.Y. of tungsten alloy wire; .9 S.Y. of constantan wire; .7 S.Y. of tantalum wire; 11.1 S.Y. of aluminum and chromel wire; 12.4 S.Y. of steel, swardur and beryllium bronze wire; 4.5 S.Y. of annealed manganese wire; 12.5 S.Y. of molybdenum wire; and .2 S.Y. of round manganese wire.</p>	
30	Nickrome Wire	S.Y.	538	14	183	34	103	355		
9A	Cobalt	S.Y.	80.5	40.5	80.5	100	152	0		
Total Non-Ferrous Metals (Excluding Item 6, Copper, Electrolytic)			S.Y.	185,443.5	22,810.5	68,518.5	37	112	117,525	<p>The production program shown is for the first half of the Third Protocol period; the ratio of actual deliveries to the Protocol schedule has, therefore, been adjusted to take this into account. The October shipments completed the full Protocol offering.</p>

Protocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Oct. 31, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Oct. 31, 1943	Percent of 3rd Prot. Program Completed as of Nov. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Nov. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
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FERRO-ALLOYS

12	Ferrosilicon	S.T.	-	0	0	-	-	-	The U.S. has offered to supply 704 S.T. of ferrosilicon and 444 S.T. of ferrochrome per month. But by agreement this offer is to become effective only when stocks held on U.S.S.R. account are reduced to two months' requirements. At present, stocks total more than five months' requirements and no liftings are currently taking place. In consequence, no allocation was made in October and none is planned for the immediate future. However, at the request of the U.S.S.R., supply of 1,120 S.T. of ferrosilicon, 224 S.T. of ferromanganese, and 660 S.T. of ferrotungsten has been authorized as substitutions for shipments of ferrosilicon and ferrochrome.
13	Ferrochrome	S.T.	-	0	0	-	-		
Total Ferro-Alloys		S.T.	-	0	0	-	-		

ALLOY STEEL

15	Polished Drill Rods	S.T.	96	9	42	44	133	54	The revision in the Third Protocol alloy production program made necessary by changes in Soviet steel requirements has been completed. The new program is as is shown in column one.
	B High Speed	S.T.	45	8	29	56	170	20	
	C Other Alloy	S.T.							
17	High Speed Tool Steel	S.T.	4,480	698	2,479	55	167	2,001	
18	Tool Steel	S.T.							
	B Alloy X12	S.T.	672	73	292	43	130	380	
	C Alloy X12W	S.T.	672	88	298	44	133	374	
	D Other Alloys	S.T.	4,850	511	2,232			2,618	
19	Cold Finished Bars	S.T.	11,200	1,493	4,270	38	115	6,930	
20	H.N. Alloy Bars and Billets	S.T.	67,267	6,945	21,363	32	97	45,904	
23	Stainless Steel	S.T.							
	A-B Sheets and Strip	S.T.	3,007	523	1,361	45	136	1,646	
C	Bars	S.T.	756	95	212	28	85	544	
25	Steel Wire	S.T.							
	A Ball Wire	S.T.	1,344	145	760	57	173	562	
	B Alloy 232	S.T.	1,344	65	346	26	79	998	
C	Other Alloy	S.T.	0	0	191	-	-	(191 Excess)	

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Oct. 1, 1943 - Oct. 31, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Oct. 31, 1943	Percent of 3rd Prot. Program Completed as of Nov. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Nov. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>ALLOY STEEL (Continued)</b>									
27	Steel Alloy Tubes								
A	1 1/2 Cr. - 1/2 Ni.	S.T.	994	39	391	39	118	603	} See preceding page for comments.
B	1/2 Cr. Chrome	S.T.	8,625	996	3,236	38	115	5,389	
C-E	Carbon .5% Moly., Pipe Sizes	S.T.	0	0	9	-	-	(9 Excess)	
F	H.R. Ball Bearing Tubes	S.T.	5,376	668	1,381	26	79	3,995	
28	Stainless Steel Wire	S.T.	1,747	138	641	37	112	1,106	} See preceding page for comments.
29	Special Alloy Wire	S.T.	784	112	465	59	179	319	
	Total Alloy Steel	S.T.	113,259	12,606	39,996	35	106	73,263	
<b>CARBON STEEL</b>									
101-8	Nails, Accessories and Other Railway Material	S.T.	-	20,464	83,600	-	-	-	} The breakdown by shapes of the Third Protocol production pro- gram for carbon steel is being adjusted from quarter to quar- ter in accordance with chang- ing Soviet needs. The over-all program remains 345,397 S.T. less 40,000 S.T. of rails being supplied by Canada on U.S. account.
10	Copper Clad Strip (Bimetal)	S.T.	-	0	0	-	-	-	
16A & 16A	Plain Carbon Tool Steel and Drill Rod	S.T.	-	732	2,648	-	-	-	
19D	Plain Carbon Mallet Core	S.T.	-	2,198	8,485	-	-	-	
24	Timplate	S.T.	-	4,048	14,162	-	-	-	
	Other Carbon Steel	S.T.	-	3,712	18,607	-	-	-	
	Total Carbon Steel	S.T.	345,397	31,154	127,703	37	112	217,694	
<b>CHEMICALS</b>									
36	Phenol	S.T.	1,796	0	1,796	100	303	0	} A total of 12,000 S.T. was of- fered, but the offer was con- ditional upon stocks being re- duced to a reasonable level. Stocks have continued accessi- ve and the offer is consider- ed inoperative except insofar as shipments have been made against requisitions carried over from the Second Protocol period.

**SECRET**  
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Protocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Oct. 31, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Oct. 31, 1943	Percent of 3rd Protocol Program Completed as of Nov. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Nov. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>CHEMICALS (Continued)</b>									
38	Ethylene Glycol	S.T.	275	0	275	100	303	0	A total of 3,360 S.T. was offered, but the offer was conditional upon stocks being reduced to a reasonable level. Stocks have continued excessive and the offer is considered inoperative except insofar as shipments have been made against requisitions carried over from the Second Protocol period.
45	Methanol	S.T.	-	0	0	-	-	-	
46	Urotropine	S.T.	-	0	0	-	-	-	
61A1	Glycerine	S.T.	6,720	5,332	7,189	107	304	(469 Excess)	The October shipment was made from the U.K. on U.S. account.
61A3	Caustic Soda	S.T.	40,320	2,879	16,016	40	121	24,304	
38A	Ethyl Alcohol	S.T.	107,520	3,265	45,899	43	130	61,661	
61A5	Acetone	S.T.	5,137	0	657	13	39	4,480	The production program has been adjusted to take into account the failure of Soviet representatives to requisition acetone for delivery during the first four months of the Third Protocol period. Except for the 657 S.T. delivered in July against an old requisition, the obligation to supply 2,240 S.T. between July 1 and October 31 is considered cancelled. During the remainder of the Protocol period production is scheduled to average 560 S.T. per month.

**SECRET**  
 Restricted Information Only - Excluded from Release

**SECRET**  
 Release Authority: GDS, EOP, 1.4

Pro- toocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Oct. 1, 1943 - Oct. 31, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Oct. 31, 1943	Percent of 3rd Prot. Program Completed as of Nov. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Nov. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>CHEMICALS (Continued)</b>									
61A	Other Chemicals	S.T.	12,096	813	1,690	14	42	10,406	
	Total Chemicals	S.T.	173,864	12,289	73,482	42	127	100,382	
<b>MARINE AND SUBMARINE CABLE</b>									
1	Marine Cable	KM.	1,200	14	167	14	42	1,033	
2	Submarine Cable	KM.	600	0	119	20	61	481	
	Total Marine and Submarine Cable	KM.	1,800	14	286	16	48	1,514	
<b>POWER AND RELATED CABLE</b>									
74	Insulated Cable and Wire (Copper Content)	S.T.	-	1,132	6,728	-	-	-	} Because of excessive stocks, the Third Protocol production schedule of power and related cable has been reduced from 41,515 S.T. copper content to 21,000 S.T.
74A	Bare Cable and Wire (Copper Content)	S.T.	-	453	462	-	-	-	
	Total Power and Related Cable	S.T.	21,000	1,585	7,190	34	103	13,810	
<b>MISCELLANEOUS MATERIALS ITEMS</b>									
80	Sheet Fiber	S.T.	1,000	266	986	99	300	14	
83	Parchment Paper	S.T.	1,680	0	0	0	0	1,680	} To date no requisitions have been submitted by Soviet repre- sentatives.
83A	Condenser Paper	S.T.	146	0	0	0	0	146	
83B	Cigarette Paper	S.T.	336	0	0	0	0	336	} Because of delays in the sub- mission of requisitions by Soviet representative, production of condenser paper cannot be sched- uled to begin before January 1, 1944.
35	Other Materials and Their Products	\$	5,000,000	-	-	-	-	-	
									} To date no requisitions have been submitted by Soviet repre- sentatives.

**SECRET**  
 Release Authority: GDS, EOP, 1.4

4  
 Regarded Unclassified

Protocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Oct. 1, 1943 - Oct. 31, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Oct. 31, 1943	Percent of 3rd Prot. Program Completed as of Nov. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Nov. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>INDUSTRIAL AND RELATED EQUIPMENT</b>									
15A	Coated Carbide Tips and Blanks	\$	3,000,000	3,257	746,744	25	76	2,253,256	Of the several industrial equipment programs included in the Third Protocol Schedule, all production arrangements have been made in the case of Machine Tools, Forging Presses and Hammers, Excavators, Mining Equipment, Welding Equipment, Bearings, Power Generating Equipment, Block Signal Equipment, and Auxiliary Industrial Equipment. In the case of Coated Carbide Tips and Blanks, Small Cutting Tools, Measuring Tools, Control Instruments and Testing Machines, Electric Furnaces, Compressors, Pumps, and Cranes, considerable progress has recently been made in rounding out programs, but substantial portions of the new orders offered under the Third Protocol still remain to be placed. Because of this delay in the submission of requisitions, it appears that in the case of at least two of these items -- pumps and cranes -- it will not be possible to produce before June 30, 1944 the entire quantity promised under the Third Protocol. A part of the totals offered will consequently probably have to be cancelled or taken up with substitute equipment. In the case of Rolling Mill Equipment, Wire Drawing Equipment, Equipment for Blast, Hearth, and Coke Furnaces, and Valves and Fittings, Soviet representatives have not as yet submitted programs for inclusion in the Third Protocol schedule. Since less than two-thirds of the Third Protocol period remains for the production of these items, it can be assumed that full Third Protocol offers cannot be fulfilled by June 30, and that a part of the totals originally promised will have to be cancelled or used for substitute equipment. It is planned to include in the December report a comprehensive statement of the detailed status of the several industrial equipment programs.
15B	Small Cutting Tools	\$	15,000,000	862,821	3,438,838	23	70	11,561,162	
15C	Measuring Tools	\$	3,000,000	68,546	405,223	14	42	2,594,777	
67B	Abrasive Products	\$	4,000,000	572,370	1,796,902	45	136	2,203,098	
62	Machine Tools	\$	120,000,000	8,990,750	45,127,690	38	115	74,872,350	
63	Electric Furnaces	\$	12,000,000	422,557	1,870,209	16	48	10,129,791	
64A	Rolling Mills and Equipment	\$	16,000,000	129,248	541,417	3	9	15,458,583	
64B	Presses, Forges, Hammers and Related Equipment	\$	30,000,000	1,897,800	8,130,300	27	82	21,869,700	
64C	Wire Drawing Equipment	\$	2,000,000	23,757	23,757	1	3	1,976,243	
65	Various Industrial Equipment	\$	120,000,000	15,241,793	51,336,464	43	130	68,663,536	
66	Control Inst. and Testing Machines	\$	1,700,000	37,997	410,103	24	73	1,269,897	
69-70	Anti-Friction Bearings	\$	15,000,000	677,999	3,251,943	22	67	11,748,057	
111	Block Signal System	\$	14,591,500	69,068	258,175	2	6	14,333,325	
140	Power Equipment	\$	75,000,000	6,314,783	23,949,611	32	97	51,050,389	
	Total Industrial and Related Equipment	\$	431,291,500	35,312,756	141,287,336	33	100	290,004,164	

**SECRET**

Minimum Possible Data Exchange Act

- 5 -

Pro- to- col Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Oct. 1, 1943 - Oct. 31, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Oct. 31, 1943	Percent of 3rd Prot. Program Completed as of Nov. 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot. Sched. #100)	Balance to be Produced as of Nov. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>MISCELLANEOUS EQUIPMENT ITEMS</b>									
67A	Abrasive Grain	S.T.	4,000	189	1,663	42	127	2,337	
68A	Graphite Electrodes	S.T.	5,757	442	1,857	32	97	3,900	
68B	Other Graphite Goods	S.T.	1,691	118	439	26	79	1,252	
68C	Graphite Powder	S.T.	1,120	241	697	62	188	423	
76	Tires, Tubes, Other Rubber Products (Rubber Content)	S.T.	40,320	3,500	12,905	32	97	27,415	
82	Metallic Cloth and Screen	\$	1,000,000	14,647	164,010	16	48	835,990	
84	Emergency Equipment	\$	25,000,000	-	-	-	-	-	The U.S. has offered to supply up to \$25,000,000 of Emergency Equipment provided the Soviet Government certifies the need for particular items totaling this amount, and provided specifications are acceptable to the W.P.B. So far few requisitions have been placed under this category. Because of lead factors, no deliveries took place against these in October.

War Production Board  
Foreign Division  
Review and Analysis Branch  
November 15, 1943

**SECRET**

Minimum Possible Data Exchange Act

44  
Regraded Unclassified



**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE  
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE  
REFERENCE NO.....

With the compliments of British Air Commission  
who enclose Statements Nos. 111 and 112 -- Air-  
craft Despatched -- for the weeks ended November 9th  
and November 16th respectively.

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

November 22, 1943.

46  
**MOST SECRET**

STATEMENT NO. 111

Aircraft Despatched from the United States  
Week Ended November 9, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>BOEING</u> Catalina IV	U.K.	U.K.		2	
<hr/>					
<u>CONSOLIDATED</u>					
Liberator III	M.E.	M.E.		4	
Liberator III	India	India		3	
Liberator GR V	U.K.	U.K.		2	
Liberator B VI	India	India		2	
Liberator GR VI	U.K.	U.K.		3	
<hr/>					
<u>DOUGLAS</u>					
Dakota III	U.K.	U.K.		1	
Dakota III	India	India		2	
Dakota III	M.E.	M.E.		1	
<hr/>					
<u>GLENN MARTIN</u>					
Baltimore V	M.E.	M.E.		5	
Ra Raider II	M.E.	M.E.		1	
Mariner GR I	U.K.	U.K.		2	
<hr/>					
<u>VEGA</u>					
Ventura GR V	S. Africa	S. Africa		1	
Ventura GR V	M. East	M. East		4	
<hr/>					
<u>W. AMERICAN</u>					
Mitchell II	U.K.	U.K.		20	
Harvard	New Zealand	Wellington	1		
Harvard	S. Africa	Capetown	6		
Mustang	U.K.	U.K.	13		
<hr/>					
<u>FAIRCHILD</u>					
Fairchild C 61	M. E.	Alexandria	15		
Fairchild C 61	N.W. Africa	Casablanca	9		
<hr/>					
<u>GRUMMAN</u>					
Tarpon	U.K.	U.K.	4		
Tarpon	S. Africa	Capetown	10		
<hr/>					
<u>STINSON</u>					
Stinson	U.K.	U.K.	14		

**TOP SECRET**

STATEMENT NO. 111

cont'd

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CURTISS</u> Kittyhawk	Australia	Sydney	20		
Mohawk	India	Bombay	8		
<hr/>					
<u>NOORDUYN</u> Harvard	India	Bombay	5		
<hr/>					
<u>VULFEE</u> Vengeance	Australia	Sydney	1		
<hr/>					
		Total:	106	53	0

NOTE:

In Statement No. 109 of November 1st please note that 22 Baltimore V to M.E. should read 21 Baltimore V and 1 Mitchell II to M.E.

Movements Division  
British Air Commission

November 13, 1943.

mmh

STATEMENT NO. 112

Aircraft Despatched from the United States  
Week Ended November 16th, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Liberator III	M.E.	M.E.		1	
Liberator B VI	U.K.	U.K.		1	
Liberator B VI	India	India		2	
<u>DOUGLAS</u>					
Dakota III	M.E.	M.E.		2	
Dakota III	India	India		4	
<u>GLENN MARTIN</u>					
Baltimore V	M.E.	M.E.		16	
Carliner GR I	U.K.	U.K.		2	
<u>NORTH AMERICAN</u>					
Mitchell II	U.K.	U.K.		1	
Harvard	S. Africa	Capetown	18		
Harvard	India	Karachi	10		
Mustang	U.K.	U.K.	18		
<u>VEGA</u>					
Ventura GR V	U.K.	U.K.		1	
Ventura GR V	M.E.	M.E.		12	
Ventura GR V	S. Africa	S. Africa		1	
<u>FAIRCHILD</u>					
Cornell	S. Rhodesia	Capetown	22		
<u>FULSEE</u>					
Vengeance	Australia	Sydney	3		
<u>CURTISS</u>					
Kittyhawk	Australia	Sydney	2		
Kittyhawk	N.W. Africa	Casablanca	50		
<u>GRUMMAN</u>					
Tarpon	U.K.	U.K.	6		
Tarpon	India	Mombasa	8		
Tarpon	Ceylon	Colombo	6		
Warlet	Ceylon	Colombo	14		
<u>STINSON</u>					
Reliant	U.K.	U.K.	6		

Movements Division  
 British Air Commission  
 November 19, 1943.

Total    153                    43                    0

U.S. GOVERNMENT PRINTING OFFICE  
1943 O-450000



DEPARTMENT OF STATE  
WASHINGTON

November 22, 1943

My dear Mr. Secretary:

I am in receipt of a communication from the American Ambassador at Montevideo stating that your message of condolence to President Amezaga on the occasion of the death of the Uruguayan Finance Minister, Ricardo Cosio, was delivered through the Uruguayan Foreign Office.

In reply the Uruguayan Minister of Foreign Affairs has requested Ambassador Dawson to transmit through the Department an expression of President Amezaga's appreciation of your thoughtful attention.

Sincerely yours,

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



TELEGRAM SENT

PLAIN

November 2, 1943

AMBASSY,

MONTEVIDEO.

638, Second

FROM SECRETARY MORGENTHAU FOR PRESIDENT  
JUAN JOSE ABEZAGA OF URUGUAY.

QUOTE I have just been informed of the untimely death of Finance Minister Ricardo Costa and wish to express to you and to your official family my feeling of sympathy and condolence. I am sensible of the loss suffered by the United States as well as by the Republic of Uruguay.

UNQUOTE.

STETTINIUS  
(Acting)  
(FL)

FD:TL:

NOT TO BE RE-TRANSMITTED

U.S. SECRET

BRITISH MOST SECRET

OPTEL No. 382

COPY 4

TREASURY DEPARTMENT

1943 NOV 23 PM 2 50

OFFICE  
SECRETARY OF TREASURY

Information received up to 10 A.M. 22nd November 1943

1. Naval

One of 4 M. Frigates escorting homeward convoy west of Bay of Biscay had a perishing attack on a E-boat 20th/21st.

Two medium sized merchant ships in this convoy have since been hit during a glider bomb attack. An Italian MAS boat (similar to E-boat) sank its German escort off Biscaya and arrived at an Allied port on 19th.

2. Military

Italy To noon 21st. Continued heavy rain hindered operation. An extremely tight violent encounter between patrols south of Salerno. 8th Indian Division prevented crossing river by floods 20th/21st.

Burma 16th. about 300 Japanese crossed the Salween river into Yunnan.

3. Air Operations

Italy 19th. 93 night and fighter bombers attacked communications and transport in and behind the battle area.

19th/20th. Mosquitoes attacked the railway centres at Padua and Ferrara. Damaging 5 trains.

Yugoslavia and Albania 19th. 24 fighter bombers attacked transport at Spal, METROVIC and FISH (South west of Titov).

November 23, 1948  
9:30 a.m.

TAXES

Present: Mr. Bell  
Mr. Sullivan  
Mr. Blough  
Mr. White  
Mr. Gaston  
Mr. Haas  
Mr. Smith  
Mr. Tickton  
Mr. Lindow  
Mr. Surrey  
Mr. Tietjens  
Mrs. Klotz

H.M.JR: You know about Paul arranging to talk about the tax bill. I asked him to arrange it Friday for a group for Wednesday.

MR. BLOUGH: He told me yesterday that you asked to have a group meet, but he didn't say anything about when it was going to meet, and he suggested I get in touch with you to find out.

H.M.JR: I asked him definitely please to have it. I wasn't coming. I talked with him either Friday or Saturday and asked him to do the thing.

MR. BLOUGH: I didn't check with his office this morning, but yesterday I had the impression that he didn't have a definite hour.

H.M.JR: I talked to him either Friday or Saturday and asked him to do this thing.

MRS. KLOTZ: Maybe his secretary knows something about it.

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H.M.JR: Ask her to step in, will you, please? (Klotz)

I'm terribly disappointed at the staff's having done something for me on my statement on the tax bill--I mean, the stuff that I got is just terrible. Now this thing, "Answers to Criticisms," I don't know who wrote it, but my God, I'd be ashamed of it! It is the darndest thing I ever saw. There are no answers. I don't know who wrote it. The result is I am going to have to burn myself out this week. You fellows are going to have to work every night and everything else. It just isn't an answer. I mean, there are four pages of nothing.

MR. BLOUGH: Did you talk to Mr. Smith?

MR. SMITH: Good morning, Roy!

H.M.JR: This isn't Smith, this is Henry Morgenthau, Jr. I haven't even talked to Smith, so don't rope him in for my remarks.

MR. BLOUGH: I beg your pardon; I didn't mean that. I thought Smith and I had this thing fairly well talked over.

MR. SMITH: I got your memos. Louis Shere brought them down, but they are still sketchy.

MR. BLOUGH: I was under the impression you didn't want to get started until today.

H.M.JR: I asked a couple of weeks ago for answers to criticism, and I got the memo. (Refers to Memorandum of November 8, "A Summary of Points in Rebuttal")

MR. WHITE: Is this to be a speech or a memo?

H.M.JR: A statement before the Tax Committee, answering them on this business.

MR. WHITE: Well, I don't think this document was intended for that. (Reads memorandum) It begins, "A Summary of Points in Rebuttal."

H.M.JR: That is what I am talking about.

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MR. WHITE: I gather from the form that it wasn't intended -

H.M.JR: Just as a rebuttal. But as a rebuttal, I say it is lousy--so that nobody can misunderstand me--because the result is you fellows are just going to have to work day and night, now, the rest of the week.

Get me Miss Chauncey in here, will you, please?  
(Klotz)

Now, I called up Bell yesterday and Haas last night. The first thing is to have an answer to this statement about the War Department saving thirteen billion dollars, and everybody can quit. Now, Haas got interested in it yesterday, as I understand. I asked Bell, and I understand that this question of inflationary gap is Haas' responsibility.

MR. HAAS: We have been doing something on it.

H.M.JR: Now the statement has been out for a week or ten days. It is too bad you didn't get the idea ten days ago, but you got it yesterday. I give you credit for that, but it has been kicking around town. Nobody has answered it. I don't blame anybody. What I am saying this morning - -

Good morning. (Miss Chauncey enters room) I'd like Mr. Paul's memorandum - the rebuttal. (Miss Chauncey leaves room with the Secretary's briefcase)

I don't blame anybody but me. Nobody has been talking to me. Now, George, do you want me to call up Mr. Patterson and find out who in the War Department can give us this stuff?

MR. HAAS: I think the suggestion made to me over the phone last night to write Stimson a letter - -

H.M.JR: It has taken weeks. I have got to have this, George. I mean, this thing has been out for ten days.

MR. HAAS: I'm afraid they'll just give us the run-

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around. Stacy May said that he is making contact, and I called up the Budget, Colm, about it. He is coming over Wednesday. The thing is very confused in his mind. I don't know--I'll try, anyway, but I'm afraid you won't have something that you can use publicly.

(Miss Chauncey re-enters room and hands document to the Secretary)

MR. BELL: It may be that my boys have something on it, because the morning it came out in the paper, I started and asked about it. I asked Stacy May if he had anything on it. He said, "No, I'll have something Monday for you." He said he got the same impression that I did, that it is a bookkeeping transaction.

I called the Budget, and they didn't have anything definite on it. I have my boys starting to see if it will affect expenditures in '44 and changing the financing estimates accordingly. My impression is that it will not change them one dollar.

H.M.JR: You did start it?

MR. BELL: Yes, the day it was in the paper.

H.M.JR: Do you want to get that? (Mr. Bell leaves room)

(Over inter-phone) Get me the Under Secretary of War, Mr. Patterson, please.

Does this come out of your shop? (Questions Mr. Blough concerning undated rough draft of letter to the Secretary of War, copy attached.)

MR. BLOUGH: Yes.

MR. HAAS: It seems to me, Mr. Secretary, if you had this information from somebody in authority you would have the answer.

H.M.JR: That is all right, if he insists on a letter, but I haven't got time. And the thing I want, Herbert, is this: I want the answer to the question of

November 23, 1943  
9:39 a.m.

HMJr: Hello.

Operator: Mr. Patterson.

Robert  
Patterson: Hello.

HMJr: Hello. Bob?

P: Henry.

HMJr: Good morning. I need a little help from you.

P: Yeah.

HMJr: Sometime in the last ten days somebody in the War Department said you were going to turn back to the Treasury \$13 billion.

P: Uh....

HMJr: Now, could I just explain what I need?

P: Yeah.

HMJr: I've got to appear Monday on the Hill in connection with the tax bill and, of course, since the -- that statement has been accredited to the Army, if they say, "Well, there's no danger and the inflationary gap is-- does reduce -- has been reduced" -- and all the rest of that tripe. Now....

P: We never -- we never said we were returning it. What we said, I believe, was this - I was up there.

HMJr: Yeah.

P: We said, "We are placing -- I think it came to \$13 billion, in a reserve which we will release to the services of the War Department only on permission and clearance from the Bureau of the Budget."

HMJr: Well, the point....

P: So that it is funds appropriated to us that we will not use except on approval of the Bureau of the Budget. Now, I think that's what we did.

HMJr: Well, that is -- that helps, but he -- has the Secretary of War or the General Staff got a statistical section that could help us....

P: Yes.

HMJr: ....prepare an answer that we could get out Friday?

P: Yes.

HMJr: I mean -- are there two separate statistical sections, one for the Secretary of War and one for the General Staff?

P: No. The General Staff have a Budget Office under General Richards.

HMJr: Yes.

P: Now, the Army Service Forces have most of the fiscal matters. That Budget Office is a small outfit.

HMJr: Yeah.

P: That's under General Carter. You know him.

HMJr: Yeah. Well, now....

P: Who do you want to get in touch with there?

HMJr: I want to get in touch with whoever has the most intelligent fellow, who's got the most authority. That's what I want.

P: I think I'll send you both of them. Then you are sure to have the right one. Uh -- who do they get in touch with?

HMJr: Well, I think -- well, the man here who's handling it is -- is Dan Bell.

P: Bell? I'll have them get in touch with Bell today.

HMJr: Today?

P: Yes, sir.

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HMJr: That is Carter?

P: And Richards.

HMJr: And Richards.

P: I think Richards is the man but I'll get Richards to call Bell up right away.

HMJr: And what I may need is -- I may need when I get through -- is a statement over the signature of the Secretary of War.

P: Yep.

HMJr: See?

P: Yep.

HMJr: Because this thing, you see -- well, you've seen the papers -- the use they've made of it.

P: Yep.

HMJr: It's just floored us.

P: Yep.

HMJr: Now, the Navy isn't doing anything along these lines, are they?

P: I understood that they were being pressed to and were doing it, but -- uh -- haven't done it yet.

HMJr: Well, that would be Jim over there? Jim....

P: Jim Forrestal, I'd say.

HMJr: Yeah.

P: Yeah.

HMJr: Well, you will tell General Carter and General Richards to contact Bell?

P: I will, right away.

HMJr: And -- but I'm looking forward to getting a statement out over the signature of the Secretary of War.

- 4 -

P:                   Yep.

HMJr:               Thank you so much.

P:                   All right, Henry.

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inflationary gap no longer being a danger. I want it answered in the paper by Saturday morning, so that the country can be prepared, and say, "Why didn't somebody tell us this?" And so that I don't have to take it myself, Monday. I can't handle it all.

But my thought was, if we could get this stuff--have a press conference. I'll call up Fred Vinson and ask him whether he wants to do it, so he can't--. If he thinks it's his private baby, okay, he can have it. But if he doesn't, we can have it in the Treasury and have it in the paper Saturday morning.

(The Secretary held a telephone conversation with the Under Secretary of War, Mr. Patterson)

(To Mr. Bell) He says this, that they never said what the paper said they did; that they would simply put in reserve thirteen billion dollars which they would only use on the okay of the Bureau of the Budget.

MR. GASTON: That is what the New York Times story said, precisely.

H.M.JR: Now, what I asked for was who was the man. I asked, "Has the Secretary of War a separate office in the General Staff?" He said, "That is General Richards." I said, "I want the most intelligent man with the most influence in the War Department." He said, "I don't know; I'll send both." He asked whom to see. I said, "Bell." George wanted you to have it, so you go ahead.

(To Mr. Blough) I wish you had come back with some carnation pink cheeks, instead of looking the way you do!

MR. BLOUGH: There's only one trouble with me--I haven't had any breakfast. That is all right. The train was crowded. I had just gone out when you called me. Don't worry about me.

H.M.JR: What do you eat for breakfast? Just coffee and toast? Would that help?

MR. BLOUGH: Please don't bother.

H.M.JR: I do, because I want to jump on you! (Laughter)

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(Secretary orders breakfast for Mr. Blough)

MR. HAAS: Now I'm sure you don't want any breakfast!

MR. GASTON: He needs ham and eggs and hot cakes, now!

MR. SULLIVAN: The condemned ate a hearty breakfast!

MR. BLOUGH: Go ahead and jump; I'll take anything you can give me.

H.M.JR: Well, Dan, now let me get hold of Forrestal.  
(The Secretary places call for Mr. Forrestal)

MR. BELL: He has five million in the picture.

MR. GASTON: I think we ought to have somebody from the Budget in here when the Army man is in.

MR. WHITE: That is a very strange step. Don't they ever spend money that isn't approved by the Budget Bureau? And what do they mean by turning over this and saying they won't spend it unless approved?

MR. BELL: The Budget Bureau has a regulation out-- and I might say I'm responsible for it--requiring the Departments to place large sums of money in reserve which they can't get released without prior approval of the Budget. They can't obligate it. There is a lot of this money, and it has been appropriated in just such a reserve.

MR. WHITE: Is that something that is done every year? How much did they set aside last year?

MR. BELL: I don't know, but the last year that I was in the Budget we saved millions of dollars by putting it away in reserve and releasing it as and when emergency came along.

MR. WHITE: Do they spend most of what they put in?

MR. BELL: This eleven billion dollars has been informally approved by the Bureau of the Budget to go in reserve, and there is a two billion dollar additional item under discussion, which makes the thirteen billion dollars. It affects the Air Corps and the pay of the

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Army, the Signal Corps, the Medical Department, and the Ordnance.

(The Secretary held a telephone conversation with Charles F. Detmar, Jr., Office of the Secretary of the Navy)

We also discussed with the Bureau of the Budget as to what effect this might have on the expenditure program, and Mr. Colm and Mr. Loeffler said that they had under consideration revising their estimate of expenditures, but that the figures that we had been using in our financing program were just about what they were thinking. They thought the war expenditures would run between ninety and ninety-five billion. We have been using ninety-two and a half.

This thing can't be so far off as far as the War Department is concerned, because when they came into the fiscal year they had fifty-four billion dollars of unliquidated obligations; that is, the contract obligations on the books on June 30 which had not been paid for. And they had unobligated balances of fifteen billion brought over, and they had new appropriations of fifty-nine. So the thirteen billion comes out of the new appropriation, in effect.

H.M.JR: Look, Dan, this is down your county. All I can do is to be the spark plug and get everybody around here excited. But if Gaston, Smith, and anybody else agree with me or don't agree with me--if this thing could be gotten out a couple of days in advance--which I testify--. Get the country prepared for the thing, see, and get the arguments in the paper. It isn't to take the heat off me; it is a question of education.

MR. SULLIVAN: Preparing ground for you.

H.M.JR: That is right, and this is the kind of thing. It isn't me; after all, the Bureau of the Budget should take it.

MR. GASTON: Yes, that is what I was going to say. It should be a quick new summation of the Bureau of the Budget.

November 23, 1943  
9:45 a.m.

HMJr: Hello.

Operator: Mr. Forrestal is out of the city until late this evening.

HMJr: Well, give me....

Operator: His legal assistant is acting....

HMJr: Who?

Operator: His legal assistant, Mr. Detmar - D-e-t-m-a-r.

HMJr: That's all right.

Operator: I'll get him on.

HMJr: Hello.

Operator: Mr. Detmar.

HMJr: Hello.

Operator: Go ahead.

HMJr: Mr. Detmar.

Charles F.  
Detmar: Good morning, sir.

HMJr: Good morning. Morgenthau speaking.

D: Yes, sir.

HMJr: Look, Mr. Detmar, I want some help from the Navy.

D: All right, sir.

HMJr: I'm getting it from the Army and if you'd be as good as the Army, I'll be satisfied. (Laughs)  
A little competition.

D: All right.

HMJr: As you know, the Army was quoted in the papers as saying they were going to save \$13 billion....

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D: Right.

HMJr: ....with the result that the Congress said, "Well, we just don't need a tax bill." And I've got to go up on the Hill Monday and tell them why we do. Now, if the Navy, through whoever your fiscal officer is, is planning any cuts -- uh -- I'd like to know who that person is. The Army is giving us General Carter and General Richardson.

D: Uh huh.

HMJr: And whoever the corresponding people are in the Navy, if they could work with Mr. Bell today, it would be very helpful so that -- what I'm trying to get is a statement from both the Secretary of War and Navy, over their signatures, just exactly what they are going to do.

D: What the cuts are going to be?

HMJr: Yeah.

D: All right. I'll tell you -- I think Admiral Horn would be the man.

HMJr: He would?

D: Let me check with him and I'll have whoever is the proper person get in touch with....

HMJr: Danny Bell.

D: Dan Bell?

HMJr: Yeah. Looking forward to a statement over the signature of the Secretary of the Navy which I want, and this thing's got to be cleaned up by Friday noon.

D: Uh huh.

HMJr: See?

D: Yeah.

HMJr: Can I count on you?

D: You surely can.

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HMJr: Thank you so much.  
D: I'll do it right away.  
HMJr: Thank you.  
D: All right, sir.

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MR. WHITE: I think it would be better coming from the Bureau of the Budget. If it came from you it would appear you were trying to justify your taxes; whereas, if it came from them it is a matter of clearing up facts. I think one of the most effective ways of demonstrating the absurdity of that is showing how each of the previous year's sums have been set aside and spent--if they had done that in previous years. I gather from Dan that they have.

MR. GASTON: There is practically never any appropriation fully spent in the year for which it is appropriated. There are always unexpended balances going over from fiscal year to fiscal year.

MR. BELL: Where they made their mistake, I think, is not revising their expenditure estimates in August when they put out the summation. They thought at that time they were not going to meet the program, but they didn't want to revise the expenditure program, because they thought it might have a bad psychological effect on the country at large.

H.M.JR: Dan, I have got to go to this funeral, and I want you to talk to Harold Smith before I go to the funeral, because I want this in the paper Saturday morning, see?

MR. BELL: Yes.

H.M.JR: To prepare the country. And somebody is going to have to work like hell to get this thing started. I want to talk on a few of the tax items. Would you (Bell) mind going to your room and getting it started, and then come back?

MR. BELL: I think you had better eliminate me from the funeral, and I'll go on with this.

H.M.JR: The man died! All right.

MR. BELL: He won't be listening!

H.M.JR: Who else goes before Banking and Currency here?

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MR. WHITE: I have been, but he doesn't know me from a hole in the wall. (Laughter)

H.M.JR: What a pal!

MR. WHITE: They just had him appointed Chairman of that Committee on Friday.

MR. SULLIVAN: He was made Chairman of this Liaison Committee Saturday morning. He was sick the night before.

H.M.JR: Come on, John, you keep me company.

MR. BELL: How about Delano, if he is around? He was supposed to take this week off and rest, but he might be a good one to go.

H.M.JR: (Over inter-phone) See if Mr. Preston Delano is in his office, one; and, two, if he is going to go to the funeral of Mr. Steagall, he might go with me. Let me know, will you?

MR. FITZGERALD: (Over inter-phone) Yes, sir. He was down at his farm yesterday when I told him. I don't know whether he is back again.

H.M.JR: All right.

MR. BELL: He is away for the week, but I think he might come in for that. (Mr. Bell leaves the room)

H.M.JR: Now, the thing that I am griping about is this. If I am correct, they have been making a lot of talks, approved by Mr. Gaston, about post war inflation. I think the figure he is using is sixty billion dollars, isn't it? It is piling up; some people use a hundred million dollars.

MR. BLOUGH: Yes, in that neighborhood.

H.M.JR: On page 3 of this memo (Refers to a "Summary of Points in Rebuttal") it reads: "4. Would the lowering of the exemptions and the repeal of the earned income credit unjustly burden the low-income groups? ..... Moreover, the Congress may, if it wishes, make a large

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part of the tax on the low-income groups refundable after the war."

If he is so worried about the present amount of money in the hands of the people, and then you add to it the amount which is going to be refundable, he is just piling it on. You are just adding to that particular worry.

MR. BLOUGH: Well, there are two things to be said about that. In the first place, we don't need to answer every point. For instance, if you feel that you would rather forget about the refundable tax which didn't catch on, anyway, in the House, we'd just drop that out of the picture.

H.M.JR: No.

MR. BLOUGH: But in the second place it does fit into this post-war problem to this extent, that you can determine when the money would be paid back after the war, and see that it did not get paid back at a time when it would add fuel to the fire.

H.M.JR: There are two things: one is that point, and two, I want to raise the question whether we want to do the refundable tax which didn't catch on, anyway. I am honest on this.

MR. BLOUGH: It is not a good memo. I agree to that.

H.M.JR: Then I'll stop picking. The other thing is that number one, Reduction of Federal Expenditures, Substitute for Tax Program. In the light of what I stated here, that is not an answer.

MR. BLOUGH: We have done a great deal more on that since that memo was written.

H.M.JR: I'll say one thing more, and then I'll quit. I mean, this is the eleventh, and the whole answer of my thing is in paragraph one. That is the thing I am griping about--the number one--that you should attempt to answer in that number one, which is no answer.

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MR. BLOUGH: May I say, Mr. Secretary, that was based on a thirty-five page memorandum. We didn't think you wanted to look at a big memo, and we made a very short summary. Since that time we have done a lot of work and we could give you by noon a better answer.

H.M.JR: That is what I took with me to the country to read, and all week-end it has been boiling.

MR. BLOUGH: I am very sorry.

H.M.JR: You don't have to be.

MR. BLOUGH: It is much further along than that, I assure you.

H.M.JR: It is that number one that got me off on the wrong foot--I mean, how you handle that. I am convinced there is a way to handle it. I am convinced there is an answer, but it isn't there. All right, let's finish.

MR. BLOUGH: Yes, sir.

H.M.JR: Now, this is a little thing--or maybe it isn't. Who knows what Robert Nathan is doing?

MR. WHITE: He is in the hospital. He had very bad back trouble. They set him to work digging trenches, and he went into Walter Reed Hospital. He came out, and is now back again. He may be improved. I haven't heard for the last couple of weeks.

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MR. SULLIVAN: I have seen him within two weeks out - I think within two weeks - and I thought he looked quite well.

MR. BLOUGH: I talked to him last week. He was out but he was going right back. He was on a ten-hour pass, or something like that.

H.M.JR: Hasn't he been discharged?

MR. BLOUGH: He may have been by this time. He is going to Hot Springs, Arkansas, to recover and write a book on the post-war situation for the C.E.D.

H.M.JR: What is that?

MR. BLOUGH: Committee on Economic Development.

H.M.JR: What I am getting at, if the man is well enough so that he could sit as we do on this thing for the week, and give us the benefit of his brain, that is what I was thinking about, you see.

MR. BLOUGH: I don't know whether he has been close enough to the situation.

MR. WHITE: I am sure he would be glad to if he is available.

MR. BLOUGH: You know him better than I do.

MR. WHITE: I know him personally.

H.M.JR: Harry, you call him up. What I wanted, from now until I go on the Hill - couldn't we send this stuff to him and have him say, "You are missing this or that"?

MR. WHITE: If he is still in uniform, it is perfectly all right, isn't it?

H.M.JR: Yes.

MR. SULLIVAN: He wasn't in uniform when I saw him.

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MR. WHITE: I am not sure whether he has had a full discharge.

H.M.JR: Before I go on, do you get the idea?

MR. WHITE: I will get in touch with him this morning.

H.M.JR: What happened?

MR. TIETJENS: Walter Heller was out at Paul's Sunday working on the speech. After you called Randolph, he said, "Heller, you tell Louie Shere to arrange for an inflation meeting through Miss Alger - via Miss Alger." So Shere--

H.M.JR: Let Miss McCathran hear this. We will get it cleared up. At least let her hear it.

(Miss McCathran entered the conference.)

H.M.JR: Miss McCathran, just listen a minute.

MR. TIETJENS: Walter Heller was working with Randolph on Sunday on the speech when you (the Secretary) called, and he told Heller that when he came back to the office to have Louie Shere arrange for an inflation meeting via Miss Alger, and give her the names and get the names from her, and Shere did that with Miss Alger. Miss Alger didn't know at what time the meeting was to be called. She wasn't told. So she checked with Fitzgerald, gave the names to him, and was waiting to hear from your office as to what time the meeting was to be called. So that is apparently where it is now. She wanted the names to be checked with you first, too, because she was told it was your meeting.

H.M.JR: I told them specifically that I couldn't go. You (Miss McCathran) know where it is. We will let it rest a minute. Thank you.

(Miss McCathran left the conference.)

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H.M.JR: In view of what Bell is doing, and everything else, I wonder whether we want that. The thing I wanted - everybody is working on the inflationary gap - see what they have. If Bell is going to do it, I just wonder whether we want this meeting, you see?

MR. GASTON: Well, I will make an off-side comment, and that is I suggest we forget the inflationary gap. There isn't any such thing. Nobody can define any such thing as inflationary gap. I don't know just what the meeting was to be.

H.M.JR: The kind of meeting Paul is always having - Eccles, and all those people.

MR. SULLIVAN: Nick Gilbert, and so forth.

MR. WHITE: I think that would be called for only if you haven't a good case against this new thing injected in the stream. Judging from Dan Bell's remarks, from what you got over the phone, you can dispose of that, or the Budget Bureau can dispose of that, which leaves the situation as it was before the statement was made. In that event I should think you would not want a meeting, because presumably there is nothing new in the developments, and therefore you can make the very effective point should it be raised orally with you, should that be disposed of, and continue with the other points in your argument and assume that the situation is as it was when you first presented the material.

H.M.JR: Well, let's give Bell a couple of hours, see, and see where he is at, and then we can take this thing up again. We will just hold the thing in suspense.

MR. GASTON: It might be of some use to sort of consolidate sentiment and get everybody's views about what sort of a case we ought to present.

MR. WHITE: Might it not be worth while if the Budget Bureau was able to indicate that this doesn't change it, merely to see that everybody in Washington understands

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there has been no change, and a meeting might help to prepare the ground for the Secretary.

MR. GASTON: Even more, if the Budget Bureau changes its figures.

MR. HAAS: No doubt be changed.

MR. WHITE: You mean if the expenditure is diminished; then the meeting is in order.

H.M.JR: The point that Bell made to me last night is that he doesn't think that the figures are going to be changed materially for the calendar year '44, and that is what he thinks.

MR. GASTON: Well, fiscal '44 is the important thing, I should think.

MR. SULLIVAN: That is what he meant.

MR. WHITE: That would include that.

MR. GASTON: Oh, yes, that is even better.

H.M.JR: Now, the thing I wanted to have is - somebody can make notes for Blough - Stanley can - I want to go back to the suggestions that the President always had in his mind. In the first place, I agree with Fred Vinson that we ought to have a lot of plans on the ten and a half billion. But one plan that the President has always mentioned is what he did when he was in Albany as Governor and wanted to raise some money for the unemployed. You can look this up, Stanley.

When you figure your net income, supposing your net income, after all deductions, was two thousand dollars; you added, I think, one percent the first year, which went for relief. I think they got it up to two or three percent. They had a very good name for it, and it only ran for one year, see? They took one percent of whatever your net income was. Whenever you got through, down in the lower

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right-hand corner, you figured that was your net income, and figured one or two percent. He has been after me for a long time. Why don't we, to help for the war, and all this - when people have this income, write it down and figure out one, two, three, four, five - up to ten percent. How much would it add?

MR. SULLIVAN: That is the same technique as the defense tax.

H.M.JR: Yes, which was knocked out.

MR. SULLIVAN: Yes. We went through this at that time, remember? I knew I had read the story before.

H.M.JR: Well, I would like to have that explored. It won't take very long. Give me an answer.

Now, on my philosophy as of today, let me give it to you this way: I have read the excellent survey which was prepared in Schwarz' office under Smith's direction - the criticism of everybody, of me and the Treasury and everybody else. If you haven't seen it, it ought to be circulated. When I get all through and done, this is where I stand as of this morning. I think where we fell down - and there is no use criticizing - but we tried to please too many people in the last tax, with the result we pleased nobody. Therefore, this time I am going to try to please myself and get out a good tax bill.

(Mr. Bell entered the conference.)

H.M.JR: I would just like to repeat this for the benefit of Mr. Bell. I think where we fell down in our last tax bill was we tried to please everybody, and as a result didn't please anybody - labor, conservatives - we didn't please anybody.

So I am back to where I was, unless something comes up. I want to ask for ten and a half billion dollars of revenue with no trimmings, no refunds, or anything else. I want a good stiff tax bill which will help pay for the war while we can afford to pay for it, with no trimmings.

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MR. BLOUGH: Suits me.

H.M. JR: Then I do want to review the C.I.O. program, and so forth, and so forth. Just a good bill that will produce revenue while the war is on. Then if they don't like it they are going to have to attack me because it is too stiff and not because of its social aspects.

What I would like to have from the committee is this - and you fellows are going to have to work awfully hard and awfully fast: I want a chart so I can say, "Gentlemen, this is the tax bill as of this year; and this is what it does for the various income groups."

We will take people - I thought we would have two groups; single man, and married man with two children. "This is what it does to the man with an income of a thousand dollars and under."

Now, then, I don't know, say from one to twenty-five hundred, or from one to three thousand - and not more than six groups. "This is what the House bill did." And each case always having a number of people affected. I think I once asked for this, say, for a thousand dollars or under, this year - calendar year. "In '43 we have got so much."

Now, my groups - there may have been six hundred and sixty dollars - or whatever the right figure is - six hundred and sixty dollars under the Victory tax, isn't it?

MR. GASTON: Six hundred and twenty-four.

H.M. JR: Whatever it is - but I want what it is this calendar year - what the House bill did, and then the proper groups, you see? And then state what is in the House bill, and then what we think it ought to be. But be sure and get the thing in financial groups, plus the number of people, to answer this nine million people thing, you see?

I am not sure of what I am going to say, now, and it may not be right, but in order to answer these people -

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that these nine million people aren't going to pay it. Maybe we will have a head tax of five or ten dollars for every person under a certain limit. It isn't a very good name - I am not sure about this, but I am throwing it at you. But at least let's get this thing out. I want a trial run.

Call in some friendly people like Walter Lippmann, who, after he saw Gaston, said, "All right" - like the editor of the Washington Post - a few people like that; maybe Ernest Lindley; maybe the columnist, Raymond Clapper - try it out on them - or Robertson of PM. - and try this thing out. Do you see? If that is possible, I would like to have something like that.

I would say, "Now, gentlemen, here is the problem - here is the way it is. We need ten and a half. I am not going to tell you how to get it."

And then the other thing I want to do is say, "All right, everybody is talking about a sales tax - ten percent sales tax which will yield roughly six billion dollars. But I am sure there is nobody in this committee that is going to recommend it without exemptions; so let's look at the exemptions. And I am sure, gentlemen, that you will want to exempt food and clothing, and this and that; and as you exempt the various things, this is what you have got, if you want it. After all, you are the elected representatives of the people. I am sure, gentlemen, your ear is closer to the ground than mine is, because I don't have to run for office; you do. If you want a sales tax, here it is, plus exemptions." When you take out all the essentials of life, what does it get down to?

MR. BLOUGH: Oh, it cuts you down at least two-thirds, I think.

H.M.JR: All right, I want to say that, and have a chart with the various items.

"All right, gentlemen, are you, Senator Byrd, going to recommend that you put ten percent on food? Are you going to put ten percent on clothing, and this and that?"

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MR. SULLIVAN: Rent and medicine?

H.M.JR: "All right, when you eliminate all those things, this is what you get." And I would have a chart on that. But I am not going to go up and recommend the President's insurance scheme, and I am not going to recommend the refundable feature. I am going to recommend ten and a half billion dollars of straight revenue, and then they can say they don't want it.

And then I want to talk about the need. I want to talk about the mistake that Mr. Mellon made, and Mr. Coolidge made in 1921, and say, "I am not going to stand here and make the same mistakes they did, with the resulting collapse and depression which followed the thing."

MR. SULLIVAN: Elementary arithmetic.

H.M.JR: Yes. "Now, gentlemen, if you want to do that, O.K." At least I am going to be Secretary of the Treasury and recommend ten and a half, and I will also bring in this stuff about the boys going to have to both fight the war and pay for it.

That is the way I feel this morning. I would like you people to think about it. I will meet again with you this afternoon at three-thirty.

All right?

MR. GASTON: I don't believe we ought to change bases too much. I think you can suggest alternatives, but I think the original plan was a good plan.

MR. SURREY: Randolph and I spoke to Senator George Friday and he did not seem disturbed about dropping the nine million people. He thought if it were in the interest of simplification, he would go along.

H.M.JR: On that, if we drop them out, both under the Victory tax and kick out the Ways and Means' three percent tax, please, for heaven's sake, on the nine million people,

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give me examples of what they do pay for cigarettes, and gasoline, and all the other things.

MR. SURREY: That is what we spoke to Senator George about, dropping out the three percent tax.

H.M.JR: You take the average family, and pay so much: He buys so much cigarettes, so much liquor, he may go to the movies once a week, and so forth, and so forth. All right, a man has so much. He is certainly entitled to so much. He doesn't go to cabarets, doesn't buy fur coats, but under a democracy he is entitled to a couple of packages of cigarettes, and to do this, and that, and the other thing. And right now he is paying a Federal tax of so much. Don't tell me he is not paying any tax. It is just the plain bunk of the people who want to make that fellow pay so that the man who is getting a hundred thousand dollars a year shouldn't pay.

Now, let's de-bunk this thing and call a spade a spade. The net result of the whole thing - I am going to be tough. Then if they want to criticize me, they have got to criticize me because I am too tough. But I am not going to wiggle-waggle, and try to please ten people over in the White House. I am not going to do it.

MR. WHITE: I agree with ninety percent of what you say.

H.M.JR: Harry, ninety percent? May I shake your hand, please? (Laughter)

MR. WHITE: I won't wait until you hear the ten. I will shake hands now. (The Secretary and Mr. White shake hands.)

H.M.JR: This is one of the high moments of my life. I am only ten percent wrong in the eyes of Harry White. And Harry, if you are getting the best of me - I will have to leave in six minutes.

MR. WHITE: I think I can say what I want to in less than that.

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H.M.JR: Mrs. Klotz thinks I can't wait that long.

MR. WHITE: Well, you said that you didn't feel that the boys who are fighting now are to pay for the war. I am in thorough agreement with that, and that is what I want to start on. In other words, prevent them paying for the war.

Now, any additional tax you put on now, many of the men who are in the services will not pay. They don't pay excise taxes; they get their food and cigarettes for nothing; they don't pay as much income tax; they get low incomes. Therefore, any tax that you recommend now, even if it is a bad tax, and you didn't care whether it is bad or good as long as it was for revenue--

H.M.JR: I didn't say that.

MR. WHITE: But you are not going to expose yourself to whether it is socially good or bad.

MR. GASTON: No, no, no. You said you didn't care about making friends, trying to please different people.

MR. BLOUGH: And social reform, I think.

MR. WHITE: Let's delete that. I have only got three minutes.

MR. GASTON: That is out. Now you start fresh.

MR. WHITE: Therefore, if you take the position that these taxes - that your additional ten billion dollars of taxes shall be just the tax which shall be on during the war, and that the minute the war is over the first taxes that shall come off shall be those taxes, then I think you can go to town. But if you include in your tax recommendations, the tax structure, the kind of taxation which they are likely to do unless you fight them, then you are doing exactly what you don't want to do, because when the boys come home you are putting--

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H.M.JR: Give me an example, Harry.

MR. WHITE: Let me take the example of lowering the exemptions. Let's say, if you lower the exemptions, and if that lowered exemption lasts after the war, then the boys that come back from the services and begin earning money--

Let me come back at this tomorrow or the next day.

H.M.JR: How about three-thirty? The very thing that you are talking about, see? Lowering exemptions - I am against it - I don't want to lower the exemptions.

MR. WHITE: But I gather you weren't willing to say how they get the money as long as they get the money.

H.M.JR: No, look - we will start the three-thirty meeting with White.

MR. BLOUGH: He said all that in the House statement.

MR. WHITE: He was going to change his mind as to what he is going to say in the Senate, I thought.

H.M.JR: The trouble is, I think you are suspicious of what I am going to do. If you ask me what I am going to do, I will tell you. I will tell you exactly the kind of things I mean. Paul and his group, in order to please, thought that it was good strategy to say, "We will lower the exemptions." I never was for it. That was displeasing to the labor unions. I am not going to do it because I never did believe in it. They have had to beat me down every time in order to get me to lower the exemptions. I don't want to lower exemptions. I don't think you know quite what I have in my mind.

MR. WHITE: I don't think I do.

H.M.JR: So therefore you question me at three-thirty.

MR. GASTON: Lippmann was a good deal impressed by the fact that I showed him there would be thirty-five or more

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million taxpayers left after letting the nine million go, and also that fifty-three percent of the amount of additional taxes would fall in the group of five thousand and below. That is the majority of new taxes.

H.M.JR: Would you mind, Bell, taking this group into your room and see who does what, and hold certain people to certain things? I have asked for these charts. You ought to take some of these people in. I have given them certain orders, and I want to know when they get started, and know that this has number-one priority. But these things I have described - who is going to do it - what is Haas going to do. So take them in your office and get them started. I will meet the same group at three-thirty.

MR. BELL: The books close tomorrow night on the refunding. We have one million three, as of last night - thirty percent of them.

My dear Mr. Secretary:

I have been very much interested in the fact that the War Department has announced the release of some \$13 billion of its available funds. There has been considerable confusion as to the affect of this release on expenditures, and I should like to ask you to help clarify this matter for me. I should greatly appreciate it if you could supply me with the following information:

1. Total appropriations and contract authorizations available ~~through~~<sup>to</sup> the War Department before the release of the \$13 billion.
2. Estimated total expenditures by the War Department during the fiscal year 1944 calculated before the release of the \$13 billions.
3. Total appropriations and contract authorization available ~~through~~<sup>to</sup> the War Department after the release of the \$13 billion.
4. Estimated total expenditures by the War Department during the fiscal year 1944 calculated after the release of the \$13 billion.

This information will be most helpful to me, and I should like to have it as soon as possible.

Very truly yours,

Secretary of the Treasury

November 23, 1943  
11:21 a.m.

HMJr: Who has the information that I want? I mean -- are you -- you were going to call up Harold Smith.

Dan  
Bell: Yeah. I couldn't get Harold. He's sick in bed and I called his house and they said he was asleep. They thought he'd wake up in a little while and they'd have him call me.

HMJr: Yeah.

B: I've been in touch with Wayne Coy....

HMJr: Yeah.

B: ....and they've already worked up a statement....

HMJr: Yeah.

B: ....explaining the \$13 billion and Jimmy Byrnes said he was going to give it out.

HMJr: Yeah.

B: I suppose as Acting President. I think there is a little difference of opinion on it over in the Budget. I think that Coy thinks the Director of the Budget should give it out.

HMJr: Sure.

B: Well, I talked to him about Budget summation in simple statement form on Friday and he said, well, they thought they could throw something together, but he'd like to get in touch with Smith. We're just sitting here, a few of us, discussing whether it would be advisable to put out a Budget summation at this time and whether or not it couldn't be handled another way. I don't know yet.

HMJr: Well....

B: General Richard is coming at 1:30.

HMJr: When you -- the point I want is something out by Friday.

B: Yeah.

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HMJr: What's the chances?

B: I think the chances are pretty good. What it will be, I don't know, but I think they were drawing something for Byrnes to put out right away. Now, whether that will be sufficient, I don't know 'till I see it.

HMJr: Well....

B: But Coy said he wouldn't do anything on it until he talked to me again.

HMJr: Well, I mean it....

B: We are waiting now to get in touch with Smith....

HMJr: I see.

B: ....who is ill.

HMJr: I see. Well, it looks as if I started something, huh?

B: Yep.

HMJr: And....

B: Well, they've been talking to Byrnes about it the last couple of days and Byrnes decided that he would give out a statement on it.

HMJr: Well, do they know that I've got to go up on the Hill Monday?

B: Yep. I told them that you were going to be put on the spot on Monday and that something ought to be done before then.

HMJr: Now, will you do one other thing for me?

B: Yep.

HMJr: Call up Fred Vinson and tell him what you're doing.

B: All right.

HMJr: And tell him we'd like to have his help.

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B: All right.

HMJr: See?

B: Yeah.

HMJr: And you might -- because he may be in on this thing, too, you see?

B: Yeah. I'll tell him.

HMJr: And we need his help to get this thing out beforehand.

B: Okay.

HMJr: Thank you.

B: Yes, sir.

November 23, 1943  
11:24 a.m.

HMJr: Hello.

Ted  
Gamble: Hello, Mr. Secretary.

HMJr: Hello, Ted. Ted....

G: Yes.

HMJr: I'm counting on you, you know, to handle this advertising business.

G: Yes, sir.

HMJr: Are you making any headway?

G: Yes, sir.

HMJr: You are?

G: Yes, sir.

HMJr: Well, do you know when it's going to come up in the House? Or anything else?

G: Mr. Lynch and Mr. Mager were here -- we had a meeting this morning on it.

HMJr: Who's Lynch?

G: Lynch is in the General Counsel's office. He's been one of the liaisons with the Hill.

HMJr: Yeah.

G: And he followed the bill all the way through the Senate Committee....

HMJr: Oh, yeah.

G: ....as an onlooker and reporter for us.

HMJr: Yeah.

G: And we have prepared a report. We are documenting it now so that it can be presented to the House Committee.

HMJr: Yeah.

G: We are supporting it with all of the evidence of the....

HMJr: Well....

G: ....facts that we have on what the weekly newspapers did. I've talked to Nathan Adams in Texas.

HMJr: Yeah, that's what I'm leading to.

G: He has agreed, not only to contact Rayburn himself, but to see that other influential people in Texas contact Mr. Rayburn.

HMJr: Well, how long ago did you speak to Adams?

G: I spoke to him yesterday morning.

HMJr: Is he going to let you know what reaction he gets?

G: Yes, sir. He was away last week-end....

HMJr: Yeah.

G: ....on a ranch down in Texas and we couldn't reach him.

HMJr: Yeah.

G: I talked to him yesterday morning.

HMJr: What Committee handles this? Do you know?

G: Uh -- the -- it goes in to the Rules Committee in the House.

HMJr: Uh -- but then -- Rules?

G: Yes.

HMJr: Uh huh. I wonder who's on Rules, you see?

G: Yeah, Sabath is on there. I've started to get the list of names this morning.

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HMJr: And to go to work on them?

G: Yes, sir.

HMJr: Attaboy.

G: But we're watching it, Mr. Secretary, and we have several other people in the....

HMJr: Well, watching it ain't enough.

G: I -- I -- I understand. I don't mean that.

HMJr: All right.

G: I understand that Thomas and those fellows said they wouldn't do anything about it. Is that right?

HMJr: Thomas?

G: Harold Thomas.

HMJr: Oh, I don't think they'll do anything.

G: No.

HMJr: They always let somebody else do it.

G: That's right. Well, I started to check up on it and I found that you had already spoken to them.

HMJr: Yeah.

G: And that they are not going to do anything about it.

HMJr: Yeah. And I haven't heard from Knox.

G: Yeah. Well, he won't do anything.

HMJr: They're all scared.

G: That's right.

HMJr: Yeah.

G: Well, we -- we're not afraid to stick our neck out on it.

HMJr: Well, I'm personally not afraid.

G: I understand that. And I think you're sound on it.

HMJr: And you might -- another thing is -- this is "period -- paragraph -- new subject."

G: Yes.

HMJr: You might begin to find out and get acquainted with the man who is going to take Palmer Hoyt's place.

G: Mr. Healey.

HMJr: Yeah.

G: Yes, sir.

HMJr: And I'll tell you, you might ask Elmer Irey if our boys know him.

G: Yes, I will do that.

HMJr: And we might have a good introduction to him through that channel.

G: Fine.

HMJr: The man that handled the Huey Long case -- whose name was Burford....

G: Yes.

HMJr: ....and he may know this fellow. I don't know whether this is -- how active he was with Huey Long, but through Irey or Burford we might get a good line on him.

G: Fine. I'll get a line on him from Irey.

HMJr: Right.

G: I'll call today on it.

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HMJr:

Right.

G:

All right, sir.

Luncheon meeting in Secretary Morgenthau's Office  
Tuesday, November 23, 1943

Present: Secretary Morgenthau  
Mr. Crowley  
Mr. Cox  
Mr. Currie  
Mr. White

The Secretary had invited the group to luncheon to pursue the discussion of questions relating to the British dollar balance position.

The Secretary began by saying that he had informed Secretary Hull that he and Mr. Crowley were ready to discuss with him the question of French payment for military goods now sent under lend-lease credit and would it be possible to take that up after the meeting on the Argentine matter in Secretary Hull's office was over. Several days after the inquiry Secretary Morgenthau said he was informed by Secretary Hull's office that Secretary Hull was not yet ready to discuss the French matter. Secretary Morgenthau said as soon as Secretary Hull sets a time of meeting he would be ready he would get in touch with Mr. Crowley.

The Secretary then related the gist of conversation at the luncheon he had had with Lord Halifax and Waley.

Mr. Crowley asked how far we had gone in our preparation of a program. Mr. White replied that he thought that the draft of the letter agreed on by Currie and himself represented the views of the group. The letter, he said, placed the matter squarely up to the President and called either for approval designed to curtail the balances or for a decision by the President to modify the directive of last January.

Mr. Cox thought that that approach would not be the wisest. He felt it would be better not to raise the question of the balances. He said that the State Department would not agree and that eventually the Prime Minister would raise the issue with the President and then we would not have made any progress. He thought it would be much better not to bring the matter to the President but rather to pursue the course of attacking each item separately. He stated that the first step had been taken on fish from Iceland. The next one might be sugar from the Caribbean area, then shipping services and there were other items. It was his view that if we raised each one of these projects separately there would be no point on which the Prime Minister could appropriately complain to the President.

Division of Monetary  
Research

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White said that he preferred the approach of the total balances. He feared that the aggregate of reductions likely through the other method was quite inadequate to carry out the directive. Currie and Cox, however, pointed out that they hoped the amounts that they could total by taking one item up at a time might reach to several hundred million dollars. White agreed that if that magnitude could be reached the approach suggested by Cox might be all right.

Mr. Crowley repeated the conversation he had had with the President some time ago in which the President said that he thought the British should have up to \$2 billion. Mr. Crowley said he had told the President, "Please don't say that. Let the Treasury people and my people work out what we could do on the matter and then if there is any disagreement the matter can be brought to your attention but that I think we can work something out that will be satisfactory." Mr. Crowley therefore thought the approach suggested by Cox was the better one. The Secretary agreed and it was decided to pursue that course as quickly as possible.

The Secretary raised again the question of sending lend-lease goods to the Middle East on a credit basis. Mr. Cox replied that it was a pretty complicated matter, that they were trying to cut out some of the items.

The Secretary repeated some of the things he had stated in former conferences with Mr. Crowley with respect to the desirability of tightening up on the whole Lend-Lease program, and the cutting out of all procedures that weren't fully justified and couldn't be easily defended.

H. D. White

November 23, 1943  
2:25 p.m.

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HMJr: I've had a little -- I had figured on asking to see the Democratic members of the Finance Committee on Saturday. Now, they want to see me tomorrow.

Dan Bell: Uh huh.

HMJr: Now, I'm asking you and Paul to go with me.

B: Uh huh.

HMJr: And -- it's for lunch up at Halsey's office.

B: Uh huh.

HMJr: Now, golly, I hope you can have something on that \$13 billion before that.

B: I think I'll have it. I've got the story informally but I think I'll have it in writing.

HMJr: Well, if you could have that by -- for lunch tomorrow, it would be wonderful.

B: I think I can.

HMJr: Well, and can you find out who's going to give it out to the public?

B: Uh -- that we'll have to decide, I think. I can get a written statement either over the signature of the Secretary of War or the Budget Officer, General Richards. He said that he'd do it either way. I told him I thought over his signature as Budget Officer might be just as good. And he'll give us something that we can give to the Committee. He'll write it in such a way that it can be put into the record if you want to.

HMJr: Gee, I don't know....

B: Now, I haven't gotten the Budget yet to see what they want to do.

HMJr: Well, don't you think over Mr. Stimson's signature -- which do you think would have more effect?

B: Well, I thought probably the Budget Officer's would be as effective.

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

B: I mean, he doesn't care.

HMJr: Well, I'll tell you -- no -- I did this through Patterson's office. Hello?

B: Did it through what?

HMJr: I started this through Bob Patterson.

B: Uh huh.

HMJr: I'd put it up to Patterson, "How do they want it?"

B: All right.

HMJr: I mean, let them decide.

B: All right.

HMJr: You see?

B: Yeah.

HMJr: But we've got to have it by noon tomorrow.

B: All right. Well, he can give it to me.

HMJr: Is it a good story?

B: Uh -- yeah, a good story.

HMJr: Yeah.

B: And, as a matter of fact, the thing that -- they've been working on it for a long time and the thing's been in the mill. If the Committee up there hadn't gotten ahold of it, why, there would never have been any publicity to it. They would have just put it in reserve and forgotten it.

HMJr: I see.

B: But, there has been no change in the expenditure figures since the Budget summation of August 1.

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HMJr: Really?

B: Yeah. And they see no reason for changing the expenditure figures at this time.

HMJr: Well, you can see the importance of getting it into the hands of the public. Now, what I'd like to do though, is to get it out a couple of days before I go up there.

B: You mean before you go up on Monday?

HMJr: Before I go up on Monday.

B: Yeah.

HMJr: That's what I'd like to do.

B: Well, I think they'd be willing to do that.

HMJr: Okay.

B: All right.

HMJr: Thank you.

November 23, 1943  
4:00 p.m.

TAXES

Present: Mr. Bell  
Mr. Sullivan  
Mr. Blough  
Mr. Gaston  
Mr. Haas  
Mr. Smith  
Mr. Surrey  
Mr. Tickton  
Mr. Lindow  
Mr. O'Connell  
Mrs. Klotz

H.M.JR: I have got your memorandum, John, if you want to stay a minute behind.

MR. SULLIVAN: Yes, sir.

H.M.JR: You said you wanted to see me.

MR. SULLIVAN: Yes, sir.

H.M.JR: This is from Gaston to me: "Walter Lippmann's general comment was that he didn't think that the Treasury's case had been well enough presented to the public."  
(The Secretary reads to himself Mr. Gaston's memorandum of November 23, attached)

Well, Smith, I'll keep the original. (Secretary hands carbon copy to Mr. Smith)

One thing I would like a little advice on is this: I have been fussing, through Colonel Halsey's office, to meet with these people. First they couldn't come tomorrow, and I said George and Barkley, and as many more as they wanted. Well, I gathered they are inviting all twelve members. I can't back out. But I had intended taking

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Bell with me, and Paul and Smith, and anybody who thinks he should come, although I did want to keep it down. The main thing - do you think it would be good ball or not for me to call up Vinson and ask him whether he would go up with me? It is my luncheon; I am paying for it.

MR. SULLIVAN: Who is the committee meeting with?

H.M.JR: Mostly the Democratic members of the Finance Committee.

MR. GASTON: Yes.

MR. BELL: I haven't been able to get Vinson. He has been out all day. I haven't been able to get him, so I haven't told him about it.

H.M.JR: What do you think?

MR. BELL: I certainly don't think it will do any harm, because he will certainly be called before that committee and he ought to know what is going on.

H.M.JR: Fred?

MR. SMITH: I think you ought to invite him.

MR. SULLIVAN: I am just wondering - you are going to try to outline the tax plan?

H.M.JR: Yes.

MR. SULLIVAN: Or are you going to spend most of your time talking about the necessity of the new tax?

H.M.JR: Sort of outline it.

MR. SULLIVAN: I would take him.

MR. BELL: Then you are going to try to get their advice?

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H.M.JR: Yes. Does anybody think we shouldn't?

MR. GASTON: I just wonder what good the lunch is going to do. Isn't it just going to make it more difficult for you to say what you want to say when you make a formal appearance before them?

H.M.JR: I don't know, Herbert. I think, over a period of ten years, when you do this thing on a personal basis you don't appear cold before them. You do have a little bit more sympathetic audience.

MR. GASTON: Yes. You couldn't put it on the ground of just asking them what you are going to say or what you should say?

MR. BLOUGH: Ask them how you can go about persuading them.

(The Secretary places a call to Judge Vinson.)

H.M.JR: It is too late to decide whether it was smart, but to go up absolutely cold against these fellows is an awful shock. I have known them for ten years.

MR. GASTON: I think it is all right. I think you can just tell them that you are sticking to your guns on heavy taxes.

H.M.JR: It will be in the paper, but what the heck - it will sort of soften them up. Anyway, it is water over the dam - I mean, if I made a mistake.

MR. SULLIVAN: I don't see any objection to its being in the paper, Mr. Secretary.

MR. BLOUGH: I was a little facetious when I said ask them how to persuade them. I really had in mind that you may be able to find out what types of facts and information they consider important in connection with this, and it may help to guide you in the kind of statement you make to them.

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H.M.JR: I think so. Paul called him up and asked him about simplification of this and that thing. Look, anyway, I did it. I think it may soften them up a little. What the heck!

MR. GASTON: Did you notice the Herald Tribune cartoon this morning? That is worth seeing.

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

MR. GASTON: It is directed against the Republicans getting drunk on inflation. It is a good cartoon. It is right up our alley. That is one thing that Ernest Lindley called attention to, that the important papers are swinging around into our corner on the general proposition of the need for heavier taxation.

Of course, many of them are saying it should be done through the sales tax, but not all.

H.M.JR: Well, I would like to have a report--

(The Secretary picks up phone) Tell Schwarz' office I would like to see the cartoon in today's New York Tribune. Send it down to me.

Give me a report, Bell, on what you have been able to accomplish.

MR. BELL: Well, all of the things that you asked for this morning are in Mr. Blough's shop, and he has been working on those three things you asked for. Just what he has done, I don't know. We didn't have any more meetings because he wanted to spend the entire time - oh, you mean the other--

H.M.JR: Yes.

MR. BELL: I still haven't been able to get ahold of Harold Smith. Wayne Coy was to call as soon as he got out of Byrnes' office. That statement was left with Jimmy Byrnes, and he was until one to get him to hold it up.

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He said he would talk to them as soon as their meeting was over and call me right afterwards to see if we could get together on some kind of program.

I talked to General Richards of the War Department, the Budget officer. He gave me the background of the thirteen billion. He said late in June or early in July the General Staff went over the whole Army program and they decided to reduce their personal program from eight million and a quarter down to seven million seven. When they did that they called up all of the service bureaus to submit estimates of what appropriations they could get along without for the rest of this fiscal year. After they got the bureaus' estimates, they had hearings before his group, as a result of which they set aside in reserve about ten billion nine.

They notified the Bureau of the Budget of that early in September, and going over the matter again with the Bureau of the Budget, they have since been able to increase that to thirteen billion.

In their budget estimate of last January, they estimated they would spend sixty-two billion dollars this fiscal year, and in July they notified the Bureau of the Budget and also the Treasury - they have been using their estimates - that this estimate would come down to fifty-six billion. That fifty-six billion dollars is in the summation of the Budget, issued on August 1. So that has all been made public.

But at that time the Budget Bureau increased the Navy expenditures from twenty-two billion, set out in the Presidential Budget Message of January, to twenty-eight billion, which was included in the summation. So, on the over-all estimate there was no change whatever - still retained the ninety-seven billion.

Now, whether they did that to retain the ninety-seven, I don't know, but the expenditure program up to date indicates clearly that the Navy is going to exceed their original estimate unless they have a sharp reduction from here on.

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They are on a basis, now, of about twenty-four or five billion dollars, and the Army is on a basis of, well, I should think about fifty-five billion, if they spend from here out as much as they will this month.

H.M.JR: Now are you talking about the calendar year?

MR. BELL: Fiscal year. Now the thirteen billion dollar reserve has had very little effect on this year's estimate of expenditures. Whatever effect it has had was taken into consideration in the July change in their estimates.

Senator Byrd and Senator Truman have both been investigating the War Department's huge unexpended balances. That has been a little embarrassing to the Chairman of the Subcommittee of the Appropriation Committee, who has charge of the military appropriation estimates. He talked to Mr. Cannon, the Chairman, and said that they thought they ought to do something about it, because what Byrd and Truman were doing was a reflection on his committee.

So he called the War Department officials up to his committee and rehashed this whole program that the General Staff had changed, also the thirteen billion dollars in reserve, and finally gave the figure to the public as a saving in War Department appropriations.

H.M.JR: Who?

MR. BELL: Chairman Schneider. That is how it got to the public. If it hadn't been for that, you never would have heard of the reserve; it would have been a matter between the War Department and the Bureau of the Budget.

H.M.JR: Who is Schneider?

MR. BELL: Chairman of the Military Affairs Appropriation Committee of the Appropriation Committee of the House - a subcommittee.

And that is about the story.

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H.M.JR: How are we ever going to get this thing down, though?

MR. BELL: He is dictating a memorandum this afternoon which he will give to us and which will be in such form that we can make it public. I told him also to give consideration as to whether, if we wanted them to, the Secretary or Patterson couldn't give it out Friday morning in the press conference. He will do that, too.

H.M.JR: Will we have a press conference?

MR. BELL: I don't know. Maybe if there is one at the end of the week, one might do it, if that is what you wanted. He will tell me about that tomorrow morning when he gives me the memorandum. I will have that before twelve o'clock.

The Navy said, Secretary Knox said, he never heard of the five billion, and no one in his Department is authorized to give it out. The Budget Bureau said they never heard of it. They said there wouldn't be any change in their estimates unless there was a radical change in their construction program. They said they did have under consideration the matter of throwing out some heavy battleships, but it would be very little paid on those in this year, so not much effect on this year's expenditure program. That will probably have to wait until tomorrow afternoon before I can get anything on it.

H.M.JR: What is Wayne Coy trying to do?

MR. BELL: I asked him if he didn't want to consider at this time revising the Budget summation given out in suggestion one. We have been trying to get Smith all day to talk to him about it. He said as soon as he got the statement from Byrnes he would call me back. We would talk about whether we wanted to do it or not.

H.M.JR: I think the more light that can be thrown on this thing, the less questions I am going to be asked, and the more the public will understand. I think that is a matter of public education.

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MR. BELL: I am not so sure that you can't show the Senate Finance Committee that the expenditures that will be made in November, if continued on that basis, will pretty much reach the War Activities' estimate.

MR. GASTON: You have got a net there of - what did you say - twenty-four or twenty-five, plus sixty-five - about ninety billions, as against ninety-six, is about the way it stands, isn't it?

MR. BELL: No, it is about twenty-five and fifty-five, which gives you eighty. Then you have a lot of other activities - anywhere from fourteen to sixteen billion dollars. What you had was eighty-eight billion of War and Navy, and then you had nine billion of Lend-Lease, outside of the War and Navy, Maritime Commission, Agriculture Department, Treasury, and other governmental activities under the war expenditure classification.

MR. GASTON: But these Army-Navy changes were both taken into account in the last summation?

MR. BELL: Yes. The ninety-seven wasn't changed, but the Army and Navy expenditures were changed. The Navy increased to take care of the reduction in the Army.

H.M.JR: Get this thing - why don't you see if you can get Wayne Coy here? (The Secretary placed a call to Mr. Wayne Coy.)

MR. BELL: Would you like to see them revise the Budget summation?

MR. BLOUGH: Stanley made a suggestion here.

MR. SURREY: I was just wondering - this thirteen billion will probably be used in the House debate starting tomorrow.

MR. BLOUGH: This could be killed before that debate starts.

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MR. SULLIVAN: Budget could come out with their statement and let War and Navy go on and explain it Friday.

MR. HAAS: I think Fred Smith's explanation is the one the public can understand easiest.

H.M.JR: What is that?

MR. HAAS: He has prepared a statement to be given the Senate. In that statement is an explanation of the thirteen. I think the way he has handled it is the most effective way to handle it.

H.M.JR: This is good. I haven't read it. Do I get a copy?

MR. SMITH: Yes.

H.M.JR: Nobody tells me anything. Let's say that this is up to the best Smithsonian style.

MR. BLOUGH: It is pretty good, Mr. Secretary.

MR. SMITH: I don't know - it is all right with Research and Statistics.

H.M.JR: I still think that Stanley has an idea. If this thing could be put into the hands - this explanation - of Patman, who is carrying the fight - the thirteen billion explanation--

MR. BELL: This is the subsidy?

MR. BLOUGH: No, tomorrow the House starts debating the tax bill.

MR. SURREY: They finished the subsidy bill today.

MR. BELL: You don't mean Patman, do you?

H.M.JR: I mean Doughton.

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MR. SURREY: Doughton is not on your team.

H.M.JR: Give it to somebody. I didn't know the House was in session today.

MR. BELL: They adjourned yesterday, I think, out of respect.

H.M.JR: You publicity fellows, this is what I think: I think the quicker we can get out the answer to the thirteen billion, the better. And then if they don't handle it right, we can always come in on the rebuttal. I mean, if we could lay that thing, fine. Don't you think so? If it could be done in the House--

MR. SMITH: If that would do it. The only thing that worries me is that if it gets out as a technical explanation, it may not get any attention. I was enthusiastic, but you are having a fairly sizable meeting here; maybe having Vinson here, and having a good burial for the thing--

H.M.JR: Yes, but supposing Mr. Stimson and General Richards at his side, are willing to do it over there?

MR. SMITH: That is something else again. That will get some attention.

MR. GASTON: I think if we have any friends in the House majority that they ought to be told about this today so that they can deal with it on the Floor.

MR. SMITH: I think that is true.

MR. SULLIVAN: Then the newspaper fellows will go after Stimson on this thing.

H.M.JR: Well, the thirteen billion, it is really up to the Budget to supply those figures, isn't it - the leadership up there?

MR. BELL: Either they or the War Department.

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H.M.JR: If you told Wayne Coy the tax bill is coming up tomorrow and we have got this story - you haven't got it yet, though, have you?

MR. BELL: No, except informally. But he was dictating it an hour ago when I called him, so he may have it pretty well done.

H.M.JR: I am thinking out loud - whether that thing couldn't be gotten, well, into the hands of the Speaker.

MR. BELL: Wayne Coy is a pretty good politician. He has a lot of friends up there.

H.M.JR: Tell Wayne Coy to get it into the hands of the Speaker. He could take General Richards up with him and the two could explain it.

MR. BELL: The Speaker wouldn't make any speech. McCormack could.

H.M.JR: Yes, but you have got to be awfully careful. The Speaker would have to invite General Richards to his office tomorrow.

MR. SULLIVAN: That would be the end of it. Neither of those fellows prefer big taxes. How about Jere Cooper?

MR. GASTON: We have got to get somebody in our corner.

H.M.JR: I personally think it is a dead horse; it is going to get lost and snowed under. I would rather have the thing fresh out of Stimson's office Friday morning, with General Richards sitting at his side prompting him.

MR. SULLIVAN: Could Budget release this for the morning paper?

MR. SMITH: I think it will get lost if Budget does it. Nobody reads anything Budget does.

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MR. LINDOW: The Budget summation doesn't have much to do with the thirteen, and will add confusion, I think; if there is a reduction in expenditure in the Budget summation somebody may want to add that to the thirteen.

H.M.JR: I think they are two separate things. I think it is up to the Army to do the explaining. I think if Mr. Stimson or Mr. Richards would do it it would be better. The earliest that you can do without rushing it so fast that it would be spoiled - if you can get around to it Friday morning.

MR. BELL: They probably could do it around tomorrow morning, around eleven o'clock, and get it in time for the session.

H.M.JR: You mean Mr. Stimson?

MR. BELL: I am sure Richards will be finished tomorrow morning by ten or ten-thirty.

H.M.JR: They give it out and say, "Notwithstanding that the Congress only voted two billion dollars." That damns it twice. Now they get it down and finished; it goes down with the bill and it is drowned. Now all the newspaper people are going to write, "Well, the Congress was wrong. They should have gotten more." Then we come up with fresh information that the thirteen billion isn't right, and I think the papers will back us up to the time I go up and ask for the ten and a half. I wouldn't do it for the Ways and Means. After all, it isn't our responsibility, anyway. It isn't as though they were withholding information.

MR. BELL: They are not going to pay any attention to it on the Floor of the House.

MR. SULLIVAN: They have a rule; they couldn't pay any attention if they wanted to, under that rule.

H.M.JR: Gentlemen, I would not give it to the House tomorrow. It just goes down under an avalanche. Does

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anybody disagree with me? Herbert, have I sold you?

MR. GASTON: No, not completely. I think there should be somebody on the Hill intelligent enough about what appropriations mean so that they could ridicule that thing when it comes up. If he isn't going to have any chance to talk about it, that is another thing.

MR. SULLIVAN: A chance to talk, but not to do anything about it.

H.M.JR: Herbert, it is going to get snowed under. Do you mind if I do it my way?

MR. GASTON: No, that will just give me a chance to say yaa, yaa!

H.M.JR: The way you always do -- not. (Laughter)

All right. Then we are waiting for Wayne Coy. You (Bell) are going to talk to him about the summation. You are going to tell him what is doing on the thirteen billion?

MR. BELL: Yes, he knows.

H.M.JR: We are trying to do the thing now, and what we want to do, instead of having him do it, or having Mr. Byrnes do it, have Mr. Stimson do it. Is that right?

MR. BELL: Yes. I would be inclined, I think, to leave the summation alone if we are going to tackle the thirteen billion on Friday morning.

H.M.JR: I will be satisfied.

MR. HAAS: The Budget estimates are not in bad shape in terms of this conversation you had today.

MR. BELL: A lot of things can happen.

(Mr. Bell held a telephone conversation with Mr. Wayne Coy, as follows:)

November 23, 1943  
4:33 p.m.

Wayne  
Coy:

Hello.

Dan  
Bell:

Wayne, have you got any more information?

C:

Yeah, I've got the deck cleared.

B:

Oh.

C:

Just like a one-armed paper hanger though.

B:

You don't know what to do?

C:

Well, I just this minute got back and talked to Harold. I've just had time enough to talk with him.

B:

Uh huh.

C:

But I got Jimmy to go along with me on the thing.

B:

You mean for him not to release anything?

C:

He's not going to release anything. He thought he might have something to say about it in his Press Conference after Harold released it here.

B:

Uh huh.

C:

Which is all right. He'd have this -- his approach to it is this: he's been working to get the Army and Navy to make cut-backs in their program where they have an overproduction like in small-arms ammunition or a small ship program of the Navy, and substitute for that other things which are new items so that you don't get an inflated program.

B:

Uh huh.

C:

And he'd approach it from that angle and support the thing, which is all right. That falls right into the pattern.

B:

What would you think of having Secretary Stimson give out a statement on this \$13 billion?

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- C: Well, uh....
- B: I think they can give out a good one.
- C: They can?
- B: Yes.
- C: I saw a statement that they'd prepared for Jimmy on the thing dated the 15th and it's pretty bad. Here's the trouble with it, Dan, and I'll show you why they can't do it and they just can't get it through their heads. They show savings in their construction program of a billion dollars. They show savings in their supply program of about five billion dollars; total savings of six. Well, now, that runs from today to the end of the war, you see, in terms of their supply program.
- B: That's all to the good.
- C: Which -- what?
- B: That's all to the good.
- C: Yeah, but they don't -- they don't spell that out at all and these fellows over there -- I've talked with him about it this afternoon -- with Jimmy -- they -- they're inclined to say that's next year, this fiscal year, you see? In fact, it isn't.
- B: No, I understood that they are of the opinion that the \$13 billion does not materially affect 1944 expenditures.
- C: Well, it will affect it some, as you know.
- B: Well, not any more than what they have already taken into consideration when they submitted to you a \$56 billion program for your Budget summation.
- C: No.
- B: It's all in there.
- C: Yeah. That's right.

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- B: So that there's been no change in the picture since the \$13 billion was made public.
- C: Why -- I was just thinking out loud with you, because the Navy's involved in this picture, too, as well as the Army, except that they haven't gotten the publicity about it.
- B: Well, they told me over there they didn't know anything about the \$5 billion.
- C: They didn't?
- B: That's right. Secretary Knox said that he didn't know who gave it out and no one around there knew anything about it.
- C: Yeah.
- B: And they had no intention of saving \$5 billion.
- C: Well, what I thought that I'd do here was get our people in in just a few minutes and go over the thing with them and lay out for our fiscal people the preparation of a statement that the Director could issue, which would, in effect, be a revision of our summation. And I talked with Weldon Jones at noon today and he says we can have that prepared within forty-eight hours, he was sure.
- B: Uh-huh.
- C: Then it might be possible that that could be supplemented by a statement from Stimson which would reinforce the whole damn business.
- B: Well, General Richards is preparing such a statement, giving the background of the \$13 billion and what it means in terms of expenditures.
- C: Yeah, at whose request?
- B: Mine.
- C: At yours?
- B: Yeah. Because I thought maybe we had to use something before the Senate Finance Committee on Monday.

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- C: Well, I'll tell you, Danny, any statement that Richards prepares that we don't have a look at and see what it is and what it means in terms of our own figures, we may be just raising hell with it.
- B: You can see it.
- C: Because, I've just seen one that he prepared for Jimmy which is just as cock-eyed as can be.....
- B: Uh huh.
- C: ....in its implications and I would just jump right down his neck if he gave out a statement about their expenditure program without consulting with us about it.
- B: This is just on the \$13 billion.
- C: Uh huh.
- B: Not on their total expenditure program, other than what they have already given you.
- C: Even then, I'd want to see it.
- B: They were going to explain why the \$13 billion and how it came about and at the present time they see no reason for changing their expenditure program they submitted to you in August....
- C: Well, that's....
- B: ....as part of your summation.
- C: He may get a very good statement. You know, we had \$11 billion of this in there four or five weeks ago.
- B: Yeah. That's what he said. First of September you got it.
- C: Yeah.
- B: Well, could I see you tomorrow morning then, the first thing? As soon as General Richards gets ready, and we can all sit down together.

C: Yeah.

B: Would that be better?

C: Yeah. Yeah, I'm free except at 2:30 tomorrow. I've got one date.

B: Uh huh. I'd like to do it in the morning if I could.

C: All right, whenever you get in touch with him, you give me a ring and we'll all sit down together.

B: All right. I'd like to.

C: And then I -- after I get Weldon and his fellows to work on a statement for Harold here, I want you to see that, too.

B: All right.

C: Because we don't want any statement going out that doesn't support your position here.

B: Would you contemplate getting something out by Friday?

C: I would plan to have it to release Thursday night for the Friday morning papers.

B: That'd be swell.

C: That would just fit your schedule.

B: Just exactly.

C: That's what I thought and that's what I'm going to tell them is my schedule on it.

B: All right.

C: Okay, Dan.

B: I'll call you in the morning the first thing.

C: All right.

B: Bye.

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H.M.JR: We have covered a lot of ground. Herbert, we are not in the position, intellectually, to give it to the Congress, because, after all, it is up to the Bureau of the Budget. That ought to ease your Oregonian conscience.

MR. GASTON: That is right.

H.M.JR: Willamette Valley.

MR. GASTON: Yes, and Puget Sound.

H.M.JR: Beautiful valley.

MR. GASTON: Both.

H.M.JR: Well, I think we have made real progress, and I feel this way, that once you get that, it still gives us time.

Then you fellows - I would raise the question that we want to re-examine the so-called gap, see - as between Budget and ourself, so that we are together on that.

MR. BELL: I think we are in excellent shape on the gap because the figures you have used have been around ninety-four or ninety-five billions. He had been using the financing estimate and they are awfully close now. And in your preparation of those estimates you consult with a lot of people, among others, Colm, don't you?

MR. LINDOW: Yes, that is right.

MR. HAAS: Colm is coming over to see me tomorrow at three o'clock. We can check with him at that time.

H.M.JR: I feel better tonight than I did. I think we are making a little progress. This was the damnedest thing to go up against, this thirteen billion dollars. It seemed unanswerable. If I could just offer this much advice, the more light they can throw on the Budget, the better I am pleased, see? You can see they don't like the Army.

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Now, this is the Budget's job. If they want to do it at press conference, I would tell them for God's sake to have a careful press conference.

MR. BELL: After all, we have to have our contacts on financing estimates. We don't go through the Budget for that.

H.M.JR: No. Well, I think now, Roy, you have got three things in the works.

MR. BLOUGH: Those three charts you asked for this morning; the sales tax chart showing the break-down by necessities of various kinds; the chart showing the taxes as a percentage of income for various classes of incomes; and a chart on the nine million taxpayers.

(The Secretary held a telephone conversation with Mr. Fred Vinson, as follows:)

November 23, 1943  
4:41 p.m.

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HMJr: Hello.

Operator: Judge Vinson.

HMJr: Hello.

Fred  
Vinson: Hello, Henry.

HMJr: How are you?

V: All right, sir.

HMJr: Fred, I, through Colonel Halsey's office, asked for an opportunity to see as many of the Democratic members of the Finance Committee as possible tomorrow, and I told them I'd like to have them for lunch. Well, he fixed it up in Halsey's office. They just let me know....

V: Yes.

HMJr: ....for tomorrow. And I'd be very pleased if you'd go along with me.

V: Well, Henry, I don't -- I don't believe I can. I've got -- I've got this coal business that's going to take me day and night....

HMJr: Oh.

V: ....putting the price on coal and some of the mines are shutting down.

HMJr: I see.

V: And I've got to get that out. Then, I don't know that I could add anything to what you would say or do except just to backstand you.

HMJr: Well, that's what I want.

V: I'm ready to do that any time or any place.

HMJr: Well, I just want to let you know you're welcome.

V: Well, that's mighty fine but I believe that -- uh -- another thing if I got up there, why, they might want to talk about some other things.

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HMJr: (Laughs) I see.

V: (Laughs) Sometimes when you're not around, why, they can't talk about them.

HMJr: Well....

V: They've been wanting me to back up on this wage -- uh -- railroad business, and I don't know how I could back up. I've already decided it....

HMJr: Yeah.

V: ....and it looks to me like I've lost jurisdiction of it.

HMJr: Well, we -- I'd like to keep you posted up to the time I go up there.

V: Well, that's fine.

HMJr: Well, Bell has been working all day with Wayne Coy on the question of getting out a new summation on an answer to the \$13 billion. You see?

V: Yep.

HMJr: He just got through talking to Wayne Coy and -- who's come to an understanding with Jimmy Byrnes.

V: Well, I was over there when Wayne was talking to Jimmy and me. It was after the War Mobilization Committee meeting.

HMJr: Oh, good.

V: And Wayne told me about the conversations....

HMJr: Good.

V: ....and I was particularly strong that the debt situation would be stressed.

HMJr: Yeah.

V: Present debt and debt as estimated as of the end of the fiscal year, because that seems to me to be the material figures as to the question of tax program.

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HMJr: Right. Well -- uh....

V: You agree to that, don't you?

HMJr: Oh, yes.

V: And our statements that we made before the Committee stand because it don't make any difference how much they save.

HMJr: Yeah.

V: What they need to do is to pay some of this debt while they've got the money and at the same time keep the house from burning down.

HMJr: Well, from what Bell tells me and what Wayne Coy told him, I feel that they can explode that \$13 billion thing.

V: Oh, yes. That's phoney as far as....

HMJr: Yeah.

V: ....as the tax problem is concerned -- or the inflation problem, either one.

HMJr: And Wayne Coy has promised us that he'd get it out not later than Thursday night....

V: Well, that's fine.

HMJr: ....which would be helpful all around.

V: That's right.

HMJr: And -- because -- but it's really the Budget's job, I think, to do that.

V: Well, that -- the way I recall it, it was left for Wayne and Budget to prepare it.

HMJr: Well, it's in the way.

V: Yep.

HMJr: Well, thank you.

V: All right, Henry.

HMJr: Bye.

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H.M.JR: Here they were, fighting to get into the tax thing, and now it doesn't look so good. Well, I invited him up to lunch with me, but he is too busy and he is afraid they might ask him a lot of questions about other things. He doesn't want to go up.

(Mrs. Klotz entered the conference.)

H.M.JR: I asked Jimmy Byrnes to help me and come over to lunch with Vinson. He is too busy. He won't bother with the tax bill. It is all to the good, isn't it? (General assent)

I had Nathan here and he made a suggestion that I don't know whether it was good or not, but I pass it along for what it is worth. He says he thinks that if we would simply say that these nine million people, or however many people are going to be excluded from paying an income tax - their income amounts to so much; let's say it is twenty or twenty-three million; deduct that from the total national income and say the rest of it is taxable; and talk in terms of one hundred and twenty rather than in terms of one hundred and forty-five, when twenty-three of it you can't tax, anyway. Well, I am throwing it at you. I don't know whether it is good or not. They are talking about four-fifths of the people in terms of one hundred and forty-five billion.

MR. GASTON: He is talking about the tax base you are eliminating rather than the number of people.

H.M.JR: I think it is an interesting idea. I am throwing it at you. I think he said four-fifths of the income is among five thousand. They say four-fifths of one hundred and forty-five billion when they should say four-fifths of one hundred and twenty-odd billion.

MR. SURREY: I think the whole thing has to be explained.

MR. BLOUGH: Would it be all right if I called Nathan and had him explain it to me?

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H.M.JR: Do you (Smith) see any reason why not?

MR. SMITH: No, I don't.

H.M.JR: No, I think he would be complimented.

MR. BELL: I think the debt thing Vinson mentioned is important. You will have a two hundred million dollar debt at the end of this year, whatever you do. They ought to be a little worried about that regardless of the change in appropriation and expenditures.

H.M.JR: Did you say anything about the debt?

MR. SMITH: That is what it is all about, just concentrating on the two hundred million you got backed up, and to hell with what you get cut off of from now on.

H.M.JR: Did you find anything about Mr. Mellon and Mr. Coolidge?

MR. SMITH: I haven't yet. Shere was looking for Paul. I haven't heard from him.

MR. BLOUGH: I haven't checked on that. I don't know. They haven't reported anything.

H.M.JR: Well, I think this is all right. Now, here is the point; we are making steady progress. I am going to Secretary Hull's at nine-thirty. I would like awfully to have another meeting at eleven with this group. So, if you could tell General Richards, and I think you ought to tie up Wayne Coy with an appointment the first thing in the morning, and be ready for me at eleven.

MR. BELL: I will.

H.M.JR: This has been a good day. I am going to get a good statement from Roy, now, that will be really something!

November 23, 1943

MEMORANDUM

To: Secretary Morgenthau  
From: Mr. Gaston

I talked to Walter Lippmann yesterday and to Ernest Lindley today. I have an appointment with Raymond Clapper for tomorrow.

Walter Lippmann's general comment was that he didn't think that the Treasury's case had been well enough presented to the public. He asked about the nine million taxpayers whom we propose to excuse, indicating that he thought that the weakness of the Treasury's case lay there. When I explained to him who these nine million were and that there would still be more than thirty-five million taxpayers left and that 53 per cent of our additional taxes were in the brackets below \$5000, he seemed impressed. He asked me our arguments against the sales tax. After I had summarized them he agreed with us in our opposition to the sales tax.

Ernest Lindley thinks that in your Senate appearance you should concentrate on the general argument for substantial increases in taxes both on the moral ground that we ought to pay all that we can afford to pay now and on the ground of preventing inflation. He was strongly impressed with the strength of the argument that it will be unfair to saddle the returning soldier with a greater debt than is absolutely necessary. He thought that instead of presenting the same detailed recommendations for new taxes that we presented to the House the plea for new taxes ought to be general and that we should indicate a receptive attitude toward any substantial taxes the Congress sees fit to impose. He thought that we ought not to take even a completely unyielding attitude toward the sales tax but should accept a properly modified sales tax, but only if it were a minor part of a program yielding very substantial new revenue. He thought the Congressional argument against subsidies could be completely turned on them as inconsistent with their attitude on taxation.

November 23, 1943

Herbert Gaston  
The Secretary

Evidently you had a very successful interview with Walter Lippmann and I, therefore, suggest that you also send for Ernest Lindley and several other of the prominent columnists and give them the same kind of talk that you did to Lippmann. I would appreciate it if you would see as many of them as possible between now and Friday night so you could give me the benefit not later than Saturday morning. Then we will have to finally knock my tax statement into shape. Thank you. *O. Quay*

Herbert Gaston  
The Secretary

November 23, 1943

If you agree with me that it is worth while seeing the different columnists, I wish you would include Ray Clapper on your list.



INTERDEPARTMENTAL WAR SAVINGS BOND COMMITTEE  
WASHINGTON



OFFICE OF CHAIRMAN  
TREASURY DEPARTMENT

41-23-40

*STRICTLY  
CONFIDENTIAL*

THIRD WAR LOAN DRIVE

THE WHITE HOUSE

The President .....	\$5,000
Mr. Casey .....	10,000
Mr. Latta .....	11,000
Admiral Leahy .....	4,000
Miss Ada S. Smith .....	2,000
Mrs. Roosevelt.....	800
Judge Rosemans .....	1,200
Admiral Brown .....	1,000
Mr. Niles .....	1,000
Mr. Early .....	500
Mrs. Thompson .....	500
Mr. McIntyre .....	500
Mr. Hopkins .....	225
Mr. Currie .....	250
General Watson .....	200
	<u>\$38,175</u>
All other .....	<u>304</u>

Bond purchases (cash  
and pay-roll allotments) \$38,479

Quota ..... \$6,167

Percentage of quota .... 624.0

*3*

TO:

125

The Secretary

This is what  
cooperation does.

SWB

11/23

Office of the Under Secretary

TREASURY BILLS

	<u>Nov. 26</u>	<u>Nov. 18</u>	<u>Nov. 12</u>	<u>Nov. 4</u>
Amount offered .....	\$1,000 M	\$1,000 M	\$1,000 M	\$1,000 M
Bills tendered .....	1,622	1,222	1,247	1,143
Accepted at fixed rate .....	78	74	76	67
Low rate .....	.360%	.297%	.340%	.336%
High rate .....	.376	.376	.376	.376
Average rate .....	.376	.375	.3757	.375
Amount in New York .....	\$684 M	\$627 M	\$642 M	\$535 M
Amount in Chicago .....	75	129	129	159
Amount in San Francisco .....	81	64	74	74
Amount in balance of country .....	160	180	155	232

November 23, 1943.

SECRET

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON 25



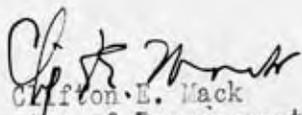
OFFICE OF THE DIRECTOR

November 23, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the weekly report of Lend-Lease purchases.

For the purpose of assisting in maintaining the maximum production of steel, we have been required by the War Production Board to accept, for the account of Lend-Lease, some premium cost production of steel. This practice is being discontinued by the War Production Board as of December 1, 1943.

  
Clifton E. Mack  
Director of Procurement

SECRET

LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF NOVEMBER 17, 1943  
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous &amp; Undistributed</u>
Allocations	\$3974.6 (3974.1)	\$1977.1 (1977.1)	\$1558.2 (1557.9)	\$109.8 (109.8)	\$11.0 (11.0)	\$318.5 (318.3)
Purchase Authoriza- tions (Requisitions)	\$3253.8 (3242.4)	\$1713.7 (1710.1)	\$1305.2 (1296.2)	\$43.8 (43.7)	- -	\$191.1 (192.4)
Requisitions Cleared for Purchase	\$3158.2 (3156.9)	\$1662.7 (1660.9)	\$1280.8 (1278.8)	\$43.4 (43.4)	- -	\$171.3 (173.8)
Obligations (Purchases)	\$3040.5 (3038.3)	\$1631.3 (1628.8)	\$1229.6 (1229.2)	\$43.3 (43.3)	\$8.4 (8.4)	\$127.9 (128.6)
Deliveries to Foreign Governments at U. S. Ports*	\$1464.7 (1436.7)	\$1010.9 (991.0)	\$412.9 (405.6)	\$19.8 (19.7)	- -	\$21.1 (20.4)

\*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of November 10, 1943.

## EXPLANATION OF DIFFERENCES.

The reductions in Purchase Authorizations, Requisitions Cleared and Obligations in the Miscellaneous Column are a result of adjustments of requisitions estimates to actual contracts.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

*Handwritten initials*  
130

DATE

TO Secretary Morgenthau  
FROM Randolph Paul

NOV 23 1943

Re: Argentina

On Saturday, November 20, John Pehle attended for Herbert Gaston, who was out of the city, a meeting of the Censorship Policy Board of which the Postmaster General is Chairman. Vice President Wallace was present at the meeting and made several remarks concerning Argentina. These remarks were made in the course of the discussion with regard to the termination of censorship as hostilities cease. The Vice President said that although he recognized that censorship must stop with the end of the war he thought we ought to bear in mind that Argentina and the Fascist tendencies which the present government has shown may be a problem to us even after the war.

In view of the Vice President's feelings on this matter you may wish to discuss with him the Treasury's views with respect to the freezing of Argentina.

*Handwritten signature*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

NOV 23 1943

TO Secretary Morgenthau

FROM Randolph Paul

Subject: Transfers of Argentine Funds.

I am informed that during the week ending November 20, \$1,727,000 was transferred from Argentine account to the accounts of other countries, including Sweden, Uruguay, and Panama, and that \$6,220,000 was transferred from Argentine account to the Central Bank account.

I am further informed that the third shipment of \$1,250,000 of Argentine gold, formerly held by the Federal Reserve Bank of New York for Central Bank account, left New Orleans for Argentina early in the morning of November 15 on the SS Iguazu, and that the fourth shipment of \$1,250,000 of such gold left New Orleans for Argentina early in the morning of November 17 on the SS San Juan.

R. E. P.

By *[Signature]*

NOV 23 1943

My dear Mr. Hull:

Reference is made to your letter of November 19, 1943 (Reference FD), relating to the servicing on December 1, 1943, of the French Government 7% dollar bonds due 1949.

Pursuant to your request, this Department is denying the request of the French North African authorities to transfer funds under their control for the servicing of this issue and in lieu thereof is issuing an appropriate directive license for the transfer of the necessary funds from official accounts of the former French Government in the manner requested by you.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable

Cordell Hull,

Secretary of State.

AUFox:rd 11/20/43

11/29/43

ATTENTION: MR. KIMBALL

You are instructed to issue a directive license to the French American Banking Corporation, New York, directing them, pursuant to the provisions of Section 5(b) of the Trading with the enemy Act, as amended, to charge the account with them in the name of the Paierie Generale Aux Etats Unis with the sum of \$2,400,000 and to pay this amount to J. P. Morgan & Company, Incorporated, New York, for credit to an account entitled "Government of the French Republic 7% Bonds due 1949, Account for Payment of Bonds Drawn for Redemption on December 1, 1943"

Approved "H. M. Jr."

15/ J. W. Behle

AUFoxsdg 11/6/43

DRAFT OF CABLE TO BE SENT TO HOFFMAN FROM THE SECRETARY OF THE TREASURY.

For your information the French North African authorities requested on October 15 that \$2,400,000 be transferred from the account in the name of "Tresorier General Aux Etats Unis du Comite Francais de la Liberation Nationale - General Account" to J. P. Morgan & Company, Inc., for the purpose of providing funds to make payments to presentors of the French Government 7% Loan due December 1949 which were drawn for redemption on December 1, 1943. The State Department has objected to the use of such funds and has requested that the transfer be denied and instead has requested that funds for the purpose of servicing this issue be made available by directive license from the account with the French American Banking Corporation, New York, of the former French Government in the name of "Paierie Generale Aux Etats Unis." In accordance with the request of the State Department, Treasury is disapproving the transfer of the North African funds and is directing the necessary transfer from the former French Government account in the name of "Paierie Generale Aux Etats Unis."

(Signed) H. Morgenthau, Jr.

AUFox:JWPehle:rd 11/6/43

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE NOV 23 1943

TO Secretary Morgenthau  
FROM Randolph Paul

On October 15, 1943, the French North African authorities requested permission to transfer from their funds in the United States \$2,400,000 to J. P. Morgan & Company, Inc., New York, for the purpose of providing the balance of the funds necessary to service on December 1, 1943, the French Government 7% loan due 1949. The French North African authorities may have desired to utilize their funds for this purpose for political reasons. For the same reasons the State Department has objected to the use of such funds for the servicing of this issue and has requested Treasury to deny the request of the French North African authorities and to issue an appropriate directive transferring funds from the account of the former French Government in the name of "Paierie Generale Aux Etats Unis" for the purpose of servicing the issue on December 1, 1943.

The necessary directive, the letter from State of November 19 and our proposed reply, together with a wire reporting this situation to Hoffman, Treasury representative in North Africa, are attached for your approval.

R. E. F.  
By J. J. C.



DEPARTMENT OF STATE  
WASHINGTON

November 19, 1943

In reply refer to  
FD

My dear Mr. Morgenthau:

I have your letter of November 11, 1943 regarding provision for the December 1, 1943 service requirements of the French Government 7% dollar bonds due 1949. The case involves a discussion as to whether these bonds should be serviced and, if so, the source of funds and the manner in which the requisite sum of \$2,400,000 would be transferred to the paying agent to permit the actual disbursement of only some \$200,000 to \$300,000 to bondholders with the balance remaining indefinitely blocked as security for the legal protection of the paying agent.

You set forth in your letter three possible choices in the present case: (1) To permit the French Committee of National Liberation to use its funds; (2) Default; and (3) Transfer of blocked official funds of the former French Government. I am informed that this Department carefully deliberated each of these courses of action in arriving at the decision communicated in its letter of November 5, 1943.

The Treasury Department will recall that the President in his statement of August 26, 1943, made in connection with the establishment of the French Committee of National Liberation, indicated that this Government recognized the Committee as functioning within specific limitations during the war. Under the present circumstances, this Department would regard as very undesirable the issuance of a license to permit the French Committee of National Liberation to provide for the service of these bonds. The compliance with the request of the Committee at this

time

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



time would make it appear as though this Government recognizes the Committee as the authority having responsibility for external obligations of France. The Treasury Department is therefore requested to deny the application pending before it.

The Department of State would also regard the forcing of a default in these bonds as undesirable in view of the abundant record of special efforts made by representatives of the respective French factions to prevent default arising only from the effects of laws of the United States.

As you know, it has been the policy of this Department, wherever possible, to give effect to known desires of the people of occupied countries to continue service of their dollar bonds in the United States out of such of their funds as could be made available for the purpose. In the case of certain occupied countries it has been possible to give effect to this policy through licenses issued for accredited representatives of recognized governments whose authority to receive, hold and dispose of the funds in question has been effective because of the issuance of certifications by the Secretary of State to that effect pursuant to Section 25B of the Federal Reserve Act. This procedure is not available in the special circumstances affecting France. It is believed, therefore, that the transfer of the necessary provision under Treasury directive in the manner requested in this Department's letter of November 5, 1943, to satisfy the legal requirements from official funds of the former French Government is justified, and this Department renews that request.

Sincerely yours,

*Cordell Hull*

Given out by Mr. White at a press conf.

November 23, 1943

STATEMENT BY SECRETARY MORGENTHAU:

When the Treasury made public the tentative proposal for an International Stabilization Fund, I said that we were studying means of encouraging and facilitating international investment for reconstruction and development. A few weeks ago I appeared before the Congressional Committees and summarized for them the principles which we believe should guide us in the establishment of a United Nations Bank for Reconstruction and Development.

The technical staffs of the Treasury and other interested departments and agencies have now prepared a tentative proposal for such a Bank. This tentative proposal is being sent to the Finance Ministers of the United Nations and the countries associated with them, for consideration and for study by their technical staffs. The Finance Ministers have been informed that this tentative proposal does not represent the official views of this Government but it is an indication of the views held by our technical staffs.

We are releasing for publication the tentative proposal for a United Nations Bank for Reconstruction and Development and a covering memorandum on the problem of international investment. These two documents, sent to the Finance Ministers, are being released to make them available for public discussion. It is our intention to discuss the tentative proposal with business, banking and other interested groups in this country.

The technical staffs of the Treasury and other departments of this Government are of the opinion that an International Stabilization Fund and a Bank for Reconstruction and Development could help provide a sound financial foundation on which private enterprise can build a prosperous world economy.

A United Nations Bank  
For Reconstruction and Development

One of the important international economic and financial problems which will confront the United Nations at the end of the war will be the unprecedented need for foreign capital. In the areas devastated by war or plundered and ravaged by the enemy, factories and mines, public utilities and railroads, public buildings and public works will have to be repaired or restored. In all of the United Nations, industries now producing war goods will require capital for reconversion to peacetime production. Finally, in many areas of the world, large investment will be needed for industrial, agricultural and commercial development.

Countries whose productive capacity has been seriously impaired by war will find that their industries cannot provide the capital goods and their people cannot provide the savings they require for reconstruction. Most non-industrial countries will of necessity be dependent upon foreign investment to acquire the funds for the purchase of machinery, equipment, and other capital goods for development. And even

in those countries where a considerable part of the need for capital can be met locally, there will be some need for foreign capital to supplement the funds that can be raised at home.

With the return of an assured peace, private financial agencies may be expected to supply most of the needed short-term foreign capital. When the shipping situation is improved and peacetime industry here and abroad has recovered, many business firms will be eager to sell their products abroad on reasonable and even generous credit terms. And banks likewise will hasten to expand their foreign business, reopening and establishing branches abroad, and assisting in the financing of international trade.

It is not unreasonable to hope that with the return of peace there will also be a gradual resumption of long-term international investment, particularly in the form of the establishment of foreign branch plants and the acquisition of shares in established foreign enterprises. With the growth of confidence in monetary stability, foreign investments will gradually assume the form of publicly floated loans to governments and municipalities, and to public utilities and other industries.

- 3 -

This flow of private capital to war stricken countries will be encouraged by an adequate program of international relief and rehabilitation which helps to quickly restore to a working basis the economic life of those countries. Another, and possibly even more important, stimulant to foreign investments, would be the existence of an international agency, such as the International Stabilization Fund, designed to promote stability of foreign exchange rates and freedom from restrictions on the withdrawal of earnings. Such an agency could do much to enhance the attractiveness of foreign investments.

While there will undoubtedly be substantial amounts of long-term foreign investment even in the early postwar period, the flow of capital to countries greatly in need of foreign capital is likely to be inadequate for many years to come. Private capital will understandingly hesitate to venture abroad in anything like the required volume. It has suffered too many losses from war, from depreciating currencies, from exchange restrictions, and from business failures and defaults. There is little evidence to justify the hope that in the years immediately after the

war investors will lend the large sums that can be economically used in foreign countries.

Obviously, it would be desirable to encourage in every way, the provision of capital for productive purposes through the usual private investment channels, and to the extent that private investment is inadequate, to provide supplemental facilities. The problem is fundamentally an international problem and only an international governmental agency equipped with broad powers and large resources can effectively encourage private capital to flow abroad in adequate amounts and provide a part of the capital not otherwise available.

The primary aim of such an agency should be to encourage private capital to go abroad for productive investment by sharing the risks of private investors and by participating with private investors in large ventures. The provision of some of the capital needed for reconstruction and development, where private capital is unable to take the risk, is intended to remain secondary in the operations of such an agency. It should, of course, scrupulously avoid undertaking loans that private investors are willing to make on reasonable terms. It should perform only that part of the task which private capital cannot do alone.

- 5 -

The need for foreign capital will be so great and the provision of adequate capital so important that it would be extremely shortsighted to neglect this urgent international problem. If private capital should suffice there would then be little for an international agency to do, beyond encouraging private investment. If, however, private capital were to prove unable fully to meet the needs, then such an international agency would be able to fill the breach until private capital again flowed freely and the demand for foreign capital throughout the world became less urgent.

It is imperative that we recognize that the investment of productive capital in undeveloped and in capital needy countries means not only that those countries will be able to supply at lower costs more of the goods the world needs, but that they will at the same time become better markets for the world's goods. By investing in countries in need of capital, the lending countries, therefore, help themselves as well as the borrowing countries. If the capital made available to foreign countries would not otherwise have been currently employed, and if it is used for productive purposes, then the whole world is truly the gainer. Foreign trade everywhere will be increased; the real cost of producing the goods the world consumes will be lowered;

and the economic well-being of the borrowing and lending countries will be raised.

One great contribution that the United Nations can make to sustained peace and world-wide prosperity is to make certain that adequate capital is available on reasonable terms for productive uses in capital-poor countries. With abundant capital, the devastated countries can move steadily toward rehabilitation and a constantly improving standard of living. Nothing could be more conducive to political stability and to international collaboration. Without adequate supplies of capital, however, recovery in Europe and Asia will be slow and sporadic, and economic discontent and international bitterness will in time assume disturbing proportions. To spend hundreds of billions to fight a war thrust upon us, and then to balk at investing a few billions to help assure peace and prosperity would appear to be a singularly unwise policy.

Accompanying this memorandum is a draft proposal for a Bank for Reconstruction and Development of the United and Associated Nations. The draft was prepared by the technical staff of the United States Treasury in consultation with the technical staffs of other departments of this Government. The proposal has neither official status

nor the approval of any department of this Government. It is in outline form touching on the more important points and is intended only to stimulate thoughtful discussion of the problem in the hope that such discussion will call forth constructive criticism, suggestions, and alternative proposals for possible later submission to the appropriate authorities and to the public.

A United Nations Bank for Reconstruction and Development is proposed as another international agency needed to help attain and maintain world-wide prosperity after the war. It is designed as a companion agency to an International Stabilization Fund. Each agency could stand and function effectively without the other; but the establishment of such a Bank would make easier the task of an International Stabilization Fund, and the successful operation of an International Stabilization Fund would enhance the effectiveness of the Bank. Together, the two institutions could help provide a sound financial foundation on which private enterprise can build a prosperous world economy.

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

Washington, D. C.  
November, 1943.

**STRICTLY CONFIDENTIAL**U. S. Treasury  
November, 1943**Preliminary Draft Outline  
of a Proposal for  
A United Nations Bank  
For Reconstruction and Development**Preamble

1. The provision of foreign capital will be one of the important international economic and financial problems of the postwar period. Many countries will require capital for reconstruction, for the conversion of their industries to peacetime needs, and for the development of their productive resources. Others will find that foreign investment provides a growing market for their goods. Sound international investment can be of immense benefit to the lending as well as to the borrowing countries.

2. Even in the early postwar years it may be hoped that a considerable part of the capital for international investment will be provided through private investment channels. It will undoubtedly be necessary, however, to encourage private investment by assuming some of the risks that will be especially large immediately after the war and to supplement private investment with capital provided through international cooperation. The United Nations Bank for Reconstruction and Development is proposed as a permanent institution to encourage and facilitate international investment for sound and productive purposes.

3. The Bank is intended to cooperate with private financial agencies in making available long-term capital for reconstruction and development and to supplement such investment where private agencies are unable to meet fully the legitimate needs for capital for productive purposes. The Bank would make no loans or investments that could be secured from private investors on reasonable terms. The principal function of the Bank would be to guarantee and participate in loans made by private investment agencies and to lend directly from its own resources whatever additional capital may be needed. The facilities of the Bank would be available only for approved governmental and industrial projects which have been guaranteed by national governments. Operating under these principles, the Bank should be a powerful factor in encouraging the provision of private capital for international investment.

4. By making certain that capital is available for productive uses on reasonable terms, the Bank can make an important contribution to enduring peace and prosperity. With adequate capital, countries affected by the war can move steadily toward reconstruction, and the newer countries can undertake the economic development of which they are capable. International investment for these purposes can be a significant factor in expanding trade and in helping to maintain a high level of business activity throughout the world.

## I. The Purposes of the Bank

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1. To assist in the reconstruction and development of member countries by cooperating with private financial agencies in the provision of capital for sound and constructive international investment.
2. To provide capital for reconstruction and development, under conditions which will amply safeguard the Bank's funds, when private financial agencies are unable to supply the needed capital for such purposes on reasonable terms consistent with the borrowing policies of member countries.
3. To facilitate a rapid and smooth transition from a wartime economy to a peacetime economy by increasing the flow of international investment, and thus to help avoid serious disruption of the economic life of member countries.
4. To assist in raising the productivity of member countries by helping to make available through international collaboration long-term capital for the sound development of productive resources.
5. To promote the long-range balanced growth of international trade among member countries.

## II. Capital Structure of the Bank

1. The authorized capital shall be equivalent to about \$10 billion consisting of shares having a par value equal to \$100,000.
2. The shares of the Bank shall be non-transferable, non-assessable, and non-taxable. The liability on shares shall be limited to the unpaid portion of the subscription price.
3. Each government which is a member of the International Stabilization Fund shall subscribe to a number of shares to be determined by an agreed upon formula. The formula shall take into account such relevant data as the national income and the international trade of the member country.

Such a formula would make the subscription of the United States approximately one-third of the total.

4. Payments on subscriptions to the shares of the Bank shall be made as follows:
  - a. The initial payment of each member country shall be 20 percent of its subscription, some portion of which (not to exceed 20 percent) shall be in gold and the remainder in local currency. The proportions to be paid in gold and local currency shall be graduated according to an agreed upon schedule which shall take into account the adequacy of the gold and free foreign exchange holdings of each member country.

- II-4 b. The member countries shall make the initial payments within 60 days after the date set for the operations of the Bank to begin. The remainder of their respective subscriptions shall be paid in such amounts and at such times as the Board of Directors may determine, but not more than 20 percent of the subscription may be called in any one year.
- c. Calls for further payment on subscriptions shall be uniform on all shares, and no calls shall be made unless funds are needed for the operations of the Bank. The proportion of subsequent payments to be made in gold shall be determined by the schedule in II-4-a as it applies to each member country at the time of each call.
5. A substantial part of the subscribed capital of the Bank shall be reserved in the form of unpaid subscriptions as a surety fund for the securities guaranteed by the Bank or issued by the Bank.
6. When the cash resources of the Bank are substantially in excess of prospective needs, the Board may return, subject to future call, uniform proportions of the subscriptions. When the local currency holdings of the Bank exceed 20 percent of the subscription of any member country, the Board may arrange to repurchase with local currency some of the shares held by such a country.
7. Each member country agrees to repurchase each year its local currency held by the Bank amounting to not more than 2 percent of its paid subscription, paying for it with gold; provided, however, that:
- a. This requirement may be generally suspended for any year by a three-fourths vote of the Board.
- b. No country shall be required to repurchase local currency in any given year in excess of one-half of the addition to its official holdings of gold during the preceding year.
- c. The obligation of a member country to repurchase its local currency shall be limited to the amount of the local currency paid on its subscription.
8. All member countries agree that all of the local currency holdings and other assets of the Bank located in their countries shall be free from any special restrictions as to their use, except such restrictions as are consented to by the Bank, and subject to IV-13, below.
9. The resources and the facilities of the Bank shall be used exclusively for the benefit of member countries.

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### III. The International Monetary Unit

1. The monetary unit of the Bank shall be the Unitas of the International Stabilization Fund (137-1/7 grains of fine gold, that is, equivalent to \$10 U.S.).
2. The Bank shall keep its accounts in terms of unitas. The local currency assets of the Bank are to be guaranteed against any depreciation in their value in terms of unitas.

### IV. Powers and Operations

1. To achieve the purposes stated in Section I, the Bank may guarantee, participate in, or make loans to any member country and through the government of such country to any of its political subdivisions or to business or industrial enterprises therein under conditions provided below.
  - a. The payment of interest and principal is fully guaranteed by the national government.
  - b. The borrower is otherwise unable to secure the funds from other sources, even with the national government's guaranty of repayment, under conditions which in the opinion of the Bank are reasonable.
  - c. A competent committee has made a careful study of the merits of the project or the program and, in a written report, concludes that the loan would serve directly or indirectly to raise the productivity of the borrowing country and that the prospects are favorable to the servicing of the loan. The majority of the committee making the report shall consist of members of the technical staff of the Bank. The committee shall include an expert selected by the country requesting the loan who may or may not be a member of the technical staff of the Bank.
  - d. The Bank shall make arrangements to assure the use of the proceeds of any loan which it guarantees, participates in, or makes, for the purposes for which the loan was approved.
  - e. The Bank shall guarantee, participate in or make loans only at reasonable rates of interest with a schedule of repayment appropriate to the character of the project and the balance of payments prospects of the country of the borrower.
2. In accordance with the provisions in IV-1, above, the Bank may guarantee in whole or in part loans made by private investors provided further:

- IV-2 a. The rate of interest and other conditions of the loan are reasonable.
- b. The Bank is compensated for its risk in guaranteeing the loan.
3. The Bank may participate in loans placed through the usual investment channels, provided all the conditions listed under IV-1 above are met except that the rate of interest may be higher than if the loans were guaranteed by the Bank.
4. The Bank may encourage and facilitate international investment in equity securities by securing the guarantee of governments of conversion into foreign exchange of the current earnings of such foreign held investments. In promoting this objective the Bank may also participate in such investments, but its aggregate participation in such equity securities shall not exceed 10 percent of its paid in capital.
5. The Bank may publicly offer any securities it has previously acquired. To facilitate the placing of such securities, the Bank may, in its discretion, guarantee them.
6. The Bank shall make no loans or investments that can be placed through the usual private investment channels on reasonable terms. The Bank shall by regulation prescribe procedure for its operations that will assure the application of this principle.
7. The Bank shall impose no condition upon a loan as to the particular member country in which the proceeds of the loan must be spent; provided, however, that the proceeds of a loan may not be spent in any country which is not a member country without the approval of the Bank.
8. The Bank in making loans shall provide that:
- a. The foreign exchange in connection with the project or program shall be provided by the Bank in the currencies of the countries in which the proceeds of the loan will be spent and only with the approval of such countries.
- b. The local currency needs in connection with the project shall be largely financed locally without the assistance of the Bank.
- c. In special circumstances, where the Bank considers that the local part of any project cannot be financed at home except on very unreasonable terms, it can lend that portion to the borrower in local currency.
- d. Where the developmental program will give rise to an increased need for foreign exchange for purposes not directly needed for that program yet resulting from the program, the Bank will provide an appropriate part of the loan in gold or desired foreign exchange.

- IV-9. When a loan is made by the Bank it shall credit the account of the borrower with the amount of the loan. Payment shall be made from this account to meet drafts covering audited expenses.
10. Loans participated in or made by the Bank shall contain the following payment provisions:
- a. Payment of interest due on loans shall be made in currencies acceptable to the Bank or in gold. Interest will be payable only on amounts withdrawn.
  - b. Payment on account of principal of a loan shall be in currencies acceptable to the Bank or in gold. If the Bank and the borrower should so agree at the time a loan is made, payment on principal may be in gold, or at the option of the borrower, in the currency actually borrowed.
  - c. In event of an acute exchange stringency the Bank may in its judgment accept for periods not exceeding 3 years at a time the payments of interest and principal in local currency. The Bank shall arrange with the borrowing country for the repurchase of such local currency over a period of years on appropriate terms that safeguard the value of the Bank's holdings of such currency.
  - d. Payments of interest and principal, whether made in member currencies or in gold, must be equivalent to the unit value of the loan and of the contractual interest thereon.
11. The Bank may levy a charge against the borrower for its expenses in investigating any loan placed, guaranteed, participated in, or made in whole or in part by the Bank.
12. The Bank may guarantee, participate in, or make loans to international governmental agencies for objectives consonant with the purposes of the Bank, provided that one-half of the participants in the international agencies are members of the Bank.
13. In considering any application to guarantee, participate in, or make a loan to a member country, the Bank shall give due regard to the effect of such a loan on business and financial conditions in the country in which the loan is to be spent, and shall accordingly obtain the consent of the country affected.
14. At the request of the countries in which portions of the loan are spent, the Bank will repurchase for gold or needed foreign exchange a part of the expenditures in the currencies of those countries made by the borrower from the proceeds of the loan.

IV-15. With the approval of the representatives of the governments of the member countries involved, the Bank may engage in the following operations:

- a. It may issue, buy or sell, pledge, or discount any of its own securities and obligations, or securities and obligations taken from its portfolio, or securities which it has guaranteed.
- b. It may borrow from any member governments, fiscal agencies, central banks, stabilization funds, private financial institutions in member countries, or from international financial agencies.
- c. It may buy or sell foreign exchange, after consultation with the International Stabilization Fund, where such transactions are necessary in connection with its operations.

16. The Bank may act as agent or correspondent for the governments of member countries, their central banks, stabilization funds and fiscal agencies, and for international financial institutions.

The Bank may act as trustee, registrar or agent in connection with loans guaranteed, participated in, made, or placed through the Bank.

17. Except as otherwise indicated the Bank shall deal only with or through:

- a. The governments of member countries, their central banks, stabilization funds and fiscal agencies.
- b. The International Stabilization Fund and any other international financial agencies owned predominantly by member governments.

The Bank may, nevertheless, with the approval of the member of the Board representing the government of the country concerned deal with the public or institutions of member countries in its (the Bank's) own securities or securities which it has guaranteed.

18. If the Bank shall declare any country as suspended from membership, the member governments and their agencies agree not to extend any financial assistance to that country without the approval of the Bank until the country has been restored to membership.

19. The Bank and its officers shall scrupulously avoid interference in the political affairs of any member country. This provision shall not limit the right of an officer of the Bank to participate in the political life of his own country.

- IV-19- The Bank shall not be influenced in its decisions with respect to applications for loans by the political character of the government of the country requesting a loan. Only economic considerations shall be relevant to the Bank's decisions.

#### V. Management

1. The administration of the Bank shall be vested in a Board of Directors composed of one director and one alternate appointed by each member government in a manner to be determined by it.

The director and alternate shall serve for a period of three years, subject to the pleasure of their government. Directors and alternates may be reappointed.

2. Voting by the Board shall be as follows:

- a. The director or alternate of each member country shall be entitled to cast 1,000 votes plus one vote for each share of stock held. Thus a government owning one share shall cast 1,001 votes, while a government having 1,000 shares shall cast 2,000 votes.

- b. No country shall cast more than 25 percent of the aggregate votes.

- c. Except where otherwise provided, decisions of the Board of Directors shall be by simple majority of the votes cast, each member of the Board casting the votes allotted to his government. When deemed to be in the best interests of the Bank, decisions of the Board may be made, without a meeting, by polling the directors on specific questions submitted to them in such manner as the Board shall by regulation provide.

3. The Board of Directors shall select a President of the Bank, who shall be the chief of the operating staff of the Bank and ex-officio a member of the Board, and one or more vice presidents. The President and vice presidents of the Bank shall hold office for four years, shall be eligible for reelection, and may be removed for cause at any time by the Board. The staff of the Bank shall be selected in accordance with regulations established by the Board of Directors.

4. The Board of Directors shall appoint from among its members, an Executive Committee of not more than nine members. The President of the Bank shall be an ex-officio member of the Executive Committee.

- v-4-The Executive Committee shall be continuously available at the head office of the Bank and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate on the Board shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.
5. The Board of Directors shall select an Advisory Council of seven members. The Council shall advise with the Board and the officers of the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Board may request.

The members of the Advisory Council shall be selected from men of outstanding ability, but not more than one member shall be selected from the same country. They shall serve for two years, and the term of any member may be renewed. Members of the Council shall be paid their expenses and a remuneration to be fixed by the Board.

6. The Board of Directors may appoint such other committees as it finds necessary for the work of the Bank. It may also appoint advisory committees chosen wholly or partially from persons not regularly employed by the Bank.
7. The Board of Directors may at any meeting authorize any officers or committees of the Bank to exercise any specified powers of the Board except the power to make, guarantee or participate in loans. Such powers shall be exercised in a manner consistent with the general policies and practices of the Board.

The Board may by a three-fourths vote delegate to the Executive Committee the power to make, guarantee or participate in loans in such amounts as may be fixed by the Board. In passing upon applications for loans, the Executive Committee shall act under the requirements specified for each type of loan.

8. A member country failing to meet its financial obligations to the Bank may be declared in default and it may be suspended from membership during the period of its default provided a majority of the member countries so decide. While under suspension, the country shall be denied the privileges of membership, but shall be subject to the obligations of membership. At the end of one year the country shall be automatically dropped from membership in the Bank unless it has been restored to good standing by a majority of the member countries.

If a member country elects to withdraw or is dropped from the Bank its shares of stock shall, if the Bank has a surplus, be repurchased at the price paid. If the Bank's books show a loss, such country shall bear a proportionate share of the loss. The Bank shall have 5 years in which to liquidate its obligations to a member withdrawing or dropped from the Bank.

- 10 -

- V-8- Any member country that withdraws or is dropped from the International Stabilization Fund, shall relinquish its membership in the Bank unless three-fourths of the member votes favor its remaining as a member.
9. The yearly net profits shall be applied as follows:
- a. All profits shall be distributed in proportion to shares held, except that one-fourth of the profits shall be applied to surplus until the surplus equals 20 percent of the capital.
  - b. Profits shall be payable in a country's local currency, or in gold at the option of the Bank.
10. The Bank shall collect and make available to member countries and to the International Stabilization Fund financial and economic information and reports relating to the operations of the Bank.

Member countries shall furnish the Bank with all information and data that would facilitate the operations of the Bank.

ROY-2-1943

Excellency:

In the memorandum accompanying the tentative draft proposal for an international stabilisation fund, which I sent to the Ministers of Finance of the United Nations some months ago, I said: "It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development."

The preliminary draft of a tentative proposal for a United Nations Bank for Reconstruction and Development has now been prepared by the technical staff of the United States Treasury in consultation with the technical staffs of other departments of this Government. The draft is designedly in abbreviated form, intended to bring out at this stage only the more significant points for consideration and discussion. This tentative proposal is not an expression of the official views of this Government, but it is an indication of the views held by our technical experts. I am now sending for your examination this tentative proposal, which I hope you will submit to the technical staffs of your Ministry and your Government for their study.

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We hope to send you soon some further material amplifying and discussing many of the provisions in the outlined draft proposal.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

His Excellency, Morteza Gholi Bayat,  
The Minister of Finance,  
Tehran, Iran.

Enclosure.

ROY-2-1943  
7/22/43

NOV 23 1943

Excellency:

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We hope to send you soon some further material amplifying and discussing many of the provisions in the outlined draft proposal.

Sincerely yours,

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

His Excellency, Ludwig Grossfeld,  
Minister of Finance,  
Republic of Poland,  
London, England.

Enclosure. HDW:EMB/jm 11/13/43

NOV 23 1943

Excellency:

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Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury

His Excellency, Rodolfo Rojas,  
The Minister of Finance,  
The United States of Venezuela,  
Caracas, Venezuela.

Enclosure. HDW:EMB/jm 11/16/43

1943

Excellency!

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We hope to send you soon further material supplying and discussing many of the provisions in the outlined draft proposal.

Sincerely yours,

(Signed) HOWARD WORMUTHAN, JR.

Secretary of the Treasury.

His Excellency, Amin Osman,  
The Minister of Finance,  
Kingdom of Egypt,  
Cairo, Egypt.

Enclosure.

MAIL ROOM  
2/13/43

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NOV 23 1943

Excellency:

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Sincerely yours,

[Signed] Henry Morgenthau, Jr.

Secretary of the Treasury.

His Excellency, Abdulillah Hafidh,  
Acting Minister of Finance,  
Kingdom of Iraq,  
Baghdad, Iraq.

Enclosure.

AM:200:mb  
11/16/43

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NOV 23 1943

My dear Sir Jeremy:

In the memorandum accompanying the tentative draft proposal for an international stabilisation fund, which I sent to the Ministers of Finance of the United Nations some months ago, I said: "It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development."

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We hope to send you soon some further material amplifying and discussing many of the provisions in the outlined draft proposal.

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Sir Jeremy Raisman, K.C.S.I., C.I.E.,  
Finance Member of Governor-General's  
Executive Council,  
Government of India,  
New Delhi, India.

Enclosure.

HDW:EMB:sh - 11/13/43

My dear Mr. Ministers:

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Sincerely yours,

*15/ H. Mergenthau, Jr.*

Secretary of the Treasury.

The Honorable J. B. Chifley, M. P.,  
Treasurer,  
Commonwealth of Australia,  
Canberra, Australia.

Enclosure

11/13/43

25

NOV - 1954

Excellency:

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We hope to send you soon some further material amplifying and discussing many of the provisions in the outlined draft proposal.

Sincerely yours,

*15/ J. H. Morgenthau, Jr.*

Secretary of the Treasury.

His Excellency, Luis Calvo,  
The Minister of Finance,  
The Republic of Bolivia,  
La Paz, Bolivia.

Enclosure

11/16/54  
11/16/54

25

NOV 22 1943

Excellency,

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Sincerely yours,

Secretary of the Treasury.

His Excellency, Abel Lacerda,  
The Minister of Finance,  
The Republic of Haiti,  
Port au Prince, Haiti.

Enclosure.

154-150/B:ms  
11/13/43

NOV 2 1951

Excellency:

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Sincerely yours,



Secretary of the Treasury.

His Excellency, Jose Gonzalez Campo,  
The Minister of Finance,  
The Republic of Guatemala,  
Guatemala City, Guatemala.

Enclosure.

Handwritten initials and date: *W.A.R.*  
11/15/51

25

NOV 22 1943

My dear Mr. Ambassador:

In the memorandum accompanying the tentative draft proposal for an international stabilization fund, which I sent to the Ministers of Finance of the United Nations some months ago, I said: "It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development."

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Sincerely yours,

15/ *H. Morgenthau, Jr.*

Secretary of the Treasury.

The Honorable K. Varvaresos,  
Special Envoy of the Kingdom of Greece,  
Royal Greek Government,  
London, England.

Enclosure.

100-215:20  
11/15/43

25

NOV 20 1943

Excellency:

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Sincerely yours,

*H. H. Morganthau, Jr.*

Secretary of the Treasury.

His Excellency, Camille Gutt,  
The Minister of Finance,  
Kingdom of Belgium,  
c/o Belgian Embassy,  
London, England.

Enclosure

100:33 Brem  
11/15/43

25

NOV 22 1943

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Sincerely yours,

*H. H. Morgenthau, Jr.*

Secretary of the Treasury.

The Honorable James T. Phillips,  
Secretary of the Treasury,  
Monrovia, Liberia.

Enclosure

RE: E. B. 67  
11/16/43

NOV 22 1943

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Sincerely yours,

15/ *H. Morgenthau, Jr.*

Secretary of the Treasury.

The Honorable J. L. Ilsley,  
Minister of Finance,  
Dominion of Canada,  
Ottawa, Canada.

Enclosure

11/15/43

25

NOV 22 1943

Excellency:

In the memorandum accompanying the tentative draft proposal for an international stabilization fund, which I sent some months ago to the Ministers of Finance of the United Nations and the countries associated with them, I said: "It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development."

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Sincerely yours,

*/s/ H. Morgenthau, Jr.*

Secretary of the Treasury.

His Excellency, Arturo Matte Larraín,  
The Minister of Finance,  
The Republic of Chile,  
Santiago, Chile.

Enclosure

11/16/43

NOV 22 1943

Excellency:

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Sincerely yours,

*15/ H. Morgenthau, Jr.*  
Secretary of the Treasury.

His Excellency, *Lij. Yilma Deressa*,  
Vice Minister of Finance,  
Addis Ababa, Ethiopia.

Enclosure

W:EB:eh  
11/13/43

25

NOV 22 1943

Excellency!

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Sincerely yours,

*H. H. Morgenthau, Jr.*

Secretary of the Treasury.

His Excellency, Pierre Dupong,  
Minister of Finance,  
Grand Duchy of Luxembourg,  
809 Sun Life Building,  
Montreal, Canada.

Enclosure

W.S.:M:and  
11/15/43

23

NOV 2 1943

Excellency:

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Sincerely yours,

*H. H. Morganthau, Jr.*

Secretary of the Treasury.

His Excellency, J. van den Broek,  
Minister of Finance,  
Kingdom of the Netherlands,  
1. 1. Stratton House,  
London, England.

Enclosure

11/13/43

25

NOV 22 1943

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Sincerely yours,

*15/ H. Mergenthaun, Jr.*

Secretary of the Treasury.

His Excellency, Eduardo Suarez,  
Minister of Finance,  
The United States of Mexico,  
Mexico City, Mexico.

Enclosure

HEM:ELB:AM  
11/23/43

25

NOV 22 1943

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Sincerely yours,

*W. H. Taft*

Secretary of the Treasury.

His Excellency, Urbano Quezada,  
The Acting Minister of Finance,  
The Republic of Honduras,  
Tegucigalpa, Honduras.

Enclosure.

11/22/43

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Sincerely yours,

*15/9/1948 Margaret Hamilton, Secy.*

Secretary of the Treasury.

His Excellency, Thor Thors,  
The Minister of Iceland,  
3839 Massachusetts Avenue, N. W.,  
Washington, D. C.

Enclosure

MAR 14 1948  
11/20/48

NOV 22 1943

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Sincerely yours,

*15/ H. Morgenthau, Jr.*  
Secretary of the Treasury

His Excellency, Julio Bart,  
The Minister of Finance,  
The Republic of Peru,  
Lima, Peru.

Enclosure.

HDW:EME/jm 11/16/43

NOV 22 1943

My dear Mr. Minister:

In the memorandum accompanying the tentative draft proposal for an international stabilization fund, which I sent to the Ministers of Finance of the United Nations some months ago, I said: "It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development."

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Sincerely yours,

*W. H. Morgenthau Jr.*

Secretary of the Treasury

Colonel Andres Soriano,  
Minister of Finance,  
Commonwealth of the Philippines,  
Rita Tower, Park Avenue,  
New York, New York.

Enclosure. HDW:MSB/jm 11/13/43

25

NOV 22 1943

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Sincerely yours,

*15/ H. Morgenthau, Jr.*

Secretary of the Treasury.

His Excellency, Arthur de Souza Costa,  
The Minister of Finance,  
The United States of Brazil,  
Rio de Janeiro, Brazil.

Enclosure

File: 218:em  
11/23/43

NOV 22 1943

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Sincerely yours,

*W. H. Taft*  
Secretary of the Treasury

His Excellency, Ivo Gicja Sain,  
Minister of Finance in the Government  
of Yugoslavia,  
Legation of Yugoslavia,  
Cairo, Egypt.

Enclosure. HDW:EMR/jm 11/16/43

NOV 23 1943

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Sincerely yours,

*H. H. Morgenthau, Jr.*  
Secretary of the Treasury

His Excellency, Rogelio Espinosa,  
The Minister of Finance,  
The Republic of Paraguay,  
Asuncion, Paraguay.

Enclosure. HDW/EMB:jm 11/16/43

NOV 22 1943

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Sincerely yours,

*J. S. Morgenthau, Jr.*  
Secretary of the Treasury

The Honorable Walter Nash,  
Minister of Finance,  
Wellington, New Zealand.

Enclosure

HDW:RMB:lr 11/13/43

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Sincerely yours,

*15/21/43*  
*W. M. C. [Signature]*  
 Secretary of the Treasury

His Excellency, Ing. J. Ramon Sevilla Socasa,  
 Minister of Finance,  
 Republic of Nicaragua,  
 Managua, Nicaragua.

Enclosure

TOWNS: [REDACTED] 11/13/43

NOV 22 1943

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Sincerely yours,

*W. N. Morgenthau, Jr.*  
Secretary of the Treasury

His Excellency, Paul Hartmann,  
Minister of Finance,  
Kingdom of Norway,  
Kingston House, Princes Gate,  
London, England.

Enclosure

HDW:EMB:lr 11/13/43

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Sincerely yours,

15/ H. Morgenthau, Jr.  
Secretary of the Treasury

His Excellency, Jose A. Sosa,  
Minister of Finance,  
Republic of Panama,  
Panama City, Panama.

Enclosure

HOW:RMB:lr 11/13/43

NOV 22 1943

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Sincerely yours,

*151 H. Morgenthau, Jr.*  
Secretary of the Treasury

The Honorable Jan Hendrik Hofmeyr,  
Minister of Finance,  
The Union of South Africa,  
Pretoria, Union of South Africa.

Enclosure.

HDW:EMB/jm  
11/13/43

NOV 22 1943

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*H. Morgenthau, Jr.*  
Secretary of the Treasury

His Excellency, Arseni Grigoryevich Zverev,  
People's Commissar of Finance,  
Moscow,  
Union of Soviet Socialist Republics.

Enclosure. HDW:EMB/jm 11/13/43

25

NOV 22 1943

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*H. A. Morgenthau, Jr.*  
Secretary of the Treasury

His Excellency, Hector Alvarez Cien,  
The Minister of Finance,  
The Oriental Republic of Uruguay,  
Montevideo, Uruguay.

Enclosure. HDW:EMB/jm 11/16/43

25

NOV 22 1943

Excellency,

In the memorandum accompanying the tentative draft proposal for an international stabilization fund, which I sent to the Ministers of Finance of the United Nations some months ago, I said: "It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development."

The preliminary draft of a tentative proposal for a United Nations Bank for Reconstruction and Development has now been prepared by the technical staff of the United States Treasury in consultation with the technical staffs of other departments of this Government. The draft is designedly in abbreviated form, intended to bring out at this stage only the more significant points for consideration and discussion. This tentative proposal is not an expression of the official views of this Government, but it is an indication of the views held by our technical experts. I am now sending for your examination this tentative proposal, which I hope you will submit to the technical staffs of your Ministry and your Government for their study.

After you and your experts have studied this tentative proposal, I shall be glad to have such comments and suggestions as you may wish to make, or to receive any alternative proposal for the provision of long-term international credits for reconstruction and development that you may care to submit. If any of your experts should be in Washington, the technical experts of this Government will be glad to discuss the tentative proposal with them.

We hope to send you soon some further material amplifying and discussing many of the provisions in the outlined draft proposal.

Sincerely yours,

*H. H. Morgenthau, Jr.*

Secretary of the Treasury.

His Excellency, H. H. Kung,  
The Minister of Finance,  
The Republic of China,  
Chungking, China.

Enclosure

HWB:sh  
11/13/43

25

NOV 22 1943

Excellency:

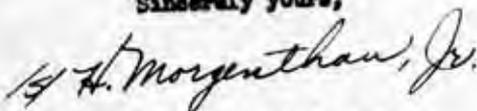
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We hope to send you soon some further material amplifying and discussing many of the provisions in the outlined draft proposal.

Sincerely yours,



Secretary of the Treasury.

His Excellency, Carlos Lleras Restrepo,  
The Minister of Finance,  
The Republic of Colombia,  
Bogota, Colombia.

Enclosure

HEW:GMB:ff 11/16/43

25

NOV 22 1948

Excellency:

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Sincerely yours,

*W. H. M. Morgenthau, Jr.*  
Secretary of the Treasury.

His Excellency,  
Francisco de Paula Gutierrez Ross,  
The Minister of Finance,  
The Republic of Costa Rica,  
San Jose, Costa Rica.

Enclosure

NOV 22 3:30  
22/22/48

25

NOV 22 1943

Excellency:

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Sincerely yours,

*W. H. Mergenthaler, Jr.*  
Secretary of the Treasury.

His Excellency, Eduardo I. Montoulier,  
The Minister of Finance,  
The Republic of Cuba,  
Habana, Cuba.

Enclosure

11/13/43

NOV 24 1943

Excellency:

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Sincerely yours,

*W. H. Morgenthau, Jr.*

Secretary of the Treasury.

His Excellency, Ladislav Peierabend,  
The Minister of Finance,  
The Republic of Czechoslovakia,  
Pursecroft, Brown Street,  
London, England.

Enclosure

W.H.M. :srsh  
11/13/43

25

NOV 2 1943

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Sincerely yours,

*W. H. Morgenthau, Jr.*  
Secretary of the Treasury.

His Excellency, J. Furey Pichardo,  
The Minister of Finance,  
Dominican Republic,  
Santo Domingo, Dominican Republic.

Enclosure

WHL:slb:sh  
11/15/43

NOV 22 1943

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Sincerely yours,

*W. H. Morgenthau, Jr.*  
Secretary of the Treasury

His Excellency, Rodrigo Samayoa,  
The Minister of Finance,  
The Republic of El Salvador,  
San Salvador, El Salvador.

Enclosure. HDW:MMB/jm 11/13/43

25

NOV 22 1943

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Sincerely yours,

15/ H. Morgenthau, Jr.  
Secretary of the Treasury.

His Excellency, Alberto Wright Vallarino,  
The Minister of Finance,  
The Republic of Ecuador,  
Quito, Ecuador.

Enclosure

HDW:EMB:ff 11/16/43

25

NOV 22 1943

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Secretary of the Treasury.

His Excellency, Alberto Wright Vallarino,  
The Minister of Finance,  
The Republic of Ecuador,  
Quito, Ecuador.

Enclosure

HDW:EMB:ff 11/16/43

NOT TO BE RE-TRANSMITTEDU.S. SecRef

COPY NO

12

BRITISH MOST SECRETOPTEL No. 384

Information received up to 10 A.M. 23rd November, 1943.

1. Naval

Home Waters 21st. One of H.M. Destroyers slightly damaged in S.W. Approaches during attack by Heinkel 177. 2 glider bombs shot down.

Mediterranean Remaining British have not been evacuated from SAMOS with 1,000 Greeks, and 400 Italians. Most of prisoners captured in SAMOS and 186 garrison on have reached Allied Bases.

Anti-Submarine 21st. A U-Boat probably sunk in S. Approaches by a Sloop and a Frigate.

2. Military

Italy Operations still hampered by weather. Our patrols report successful engagements with enemy forward elements in upper reaches of RIVER SANGRO from CASTEL DI SANGRO (15 W. of ISERNIA) for about 8 miles to the Northeast. Further progress has been made along road South of ALREDINA (5 miles S.W. CASTEL DI SANGRO).

3. Air Operations

Western Front 22nd/23rd. Aircraft despatched B.R.L.M. 766 (26 missing, 3 crashed), LEVARKUSE, 12, Sea-mining 14, Intruders 14, Anti-shiping 4, Leaflets 12, (one crashed). BERLIN obscured by clouds. Concentrations of fires reported. Enemy fighters seen.

Italy 21st. 85 Marauders (B.26) dropped 41 tons on CIVITAVECCHIA town and harbour, 41 tons on FANO BRIDGE (30 miles N.E. ANCONA), 27 tons on railway centre at CHIESI (23 miles W.S.W. of PERUGIA). Fighters flew 94 sorties against strong points in the LANCIANO area.

Albania 21st. Spitfires attacked targets N.W. of DURAZZO.

Crete 21st/22nd. 9 Halifaxes and 4 Liberators (B.24) bombed HERAKLION.

Burma 21st/22nd. Wellingtons and Liberators (B.24) dropped 32 tons on SAGALING (20 miles S.W. of MANANAY).

Telegram No. 383 not sent to Washington.

TREASURY

1943 NOV

SECRET

NOV 24 1943

MEMORANDUM FOR SECRETARY'S DIARY

At 9:30 a.m. Wednesday, November 24, 1943, there was a meeting in Secretary Hull's office to discuss the freezing of Argentina. The following were present:

From the State Department

Secretary Hull  
 Assistant Secretary Berle  
 Mr. Collado  
 Mr. Duggan  
 Mr. Bonsal

From the Treasury Department

Secretary Morgenthau  
 Mr. Paul  
 Mr. White  
 Mr. Pehle

Secretary Morgenthau handed to Mr. Hull a letter (Exhibit A attached) which describes recent transactions in Argentine accounts and the continued efflux of Argentine gold from the United States. The letter also refers to the fact that Treasury has not received a reply to its memorandum to the Secretary of State of November 12, transmitting a proposed reply to the inquiry of Congressman Schiffler, who has since introduced a bill (H. R. 3696) authorizing the seizure of property being used to aid any nation at war with the United States. Secretary Hull read Secretary Morgenthau's letter aloud.

Secretary Morgenthau then inquired whether Under Secretary Stettinius was available since certain of his comments would be critical of Stettinius. Stettinius was sent for but was found to be at home ill and Secretary Hull asked that we proceed in his absence. Secretary Morgenthau then said that he thought that the cable (No. 1644, October 24) which Stettinius sent to Hull at Moscow was very unfair in stating that the purpose of the Treasury in advocating the freezing of Argentina was the upsetting of the present Argentine Government. Secretary Morgenthau made it clear that the Treasury was advocating the freezing of Argentina on economic warfare grounds and the question of whether any government should be overthrown was for the Secretary of State to determine. Secretary Hull then said: "I would like to see the present government of Argentina overthrown".

- 2 -

Secretary Morgenthau then summarized the case for freezing Argentina and pointed out that the facts were in the possession of the State Department and Ambassador Armour. He pointed out that Argentina had made specific commitments at the Rio conference held in January 1942 and at the Washington conference held in July 1942, and that Argentina had not lived up to its commitments. When asked to comment on the matter, Mr. Berle said that freezing of Argentina would constitute but a minor gain on the economic warfare front whereas its political aspects were quite disturbing. He said that several Latin American governments had expressed themselves as being very worried about our taking strong action against Argentina. Secretary Morgenthau then pointed out that our failure to act against Argentina when the other Latin American governments in Argentina were cooperating with us had a bad effect on the other governments.

Assistant Secretary Berle then said that the situation had not worsened any in Argentina but that the Argentine Government had merely continued to fail to take affirmative measures to support our war effort. Pehle pointed out that Armour in his recent cables had made it quite clear that while the Argentine Government for sometime has been aiding the Axis by failing to cooperate with the United States in economic warfare matters, more recently the Argentine Government has been actively aiding the Axis by making loans to German business enterprises through the banks which it controls, insisting that Argentinians deal with such business enterprises, giving large government contracts to notorious German concerns, etc.

At this point Secretary Hull said that perhaps we should consult with the other principal Latin American Republics to see if they would be willing to publicly approve this Government's freezing Argentina and to the extent possible take similar action themselves. Mr. Hull said he felt this would be worth doing, even though he was afraid the Latin American governments would "duck out" of taking any such measures. There was some discussion as to whether the proposal to be put up to some of the other Latin American countries should include giving the Argentine Government and perhaps the Central Bank a general license. Secretary Morgenthau suggested that the proposition which should be

- 3 -

put up to such governments would be to treat Argentina just as the United States is treating the European neutrals who have been frozen and then given general licenses.

Collado then said that the State Department had called Merle Bohan, Economic Counsellor of our Embassy in Argentina, to the United States for consultation and that Bohan, who had advocated freezing a few weeks ago, now felt that the time had passed for such measures. Bohan advocated instead that we tell the Argentine Government that Treasury would consider unfreezing Banco de la Provincia and the Banco de la Nacion if the Argentine Government would give this Government broad undertakings on the economic warfare front. Bohan does not believe the Argentine Government will give us such undertakings, in which case the State Department would be prepared to ask Treasury to introduce a monitoring system on Argentine assets in the United States. Collado said that the monitoring system would accomplish the same ends as freezing Argentina with a general license to the Argentine Government and possibly a general license on trade. Secretary Morgenthau said that Treasury would be glad to give State's suggestions on a monitoring system consideration but that just as the decision on the political aspects were for State, we assumed that State would want our views as to the type of freezing control which should be applied.

There was then some discussion of whether the British would be willing to take parallel action against Argentina. Mr. Bonsal said he had discussed the matter with British representatives here and the British had made three points:

1. They would feel very badly if we froze Argentina without consulting them, since the British say they have been trying to follow a parallel policy with respect to Argentina.
2. In view of the exchange controls now applicable in the United Kingdom on Argentine assets there would be little to be gained by Britain taking similar action.

- 4 -

3. The British do not believe there would be any substantial gains on the economic warfare front by the United States freezing Argentina.

Secretary Morgenthau said that it would be helpful if the matter were discussed a little more frankly, at which point Mr. Bonsal said he agreed with the British position. Secretary Morgenthau added that he would like to see the matter put up to the British in writing with a request for a written reply so that the record will show whether the British are willing to follow a parallel policy in this matter.

As the matter was left, Secretary Hull concurred in approaching the principal Latin American countries and the British on the proposal that Argentina be frozen and general licenses be issued on the same basis as is the case with Portugal, Spain, and the other European neutrals. If we are not able to obtain any concurrence in such action, particularly from the other Latin American countries, we can then canvas what action should be taken. We will also examine the monitoring system proposed by State. Collado handed Pehle several memoranda describing the proposed monitoring plan and also indicating in some detail the basis for the State Department's position. Copies of such memoranda are attached (Exhibit B).

*J. P. S. K. C.*  
*W. H. W.*

November 24, 1943

My dear Cordell:

Since writing you on November 12, 1943, three further shipments of gold of approximately \$1,250,000 each, held by the Argentine Central Bank in this country have left the United States bound for the Argentine. This makes a total efflux from the United States since November 4, 1943, of approximately \$6,250,000 of Argentine gold.

Subsequent to the transfers reported in my memorandum of November 8, 1943, to the Acting Secretary of State, there has been a flight of \$2,178,000 from Argentine accounts to the accounts of other countries, mostly to Uruguay but also to Sweden, Panama, Chile, and Colombia, and sums aggregating \$9,785,000 have been transferred to the account of the Argentine Central Bank from other Argentine banks.

Since my memorandum to you of November 12 transmitting a copy of a letter from Congressman Schiffler on Argentine gold together with a proposed reply, Congressman Schiffler has introduced a Bill, H. R. 3696, a copy of which is attached. This Bill would authorize the seizure of certain property "which is being used or which is about to be used, to aid any nation at war with the United States" and is obviously addressed to the Argentine situation. I think it would be advisable to make a prompt reply to Mr. Schiffler on the inquiry which he has made, and I should appreciate having your comments on the reply proposed by the Treasury.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

November 24, 1943

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Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 24, 1945

TO Secretary Morgenthau  
FROM Randolph Paul

As we left the meeting at State this morning Collado handed Pehle several memoranda on the Argentine situation which had been prepared for internal use in State. Collado handed these documents to Pehle in order to enable Treasury to get a better idea of the monitoring system proposed by the State Department. The documents are very interesting on several grounds and you will want to read them over. We are studying the proposed monitoring system very carefully and will let you have our views with respect to it.

You will be particularly interested in the note which appears on one of the documents in Mr. Berle's handwriting reading as follows:

"I should agree with this\* if Treasury will settle on that basis. But it ought to be a genuine acceptance, - not a mere step toward another dive into a tangled thing."

The original documents have been returned to Collado.



(\* - Berle is referring to the proposed monitoring system.)

DEPARTMENT OF STATE  
SPECIAL ASSISTANT TO THE UNDER SECRETARY

November 18, 1943

U - Mr. Stettinius:

S - The Secretary:

(Copies to A-A, A-B, PA/LD, RA - Mr. Bonsal,  
FD and WT)

Argentina - Foreign Funds Control

Reference is made to my memorandum of November 8 and the joint memorandum of Messrs. Bonsal, Duggan and myself of November 13 recommending a special monitoring system of Argentine international transactions. I have discussed these matters in detail with Mr. Bohan, Economic Counsellor of the Buenos Aires Embassy, who has pointed out that our failure to take further action regarding the Banco de la Nación and the Banco de la Provincia, which have been ad hoc blocked, invites retaliation by Argentina much more than would more generalized action against Argentine transactions. He has provided the attached memorandum presenting a special solution to the problem of the two banks.

I should now like to recommend, with his concurrence, the following modified program:

A. Authorize Ambassador Armour to inform the Foreign and Finance Ministers that the Treasury is willing to consider removing the two banks from the list of Special Blocked Nationals but requests that the Argentine Government be more specific as to the steps which it is willing to take in order to prevent the recurrence of types of transactions which have in the past tended to aid the Axis. Specifically, would the Argentine Government be willing to guarantee:

1. In General

a. That no remittances would be made from Argentina to Axis and Axis-occupied countries or to third countries in cases where the beneficial interest resided in

Axis

Axis or Axis-occupied countries.

b. That no credits or overdrafts would be extended to firms in Argentina whose activities are inimical to the security of the hemisphere.

c. That information would be made available concerning the beneficial ownership of dollar balances and securities held in the name of Argentine banking and other financial institutions; especially any holdings for nationals of Axis or Axis-occupied countries.

2. That the two banks, in their character as private banks, would give, through their United States correspondents, the necessary commitments to the Treasury with respect to remittances abroad and credits and overdrafts to Proclaimed List nationals.

B. If Argentina turns down this proposal or delays unduly in considering it, proceed with the positive program outlined in the memorandum of November 13:

"(2) The Treasury, after agreement with the Department as to procedure, institute a special monitoring system of Argentine international transactions designed to catch and subject to special blocking action those international financial transactions which may be of benefit to the enemy. Under such a system banks would be instructed:

"a. To interpose no hindrance whatever to commercial transactions and transactions incident to commerce.

"b. To interpose no obstacle to Argentine transactions which merely involve transfers of funds within the United States.

"c. To

"c. To require evidence as to the purposes of all other types of transactions which means, in effect, Argentine international transactions of a purely finance character. To facilitate rapid monitoring and speedy approval of legitimate transactions, the Federal Reserve Bank of New York should be generally authorized to make such examination and grant such approval, and possibly later such general authorization on at least limited classes of general transactions might be extended to the banks themselves.

"(3) The special blocked status of the Banco de la Nacion and the Banco de la Provincia be retained but commercial banks be authorized to permit all commercial transactions and transactions incident to commerce."

I understand that the Secretary is planning to discuss this whole matter with the Secretary of the Treasury. If the above recommendations are thought to have merit, I should like to be authorized to discuss, at an appropriate time, their mechanics with Mr. Pehle of the Treasury.

  
Emilio S. Collado

EA/C:EGC:ja

MEMORANDUM

TO: Mr. Collado  
FROM: Merwin Bohan

With reference to point 3 of the recommendations in the memorandum "The Argentine Situation" of November 13, 1943, the following suggestions are submitted for your consideration.

As you are well aware, both the Department and the Embassy were always opposed to the ad hoc blocking of the Nación and Provincia. The Embassy fully realized the situation which brought about the Department's approval of the measure taken by the Treasury in this regard. However, we are in a rather weak position with respect to these banks and, in view of the "guarantees" which the Argentine Government is prepared to give us, it is essential that an effort be made to get out of the situation we are in as speedily and effectively as we can.

We cannot merely eliminate these institutions from the List of Specially Blocked Nationals. Do you not think that it would be wise to authorize the Ambassador to inform the Foreign Minister along the following lines:

That the Treasury Department is willing to consider the de-listing of the two banks but requests that the Argentine Government be more specific as to the steps which it is willing to take in order to prevent the recurrence of transactions which have tended to aid the Axis in the past. Specifically, would the Argentine Government be willing to guarantee: (a) that no remittances would be made from Argentina to Axis and Axis-occupied countries or to third countries where the beneficial interest resided in Axis or Axis-occupied countries; (b) that no credits or overdrafts would be extended to firms in Argentina whose activities are inimical to the security of the hemisphere; (c) that, upon request, information would be furnished concerning the beneficial ownership of accounts held in the name of Argentine

banking

banking or other financial institutions; (d) that the Nación and Provincia, in their character as private banks, would give, through their American correspondents, the necessary commitments to the Treasury Department with respect to remittances abroad and credits and overdrafts to Proclaimed List nationals.

*breakdown of how far we are from dollar holdings + security holdings; information on the banks to be included in the list +*

It is to be noted that the Proclaimed List is introduced only with respect to private commitments to be given by the banks to the Treasury. The chances are that we cannot get away with it, but there would be no objection to our trying and then giving some ground if the need arose. Incidentally, I would not give two cents for any commitments made by the present Argentine Government, but if the commitments are made and then not carried out we would be in an excellent position to again consider the question of general freezing. It would seem advisable, if the Argentine Government agrees to give these commitments, to follow its specific request that the two banks be de-listed before the commitments are formally entered into.

November 16, 1943

MB:ja

*Copy from Mr. Callahan*

November 13, 1943.

S:

The Secretary

THE ARGENTINE SITUATION.

### I. Political Background.

It is now clear that the June revolution was motivated by internal considerations rather than any desire to change the Argentine Government's foreign policy. The officers who engineered the revolution were the leading members of a military organization known as G.O.U., a group of extreme Nationalists. This group opposed the presidential candidacy of Patron Costas, a Moderate, who had received the blessing of President Castillo and who was to have been nominated on the day of the revolution as the presidential candidate of the National Democratic Party. The present Government composed almost entirely of military men has endeavored to strengthen its position by repressive measures of the familiar totalitarian pattern. The undisputed leader under Ramirez is Colonel Juan Domingo Peron, now Under Secretary of War. The Government professes to be protecting the country from corrupt, self-seeking exploitation of the professional politicians. Its attitude has been anti-American, pro-Nazi and chauvinistic. There has also been a strong clerical influence.

Following the resignation of Admiral Storni as Foreign Minister, three other Cabinet members who were considered friendly towards the United States were replaced by Argentine Nationalists. Gustavo Martinez Zuviria was appointed Minister of Justice and Public Instruction; Cesar Azeghino, Minister of Finance; and Captain Ricardo Vago, Minister of Public Works. The latter's appointment is the most favorable from our point of view, as Vago enjoys a good reputation and has never been involved in politics. General Farrell has been named Vice President and General Gilbert has replaced Foreign Minister Storni.

The Government gained initial popularity among the people by lowering public utility rates and adopting other

measures

measures designed to reduce the costs of living for the working people. In recent months, however, the repressive measures of the Government, including closing of universities, press and radio censorship, the ban on certain Jewish newspapers, arrests of labor leaders and the cancellation of elections have alienated large sections of the Argentine people. The dismissal of a considerable number of university professors for having indicated their disagreement with the Government's policy and the Nazi-patterned tactics adopted against the Jewish press have evoked criticism in the other American republics, many of which have been outspoken in their condemnation of the repressive activities of the present Argentine Government. Our own interests appear to be affected by a recent proposal to replace all foreign employees of national, provincial and private telecommunications systems in Argentina with native Argentines since the key managerial employees of these companies are for the most part American or British.

More recently, and especially since the triumph of the extreme Nationalistic group within the Government, there have been signs that the repressive measures above described have tended to shake the prosperous apathy of the Argentine people. Student riots have caused the closing of universities. Labor is unsettled with a general strike being agitated. The prospects of an overturn in the near future are not bright.

## II. Freezing of Argentine Assets.

In May 1942, the Treasury in a memorandum recommended that all Argentine funds in the United States be frozen and that a general license be issued for purely commercial transactions. This recommendation was based on Argentina's failure to collaborate with the other American republics.

The Department opposed the proposal of the Treasury Department on grounds of foreign policy and because it believed the result of the proposed action would be misinterpreted in the other American republics and would alienate our friends in the Argentine. The President concurred in the Department's views.

The

The Treasury has repeatedly renewed its proposal. On October 20, 1943, Ambassador Armour suggested that since Señor Irribach, Director of the Banco Central, who had cooperated with us, was being forced out of the Banco Central, together with certain friendly officials of the Ministry of Finance, the Treasury Department would be justified in freezing Argentine funds.

The Treasury, fully supporting the views expressed by Ambassador Armour, maintained that the freezing of Argentine assets was the natural followup to Secretary Hull's letter to Foreign Minister Storni. It felt that a dramatic step by us taken at this time would crystallize the opposition and perhaps give Argentina a genuinely pro-Allied Government.

The Department maintained the position, contrary to the views of the Treasury and of Ambassador Armour, that freezing would be undesirable because:

- (1) It would not further our economic warfare to any marked extent.
- (2) The political effect of the measure might or might not be helpful to our immediate interests; it would, however, be considered both in Argentina and, more importantly, in the other American republics as an abandonment by us of the non-intervention policy upon which, the inter-American system, with all its positive benefits, rests.
- (3) Cooperation of other American republics as well as parallel British action would be desirable in the event the measure were taken but seem difficult of attainment. The British financial situation vis-a-vis Argentina is very different from ours.
- (4) Retaliatory measures open to Argentina might adversely affect certain phases of our vital procurement programs as well as cause harm to other legitimate United States interests in Argentina.

The first two of the above reasons were the real basis of the Department's position.

The

The President, on October 24, supported the Department's recommendation but asked that the matter be reviewed every week or so.

The Treasury was so anxious to secure the freezing that on October 25, it "leaked" a story that this action was contemplated, in the hope that this would force action.

Although no very large transfers of Argentine assets from the United States to other countries took place, there were transfers in considerable amounts from the accounts of Argentine banks with various New York banks to the account of the Central Bank of Argentina with the Federal Reserve Bank of New York. These resulted from the calling in by the Central Bank, in accordance with its legal powers, of the dollar balances of a large number of Argentine banks (i.e., dollar balance of the latter with New York banks were converted into dollar balances with the Central Bank.)

Two of the Banks involved, the Banco de la Nacion (a Government owned) and the Banco de la Provincia (semi-Government) were involved to the extent of \$9,500,000 in the latter type of transaction. Since these banks were generally though perhaps superficially regarded as "bad actors", the Treasury, with the Department's consent, on October 28, placed them on the list of specially blocked nationals.

On October 29, the President again upheld the Department's view. The Treasury, however, continues to agitate the issue although there has been a virtual drying up of financial transactions of an even remotely suspicious character.

It should be recorded that the Argentine Government is pursuing a policy of gradually removing to Argentina some \$300,000,000 in gold from the United States. By the end of November \$7,500,000 will have moved and sailings have been arranged for the further shipment of \$5,000,000. Shipments are limited by risks which will be assumed by insurance companies on any one vessel and by the number of vessels.

At

At a special meeting of the Departmental Committee on Political Planning held on November 9, and attended by Messrs. Pasvolsky, Hornbeck, Murray and Duggan, the course taken and the position adopted by the Department to date were approved.

Recommendations.

It is recommended that:

(1) No general freezing of Argentine assets and transactions be undertaken at this time.

(2) The Treasury, after agreement with the Department as to procedure, institute a special monitoring system of Argentine international transactions designed to catch and subject to special blocking action those international financial transactions which may be of benefit to the enemy. Under such a system banks would be instructed:

- a. To interpose no hindrance whatever to commercial transactions and transactions incident to commerce.
- b. To interpose no obstacle to Argentine transactions which merely involve transfers of funds within the United States.
- c. To require evidence as to the purposes of all other types of transactions which means, in effect, Argentine international transactions of a purely finance character. To facilitate rapid monitoring and speedy approval of legitimate transactions, the Federal Reserve Bank of New York should be generally authorized to make such examination and grant such approval, and possibly later such general authorization on at least limited classes of general transactions might be extended to the banks themselves.

(3) The special blocked status of the Banco de la Nacion and the Banco de la Provincia be retained but commercial banks be authorized to permit all commercial transactions and transactions incident to commerce.

Philip W. Bonsal

Laurence Duggan

Emilio G. Collado

RA:JKB:PWB;jll

A-B-D-1704

November 6, 1943

WT - Mr. Russell:

RA - Mr. Bonsal:

PA/LD - Mr. Duggan:

A-A - Mr. Acheson:

A-B - Dr. Berle:

U - Mr. Stettinius:

*I should agree with this if Treasury will settle on that basis. But it ought to be a genuine accept-ance, - not a mere step toward another tangled thing*

Argentine Financial Control Situation

The situation today regarding the Argentine financial picture may be summarized as follows:

- (1) We have specially blocked the Banco de la Nación and the Banco de la Provincia.
- (2) All other Argentine transactions are going forward.
- (3) The Secretary of the Treasury has sent a strong letter to the Department requesting full freezing.
- (4) A reply to the Secretary mainly taking the position that the matter should await the return of the Secretary of State is being considered in the Department.
- (5) Ambassador Armour continues to recommend freezing and has had a discussion with the Argentine Minister of Finance and Foreign Minister specifically about the two blocked banks and also touching on the general situation.
- (6) Although some evidence exists on both sides, the case for specific blocking of the two banks in the absence of any other financial controls is at best not very strong.
- (7) Ambassador

(7) Ambassador Armour reports that the Minister of Finance has indicated that banks would be willing to supply United States authorities with full information regarding any operation. It is not entirely clear whether this refers to all operations of Argentina or merely those of the two blocked banks.

I am still of the opinion that much less importance should be ascribed to this Argentine freeing proposal than either the Treasury or some quarters of the Department attach to it. Nevertheless, it is obviously desirable that the issue be settled in some effective way. It is accordingly suggested that the following program be put into effect:

1. The special blocking of the two banks be discontinued.

2. In view of the statement of the Argentine Minister of Finance, the Treasury institute a special monitoring system of Argentine international transactions designed to catch and subject to special blocking action those international financial transactions which may be of benefit to the enemy. Under such a system banks would be instructed:

- a. To interpose no hindrance whatever to commercial transactions and transactions incident to commerce.
- b. To interpose no obstacle to Argentine transactions which merely involve transfers of funds within the United States.
- c. To require evidence as to the purposes of all other types of transactions which means, in effect, Argentine international transactions of a purely finance character. To facilitate rapid monitoring and speedy approval of legitimate transactions, the Federal Reserve Bank of New York should be generally authorized to make such examination and grant such approval, and possibly later such general authorization on at least limited classes of general transactions might be extended to the banks themselves.

This

This proposal would appear to meet the legitimate needs of the various parties to the discussion. It would provide for the effective control of all of these financial transactions which the Embassy and the Treasury have objected to on the grounds of economic warfare. From the political point of view it would avoid the objections of classing Argentina with the European neutrals and breaking down the inter-American system. At the same time, it would be placing Argentina in a special category not unwarranted by Argentina's position in these matters. From the Embassy's and the Treasury's point of view, this measure will actually accomplish everything that the general freezing accompanied by a general license would. It would not have the initial psychological effect of the general freeze although astute financial writers might soon detect that it was not remarkably different in effect.

Emilio G. Collado

Fred Smith  
The Secretary

November 24, 1943

I like the approach for my tax talk. I think the one I like the best is where you say that the soldier would get little satisfaction out of the fact that through Congress trying to reduce the appropriation of the War Department, they feel that they will not have to increase the taxes, and in that way leave the increased debt burden for the soldier to bear when he returns from the war. I think that this is so good that it should be repeated at the end and emphasized.

The part which is not in this speech, and which I would like to have in it, if possible, is to show the group who will be free from tax if we lift the Victory Tax from them, how much taxes they now pay the federal government on their cigarettes and other federal taxes will be fixed as a separate section. I think I mentioned that yesterday. Anyway, I would like to have it on the group who will be free from taxes -- I think that represents nine million people -- whatever the group is -- how much taxes will they pay in excise taxes -- federal excise taxes, gasoline, and so forth. I think this is terribly important, and I hope that Blough has the figure, and you can get it and include it in my talk.

Fred Smith

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I think the end is a little involved. I like the first two-thirds. I think that is excellent, and I'll talk to you about the whole thing as soon as I get back from seeing Cordell Hull today. *Finished*

November 24, 1948  
11:00 a.m.

TAXES

Present: Mr. Bell  
Mr. Haas  
Mr. Lindow  
Mr. Blough  
Mr. Tickton  
Mr. Surrey  
Mr. Paul  
Mr. Smith  
Mr. White  
Mrs. Klotz

H.M.JR: Now, where were we? Mr. Bell, would you report first, please?

MR. BELL: I haven't anything from the Budget. I have been in touch with them, but they worked last night on a statement and Wayne Coy said he thought he would have something to show me right after lunch. They are revising their estimates; they are attempting to get out a very short Budget summation.

H.M.JR: By Friday?

MR. BELL: Yes, Friday morning. And George is working on the receipt end to see whether or not we want to revise those.

H.M.JR: Are your boys brought up to date?

MR. PAUL: Yes, I know about that.

H.M.JR: I think that would be most helpful. Now, is that all? You ride that hard. You (Bell) are going away tonight?

- 2 -

MR. BELL: I will be back Friday morning. I am leaving about five o'clock.

MRS. KLOTZ: No significance, really. (Laughter)

H.M.JR: What happened?

MRS. KLOTZ: I was sort of talking to Harry, just with my eyes.

MR. WHITE: She was laughing at a joke I didn't tell her.

MRS. KLOTZ: It has nothing to do with this. I am sorry.

H.M.JR: Blough, how are you coming along?

MR. BLOUGH: The easiest job you asked for is done. We always do the easiest ones first. That is on the sales tax. The income tables are rapidly approaching completion on the first time around, and I think we will have something for you on that. This is sales tax, here. (Mr. Blough handed the Secretary chart entitled "Ten Percent Federal Retail Sales Tax," copy attached.)

H.M.JR: Exemptions?

MR. BLOUGH: Yes.

H.M.JR: If you put a ten percent tax--

MR. BLOUGH: Here we have a ten percent retail sales tax. The total yield on the estimates now available would be six point three billion, two point four billion is food; that would bring your total down to three point nine billion, shown on the left, accumulative totals. If medicine were exempt it would be another two hundred million dollars, bringing the total down to three point seven. If clothing were exempt, it would bring it down another one billion one hundred million dollars, leaving two point six.

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Then there is a lot of stuff, principally liquor and tobacco, already taxed under excise taxes, which can be changed any way you may want to change them; the Congress way want to, and therefore not need a sales tax.

If those were exempt you would have one point two billion dollars off, leaving one point four billion dollars. That includes everything else. We could break it down still further, but it seemed more effective not to - household furniture, business equipment subject to tax, certain services, and so forth, are in the one point four.

H.M.JR: Has this ever been gotten out this way?

MR. BLOUGH: We have never charted it this way, no.

H.M.JR: It is good.

MR. PAUL: This raised the basic point. I think it is a good chart, although it is a pretty simple thing to get across, but there is a basic point: Why do you want to talk about the sales tax?

H.M.JR: Oh, we have to.

MR. PAUL: I don't know. I certainly don't think you have to. The question is whether you should.

H.M.JR: They are going to bring it up.

MR. BELL: Senator George said if the Treasury wanted any more taxes they would have to figure the sales tax.

MR. PAUL: A lot of people have said that.

H.M.JR: I had Robertson in here yesterday. He said, "The one thing, Mr. Morgenthau, you have got to be prepared to answer is the question on sales taxes. You have just got to be prepared."

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MR. PAUL: I agree that you have to be prepared. That isn't my point at all. My point is whether you talk about it in your statement.

H.M.JR: I think so. I don't see how you can avoid talking about it.

MR. WHITE: What is the harm in talking about it if you take the position that the yield will be very small unless you include items which are completely unjustified?

MR. PAUL: Well, I don't think there is a very strong movement for the sales tax, and you make a big issue out of something that may be reasonably dead.

H.M.JR: I differ; if you read these editorials in the papers--

MR. PAUL: I am not going by them. They have had the same editorials for two or three years.

H.M.JR: Gaston has seen the success of these important columnists, and they all bring up the sales tax, every one.

MR. PAUL: Sure they do, but--

H.M.JR: Anyway, I don't think it has been answered; I don't think we have given a good answer. I will put it this way, that the answer hasn't had a good play in the new papers. I feel that I have got to be prepared to answer it, and I would like to throw this into their teeth.

MR. BELL: I think the impression has gone out that a ten percent sales tax will finance this war, and you will get all kinds of money. I think that is unfortunate.

MR. PAUL: If you are going to talk about the sales tax, then let's talk about it all along the line, not just the question of the revenue from it. There are a lot of other very important arguments against it.

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H.M.JR: I would like to have them because what's his name - Robertson - was pushing me as to the advantages of the sales tax against other methods of revenue; I ran out of arguments. The thing that I want somebody to answer for me is, when you exempt all these other things, what is left? Why is the sales tax any worse than excise taxes?

MR. BLOUGH: That throws it over into the Administrative field. It is worse because you set up a brand new set of machinery with millions of new customers that you have to deal with to get a little more money, when the present excise tax is, well, organized - already administered - and with a relatively small number of persons or taxpayers, could yield about the same amount of money.

H.M.JR: What I would like to do Saturday morning is to have a seminar on the sales tax. Somebody in the shop could have thought of being the devil's advocate for it, and then see the answers that develop. I haven't read about this very extensively. I would like to spend a couple of hours on it Saturday morning.

MR. PAUL: That is fine. If you are going to talk about it, we have got to talk about it on all fronts, the inflationary front - the fact that it is definitely inflationary.

MR. WHITE: I think that is full of dynamite.

MR. PAUL: Because he didn't know what he was talking about. You don't get in a mess if you know your arguments.

H.M.JR: I don't want to spend a lot of time on this thing, but I don't see why a sales tax on these articles is any more inflationary than if you--

MR. PAUL: Because the sales tax hits the things that are in the cost of living index; whereas the excises are carefully selected from articles that aren't.

H.M.JR: None of the excises?

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MR. PAUL: Practically none of them, to any extent.

H.M.JR: The fellow at a thousand dollars a year doesn't know what an index is. All he knows is that he is out of pocket. I want somebody to explain to me why the increase which is all passed on to consumers in excise taxes is less inflationary than a sales tax?

MR. BLOUGH: I would say that aside from, say, household furniture, which is very widely purchased as a family necessity - there may be one or two other things - the chances are that "All other" would not be particularly more inflationary than the excise; I think it would be somewhat more. But it is the food, clothing, medicine, those things, that enter into the price index and enter into Mr. Common-man's every-day cost of living that make the trouble.

MR. PAUL: And upon which all our wage stabilization is based - fifteen percent formula.

MR. HAAS: Henderson claimed it would break the ceilings if you added on; you would have to revise the ceiling.

MR. PAUL: That is because of increased wages.

H.M.JR: I am going to be from Missouri on this thing. I would like to spend Saturday morning on the thing. I am repeating myself; why a ten percent tax on "All others" is inflationary, and an increase of fifty or twenty-five percent on railroad travel and telephone calls - all the things which go into our pocket expenses - is not inflationary?

MR. BLOUGH: I don't think you will get an answer there. But the whole point on the "All others" is that to get a billion four hundred million dollars, you have really tremendous addition to your administrative job, and query, is it worth it?

H.M.JR: What we have got to decide - it will take a couple of hours for me to get it, because I have never spent a couple of hours on it - we have got to decide what we are going to do.

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We are going to say, "All right, here is the bill," and argue against it because of the increase of costs to the Government and to the taxpayer, or because it is inflationary, but I don't know that the two things--

MR. BLOUGH: For the "all other," the inflationary is probably a minimum argument; for food and clothing, I think it is a very important argument.

H.M.JR: I can see that. I read your (Smith's) talk. The approach is this, and we will argue about it: "Now, look, gentlemen, everybody is talking about the ten percent tax - sales tax. I am confident you don't want to put it on food or on medicine; I am sure you don't want to put it on clothing. When it comes to collecting on excises, we can do it so much cheaper that way. I am sure you people are as interested as I am in economy. We don't want to have a duplication there. So it gets down to a billion four. Now, in the case of a billion four, what is it going to cost us to set up entirely new machinery and a new organization? Isn't it much better, rather than to start something entirely new, to take the Treasury's recommendation on increase in excises?"

Let's do it on that basis. Who would differ with me?

MR. HAAS: I would add annoyance to the taxpayer, along with increased cost to the Treasury.

H.M.JR: Think about it. Let's have the sales tax study Saturday morning. I would like to get soaked up with it. After Robertson went after me, I went flat.

MR. BLOUGH: Is this the Congressman?

H.M.JR: P.M. He is certainly a friend.

I haven't had time to expose myself to all these columnists, but Gaston is doing it. He has seen one or two a day. When he got through with Walter Lippmann, Lippmann said he was against the sales tax. He has seen Ernest Lindley; he is going to see Ray Clapper and about half a dozen of the more important.

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MR. BLOUGH: I want to revise what I said about the inflationary aspects of "all other." There is in the "all other" an important part of business supplies and equipment, and things like that, which are impossible to exempt, because the items are things that people buy personally and also for business purposes. That will add to the cost of doing business. And that will have a directly inflationary influence. The other items in "all other"--

MR. PAUL: Also be inflationary on the "all other" by reason of stimulating wage demands.

MR. WHITE: That is the important thing. Labor will regard a sales tax on this "all other" as a sales tax. They will say, "We are paying a ten percent tax on most of the things we buy." And you can't counter by saying, "Well, you are leaving some things out. You are not paying it on food." They will say, "We are paying it on most of the things we are buying. It is increasing the cost of living." They won't pay any attention to the figures.

Whereas, if you have excise taxes you could take the same amount of money away from them out of excise taxes, though you are not, but even if you did, you could say, "This is not a sales tax; it is a tax on fur coats and other things you don't need." And it doesn't give them the most powerful weapon for increased demand for wages.

MR. BELL: How about income taxes of the same. Would they argue the same way?

MR. WHITE: No.

MR. PAUL: You can't argue the same way because there are wage formulae increases.

MR. BELL: Yes, but they have the same amount of money when they get through.

MR. HAAS: But Lubin says that the wife is given so much money to buy food; she goes out and she has her fifteen dollars, and it doesn't stretch as far.

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MR. BELL: I don't see why the taxes have to be in the cost of living index. Why shouldn't the price of the article be taxed?

MR. PAUL: That would be all right if we were starting all over again with all our gearing of wage stabilization to tax.

MR. BELL: I think it is a poor argument before a Congressional committee to say you can't have a sales tax because sales taxes are included in your cost of living index, and your cost of living increases.

MR. WHITE: It is not that it is included in the cost of living index; the important thing is that in the mind of labor he is paying more for those goods and he is going to say that because he is paying more, he needs higher income. You are running against tradition, against the customary way of treating this matter, and you can get the same amount of money away from income tax and they would be much less potent arguments than there would be in the sales tax. That is an additional reason.

H.M.JR: I will work on this thing Saturday morning. Now, look, the one thing that I would like very much, and I hope to have it by Saturday, whatever the group is that we are going to exempt from any taxes - whether it is the thousand dollars, or whatever the group is - I don't know where it starts, I have asked, now, a couple of times--

MR. BLOUGH: It is in the works.

H.M.JR: ...what these people now pay in Federal taxes. Now, I am going down tonight to spend some time with Henry. I will be back late Friday night. Could you, Paul, and your people, spend quite a lot of time with Smith and Gaston trying to go over this?

MR. PAUL: We have got to spend a lot of time with them because, as far as I am concerned, I disagree with some of these approaches. I am not sure Fred is wholly sold on some of them himself.

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H.M.JR: We will know a little bit more later. But I thought if Smith, Gaston, Blough, anybody in the room - let me put it the other way around; I am going to ask Smith to see as many of you as possible and get ideas so that when he sees me Saturday morning he will have a revised draft; he can say, after seeing you, "I still think you should say this, but the following people don't want you to say it." You can do it that way. But, Fred, if you don't mind - I mean, we are closing the office Thursday at one o'clock, so we don't expect you to work Thursday afternoon. Has that gotten around? White, has it reached your office?

MR. WHITE: No.

H.M.JR: How does it come?

MR. BELL: By telephone.

MR. HAAS: I think maybe they got some administrative assistants of yours, Harry.

H.M.JR: Has it gotten to you that we are closing Thursday at one o'clock?

MR. GASTON: Yes, we are very alert on such matters. (Laughter)

H.M.JR: Alert and allergic. (Laughter)

MR. BELL: Always watching for them.

H.M.JR: Herbert, I told Smith to see as many of you as possible between now and Saturday. I want a draft of my tax talk, and if you would give as much time to Smith as you can--

MR. GASTON: Yes.

H.M.JR: Now, whom did you see this morning?

MR. GASTON: Ray Clapper.

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H.M.JR: Would you give us the benefit?

MR. GASTON: I had a very nice talk with Ray Clapper. It is necessary to explain the background of what we are thinking and doing. His conclusion was that - just as Walter Lippmann's - that we got a bad press principally because we didn't explain carefully enough the omission of the nine million people. It was news to him that notwithstanding dropping the nine million, we were still adding about three billion six hundred million in taxes to the group under five thousand dollars, and that, to him, was a very striking fact.

He thinks that by all means we should stand by our guns for drastic additional taxation; that there is beginning to be quite a swing of sentiment in our direction, particularly in the newspapers; and that it would be a good idea to get such authoritative help as we can. He mentioned Marriner Eccles. He also mentioned Dan Bell as being a good man to talk about the financial picture; that the fellows up there had a lot of respect for his judgment and his knowledge. Fred Vinson he was a little in doubt about because I think Fred is in a little bit wrong up there now, and he doesn't know how helpful Fred would be to us.

H.M. JR: Were you here when I talked to Vinson yesterday?

MR. GASTON: Yes.

H.M. JR: Have you (Paul) heard about that conversation?

MR. PAUL: No.

H.M. JR: I invited Fred Vinson to go up to lunch.

MR. PAUL: I didn't hear that.

H.M. JR: I invited Vinson to go along, but he was too busy. Then he said, "If I get up there I am afraid they are going to talk to me about coal. I don't think I want to go up on the Hill." If Vinson and Byrnes had only

- 12 -

left us alone! Now neither of them will have anything to do with it. But we will keep Vinson informed just the same.

MR. GASTON: He thought we should have some explanation of the theoretical nature of these so-called savings, such as this War Department thirteen billion which he says has caused a great deal of confusion.

MR. PAUL: Have you seen Lippmann yet?

MR. GASTON: Yes.

MR. PAUL: I was supposed to see him. He broke a couple of dates.

MR. GASTON: He thinks the argument is very good, that savings don't relieve us of the necessity or moral obligation to have your taxes.

H.M.JR: I think it is very helpful, Herbert. I hope I am not taking up too much of your time.

MR. GASTON: No, I enjoy them.

H.M.JR: Are you going to see the others?

MR. GASTON: I am having lunch with Walker Stone today.

H.M.JR: Fine. And I have just thrown a couple at you. Could you take Dave Lawrence?

MR. GASTON: Sure.

H.M.JR: You have seen Lippmann, Ernest Lindley, Walker Stone, and you will see Dave Lawrence and--

MR. GASTON: I have seen three; Lippmann, Lindley, and Clapper. I will see Stone at lunch.

H.M.JR: Who else is there around here? Do you want to see Pearson?

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MR. PAUL: I don't think you have to see Pearson on that.

H.M.JR: Wouldn't do any harm. I have seen Robertson. You called him up, too, didn't you?

MR. BLOUGH: I have not done that yet, Mr. Secretary. I have tried to reach him but I couldn't.

MR. GASTON: Of course, they are in our corner, anyway, but I might see Pete Brandt or Charlie Ross.

H.M.JR: When those fellows get together they do talk things over.

MR. WHITE: How about D. Thompson.

H.M.JR: I don't think she is in Washington.

MR. PAUL: It might be worth while to go to New York.

H.M.JR: I am afraid we won't have time.

MR. PAUL: There are a lot of people up there to see.

MR. BELL: These people that you have seen, Herbert, don't get hardly outside of the metropolitan papers, do they?

H.M.JR: Oh, yes. Clapper is on the air every night.

MR. GASTON: Every one is syndicated.

H.M.JR: Lindley is on the air. The little papers - you would be surprised - carry these people. And they are all on the air.

MR. BELL: I was thinking about the little papers out in my section of the world. I never see Clapper, Lindley, or Lippmann quoted, but I see Ray Tucker and this fellow T.J.Meehan, from New York, and one or two others not so prominent. But I never see these fellows, Clapper and Lindley. Maybe the little papers carry them, I don't know.

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H.M.JR: Well--

MR. GASTON: I will get ahold of Ray Tucker. Of course, his stuff is more on the gossip side.

MR. PAUL: Fulton Lewis would be the one.

H.M.JR: Anyway, I think, Fred, you are off to a good start. I think we will know a little bit more by noon. I am saving all of Saturday and Sunday to work, and I am hoping we don't have to go up Monday.

MR. SURREY: They are scheduling it for Monday.

H.M.JR: I don't think the bill will get through in the House.

MR. SURRY: Only have two days for debate and vote.

H.M.JR: They are scheduling me and Paul?

MR. SURREY: If you are to be the first witness, which I presume you want to be, they would schedule it for the 29th.

MR. PAUL: If you wanted it Tuesday, I think you could get it Tuesday, but you ought to speak about it now.

MR. BLOUGH: They are setting a time-table to try to get it to the President's desk on the 18th.

MR. SURREY: That raises a question that you might want to explore. Assuming any good is to come from all this, it would delay the consideration in the Senate if the Senate wants to raise the money. Senator George had the idea of pressing through this bill next week. Assuming there is to be any increase in taxes, it is going to delay the consideration of the Senate, and I am not so sure - I don't see quite, now, why the bill has to be on the President's desk by the end of the year. They may throw that back at you today.

- 15 -

H.M.JR: I am just going to say this, that if they want me Monday, I want to be there Monday. That is due to the War Bonds - getting out the thing on time - and if I delay it any it just means that Smith and I will work that much slower. If we know that we have to get it out Sunday night, we will get it out Sunday night.

MR. SMITH: I guess it is so.

MR. SURREY: They have scheduled you for Monday morning.

H.M.JR: We will be there.

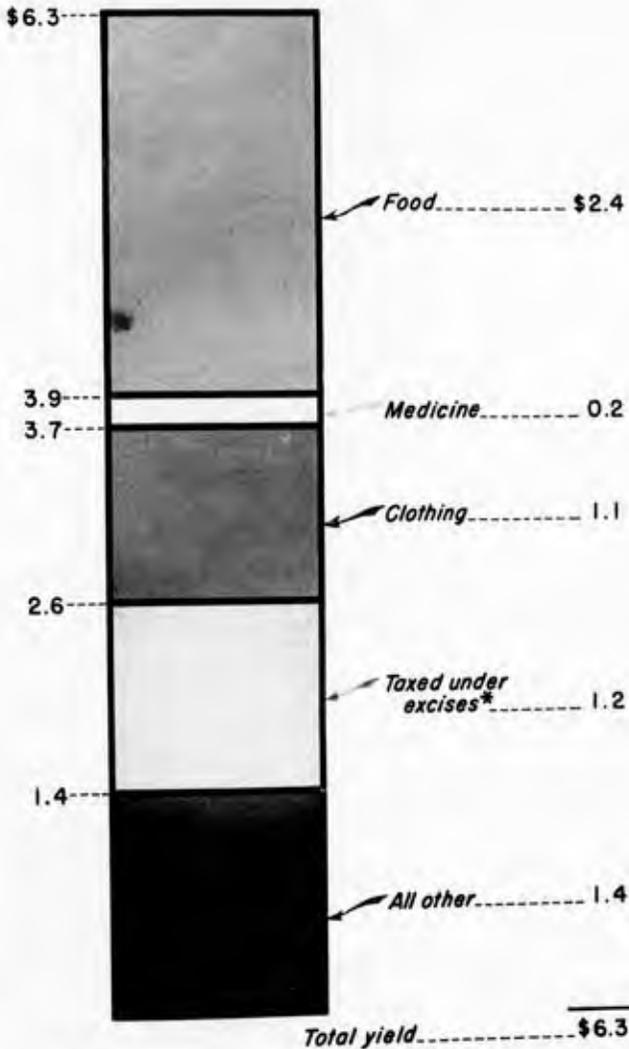
MR. PAUL: I have been working on a simplification statement, the corporate taxes and the various technical--

H.M.JR: But all of you, please, who are here, keep yourselves free for Saturday and Sunday for me, will you? So I can have all of you Saturday and Sunday. Monday night we can all get drunk. I will supply the liquor. (Laughter)

# TEN PERCENT FEDERAL RETAIL SALES TAX

(Dollar figures are in billions)

Cumulative  
Totals



\*Excludes a small amount of food and clothing now subject to excises.

November 24, 1943  
11:55 a.m.

Dan  
Bell: Hello.

HMJr: Hello.

B: Hello.

HMJr: Dan.

B: Yes, sir.

HMJr: I'm sending you in a letter from Mr. Stimson. I asked the President of the United States whether he would write somebody in which he would say that we could send civilians overseas to stimulate War Bonds. You know?

B: Uh huh.

HMJr: And I asked the President twice. I never heard from him but evidently he did write to Stimson. Now, Stimson comes back and gives me the reasons why I shouldn't do it.

B: Uh huh.

HMJr: Rather he -- I also sent you a letter -- he wanted to have cash sales of War Bonds.

B: Yep.

HMJr: Now, ~~some~~ <sup>in</sup> the next week, when we get the tax thing out of the way, let's you and I and Ted Gamble and Fred Smith who followed the thing overseas for us, get together on it. You see?

B: All right.

HMJr: But schedule a meeting after my appearance on the Hill.

B: All right. He -- in the other letter, you know -- he wanted to create agents over there.

HMJr: Well....

B: In the Army, to stimulate....

- 2 -

HMJr: Well, couldn't we -- couldn't we put the two letters together and consider them?

B: Yeah.

HMJr: There's no great sweat is there?

B: Nope.

HMJr: Thank you.

B: Not at all. Okay.

On Wednesday, November 24, 1943, the Secretary had lunch at the office of Ed Halsey, Secretary of the Senate. The Democratic members of the Senate Banking Committee were invited, and all who were in town and available came. The Secretary was accompanied by D. W. Bell, Randolph Paul, and Fred Smith.

The purpose of the meeting was to discuss whether in the estimation of the Committee, the Secretary should renew his demands for 10.5 billion dollars.

The tenor of the meeting was very pleasant and friendly. The Senators seemed to appreciate the fact that the Secretary had called them together to discuss his presentation before making it.

The first thing that the Secretary wanted to clear up was the misunderstanding about the 13 billion dollars, supposedly to be saved by the Army, and to which some reports had added an extra 5 billion dollars for the Navy. This was explained in full by Dan Bell, and the Senators expressed a great deal of surprise. Senator Clark said: "They not only took the people in on that one, they took us too. I was convinced that we had that 13 billion dollars in our kicks right now."

There was some discussion about the value of the inflation appeal. It seemed to be generally agreed that people did not believe in inflation, and it seemed rather evident that the

- 2 -

Senators viewed the whole inflation prospect with a certain amount of doubt and skepticism. Barkley wanted to know how much of the bill was for taxes, and how much for inflation, suggesting that we would have much less trouble raising money for taxation than for inflation control.

When the subject got around to 10.5 billion dollars, there was no disagreement about whether or not the Treasury should again ask for this amount. Everyone agreed that the Treasury should stand on its recommendation, and Chairman George suggested that the Treasury come up to the Senate with as strong a case as it could possibly develop.

The Senators were pretty generally agreed that we would not get the 10.5 billion, nor even a large part of it. Chairman George explained that there were many mechanical difficulties in the way of the Senate's greatly changing the House Bill. He pointed out that the votes in the House had been made public, and that there was no likelihood of Congressmen changing their minds under those circumstances. He said that a great change in the House Bill by the Senate would put these two legislative bodies into conflict, and as a result no tax bill could be passed until next Spring. He also said that in the interim, we would be losing the excise taxes.

It was then suggested that the excise taxes be levied in

- 3 -

a separate bill, and George said he would consider discussing it with the House, but he didn't think there was much use. Senator Clark then repeated these sentiments, saying that he had tried to do the same thing before and that "Congress wants to see the whole bill, not pieces of it."

There was some discussion about whether or not the sales tax should be mentioned in the Secretary's message. Byrd and George said that it ought to be mentioned, and a stand should be taken one way or another, or Vandenburg might interrupt the Secretary before he had finished reading.

George then said that he didn't believe a sales tax could be enacted anyway. He said that if the Administration would actively help promote it, they might get it through the Committee, and possibly through the Senate, although it was doubtful. Then he said: "But even with the Administration's help, I am sure we couldn't get it through the House. They have voted it down and it is done for there."

Before the meeting broke up, the Secretary was asked how he felt about the war after having made a trip to the Front, and he explained why he thought that it would be a long, hard war if we had to win it by fighting, rather than by a collapse of the German Nation.

November 24, 1943

Mr. Gaston  
The Secretary

If you think well of it, I wish you would send for Walker Stone who writes tax editorials for Scripps-Howard, and have a talk with him between now and Saturday noon -- only if you think well of it. I know that Johnny Hanes used to consult him a lot, and I think he might be flattered. I don't mean Johnny Hanes, but Walker Stone. - *O Kay* -

November 24, 1943  
3:45 p.m.

Herbert  
Gaston:

Yes.

HMJr:

What luck did you have at lunch today?

G:

Oh, I had a good time.

HMJr:

Yes?

G:

Uh -- uh -- Walker Stone -- uh -- the substance of it is -- the main thing is he's in favor of -- of additional heavy taxation. He thinks that you ought to -- uh -- give the arguments for additional taxation and -- without specifying and let the Senate write its own ticket.

HMJr:

Well, that's the plan.

G:

He thinks that, as he said in an editorial about the time you went up before Ways and Means Committee or just after that, that -- that we're two years late, that we ought to have had a very drastic plan right after Pearl Harbor when the climate was more favorable for it and should have stuck to it.

HMJr:

Yeah.

G:

And I endeavored to convince him that we did the best we could at that time.

HMJr:

Yeah.

G:

He's normally against the sales tax but thinks the sales tax is the right thing in the present situation and I had some argument with him on that point and he finally said, "Well, selective excise taxes, if there were enough of them and they were heavy enough, would be the right thing." And which I said was good sense. And he said that such a meal as we were eating then, we ought to have to pay a heavy tax on it. And I agreed with that. He'd like to tax the night clubs heavily.

HMJr:

Well, I think all this you're doing is most useful.

G:

Uh....

- 2 -

HMJr: I want Fred Smith to tell you about my luncheon.

G: Yes.

HMJr: I came away with the best feeling I've ever had when I've been on the Hill.

G: Oh, that's just swell. That's grand.

HMJr: The best -- it's been the best meeting I've had in ten years.

G: Why, that -- that's grand.

HMJr: I never came back off the Hill with such a nice feeling.

G: Well, that's fine. I -- I was a little nervous about it.

HMJr: Well, everyone but one of the Democrats -- there were eleven Democratic members -- there was only one missing.

G: Yeah. Uh huh.

HMJr: So, it was a -- really very good.

G: That's grand.

HMJr: Have a nice Thanksgiving.

G: Well, thanks very much. And I have a date to see Dave Lawrence on Friday. He's also going to take me to lunch. He's going to take me to the Metropolitan Club.

HMJr: Oh, wonderful.

G: Quite.

HMJr: Didn't you have to pay for the lunch today?

G: (Laughs) Scripps-Howard insisted on paying for it.

HMJr: Wonderful.

G: Yeah.

- 3 -

HMJr: Well, that's all right.

G: Walker said it was going to -- that Roy Howard was going to pay for it and, "Well," I said, "as long as it's Roy Howard and not Walker Stone, that's all right with me."

HMJr: (Laughs) All right. Okay.

G: All right.

*JK*

November 24, 1943.

MEMORANDUM

*MS*

TO: Secretary Morgenthau  
FROM: Mr. Gaston

I talked to Ray Clapper this morning, as I previously reported, and had lunch with Walker Stone.

Clapper is much more in sympathy with our program than Stone and not critical. He is strongly in favor of our sticking to our guns on the broad ground of much more drastic taxation and would stress the need for additional taxation both from a budgetary standpoint and that of inflation with a minimum of emphasis before the Senate on details of the program. He thought we got a bad press on the original proposals to the Ways and Means Committee not only on account of the bad state of our relations with the Committee but also on account of the manner in which the exemption of nine million taxpayers was played. It was a surprise to him to be told that our proposals envisaged an increase of \$3,600,000,000 of taxes in the brackets below \$5,000. He thought we ought to make every effort to present a united front before the Committee, that Dan Bell's testimony about the budgetary position, principally to correct misunderstandings with regard to Army and Navy "surrendering" of appropriations, would be highly valuable since all the committees in Congress had great respect for Dan. He also thought that Marriner Eccles could be helpful if we could keep him from going off on a tangent, but he had some doubts of the usefulness of Fred Vinson in view of Fred's other troubles with the Congress.

Walker Stone, with whom I went to lunch, talked freely about a great many aspects of Federal finance. He thought, as he wrote in an editorial published on October 5, that the Treasury was "twenty-two months late" and that we should have presented right after Pearl Harbor an extremely drastic program of taxation on which we could have stood for the remainder of the war. He is in favor of heavier taxation at

- 2 -

the present time nevertheless and would like to see you argue generally the need for higher taxes and leave it to the Senate Committee to write their own ticket. He is against sales taxes as a general proposition and reminded me that he had written editorials in the past opposing sales taxes, but he thinks they are better adapted now to checking excess spending than income taxes. I argued with him some on this point and he eventually agreed that a stiff and broad program of luxury excise taxes of a selected character might be better than a sales tax. As an instance he suggested heavy taxes on such meals as we were eating at the moment (at the Carlton, for which he said Scripps Howard would pay). He also said the night club tax ought to be heavy. He thinks our manner of figuring excess profits tax on corporations before instead of after normal tax is unfair, or at least creates a wrong impression as to the source of the revenue. He said if we really wanted to maintain the system of private enterprise we ought to allow business to accumulate reserves. I told him that reminded me of Johnnie Hanes' thesis, but since invested capital was in the ratio of \$635 for every man employed (at the time Johnnie was here) all we needed to do to promote employment was to let business retain an additional \$635 for each unemployed man and then the whole population would be put to work. Walker agreed that that was an absurdity and that demand for goods had to come before investment. He thought the Treasury had been fickle in its tax recommendations and had thus lost the confidence of Congress. I told him I thought our record was pretty good and that there were much different causes for the present disagreement, including politics, to which he personally agreed. We discussed other matters, including work relief and pump priming, and he invited me facetiously to call him up any time I wanted advice.

I have an appointment with Dave Lawrence for Friday.

ADD TAXES

THE HOUSE TENTATIVELY APPROVED A \$2,140,000,000 REVENUE BILL WHICH WOULD BOOST EXCISE TAXES ON TWO-SCORE OF ITEMS INCLUDING LIQUOR, JEWELRY AND TRANSPORTATION TICKETS. A FINAL VOTE WAS EXPECTED SHORLY, WITH PASSAGE ASSURED.  
11/24--SB519P

ADD TAXES

THE HOUSE APPROVED THE MEASURE WHILE SITTING IN THE TECHNICAL CAPACITY OF "COMMITTEE OF THE WHOLE HOUSE ON THE STATE OF THE UNION." THAT ACTION MUST BE RATIFIED, HOWEVER, WHEN THE CHAMBER REVERTS TO IS STATUS OF THE HOUSE OF REPRESENTATIVES--A STEP EXPECTED TO FOLLOW ALMOST IMMEDIATELY.

THE ACTION CAME AFTER LESS THAN A DAY OF LISTLESS DEBATE DURING WHICH DEMOCRATIC AND REPUBLICAN LEADERS OF THE TAX-MAKING HOUSE WAYS AND MEANS COMMITTEE DEFENDED THEIR REJECTION OF THE \$10,500,000,000 REVENUE PROGRAMS PROPOSED BY THE ADMINISTRATION ON GROUNDS IT WOULD HAVE BEEN RUINOUS TO MIDDLE-CLASS, WHITE-COLLAR WORKERS. MOST OF THAT PROGRAM WOULD HAVE BEEN EFFECTUATED THROUGH SHARP INDIVIDUAL INCOME TAX INCREASES.

THE BILL RECOMMENDED BY THE COMMITTEE AND PASSED BY THE HOUSE WOULD RAISE A RELATIVELY-INSIGNIFICANT \$154,000,000 ADDITIONAL REVENUE FROM INDIVIDUAL INCOME LEVIES BY INTEGRATING THE PRESENT VICTORY TAX WITH NORMAL RATES AND SETTING THOSE RATES AT SUCH LEVELS THAT MOST TAXPAYERS WOULD OWE SLIGHTLY MORE THAN UNDER PRESENT LAW.

THE BILL ALSO WOULD RAISE AN ADDITIONAL \$616,000,000 BY INCREASING CORPORATE EXCESS PROFITS TAX FROM 90 TO 95 PER CENT AND BY MAKING OTHER MINOR CHANGES IN THE CORPORATE TAX STRUCTURE.

11/24--SB523P

ADD TAXES

THE BULK OF NEW REVENUE, HOWEVER, WOULD COME FROM BOOSTS IN SOME TWO-SCORE EXCISE TAXES AND FROM VARIOUS INCREASES IN POSTAGE RATES. THE WHISKY TAX WOULD GO FROM \$6 PER 100-PROOF GALLON TO \$9; THE EXCISE ON JEWELRY FROM 10 TO 20 PER CENT, AND THE CARBARET TAX FROM FIVE TO 30 PER CENT OF THE CHARGES.

EXCISES ON BEER, WINE, ELECTRIC LIGHT BULBS, LUGGAGE, FURS, TOILET PREPARATIONS, TELEPHONE AND TELEGRAPH SERVICES, TRANSPORTATION, ADMISSIONS, CLUB DUES, BOWLING ALLEYS AND BILLIARD PARLORS WOULD BE INCREASED, WHILE HERETOFORE-EXEMPT HANDBAGS, WALLETTS AND PARI-MUTUEL WAGERS WOULD BE SUBJECTED TO NEW EXCISE LEVIES.

THE RATE FOR FIRST CLASS LOCAL MAIL WOULD BE JUMPED FROM TWO TO THREE CENTS AN OUNCE, WHILE FEES FOR AIR MAIL, THIRD CLASS MAIL, MONEY ORDERS, REGISTERED MAIL, INSURED MAIL AND COD MAIL WOULD BE INCREASED.

11/24--SB525P

ADD TAXES

THE HOUSE PASSED AND SENT TO THE SENATE A \$2,140,000,000 REVENUE BILL WHICH WOULD BOOST EXCISE TAXES ON SOME TWO-SCORE ITEMS INCLUDING LIQUOR, JEWELRY AND TRANSPORTATION TICKETS. THE VOTE WAS 200 TO 27.

11/24--SB552P

Digest of  
Congressional Record  
for  
November 24, 1943

The Tax Bill. The tax bill, as reported by the House Ways and Means Committee, was adopted without floor amendments by a teller vote of 200 to 27.

During the debate, Representative Fish charged that

"The original proposal emanating from the Secretary of the Treasury, Henry Morgenthau, Jr., \* \* \* if it had been carried out instead of being repudiated \* \* \* would have put us on a level with the Communists and might have even out-communized the Communists."

Representative Fish, at another point, asserted that

"The public was never fully informed of the abomination of desolation recommended by Secretary Morgenthau. Previously, the attempt to limit salaries to \$25,000 was squelched by Congress and by the American press as an attempt to interfere with private initiative and free enterprise. However, the original tax proposal of Secretary Morgenthau at the hearings on the present bill was incomparably more drastic and revolutionary and actually limited net salaries and incomes to \$10,000."

And at another point -

"The recommendations of the Secretary of the Treasury would also have tended to liquidate the middle class, the farmers, the home owners, and small business and professional men and women, and also would have added greatly to the burden of the wage earners which would have caused severe hardship in every American home."

- 2 -

Answering Fish, Representative McCormack made it clear that the Secretary of the Treasury never proposed a \$10,000 limitation on net salaries. He also said that "We hear Secretary Morgenthau called a Socialist and a Communist for submitting some proposal and a lot of other pet names" and asserted that this Socialist-Communist name-calling is "an indication of defeatism and inability to have an argument available to discuss the merits of a proposition".

Representative Knutson asserted that the Treasury in recent years has presented a detailed tax program to Congress and has used "its vast propaganda machine to try to overcome Congressional opposition"; that it is proper for the Secretary of the Treasury to make recommendations to Congress "when requested", but "it is improper for the Treasury to work out a tax program of its own and then insist that Congress enact it into law without regard to the views of those who are to be taxed or the judgment of the taxpaying public as to what is for the best interest of the country".

Dairy herd of the Secretary of the Treasury. Representative Fish, extending his remarks in the appendix and including the John O'Donnell article in the Times-Herald of November 23, said that "two of my distinguished constituents who have hitherto claimed to be dirt farmers \* \* \* have lately been compelled, through OPA restrictions and regimentation, to change their classifications, one as a forester or producer of Christmas trees and the other as a horticulturist or apple grower". He asserted further that "It is a sad commentary and a very bad example to the dairymen of the nation who are asked to produce more milk and butter in the war emergency for the Secretary of the Treasury, Henry Morgenthau, Jr., to sell out his dairy herd of 100 pedigreed milk cows when the country is threatened with a shortage of milk".

Nothing further of interest occurred in the House, and the Senate was not in session.



United States  
of America

page. 250 25

Tax Bill: 10019-10073

Dairy Farm: pp A.5469-5470

# Congressional Record

PROCEEDINGS AND DEBATES OF THE 78<sup>th</sup> CONGRESS, FIRST SESSION

Vol. 89

WASHINGTON, WEDNESDAY, NOVEMBER 24, 1943

No. 182

## Senate

The Senate was not in session today. Its next meeting will be held on Friday, November 26, 1943, at 12 o'clock meridian.

## House of Representatives

WEDNESDAY, NOVEMBER 24, 1943

The House met at 11 o'clock a. m.  
Rev. Bernard Braskamp, D. D., pastor of the Gunton Temple Memorial Presbyterian Church, Washington, D. C., offered the following prayer:

Most merciful and gracious God, by whose Spirit we have guidance and understanding, help us during this day to give ourselves unreservedly to Thy leading, holding our own wishes in suspense until Thou dost declare Thy will.

We pray that Thou wilt create within the hearts of these Thy servants those desires which Thou dost delight to satisfy. Grant that their minds may be veritable sanctuaries of those revelations and visions of the wisdom of God which shall enable them to find a happy solution to the many difficult problems confronting our generation.

As Thou hast opened Thy hand in blessing upon our beloved country, so wilt Thou enlarge our souls with a sincere desire to bring in that blessed time when every need of struggling humanity shall be supplied and righteousness and peace shall flow as a mighty stream.

To Thy name we shall give all the praise. Amen.

### THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

### MESSAGE FROM THE SENATE

A message from the Senate, by Mr. Frazier, its legislative clerk, announced that the Senate had adopted the following resolution (S. Res. 211):

Resolved, That the Senate had heard with profound sorrow and deep regret the announcement of the death of Hon. W. WARREN BARRETT, late a Senator from the State of New Jersey.

Resolved, That a committee of 12 Senators be appointed by the President of the Senate to take order for superintending the funeral of the deceased Senator.

Resolved, That the Secretary communicate these resolutions of the House of Representatives and transmit a copy thereof to the family of the deceased.

Resolved, That as a further mark of respect to the memory of the deceased the Senate do now take a recess until 12 o'clock noon on Friday next.

The message also announced that pursuant to the provisions of the above resolution the Vice President had appointed Mr. HAWKES, Mr. VANDENBERG, Mr. WHITE, Mr. AUSTIN, Mr. MALONEY, Mr. THUMAN, Mr. GREEN, Mr. MILLIKIN, Mr. TUNNELL, Mr. EASTLAND, Mr. REVERCOMB, and Mr. ROBERTSON members of said committee on the part of the Senate.

### COMMEMORATING THE FORTIETH ANNIVERSARY OF THE FIRST AIRPLANE FLIGHT BY WILBUR AND ORVILLE WRIGHT

Mr. JEFFREY. Mr. Speaker, I ask unanimous consent for the present consideration of House Joint Resolution 175 commemorating the fortieth anniversary of the first airplane flight by Wilbur and Orville Wright.

The Clerk read the title of the joint resolution.

The SPEAKER. Is there objection to the present consideration of the resolution?

Mr. MICHENER. Mr. Speaker, reserving the right to object, will the gentleman state what the resolution is and whether it comes with a unanimous report from the committee?

Mr. JEFFREY. Mr. Speaker, this resolution was referred to the House Committee on the Library. It received their unanimous approval and was reported out.

The resolution simply commemorates the fortieth anniversary of the first flight of the Wright brothers, which anniversary will occur on December 17, 1943.

The resolution asks no appropriation of money but expresses the gratitude and respect of the Nation through its elected representatives and orders that an engrossed copy of the joint resolution be presented to Orville Wright, the surviving brother.

Mr. MICHENER. In other words, the resolution is simply one of gratitude and respect and orders only that an engrossed copy of the joint resolution be transmitted to the person designated.

Mr. JEFFREY. Exactly.

Mr. MICHENER. Mr. Speaker, I withdraw my reservation of objection.

The SPEAKER. Is there objection to the present consideration of the resolution?

There being no objection, the Clerk read the resolution, as follows:

Whereas on December 17, 1903, the first flight of a heavier-than-air machine was made by Wilbur and Orville Wright at Kill Devil Hills, Kitty Hawk, N. C.; and

Whereas this flight fulfilled man's dream to conquer the air; and

Whereas this achievement of the Wright brothers has been of incalculable value to mankind; and

Whereas the Congress of the United States heretofore has recognized this epochal event by authorizing the erection of a memorial at the place of the flight; and

Whereas the fortieth anniversary of the first flight of a heavier-than-air machine will be commemorated on December 17, 1943; Now, therefore, be it

Resolved, etc., That the Nation express its gratitude and respect for this signal and astounding contribution to the progress of the world on the fortieth anniversary thereof.

That an engrossed copy of this joint resolution be transmitted to Orville Wright, the surviving brother.

The resolution was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

10017

Mr. SCHIFFLER. Mr. Speaker, I ask unanimous consent to extend my own remarks in the Record and to include separately two editorials.

The SPEAKER. Is there objection to the request of the gentleman from West Virginia [Mr. SCHIFFLER]?

There was no objection.

[The matter referred to appears in the Appendix.]

#### PERMISSION TO ADDRESS THE HOUSE

Mr. VURSELL. Mr. Speaker, I ask unanimous consent to address the House for 1 minute.

The SPEAKER. Is there objection to the request of the gentleman from Illinois [Mr. VURSELL]?

There was no objection.

[Mr. VURSELL addressed the House. His remarks appear in the Appendix of today's Record.]

#### EXTENSION OF REMARKS

Mr. O'BRIEN of New York. Mr. Speaker, I ask unanimous consent to extend my own remarks in the Record and to include therein a letter sent to me by one of my distinguished constituents with reference to subsidies, and I also ask unanimous consent to extend my own remarks in the Record and to include a speech given by the national commander of the American Legion in Chicago on November 10 before the American Petroleum Institute.

The SPEAKER. Is there objection to the request of the gentleman from New York [Mr. O'BRIEN]?

There was no objection.

[The matter referred to appears in the Appendix.]

#### PERMISSION TO ADDRESS THE HOUSE

Mr. GIFFORD. Mr. Speaker, I ask unanimous consent to proceed for one-half minute.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts [Mr. GIFFORD]?

There was no objection.

#### FISH BRING \$4.55 A POUND

Mr. GIFFORD. Mr. Speaker, I made a statement yesterday that fish were bringing \$4.55 per pound. Perhaps you disbelieve that, but I want to put in the Record a full explanation of why that situation exists in the attempt to fix prices. In order to secure the catch the processor will pay enormous prices for fish on which there are no ceilings. It is a peculiar situation. Read this article. It is illuminating.

#### FISH BRING \$4.55 A POUND

New Bedford's huke market on the fish exchange repeated itself Sunday, when the non-price-controlled fish sold for the unprecedented prices of \$4.55 and \$4.50 a pound. The hiding skyrocketed as dealers resumed their feud over control of the yellowtail market. Last week end similar attempts to obtain yellowtails, in spite of the much-disputed voluntary allocation plan which restricts catches to five dealers, resulted in prices of \$2.98 for huke and \$1.51 for butterfish.

Records of the United States Fish and Wildlife Service showed that 13,000 pounds of yellowtails on the *Bankaty Head* went along

with 90 pounds of huke selling at \$4.50, while 16,000 pounds of yellowtails aboard the *Guy Head* accompanied about 150 pounds of huke at \$4.55. The fish normally sells for about 25 cents.

Buyers were reported to be the Dartmouth Pilot Co. and L. E. Edridge & Son.

Certain of New Bedford's established dealers reported last week that they were "teaching a lesson" to dealers failing to abide by the allocation plan. Under the noncompetitive system of setting prices for yellowtails, bidding for non-price-controlled fish on the side appeared to be a way of determining who should get the catch.

Fishermen who brought in the fish on both occasions were reported to be bewildered by the turn of events which made dealers attack such a price to the hitherto neglected huke.

#### EXTENSION OF REMARKS

Mr. PATMAN. Mr. Speaker, I ask unanimous consent to extend my own remarks in the Record on three subjects and to include certain statements and excerpts.

The SPEAKER. Is there objection to the request of the gentleman from Texas [Mr. PATMAN]?

There was no objection.

[The matter referred to appears in the Appendix.]

#### PERMISSION TO ADDRESS THE HOUSE

Mr. PATMAN. Mr. Speaker, I ask unanimous consent to proceed for 1 minute.

The SPEAKER. Is there objection to the request of the gentleman from Texas [Mr. PATMAN]?

There was no objection.

#### ANTISUBSIDY GROUP WILL LOSE

Mr. PATMAN. Mr. Speaker, the vote yesterday on the subsidy question indicates that the antisubsidy proponents do not have a two-thirds vote. On my amendment to strike out section 3 they lacked 10 votes of having enough for a two-thirds majority, and on the Monroney amendment they lacked 29 votes of having two-thirds. So instead of the antisubsidy group being encouraged over yesterday's vote, in view of the undisputed facts they should be discouraged because the outlook for them is gloomier than ever, and I predict they will lose.

#### ANSWERING MR. FULTON LEWIS, JR.

Although I did not hear him, I understand that the radio spokesman for the Republican Party, Mr. Fulton Lewis, Jr., last night on his radio broadcast left the impression that I had changed my views on the subsidy question because I voted to extend the life of the Commodity Credit Corporation. If such an inference were left, it was an erroneous one, since I am just as much opposed to prohibiting subsidies as ever and will continue my efforts to eliminate the provision in the bill that will prohibit them. If the Senate does not strike out this provision and the conference committee does not strike it out, the President will veto the bill and I will vote to sustain his veto.

#### THE TAX BILL

Mr. CLARK. Mr. Speaker, I call up House Resolution 368 and ask for its immediate consideration.

#### The Clerk read as follows:

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the state of the Union for the consideration of the bill (H. R. 3887) to provide revenue, and for other purposes, and all points of order against said bill are hereby waived. That after general debate, which shall be confined to the bill, and shall continue not to exceed 3 days, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Ways and Means, the bill shall be considered as having been read for amendment. No amendment shall be in order to said bill except amendments offered by direction of the Committee on Ways and Means, and said amendments shall be in order, any rule of the House to the contrary notwithstanding. Amendments offered by direction of the Committee on Ways and Means may be offered to any section of the bill at the conclusion of the general debate, but such amendments shall not be subject to amendment. At the conclusion of the consideration of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion, except one motion to recommit.

Mr. CLARK. Mr. Speaker, I yield 30 minutes to the gentleman from New York [Mr. FINN] and yield myself 5 minutes.

Mr. Speaker, this rule would of course make in order the immediate consideration of the tax measure. The Committee on Ways and Means was unanimous in requesting the Committee on Rules to report out this particular type of rule. It is of course a closed rule, which permits of no amendments except those approved by the Committee on Ways and Means. This is the usual type of rule under which tax measures have to be considered.

I wish to congratulate the Committee on Ways and Means, whether it has fully met the views of everyone in the country or not, for having returned to Washington before the recess was over and gone to work on this tax measure. The members of this committee have worked on it for many, many weeks, long, hard hours, both day and night. I feel that they have undertaken seriously to do that which in their judgment is best for the country under the present circumstances, and that we may rely with a great deal of confidence on what they have done.

I know the House wants to get down to the consideration of the measure and I see no particular reason why we should consume much time in debating this rule. I shall cooperate with the gentleman on the minority side and conclude the debate on the rule as speedily as possible.

Mr. FISH. Mr. Speaker, I yield myself 10 minutes.

Mr. Speaker, as the distinguished gentleman from North Carolina [Mr. CLARK] has so ably stated, this rule comes to the House upon the recommendation of the Committee on Ways and Means, who were unanimous in asking for this type of rule. The Committee on Rules reported it out also by a unanimous vote to the House, who, of course, in the last analysis, are the masters of their own

rules. However, for this particular type and character of bill, this is the customary rule, in order to avoid confusion and delay.

Mr. Speaker, it is not my function as a member of the Committee on Rules to discuss the intricacies of this type of revenue legislation. That is the duty of the committee members under the very distinguished leadership of that greatest of all statesmen in the House, the gentleman from North Carolina, Chairman HOSMER DUNBAR, the greatest Humanitarian Democrat, the greatest Humanitarian of them all. But, Mr. Speaker, I do propose to take account of the members of the majority on both sides as to the original proposal emanating from the Secretary of the Treasury, Henry Morgenthau, Jr., which, in my humble opinion, if it had been carried out instead of being rejected by the Committee on Ways and Means, would have put us on a new basis.

Communists and Socialists have even out-communited the Communists. So I propose to take time not to talk about the details of the tax bill which is before you but to speak about the original proposal as submitted by the Secretary of the Treasury.

I take this occasion to congratulate the American members of the Committee on Ways and Means for refusing to turn the increase in income taxes and place oppressive burdens upon the American people, particularly the middle class, who are already straggling and staggering along under the tax load as best they can. Those sound and wise Democrats who joined with them under the able leadership of the gentleman from North Carolina, Chairman HOSMER DUNBAR, are known to be highly commended for opposing the pro-Socialist and communistic proposal of Secretary of the Treasury Morgenthau to virtually limit net incomes to \$10,000.

The public was never fully informed of the abandonment of legislation recommended by Secretary Morgenthau. Previously the attempt to limit salaries to \$25,000 was attacked by Congress and by the American press as an attempt to interfere with private initiative and free enterprise. However, the original tax proposal of Secretary Morgenthau at the hearings on the present bill was incomparably more drastic and revolutionary and actually limited net salaries and incomes to \$10,000. A taxpayer with \$75,000 net would have only \$3,300 remaining after taxes, whereas another taxpayer with \$133,000 net would have \$3,500 or \$200 more left after payment of taxes.

Mr. KNUTSON. Mr. Speaker, will the gentleman yield?  
Mr. FISH. I shall be delighted to yield to my distinguished colleague from Minnesota, who some day will be the chairman of the Committee on Ways and Means.  
Mr. KNUTSON. I thank the gentleman. We accept the continuation with due humility.  
Mr. FISH. It is inevitable.  
Mr. KNUTSON. I should like to call the attention of the gentleman to the fact that an individual with an income of \$75,000 in 1944 and again in 1945 will pay the full \$750,000 plus \$4,250.

Mr. FISH. In other words, pay 101 persons \$750,000.  
Mr. KNUTSON. On a \$1,900,000 income the individual will pay \$4,750 in addition to the full million dollars in 1944 and again in 1945, and so on. The more his income the more he will owe. The man with a \$5,000,000 income will owe \$45,750 plus the \$5,000,000.

Mr. FISH. Then, as I take it, I have underestimated the situation. I stated under the original Morgenthau proposal would limit incomes and salaries to \$10,000 a year. Now, according to my friend from Minnesota, some of the taxpayers in the higher brackets will be owing money. They will be called upon to pay over 100 percent of their income and will not have the original million-dollar income man who had at least retained \$10,000. Evidently I have made a mistake, and he will be owing more than that to the Government. But as a general proposition, what I stated was to the effect that it was an attempt to limit all salaries and incomes to \$10,000.

You gentlemen of the House on both sides, because this is not a political issue, remember the favor and the approval which President Roosevelt and the Treasury Department suggested limiting net income but salaries to \$25,000 annually. That was quashed by an overwhelming vote of the House. Now the Secretary of the Treasury in his original proposal on this tax bill which he and his Treasury subordinates advocated before the Committee on Ways and Means and sought to limit salaries and incomes to \$10,000 a year. I submit this Socialist plan is not known to the American public. The details were never really told to the American people. I have talked to literally hundreds of businessmen, large and small, and not one of them had heard of this radical attempt to limit salaries and income to \$10,000. They all knew about what they called the outrage to limit salaries to \$25,000, but when it came to limiting both to \$10,000, they had never heard of it. That is why I am taking the floor today, to refresh the memories of at least the Members of the House of Representatives on both sides as to this outrageous proposal emanating in the first instance from the Treasury Department.

The largest taxpayers, already squeezed white, would be snuffed out vir-

tually all their income by the Government. As my friend from Minnesota suggests, they will be snuffed out of it and more, too. The recommissioning of the Secretary of the Treasury would also have tended to liquidate the middle class, the farmers, the home owners, and the small-business and professional men and women, and also would have added greatly to the burden of the wage earners, which would have caused severe hardship in every American home.

The proposal to virtually limit incomes to \$10,000 and to heap additional taxes on the already overburdened middle class was an attempt by tax legislation to socialize and revolutionize America and to out-communize the Communists.

The existing income taxes are already oppressive and further burdens would be destructive of free enterprise and the American standard of living. The way to stop crushing and excessive taxes is to economize and reduce governmental expenditures all along the line by abolishing useless bureaucratic agencies, eliminating at least 300,000 Federal employees as a beginner, and saving war expenditures. The Congress made a good start yesterday in stopping the vicious subsidy program, which if it ever got underway would have cost the taxpayers \$2,000,000,000 annually. Yes, the Democratic members of the Committee on Ways and Means threw the socialist-communistic Morgenthau proposal to confiscate large incomes and liquidate the middle class out of the window. The brazen attempt of the New Deal administration, drunk with power and long tenure of office, to use the tax system to limit all incomes to \$10,000 and to undermine thereby the American system of free enterprise was repudiated not only by the Republican members, but by defensible Democrats on the Committee on Ways and Means, much to their credit.

Mr. Speaker, I believe the whole House, Republicans and Democrats, evinced a vote of attitude to the members of the Committee on Ways and Means for throwing this outrageous proposal into the New Deal ashcan.

Mr. Speaker, the following table illustrates that the total tax burden would be under the original Treasury plan for individual taxpayers:

TABLE 2.—Comparison of total tax burden under existing law and under Treasury plan (no post-war credit allowed)—Married persons, no dependents—Continued

Table with 6 columns: Net tax plus (or subtracted) tax, Effective rates (not tax plus (or subtracted) tax), and Net income after tax (not tax plus (or subtracted) tax). Rows include various income levels from \$100 to \$1,000,000.

TABLE 2.—Comparison of total tax burden under existing law and under Treasury plan (no post-war credit allowed)—Married persons, no dependents—Continued

Table with 6 columns: Net tax plus (or subtracted) tax, Effective rates (not tax plus (or subtracted) tax), and Net income after tax (not tax plus (or subtracted) tax). Rows include various income levels from \$100 to \$1,000,000.

Mr. CLARK. Mr. Speaker, I yield 2 minutes to the gentleman from Massachusetts (Mr. McCormack).

Mr. MCCORMACK. Mr. Speaker, it is always interesting to listen to the gentleman from New York (Mr. Fannin) speak. We are always bound to hear people call a lot of new names. We hear Secretary Morgenthau called a Socialist and a Communist for submitting some proposal, and a lot of other pet names. Whenever I hear a name call the Democratic members of the Committee on Ways and Means, I thought always named in my mind that it is evidence of inability to make a fair and effective argument on the merits of the proposition. To me, name-calling is an indication of defeatism and inability to have an argument available to discuss the merits of a proposition.

However, that is not my purpose in this hour. My purpose is to make the following observation. President Roosevelt said of the outlet of the war there would be a flood of millionaires made out of the war. It means a lot to the fellow in uniform, that means a lot to the fellow who is fighting abroad, whether or not blood millionaires are being made at his sacrifice and out of his war. After the war is over, brushing aside all these high-sounding phrases that may temporarily mislead or deceive some of our people, after this war is over, I reiterate, there will be no blood millionaires.

Mr. FISH. Mr. Speaker, will the gentleman yield for a question?  
Mr. MCCORMACK. Yes.

Mr. FISH. I should just like to ask my distinguished colleague if he is in favor of limiting net salaries and incomes to \$10,000.

Mr. MCCORMACK. Did the gentleman say the Secretary of the Treasury proposed that?

Mr. FISH. That was the general proposal in the bill, as anyone can see if he studies and analyzes it.

Mr. MCCORMACK. I am advised by members of the Committee on Ways and Means that the Secretary of the Treasury never proposed it.

Mr. FISH. It is in the bill, if the gentleman will study the bill.

The SPEAKER. The time of the gentleman from Massachusetts has expired.

Mr. CLARK. Mr. Speaker, I yield 2 minutes to the gentleman from California (Mr. Voorhis).

Mr. VOORHIS of California. Mr. Speaker, I want the Record to show I am opposed to the closed rule on this bill. I am opposed to it for two reasons: In the first place, I do not think it is customary to grant a closed rule on a legislative bill—and this is not only a tax bill; this bill contains a provision about renegotiation of contracts which may or may not be desirable. I have some reservations about these provisions and believe they should at least be open to amendment. The bill should, in my opinion, have been considered under an open rule. The second reason I have for being against the closed rule is because I should like to have been able to offer, and I want the people of my district to know I would have offered, amendments to make this tax bill raise more revenue than it provides. I do not think there is any other answer to inflation except a courageous program of taxation as we could stop the creation of new money by sale of bonds to commercial banks. The distinguished chairman of the committee has been kind enough to say that he would grant me a little time later on in the debate. At this point I should only like to say that it is important that the Members on the Republican side of the aisle make up their minds whether they were right yesterday or whether they are right today; were they right yesterday when they told us there is an abundance of surplus buying power in the hands of the people, so it did not matter whether there are means or machinery for keeping down prices to consumers or are they right today when they tell us a great and terrible government is, in order to try to finance the greatest war in history, taking more money out of the pockets of the taxpayer than can be justified? For my part, I will say whereas I do not agree to a flat limitation by Executive

order of the amount of income or salary that a person can receive, I do believe, in all justice, that in time of war the Congress should levy such tax rates on income of ourselves as citizens as will be commensurate with the needs of that war. I do not think those rates should ever be confiscatory, but I do believe in the higher brackets they should be sufficiently steep so that in practical effect there will be some limit on the amount of money a person can save or keep or spend on himself while people are fighting and dying on the battlefields of the world.

Mr. FISH. I yield 1 minute to the gentleman from Michigan (Mr. Hoffman).

Mr. HOFFMAN. Mr. Speaker, I ask unanimous consent to revise and extend my remarks.

The SPEAKER. Is there objection to the request of the gentleman from Michigan?

There was no objection.

Mr. HOFFMAN. We all have the highest respect for the gentleman from California (Mr. Voorhis) and for his opinions. I have had many a private word from folks who did not wish to be taxed. I would like to write a tax bill that would not hit anybody in my district or any of the people who vote for me. Taxed owners are kicking about the amendment tax. The C. I. O. is kicking about the sales tax. The people who operate factories and businesses are all kicking about the income tax. I would like to be able to get up here on the floor and offer amendments, amendments involving every one of my constituents and hitting every last one of them from taxation and then I would be able to write a nice letter back home and say, "I did all I could but that House of Representatives would not go along with me, so you are stuck; it is all their fault." But a tax bill cannot be written that way. It is a technical subject. This committee is a nonpartisan committee; if there ever was such a committee in the House. They have knowledge that we have not, or I will say, they have knowledge that I have not; I will not say anything about any one else. I could not write a tax bill if I tried. In all frankness I say I do not believe, with all due respect, that two-thirds of the Members of the House could write a tax bill if they had a chance. I am willing to leave it to the committee. Just as long as we continue to spend and spend we must tax and tax. My remedy would be to spend less.

Mr. FISH. I yield now time as he may desire to the gentleman from Minnesota (Mr. Knutson).

Mr. KNUTSON. Mr. Speaker and Members of the House, I am rather reluctant to take the floor again at this time, because I shall have to do so later on. But I want to say to the minority Members that the minority of the Ways and Means Committee were a unit in favoring the issuance of the rule now under consideration. The older Members of the House will recall that back in 1932, when the present majority had just secured control of the House, they brought in a tax bill, as I recall, without a role and by the time the House got through



the per capita taxes in the United States now exceed those levied in any other country.

Mr. DOUGHTON. I am just coming to that point, if the gentleman will pardon me.

As our revenue needs have increased, we have increased our tax burden accordingly. We certainly have not lagged behind other nations in this respect. On the contrary, our per capita tax burden now exceeds that of other countries as is shown by the following figures prepared by the Treasury Department:

1932-33	
(Total income State and local taxes)	
United States	\$537
United Kingdom	261
Canada	261

Our expenditures are also greatly in excess of those of other nations, not only in total amounts but also per capita. The estimate of British expenditures for the present year totals about \$23,000,000,000, whereas our year expenditures are expected to reach ninety to ninety-five billion dollars. A comparison of American and British expenditures up to the end of the current financial year indicates that we will have spent \$200,000,000,000 for war purposes as against Britain's \$80,000,000,000.

The American people bear the heaviest tax load of any country in the world. It is more than 3 times the tax bill of Great Britain, which is around \$11,000,000,000 and 14 times the tax bill of Canada. In spite of this enormous burden under which our people are already groaning, the Treasury in its appearance before our committee requested additional revenue of \$11,000,000,000, principally upon the assumption that such a strain on the pocketbooks of the American people would control inflation. In my opinion, the dire effects of such an additional tax load would more than offset any good which would be accomplished toward stopping inflation. If such a program were put into effect, it would immediately create demands for higher wages and greater profits to pay the tax bill, the natural consequences of which would be to stimulate rather than to retard inflation. It would also lay a crushing, and I believe unbearable, burden on the fixed incomes or white-collar group whose incomes not only have not increased, but have actually been reduced by the rise in the cost of living. In my opinion, such a crushing burden of taxation would be far worse than any real or feared danger of inflation now facing our country.

Mr. EMMETTSON. In connection with what the able chairman of the committee has stated, it may be well at this point to call attention to the fact that at the beginning of the next fiscal year, at the rate we are now spending, the national debt of the American people will be several times the total debt of all the other countries in the world.

Mr. OILCHRIST. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Iowa.

Mr. OILCHRIST. May I ask the gentleman if the figures he gave include State and municipal taxation.

Mr. DOUGHTON. Yes; they are included in the \$537 per capita tax burden, but in addition to the \$43,500,000,000 Federal tax we have State and local taxes of \$10,000,000,000. It makes a total tax load in the American people, a load they are carrying today, of more than \$53,500,000,000 per annum.

Mr. CARTER. Will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from California.

Mr. CARTER. The figures the gentleman is giving are very interesting and instructive and I am sure the members of the committee are very glad to receive them. I was wondering whether the gentleman has among the figures the per capita national bonded indebtedness as compared with Great Britain?

Mr. DOUGHTON. I am sorry, I cannot give the gentleman that figure, but I will include it in my remarks and insert it in the Record.

Mr. CARTER. I will be very happy to receive it.

Mr. DOUGHTON. The information requested is as follows:

Per capita gross debt of central governments,	
Mar. 24, 1934	
United States	\$284
Great Britain	\$113

By Sept. 30, 1933, this figure had risen to nearly \$430; more recent figures for Great Britain are not available.

By now it should be abundantly clear to everyone that taxation alone is not adequate to control inflation. The place where inflation can be most effectively dealt with is at the source where it arises. If up to you may into the flowing stream through taxation, you cannot overcome the flood caused by excessive income flowing into the stream. Taxation can and must perform its portion of the anti-inflation program, but once the money has been paid out in excessive wages or excessive prices, or both, taxation simply cannot completely rectify the damage.

While the Treasury attempted to justify its program as a check on inflation, the program itself was patently ineffectual in this respect. In the record of the hearings, on page 21, you will find a table prepared by the Treasury Department which indicates that of the \$187,000,000,000 of income payments estimated for the calendar year of 1934, individuals having net incomes of under \$3,000 annually will receive \$96,000,000,000, or 51 percent of the total. Yet of the \$8,000,000,000 additional revenue to be derived from the individual income tax under the Treasury's plan, only \$1,700,000,000, or one-quarter of the total, would come from those individuals with incomes of less than \$3,000 annually. If the primary purpose of this revenue legislation had been to combat inflation, it would have been necessary to levy heavy additional income taxes on those persons having incomes of \$3,000 per year or less, because it is in this group that 61 percent of the increased national income lies. But that was not our primary purpose. The Treasury program would have eliminated 9,000,000 primary taxpayers and would have secured a very small part of the proposed increased revenue from those who have by far the

greater part of the increased income. Thus it seems perfectly clear that the Treasury program would not have averted inflation to any substantial degree, but on the contrary would have increased very substantially the inflationary danger insofar as they relate to persons in the lower income tax brackets.

There has been much discussion of the so-called inflationary gap, which is generally defined to mean the difference between the sums of money available for expenditure for consumer goods and the amounts of consumer goods available to supply the demand. I wish to comment briefly on this inflationary gap. No tax experts seem to agree either on the amount of this gap or the best way to close it. The Treasury has estimated the excess purchasing power to be \$23,000,000,000 after taking into account \$21,000,000,000 in individual taxes and \$1,000,000,000 used to purchase War bonds. Others claim it is still greater, and here are still others who contend that there is no substantial gap at all. As I said before, our considerations at this bill were in the light of fiscal and practical conditions controlling us and not controlled by theories or abstractions. We tried to be realistic rather than theoretical.

This inflationary gap seems to me to be a statistical abstraction and not capable of any reasonable ascertainment in any case. We have this tax burden as far as I believe feasible in the light of all of the circumstances. Certainly, the tax portion of the anti-inflation program is far ahead of the wage and price portion of this program. Moreover, those who express the greatest alarm at the inflation bugaboo or danger do not, in my opinion, fully take into account the public psychology. While there are undoubtedly many cases of reckless spending by persons with substantially increased incomes, on the whole our people are putting a very substantial portion of their earnings into War bonds and savings stamps, into the payment of debts, the retirement of mortgages and the making of installment payments on the purchase of homes, insurance, and other savings or purchase programs. The great mass of our people revenues will not vivify the lean years following the collapse in 1933 and the privation they were forced to endure during the depression years. These recollections, at least up to the present time, have brought about a considerable degree of caution with respect to reckless spending.

Certainly, it must be recognized that we cannot absorb all of these "dangerous dollars" by taxation, especially under a program such as that proposed which either exempted completely or drastically reduced the existing taxes upon millions of our citizens having substantially increased amounts of such "dangerous dollars."

In an effort to produce every dollar of revenue which our economy can bear and to avoid passing it on to future taxpayers, many of whom are our returning soldiers, our committee in the last 4 years has raised taxes to an unprecedented height. In this connection, we have been fully conscious of our obliga-

tion to help combat inflation and have gone so far through taxation to the limit we now deem advisable.

The more important and direct checks in dealing with inflation, however, prices and wages, have not been correspondingly held in line. Until greater effort is invested in this situation is made, the curative effect of levying additional taxes will be to place further hardships and unbearable burdens upon the fixed-income group, the so-called white-collar group and others who not only have not received increased income out of the war but who have actually had their income reduced and their expenditures increased. Confronted with this very real and practical situation, our committee did not deem it wise or safe to make any considerable increases in individual income taxes.

Mr. EMMETTSON. Will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. EMMETTSON. At this point I think it is fair to point out we are rapidly approaching the point of diminishing returns on the number of tax votes.

Mr. DOUGHTON. That is the judgment of a great many people and a great many economists. You cannot impose too heavy a tax burden. When you destroy the initiative and break the morale of the taxpayers it is in fact overloading a good team and, being a farmer, I have seen many good teams ruined by being overloaded. You can place an unbearable tax burden on the American people which would have the same effect so far as the morale of the American people is concerned, as overloading a good team. You discourage them. How? You remove initiative and break their morale.

Nothing could be worse, especially in time of war than breaking their morale, because the American people are willing, they are patriotic, and they are anxious to get on, rather than pass on to future generations and future taxpayers, every dollar they can reasonably pay on an economically sound basis.

Mr. O'CONNOR. Will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman.

Mr. O'CONNOR. I just want to make one observation in support of what the gentleman has said, whom I wish to compliment for his splendid statement. In my country people are getting very much discouraged over the high levies on income and we are approaching the time now when we had better be pretty careful or we will be destroying business and the incentive to produce an income. We should get taxes for a basis of ability to pay and encourage the people who will pay these taxes, as far as we can. We should proceed pretty cautiously, as we are in a precarious position.

Mr. DOUGHTON. The slight increases which have been made are a result of the effort to integrate the Victory tax with the individual income tax. There has been much just complaint about the complications of our income-tax laws, particularly the individual income tax. Under the existing law, a taxpayer is required to compute his tax on three different bases, namely, the

normal tax base, the surtax base, and the Victory tax base. A different set of exemptions is required in the case of the Victory tax from that required in the case of the normal and surtax. The earned-income credit further complicated our tax law by requiring a different base for normal tax than for surtax. Since prior laws have extended our individual tax to a great many more taxpayers, it is very important that every effort be made to make the tax simple and easy for the taxpayer to understand and be able to prepare his return. We have made every effort to simplify the computation of the individual income tax. In a bill, which recently passed the House, we simplified the return forms for 1943, and by requiring the Victory tax credits to be taken currently, we succeeded in eliminating several items from the return form. In this bill we have further simplified the return through the elimination of the Victory tax and the repeal of the earned income credit. We hope to accomplish still further simplification in the administrative and loophole bill of next year.

In the interest of simplification, the committee adopted the following plan for the purposes of the individual income tax:

- First, the Victory tax was repealed.
- Second, the normal tax was increased from 8 to 10 percent to replace the Victory tax.
- Third, the present personal exemptions and credit for dependents were retained.
- Fourth, the surtax schedule of existing law was adopted with certain adjustments to bring the surtax in line with the elimination of the Victory tax.
- Fifth, the earned income credit was repealed.
- Sixth, married persons filing separate returns are each required to take a single person's exemption.
- Seventh, a minimum tax of 3 percent of the net income in excess of a special personal exemption of \$500 for a single person, \$700 for married person, and \$100 as a credit for each dependent is provided.

The effect of the above changes will be to permit the average taxpayer to compute his tax both for normal and surtax purposes on one net income base and pay that tax to the Government. The troublesome base of the Victory tax and the complications resulting from the earned income credit are eliminated.

Taxpayers whose income tax is less than the minimum tax will be required to pay the minimum tax. The minimum tax was necessary to continue in the tapering class approximately 11,000,000 taxpayers who are now subject to the Victory tax but not to the regular income tax. The present 30 percent withholding rate is retained.

The bill also made two other changes in the income-tax law. First, it denied the taxpayer deductions for Federal excise taxes paid in computing net income. In general, this will apply to the admission tax, the transportation tax, and the telephone tax. Most individual taxpayers do not keep records of these taxes and our committee was of the opinion

that the advantage of making administration much easier and of securing additional revenue from this source would more than offset any increased burden on the taxpayers.

A special deduction of \$300 was allowed in computing the gross income of a blind person. It was pointed out that blind persons have additional expenses that are not incurred by ordinary persons, such as for the employment of attendants, and that some relief should be granted in the form of an additional exemption to take care of this added burden.

With respect to the corporate taxes, the bill makes several important changes. The bill does not contain any increase in the corporate normal and surtax rate. It was thought that an excessively high tax on the normal earnings of corporations would have a serious effect in retarding normal dividends and seriously endanger most corporations faced with declining incomes caused by the war. Over 30 percent of the dividends of corporations are retained by individuals with incomes of less than \$5,000 and, in many cases, these dividends represent the sole income upon which the individual supports himself and his family. In addition, many of our religious, charitable, or educational institutions would not be able to survive, if their dividend income were greatly reduced through an increased corporate income tax. Therefore, the bill provides that the excess profits tax be increased and not the normal and surtax. The excess profits tax rate was increased from 30 to 35 percent. Information was developed before our committee that many corporations using the investment credit had been paying excess profits taxes. This is due to the high return on their invested capital which the present law allows and to the rather liberal carry-over and carry-back provisions of existing law.

One of the main difficulties of the excess profits tax has been its burden on small companies. In order to remedy this situation, the bill provides that the specific exemption of \$5,000 now allowed for excess profits tax purposes be increased to \$10,000.

There was an obvious loophole called to the attention of the committee which we felt should not wait until the next revenue bill for action. That is, the avoidance of income and excess profits tax through the purchase of defunct corporations. The committee believed that this loophole should be plugged immediately and that the provisions plugging such a loophole should be made retroactive to all taxable years beginning after December 31, 1939.

Our committee also received considerable complaint about many organizations which are now exempt from income taxes. It is very difficult to secure information as to these exempt organizations. The bill provides that exempt organizations must file annual returns of income unless they are religious corporations or certain types of educational or charitable corporations. It is believed by this means we will be able to secure information to determine whether

of out such organizations are excepting their fair share of the tax burden.

With respect to excises, the revenue was increased by \$1,202,000,000. The rate on distilled spirits was increased from 50 a gallon to 45 a gallon, on beer from 57 to 55 a barrel, and there were also slight increases in the wine tax. Other articles subject to increased taxes were electric light bulbs, jewelry, furs, luggage, toilet preparations, telephones, transportation taxes, admission taxes, cabarets, club dues, bowling alleys, and billiard and pool tables.

A tax on part-mutuals hitting at the rate of 6 percent was also adopted by your committee and the 2-percent tax on the transportation of property was retained and extended to parcel post. The increase on present excises, and the new taxes, are temporary and will expire after the war.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from New York.

Mr. REED of New York. Mr. Chairman, I am sorry to interrupt the gentleman because he is making an excellent presentation, and I congratulate him upon it, but this question has been asked by a number of Members and I assume it is of some importance to know the answer in reply to the letters of inquiry. The question has been asked as to when the provisions of the tax bill will take effect. The gentleman will note that the different provisions take effect at different times. I have here a little memorandum which shows the effective date of each provision.

Mr. DOUGHTON. In general, this bill, if enacted into law, will become effective December 31, 1943.

Mr. REED of New York. But the different provisions in the bill become effective on different dates. I have the dates here if the gentleman cares to insert them in his remarks.

Mr. DOUGHTON. If there is any question about it I will insert that at this point in the Record.

Mr. Chairman, the question has been asked as to when the provisions of the tax bill will take effect.

In general, the provisions relating to the individual income tax and to corporation taxes become effective January 1, 1944. In other words they are not to be retroactive.

The excise tax increases will become effective on the first day of the first month which begins more than 16 days after the date of enactment of the bill. Thus, if the bill becomes law by December 16, the excise taxes would be effective January 1. If, however, the bill is not signed until December 26, the excises would not become effective until February 1.

The postal increases will take effect on the 26th day after the date of enactment.

The changes in the renegotiation law will be effective in the main as to fiscal years ending after June 30, 1943, except that the court-review provisions are made retroactive to cover all past renegotiations.

One of the most troublesome features with which our committee had to deal was that relating to renegotiation of contracts. A subcommittee was appointed to prepare a report on this matter and I may say that they performed an excellent job, working with tireless energy.

It was disclosed in our hearings that many contractors had just grounds for complaining about the way in which the present renegotiation law is administered. We have gone a long way in this bill toward removing many of the grounds for the complaints which were directed against the present procedure, by placing the Government and the war contractor upon a more nearly equal footing. The chairman of the subcommittee, the gentleman from Oklahoma [Mr. Dimey] will discuss in detail the renegotiation provisions of the bill.

Mr. McCORMACK. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to my distinguished friend from Massachusetts.

Mr. McCORMACK. Due to the fact that my distinguished friend the chairman of the committee has yielded now, I may say that I talked with the gentleman a few days ago about a committee amendment. I realized the situation and difficulty of considering too many committee amendments, so I agreed not to have the matter pressed at this time but I should like to get my friend's reaction to it.

Under the present law members of the armed forces are allowed a special deduction from gross income of so much as their compensation for active service in the present war as does not exceed \$1,500 in any year. My suggestion is—and I hope that the Senate puts it in the bill and that the House conferees will accept it—that similar relief be granted with respect to so much of the earned income received by them during the period of 1 year after their discharge from the service as does not exceed \$1,500. Such an amendment would afford substantial relief to the servicemen and I understand there would be no immediate loss of revenue for any loss would be offset by the economic advantages resulting from such a policy of post-war rehabilitation. I wonder if my distinguished friend would care to make an observation at this time on such an amendment if it is adopted by the Senate?

Mr. DOUGHTON. In response to the statement of the distinguished majority leader I may say that on the face of the proposition and what study I have had time to give it, it is my judgment that it would be a very worthy change to make in our present law. I would, of course, want to take the matter to our committee for its consideration. I will say to the distinguished majority leader that while the bill is in the Senate and before it goes to conference I will attempt to call the committee together and take up this amendment and if it is favorably considered by the committee we will ask the Finance Committee of the Senate to incorporate it as an amendment to our bill.

Mr. McCORMACK. Mr. Chairman, I thank the gentleman.

Mr. WHITE. Will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Idaho.

Mr. WHITE. I want to refer to title IV, the postal rates.

Mr. DOUGHTON. I will come to that a little later.

Mr. WHITE. I am waiting patiently for that.

Mr. DOUGHTON. I am going to take that up later.

Mr. WHITE. Before the gentleman concludes, I want to ask a question for information.

Mr. DOUGHTON. All right.

Mr. WHITE. My question goes to the exemptions on the increase in postage on religious publications. I note that you have made an increase, doubled the third-class rate, but you have not touched the second-class rate. I am wondering if it would not be good policy to exempt religious publications under the third-class rate from the increase. There is no provision in the law now covering that.

Mr. DOUGHTON. If they are not so exempted, I see no reason why the third-class increase should apply to religious publications.

Mr. WHITE. We cannot amend the bill, but the provisions of the bill we are now considering will double the postage rate on religious publications.

Mr. DOUGHTON. It is too late to think about that now. We cannot now consider it thoroughly enough to offer it as a committee amendment, but such an amendment may be offered in the Senate and if it appeals to our conferees we can adopt it then.

Mr. WHITE. The distinguished chairman of the Ways and Means Committee would be in favor of exempting religious publications?

Mr. DOUGHTON. As far as I understand it now, yes. Of course, there may be technical reasons why such an exemption is not feasible.

Mr. WHITE. This is JEFF's matter of postal rates. You have extended it to second-class rates and I cannot see any reason for not extending it to third-class rates.

Mr. DOUGHTON. Perhaps the gentleman is correct.

Mr. WHITE. The gentleman did not go into the stamp tax at all, the postage of a tax on money orders for instance?

Mr. DOUGHTON. We talked about everything.

Mr. WHITE. That was done in the last war when we had much less expenditure than we have now.

Mr. DOUGHTON. Almost everything in the tax bill that could be considered that had any relation or bearing on tax matters—was considered and discussed in our committee. Of course, this bill is not a bill that any one person would have written. It is not like the gentleman from Tennessee [Mr. Cooper] would have written it, or my distinguished friend the gentleman from Arkansas [Mr. Mansel], or the gentleman from Virginia [Mr. Hoesmer], or the

distinguished gentlemen from Minnesota and New York [Mr. Kevern] and Mr. [?]. It is not nearly like any of us would have written it, but it is a bill we see go along with, it is the only bill that would command the majority of the votes of the committee and it takes a majority of the committee to report any bill.

I was writing the bill, perhaps I would have written it a little differently, but there is nothing in this bill that I cannot notate and willingly support.

We come now to the postage rates. Of course, we did not have time to study the relative postal schedule and we would not have changed any rate in the postal schedule had it not been for the need for additional revenue. Everybody knows that the rates on postage—first-, second- and third-class mail matter, and all classes of mail matter—have been out of adjustment for a long time. Back in 1917, my distinguished predecessor, Hon. Claude Blanding—on some or greater man was involved in this body or ever stood in the well of this House—had something to say on this matter. I have also heard the Honorable Joe Cannon, who was a great debater also. On one occasion he said so far as he knew Claude Blanding had no equal as a debater. He called the attention of the country to the fact that that took over 25 years ago, these postal rates ought to be adjusted. How much was it he said we were losing at that time?

Mr. COOPER. It was 28 years ago. That was in 1917.

Mr. DOUGHTON. Yes; 26 years ago.

Mr. COOPER. His speech gave comprehensive statements as to the amount that was lost. It showed that some of the large magazines and periodicals of the country were receiving subsidies ranging from a quarter of a million to a half-million dollars, some of them up as high as four or five million dollars a year.

Mr. DOUGHTON. Now about this third-class mail matter, there seems to be some disturbance about that. The second-class mail matter has not paid its way, neither has the second-class, for years, but there is a difference between second- and third-class mail matter. The second-class mail matter is mostly all news and material of educational value, while the third-class matter is news of an advertising nature, books and catalogs. In the last 15 years third-class mail matter has enjoyed a subsidy at the expense of the taxpayers of the United States of at least \$250,000,000. For 1942 it was about \$24,000,000.

We have increased the taxes on transportation of persons, on telephones and telegraph messages, on freight shipments of food and farm materials, and of the necessities of life, and why should not those enjoying the third-class mailing privilege be called on to pay a little additional for revenue purposes? They should not complain during this war emergency.

Mr. WHITE. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Idaho.

Mr. WHITE. I approve the raising of the third-class mail rate, but the only thing I want exempted is religious publications. I approve of what the gentleman has done.

Mr. DOUGHTON. That matter will undoubtedly be given consideration before the bill becomes law.

Mr. WHITE. If they have an exemption under second-class it is fair that they should have an exemption under third-class.

Mr. DOUGHTON. Taxes are not very popular and we always get into trouble whenever we increase a tax or impose a new tax. There is always somebody saying they cannot stand an increase or cannot pay the additional tax. You cannot win a war, you cannot finance the Government, you cannot carry on the economy of the country and let every taxpayer write his own tax bill. That cannot be done. But we do give as careful consideration as we can to all the witnesses that come before us with respect to increased or new taxes.

Mr. HARTLEY. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from New Jersey.

Mr. HARTLEY. In view of the fact that the gentleman's committee has taken over the writing of postal rates—

Mr. DOUGHTON. We have not done that; I beg the gentleman's pardon.

Mr. HARTLEY. In view of the fact that you have gone into third-class rates, which pay 75 percent of their freight, why did you not go into the question of raising the second-class rates, which pay only 25 percent?

Mr. DOUGHTON. The committee did not consider that third-class mail matter was of equal importance of equal value to the American people, and of equal dignity with second-class mail matter. It is mostly advertisements. You get a publication that pays third-class postage and nine-tenths of it is pure advertising. I think that class of mail matter ran at this time pay something.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Tennessee.

Mr. COOPER. I think it might be appropriate for the chairman to point out in reply to the inquiry that has just been presented as to why the committee saw fit to make at least some adjustment in these postage rate matters that there is not any desire to invade the prerogatives of the great Committee on the Post Office and Post Roads, but the fact remains that for 28 years this situation has existed and nothing has been done about it by that great and distinguished committee. It was thought that a start should be made by somebody and not let the thing run indefinitely in the future.

Mr. DOUGHTON. In the considera-

tion of the tax bill of 1942 the question came up as to why we should not do something about adjusting these postage rates to secure additional revenue. The Post Office Department stated they were studying the matter, but no report has been rendered up to the present time.

Mr. HARTLEY. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I will yield after I get through with my speech. I am trying to complete it now and must decline to yield.

I am sorry I have not been able to go into detail in the explanation of this bill. Quite a number of the members of the committee will follow me, and I am sure that what I lack they will gladly make up, and answer questions. I have taken enough time.

Mr. JENSEN. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Iowa.

Mr. JENSEN. The gentleman said that much of the third-class mail is not necessary and important.

Mr. DOUGHTON. The gentleman says it is?

Mr. JENSEN. Yes. I have a number of newspapers in my district which sell well and carry good advertising.

Mr. DOUGHTON. If I could not yield for a question, I cannot yield for a speech. We have taken action. If the gentleman will go before the Senate Finance Committee and convince that body that we have made a mistake, as we often do—for we are not infallible—the gentleman will have his opportunity there. If the Senate decides we have made a mistake, our conferees will at least be open-minded and fair-minded. If we have made a mistake, we will be as eager as can be to rectify it.

Mr. JENSEN. I thank the gentleman.

Mr. DOUGHTON. In conclusion I wish to state while your committee recognizes the desirability of keeping the public debt at a minimum and paying as much of the cost of the war as is reasonably possible out of current revenues, it is also keenly aware of the fact that too heavy a tax burden is as great a danger to the Nation's economy as is too large a public debt. Certainly we should not pass on to future taxpayers, many of whom will be our returning soldiers, taxes that we ourselves should pay, but neither should we pass on to them a business structure as weakened by heavy taxes that it will be unable to carry on in the post-war period.

When this war has been won, and God grant it be an early date, we want the business and industry of the Nation in a condition which will enable it to offer the greatest measure of opportunity and employment to those who are now tending to our country on the far-away battlefields of the world.

I am inserting at this point a table of excise taxes and postage rates:

Excises and postage rates

Table with 4 columns: Description, Present tax (per gallon, per gallon, etc.), Proposed tax (per gallon, per gallon, etc.), Estimated revenue (1944-1945). Rows include distilled spirits, wine, tobacco, and various excises.

\* Figures of additional revenue are for a full year of operation at level of income estimated for calendar year 1944.
† Estimates are based upon the most conservative report for 1942, released by the Post Office Department.

Mr. KNUTSON. Mr. Chairman, I yield myself such time as I may require.
Mr. Chairman, the pending tax bill is but one of an endless procession of major revenue measures since 1932.

In this period the tax burden of the American people has been increased twentyfold—from two billion annually to a present total of more than forty billions.

The time has come when we have about reached the bottom of the barrel so far as the possibility of securing additional revenues is concerned. There is a limit to the people's ability to pay taxes, even in time of war. During the past 4 years they have had to absorb particularly drastic increases to meet the staggering war costs, and they have not had time to adjust themselves to one increase before another even greater one has been piled on.

Now the administration wants to add ten and one-half billions more, mostly by sharp increases in the already burdensome personal income tax.
When the administration's tax program was proposed early in October, the Republican members of the Ways and Means Committee took a strong stand in opposition and assured the people that, so far as we were concerned, there would be no increase in the personal income tax or in the tax on the normal earnings of business. Having unanimously joined

In defying the administration's program in committee, we have lived up to that promise. The bill which has been reported by the committee raises but nine-fifths of the amount requested by the administration, and most of this sum will come from increased excise levies on luxury and semiluxury items.

From now on the motto promulgated by the great spender, Harry Hopkins, "tax and tax, spend and spend, elect and elect," is out. The people very decisively came to this decision in November 1942 and again on November 2 of this year. We of the Republican minority will do all in our power to erase it completely from the Nation's scrupulous. We have already given notice that, so far as we are concerned, we will not give consideration to the imposition of additional taxes upon the people until the administration has first eliminated all waste and extravagance in Government spending and then only if it is absolutely necessary.

There is an old saying that "chickens come home to roost," and that is surely true so far as it applies to the administration's wasteful spending. For years the average man has been told that he need have no worry about what amount was being spent by the Government in Washington since the other fellow would be taxed to pay the bill. Now he knows

that this was but one of many deceptions on the part of the administrator, and in this connection, Mr. Taxpayer, who is the forgotten man under the present administration, is recalling the diabolical words of a certain candidate for President in 1932, who said:
Taxes are paid in the sweat of every man who labors.

Even Santa Claus will in time pull on the people if he has nothing but cream puffs and marshmallows to offer.
The people, straining under the present heavy tax burden, are beginning more and more to realize that there is no such thing as something for nothing. Somebody must pay, and it is always the consumer. He pays both in visible taxes and through "hidden" levies.

In the consideration of the pending bill the committee gave careful study not only to the probable effect of increased taxes upon the Nation's present economy but upon the future as well.

Chief Justice Marshall's dictum that "the power to tax is the power to destroy" is no less true today than when uttered during the early days of the Republic. The Republican minority on the Ways and Means Committee believe that to increase taxes by ten and one-half billions as proposed by the administration would be a destructive act. In our opinion, this additional burden would

uplift the great middle class, which is the backbone of the Nation. It would threaten the future solvency of all businesses, imperil savings, and jeopardize the well-worn continuance of private enterprise. Moreover, it would destroy the essence of the American way of life, which our armed forces are now heroically battling to maintain and preserve.
We Republicans are determined to preserve and encourage free enterprise and industry in America, not destroy them by excessive taxation. When the millions of men in the armed forces come back from the far-dumb battle fronts we want them to find:
First, That jobs at good wages are open to them.
Second, That the door of opportunity has not been closed to their absence.
Third, That wasteful spending has been stamped out.
Fourth, That the American way of life has been preserved.

If America is to remain a land of opportunity, we must put a stop to the Japanese policies of the present administration. Its extravagant and wasteful senseless expenditures have been succeeded by equally reckless expenditures for war. Our Nation is today spending more for military purposes than the United Kingdom, Russia, Germany, and Japan combined. Various congressional inquiries into war expenditures have disclosed that money is being squandered on every hand, not only for military supplies far in excess of needs, but for items having no direct connection with the war effort. The action of the War Department in turning back to the Treasury some thirteen billions of its appropriations shows that the present \$37,000,000,000 war program is far in excess of needs. No doubt other service departments could make similar refunds without in any way impairing the war effort. There is no doubt in my mind but what an investigation of lend-lease allotments to many nonbelligerent foreign countries, particularly in South and Central America, would disclose that such billions are being poured out for such non-military purposes as the construction of an agricultural college in Costa Rica, for example, road building, sanitation, and other unrelated projects. Our people are tired of this sort of spending stopped, and stopped now.

Time has shown that we can no longer safely delegate, without supervision, the spending of the taxpayer's hard-earned money to individuals in the executive branch who labor under the delusion that the money the Government pays out is the product of printing presses, when any schoolboy knows that every cent the Government expends must at one time or another, in one form or another, be wrung from the people in taxes.

I shall not spend any time in justifying the committee's action in rejecting the Treasury's proposal for drastic increases in the personal income tax, other than to refer to the following table, which discloses that despite all the loose talk we have heard about the need for putting a limit on income in wartime, our existing tax laws have already brought about such a limitation. This table shows that no matter how much a man earns in 1944 and 1945, he cannot have more than \$24,000 left after taxes, and in fact he may wind up owing the Treasury even more than his total income for these 2 years. The table follows:

TABLE 3.—Existing income-tax burden for 1944 and 1945, assuming one Victory tax and one-half of unearned 1942 tax (assuming no change in net income)—Married persons, no dependents

Table with 4 columns: Net income for two personal exemptions, Income tax (Victory and one-half tax), Effective rate, Income to be taxed. Rows show income levels from \$2,000 to \$100,000.

\* My Victory tax computed by a gross income equal to the total of net income.

I call attention to incomes of \$750,000 and more. It will be noted that in these instances the tax collector takes all and then some. How is that for distributing the wealth?

Mr. REED of New York. Will the gentleman yield?
Mr. KNUTSON. I yield to my good friend.

Mr. REED of New York. As a matter of fact, there are several brackets where he will owe the Government more than he earns.

Mr. KNUTSON. Yes; I thank the gentleman. I am coming to that.
The poor chap who has an income of \$2,000,000—and I never expected to live to see the day I would commiserate with a man having an income of one or two million dollars, but, of course, I could not ignore the New Deal.

Getting back to the poor devil who has an income of \$2,000,000 in 1944 or 1945, he will not only have to pay \$2,000,000, but he will have to pay \$15,750 on top of that.

Then we come to the hopeless bankrupt who has an income of \$5,000,000 in 1944 and 1945. He is going to pay \$45,750 in addition to the \$5,000,000. So what Roosevelt ought to do is pay for more millionaires to run through the wringer.

Mr. VOORHIS of California. Will the gentleman yield?
Mr. KNUTSON. I yield.

Mr. VOORHIS of California. That comes about, does it not, because of the fact that taxpayers are required to pay 12 1/2 percent of their 1942 income at the same time as they are paying current taxes?

Mr. KNUTSON. That is right. But I will say to the gentleman from California it hurts just as much.

Mr. VOORHIS of California. No doubt; but I think that ought to be made clear to the Committee.

Mr. KNUTSON. Yes; I was coming to that, too, as we say in committee.

Mr. CURTIS. Will the gentleman yield?
Mr. KNUTSON. I yield.

Mr. CURTIS. Is this tax that is in excess of income considered an income tax? By what authority can your committee impose an income tax beyond income?

Mr. KNUTSON. Well, as the gentleman from California called attention to, in 1944 and 1945 we pay the full tax, plus 12 1/2 percent, which is one-half of the 25 percent unabated portion of the 1942 tax.

Mr. CURTIS. Regardless of what you call it, is it all a tax imposed by the Government?

Mr. KNUTSON. Regardless of what you call it, it comes out of the taxpayer's pocket.

Mr. BOWE. Will the gentleman yield?
Mr. KNUTSON. I yield.

Mr. BOWE. Has the gentleman determined what would be assessed against a million or two-million-dollar income in the absence of the 12 1/2 percent? I think that, too, should be part of the record.
Mr. KNUTSON. The regular tax is \$600,000 on an income of \$1,000,000 and \$1,800,000 on an income of \$2,000,000.

Mr. GILCHRIST. Will the gentleman yield?
Mr. KNUTSON. I yield.

Mr. GILCHRIST. Do the figures you have set forth include State taxes and municipal taxes?

Mr. KNUTSON. No; they include what you owe your Uncle Samuel.

Mr. GILCHRIST. On top of all you have said, they will have to pay additional State and municipal taxes?

Mr. KNUTSON. Yes. It would be much cheaper for a millionaire to take the bankrupter's cure.

Mr. MICHENER. Will the gentleman yield?
Mr. KNUTSON. I yield.

Mr. MICHENER. Will you insert in the Record the amount of income tax an individual with \$150,000 income for the coming year will be compelled to pay?

Mr. KNUTSON. He will have to pay \$137,188.12 if he is a married man with no dependents. I suppose the 13 cents is to show that he is out of luck.

Mr. MICHENER. Some newspaper in my district stated that a man with an income of \$120,000 would be compelled to pay about 95 percent, and that he would have but \$6,000 left on which to live.

Mr. KNUTSON. On \$130,000?
Mr. MICHENER. Yes.

Mr. KNUTSON. No. That might occur under the Treasury plan, which the committee rejected. It is all a part of the elaborate plan to distribute the wealth. They stole Harry Long's formula. They took that over as a part of his estate.

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Mr. O'CONNOR. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield to my friend. It is always so gracious to me when I appear before his committee; I want to keep my credit good.

Mr. O'CONNOR. I thank the gentleman for that remark. It is very interesting to me to note that the \$3,000,000 income earner is going to pay more in the future than what his income amounts to. I am wondering how much the man whose income is \$3,000,000 will pay in the next year, and also how much of that \$5,000,000 he was forgiven by the Ruml plan when the Ruml plan was adopted.

Mr. KNUTSON. Well, I thought we had laid that out about a year ago.

Mr. O'CONNOR. But it will not stay hidden. It is like Banquet's ghost, it constantly springs up.

Mr. KNUTSON. I suppose it will keep bobbing up as long as it can be used as a political football.

Mr. O'CONNOR. No; I am not talking politics.

Mr. KNUTSON. Of course I would not accuse my good friend of playing politics.

Mr. O'CONNOR. Now, would the gentleman answer my question?

Mr. KNUTSON. Yes; I will answer the gentleman's question by asking one. Will the gentleman please tell the House what year we stopped paying any taxes?

Mr. O'CONNOR. Of course we never stopped paying any taxes.

Mr. KNUTSON. Well, what is the difference whether the tax you pay this year is called the 1942 tax or the 1943 tax? As far as the Government is concerned, the Treasury will continue to collect on your salary, also on your successor's salary year after year after year, just as long as the Republic endures.

Mr. O'CONNOR. I will tell you when the Government loses it when I do not earn anything. Then I am forgiven the tax which should have been paid when I was earning something, and that is when the Government loses under the Ruml plan.

Mr. KNUTSON. Why, you pay every year that you earn something. That is the beauty of the pay-as-you-earn plan, that when you do not earn, when the people in their wisdom say, "Jim, we love you so much we want to keep you as home," then you do not have to pay any more. Or if you should die, Mr. O'CONNOR will not have to sell the old family homestead in order to pay Uncle Sam last year's taxes.

Mr. O'CONNOR. Now, will you go back and answer the question I asked you?

Mr. KNUTSON. I have answered it, but if the gentleman does not understand it, I cannot help that.

Mr. DONDERO. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield.

Mr. DONDERO. The gentleman has described to the House what happens to a man with a salary of \$100,000. Will you return to what the average American receives, about three or four or five thousand and tell the House what his tax will be this coming year?

Mr. KNUTSON. Yes, I can do that. A married man with an income of \$2,500 will pay \$235.61 in 1944. A man with a \$5,000 income will pay \$497.20. On \$10,000 the tax will be \$738.62. Now, we are getting up into the \$50,000 class.

Mr. DONDERO. Are those percentages an increase or decrease over what they were in 1942?

Mr. KNUTSON. They are an increase, since they include one-half the carry-over from the unabsorbed 1942 liability.

Mr. DONDERO. About how much in percentage?

Mr. KNUTSON. This is the total tax burden.

Mr. CURTIS. Does that include the 12½ percent?

Mr. KNUTSON. Yes; that includes the 12½ percent. Do you want a comparison?

Mr. DONDERO. Yes; in percentage. The average taxpayer is interested to know how much more he is going to pay this year over 1942; that is, what percent more.

Mr. KNUTSON. On an income of \$5,000 he pays \$187.98 for 1942. That is for a married man. Under the committee bill he will pay only \$184 for 1944, a saving of \$3.98. This does not include the 12½ percent carry-over. Now we will take \$5,000. Under present law he pays \$692.35. Under the committee bill he pays \$628, plus the 12½ percent carry-over for 1944 and 1945.

Mr. DONDERO. What does he pay under present law?

Mr. KNUTSON. Eight hundred and ninety-three dollars and ninety-five cents on \$5,000; but all these details are in the majority report. While I had no part in preparing the majority report, it is a very useful document, and I suggest themselves with a copy and preserve it, because it is really a compendium of tax information that could very well be used as a textbook in the higher institutions of learning.

Mr. GORE. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. Certainly I will be glad to yield to the distinguished gentleman.

Mr. GORE. I did not quite get the gentleman's answer to the question propounded by the gentleman from Montana (Mr. O'CONNOR). This taxpayer who is paying \$40,000 a year more than he earns had to earn how much this year in order to be obliged to pay \$45,000 more?

Mr. KNUTSON. \$5,000,000.

Mr. GORE. What part of that \$5,000,000 in taxes on the \$5,000,000 is absorbed that year?

Mr. KNUTSON. Last year he would have paid \$4,499,000.

Mr. GORE. I know, but what part of this \$4,499,000 is payment on his income of last year?

Mr. KNUTSON. \$546,000 is the carry-over, being one-half of the unabsorbed \$1,092,000 liability.

Mr. GORE. Then he has earned \$10,000,000 and is paying \$5,045,000 taxes?

Mr. KNUTSON. No, out of the \$5,000,000 he earned last year he had to pay the

tax for the previous year. If there is any windfall it is taxed in full and, of course, the estate and inheritance taxes will also prevent any tax avoidance.

Mr. ROWE. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield.

Mr. ROWE. I think one thing should go in the Record at this point. Whatever the forgiveness was under the Ruml plan it did not differentiate between individuals regardless of their status of earning.

Mr. KNUTSON. How is that?

Mr. ROWE. I say whatever forgiveness there may have been under the tax bill we passed to forgive part of the income tax it applied to every status regardless of what it was, did it not?

Mr. KNUTSON. It treats all taxpayers fairly. The pay-as-you-go plan did not forgive anything, it simply stated 75 percent of an assessment, which was transferred from the past year to the current year. Forgiveness is what one is absolved from his sins and obligations as well as his debts. I hope to star in Congress long enough so that the facts regarding the pay-as-you-go plan may percolate into the minds of all who are willing to see.

Mr. O'CONNOR. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield to the gentleman from Montana.

Mr. O'CONNOR. What I want to get at, following through the clarification question of the distinguished gentleman now in the chair, I feel that he sort of clarified the gentleman's answer to my question which was rather confused. What I want to get at is to clear up the point and who pays the \$5,000,000 in taxes is still to the good under the Ruml plan is still to the good in the neighborhood of \$5,000,000.

Mr. KNUTSON. How does the gentleman figure that?

Mr. O'CONNOR. He had \$10,000,000 income for the 2 years and paid only \$5,045,000 in taxes.

Mr. KNUTSON. What year does he not pay a tax?

Mr. O'CONNOR. That is not the question.

Mr. KNUTSON. It certainly is. The Treasury is only interested in cents, they are not interested in academic questions.

Mr. O'CONNOR. My question is whether he is not still \$5,000,000 to the good.

Mr. KNUTSON. Not of course he is not, because he will have paid just as much this year under the old plan as he would under the pay-as-you-earn plan; consequently the Treasury has not lost anything.

Mr. O'CONNOR. When the Treasury starts to lose is when the depreciation comes and income comes; that is when the Treasury starts losing under the Ruml plan.

Mr. KNUTSON. The Treasury will lose nothing, but I suppose it will beat the gentleman's heart to find that he is current when his income stops.

Mr. O'CONNOR. No; that still does not answer my question.

Mr. KNUTSON. Well, that is just what the gentleman is talking about. He appears to be resentful because we have fixed it so that when he stops having fixed it so that when he died he would live on income or when he died he would live on income with the board.

Mr. O'CONNOR. No; but I was trying to protect the Treasury when we had the bill before us last year. When the objection comes, when we will no longer have income, we will still need taxes.

Mr. KNUTSON. Somebody will step into the gentleman's shoes and carry on, but I hope that will not be for a long, long time.

Mr. CURTIS. Will the gentleman yield?

Mr. KNUTSON. I yield to the gentleman from Nebraska.

Mr. CURTIS. I think it should be noted to mind that if anyone gains under the so-called Ruml plan it is the small taxpayer. The large taxpayer's resources will be taken care of by estate and inheritance taxes.

Mr. KNUTSON. Of course, whatever benefits accrue will accrue proportionately more to the small taxpayer than to the big taxpayer and that is the reason there was so much opposition to it; it was approached purely from a political angle.

Mr. MILLER of Connecticut. Will the gentleman yield?

Mr. KNUTSON. I yield to the gentleman from Connecticut.

Mr. MILLER of Connecticut. This \$40,000 the gentleman has pointed out is the only forgiveness I have found in the Ruml plan. They pay \$45,000 more than they earn.

Mr. KNUTSON. Yes, I suppose someone they will consider operating on our tax debts so we will not have anything to keep still.

Mr. MILLER of Connecticut. Under the Ruml plan he would have paid \$80,000.

Mr. KNUTSON. Yes. That is a very good point and I thank the gentleman. The gentleman's statement shows he has clear vision and good understanding.

Mr. MILLER of Connecticut. The gentleman from Minnesota should not worry about the fellow earning \$5,000,000.

Mr. ROWE. I think at this late day I have learned something about forgiveness.

Mr. KNUTSON. Do not use the word "forgiveness." Use the word "absolutely."

Mr. ROWE. I think it is applicable here. The accrual of what we have given is what constitutes the surplus in income that is going to the Treasury.

Mr. WICKERSHAM. Will the gentleman yield?

Mr. KNUTSON. I yield to the gentleman from Oklahoma.

Mr. WICKERSHAM. I realize it is desired to get all the revenue possible, but I figure in one instance they are going to lose some of this new tax. I refer to the little theaters because if one patron out of five fails to go you lose as much as you gain. It seems to me that in the smaller theaters they are not going in for lux-

uries, they are going in for education, and you will destroy the taxes which you intend to try to get. It seems to me that the theater patrons who pay taxes, if they are excessive, will not go and you will destroy not only the privileges of going to the theater, but you will also destroy the theaters in the smaller towns.

Mr. KNUTSON. The gentleman from Oklahoma is absolutely right. His statement shows he is a man of discernment. I expressed similar views before the committee in executive session.

Mr. WICKERSHAM. I think the gentleman from Minnesota was correct.

Mr. KNUTSON. Absolutely; but there are those on the committee who could not see it.

Mr. MAHON. Will the gentleman yield?

Mr. KNUTSON. I yield to the gentleman from Texas.

Mr. MAHON. The report makes considerable reference to a comparison of the income, or, rather, the expenditures for the war effort by the people in Canada and the United Kingdom and the people in the United States. It is pointed out that for war purposes the United Kingdom will exceed about \$23,000,000,000 in 1944 and Canada will exceed about \$2,000,000,000 in 1944.

Mr. KNUTSON. Yes.

Mr. MAHON. A much smaller expenditure relatively speaking than our own expenditure. Can the gentleman tell us whether or not the national income and wages have skyrocketed in Canada and in the United Kingdom in the last few years as they have in the United States?

Mr. KNUTSON. I have no late information, but, as I recall, when we had the 1943 revenue bill before the committee it was testified that they had been able to hold the line, as the phrase is now used, much better in Canada and in the United Kingdom than we have, because they put a ceiling on wages as well as on all commodities.

Mr. MAHON. Their per dollar expended in Canada and in the United Kingdom they may have gotten more in production?

Mr. KNUTSON. Possibly so.

Mr. DONDERO. Will the gentleman yield?

Mr. KNUTSON. Briefly.

Mr. DONDERO. Does the bill set a floor to the price of admission fee theaters below which there is no tax or the tax increase does not apply?

Mr. KNUTSON. No. The tax is now 1 cent for each 10 cents or fraction thereof. The bill fixes the rate at 3 cents for each 10 cents—just double.

Mr. DONDERO. That applies on all admissions, whether it is 10 cents or 30 cents?

Mr. KNUTSON. Yes, that is right.

Mr. DONDERO. There has been some opposition voiced to that provision, the claim being made it punishes the poor man's diversion and some people think it is wrong in principle.

Mr. KNUTSON. Of course, as the gentleman from Oklahoma as well pointed out, in the smaller communities that has been injured rather than helped by war spending there has been a big falling off in theater attendance,

I want to close with a little philosophy, and you will destroy the taxes which you intend to try to get.

If the Republican Party maintains its present strength in the Congress or makes gains in the next election, the country can confidently look forward to reductions of taxes in the future, rather than continual increases. Certainly, as soon as hostilities in the present war cease, immediate attention will be given to the revision of our whole tax structure with a view to the realization of maximum revenues consistent with the least interference with individual and business enterprise. Our tax laws are archaic, cumbersome, and complicated. Sound tax principles have been departed from, and too often the taxing power has been used for other than revenue purposes. We have seen issues availed of to punish taxpayers, for social experimentation, and for accomplishing ends otherwise prohibited by the Constitution. Any worthwhile revision of the tax laws must include a restoration of the principle of taxation for revenue only. The Republican members of the Ways and Means Committee are pledged to support and bring about this long-needed, much-to-be-desired tax revision. In a large measure, the country's ability to maintain a high level of national income in the post-war period will depend as much upon the adoption of wise tax policies as upon any other factor.

In conclusion, let me say that there is no royal road to financial independence, either for the Government or for individuals. It may be attained by integrity, frugality, industry, and moderation. We must adopt those virtues if we are to avoid national and individual bankruptcy and chaos.

Mr. Chairman, I now yield to the gentleman from New York (Mr. Ross) as much time as he may desire.

Mr. REED of New York asked and was given permission to revise and extend his own remarks in the Record.

Mr. REED of New York. Mr. Chairman, I want to make just this preliminary statement. I cannot recall whether it was in a colloquy on the floor or elsewhere, but there was some criticism directed against the members of the Ways and Means Committee in that the members of that committee, some 25 in number, utilized so much time that the younger Members of the House failed to get an opportunity to speak on important measures, and particularly such a one as this tax bill. That, I know, was made in good faith, and I have no objection to it. I think there is much to be said in that respect, at least so far as I am personally concerned. I have undoubtedly taken more time in debate than I should have done on some of these bills in which I have been intensely interested, and to which I have given a great deal of study, so I shall endeavor not to offend on this occasion.

Mr. Chairman, more than 10 years have run and some strange Franklin D. Roosevelt took full charge of the executive branch of the Government, and assumed responsibility for its fiscal affairs. We have before the House today another bill to raise revenue, the seventeenth, I believe, since civilization began to function in 1923.

After a careful examination of the majority report of the Ways and Means Committee, a most excellent report on the bill now before us.

I oppose the present administration of being the greatest squandering administration in all history. It is an administration that has piled billions on billions, committed an enormous waste of money, and has done so in a way that is a disgrace to the Nation.

Mr. Chairman, I am sure that if Franklin D. Roosevelt as a candidate could with propriety make such a statement in 1932 against the Republican Party, without facts to support his accusation, I am well within my rights and fully justified by the facts to make the same accusation against the Roosevelt spendthrift administration. I would hesitate to make this charge were it not for the fact that the majority in this committee report does not hesitate to indict the Roosevelt administration for its extravagance and waste as a justification for not yielding to the Executive demand for \$10,000,000,000.

It was not until Hon. Henry Morgenthau, Jr., Secretary of the Treasury, appeared before the Ways and Means Committee on October 4, 1942, that our committee was made fully and officially aware of the magnitude of the revenue-raising task it would have to face. It was then that Secretary Morgenthau suggested that the committee bring out a revenue bill that would produce additional revenue amounting to \$10,000,000,000. Furthermore, the Secretary emphasized the fact that his proposal would require an additional tax burden on the individual taxpayers of \$9,500,000,000. The fact that the tax burden on individuals has been increased about 2,000 percent since 1940, or from \$90,000,000 annually that year to a probable \$18,000,000,000 in the current fiscal year ending June 30, 1944, caused the committee great concern as to the effect of adding \$9,500,000,000 to the present tax load.

Mr. Chairman, I call attention to the first page of the majority report where this statement appears:

In preparing this tax bill, your committee has given consideration to the following factors:

1. The need for additional revenues.
2. The inflationary problem.
3. The present tax burden.
4. The necessity for simplifying the present tax system.
5. The possibility for economy in governmental expenditures.

It may cause some speculation among the members of the House as to the formula that was used by the committee in formulating the measure now before this body for consideration. There was nothing in recent party publications to which the majority could turn for inspiration and guidance as how best to finance the war, meet the problem of inflation, lessen the tax burden, and above all simplify the present tax system. I am not violating the rules relating to disclosure made in an executive session of the committee when I reveal that among some ancient, dusty, and long-obliterated New Deal campaign literature this magic formula was found:

We advocate an immediate and drastic reduction of governmental expenditures by abolishing useless commissions and offices, consolidating departments and bureaus, and eliminating extravagance, to accomplish a saving of not less than 25 percent in the cost of Federal Government.

Mr. Chairman, the committee formula not only produced this modest revenue bill but it had the further effect of causing the bureaucrats to disgorge some \$13,000,000,000 not required for the prosecution of the war, nor needed to carry on the necessary functions of civil government, much less to squander and waste on useless and, in many instances, dangerous socialistic schemes.

Mr. Chairman, the task of raising revenue is an unpleasant and thankless one, but it is nonetheless an all important one, for without revenues the Government could not run at all.

Especially is this true at the present time, when we are fighting a global war, the total monetary commitments for which already aggregate \$330,000,000,000 or roughly the amount of our entire national wealth. And the war is still far from being won, particularly in the Pacific theater of operations. Moreover, we yet have to plan for post-war rehabilitation, which undoubtedly will add untold billions to the over-all cost.

In the current fiscal year, the Federal Government will spend \$104,000,000,000, which is at the rate of nearly \$9,000,000,000 every 30 days. Of this total, ninety-seven billions will go for war activities, two and seven tenths billions for interest on the national debt, and the balance, or four and three tenths billions for civil functions. I wish to say, however, that there is some dispute as to this breakdown of these figures in view of the unrequired \$13,000,000,000.

In the face of this astronomical expenditure during the next 18 months, the Treasury anticipates net revenues from existing taxes of some forty-one billions.

The administration has proposed a program of additional taxes which, had we approved it, would increase revenues to approximately fifty billions, or to roughly one-half the amount of the estimated expenditures.

For many reasons, it is desirable that we meet currently as much of the essential war cost as can be done without destroying our economic system. However, there is one circumstance which requires comment, and I refer to the reckless fiscal policy of the pre-war period. The waste and extravagance of the last decade, with the resulting annual deficits and the pyramiding of the national debt, left the Nation ill-prepared for the tremendous financing problem arising out of the war. Let me repeat that despite mounting taxes from 1932 on, the deficits continued to pile up year after year because of the rapid increase in expenditures. When the Japs struck their blow at Pearl Harbor, we had experienced 11 straight years of operating the government "in the red." Think of it! Eleven years of uninterrupted deficit-financing. Eleven years of annual tax increases, without any ap-

proach to a balanced budget during that time.

When we were compelled by the necessity to borrow astronomical sums for war financing, our Nation's credit had already been stretched to its hilt by unprecedented proportions and our potential sources of taxation tapped to the point of virtual exhaustion. We have now reached the stage where the favorable law of diminishing returns precludes further drastic increases in existing taxes, and where our chief hope for increased revenues must be based not on higher rates but on increased national income, except where the tax burden can be lessened by the elimination of waste.

While you are all deeply concerned of the tremendous increases in taxes in the past few years, I care not for mere statistics unless they show that we have realized the actual extent of the increase measured in tax dollars. Let me give you a few interesting facts in this connection:

First, as regards the individual income tax—

In the fiscal year ending June 30, 1940—at which time our emergency defense program was being instituted—the Federal Government was collecting less than \$200,000,000 annually from personal income.

The following year the receipts were \$1,300,000,000.

In the fiscal year 1942 they rose to \$3,300,000,000.

In the fiscal year 1943, just closed, they jumped to \$7,000,000,000.

In the current fiscal year, ending next June 30, they are expected to be in the neighborhood of \$18,000,000,000. This represents a 2,000 percent increase in individual income tax receipts in 4 short years.

Let us now look at the corporate picture, in comparison:

In the fiscal year 1940 the corporate income tax produced \$950,000,000.

The next year receipts increased to \$1,600,000,000.

In the fiscal year 1942 they were \$3,700,000,000.

In the fiscal year 1943, just closed they were \$4,000,000,000, which is substantially the amount estimated to be received during the current fiscal year.

This represents a little over 400 percent increase in 4 years. However, when we include the excess-profits tax receipts the percentage of increase is much greater. Collections from the excess-profits tax have grown to \$10,000,000,000 annually since the tax was enacted in 1945. This makes the total current corporate tax burden approximately \$14,000,000,000.

The individual income tax, along with the corporate income and excess-profits taxes, are by far the largest revenue producers in our entire tax system, making up 33 billions out of the total of 41 billions in taxes which will be collected this year. In terms of percentage, they are responsible for 83 percent of the Treasury's receipts.

Under the revenue laws of the last World War, the most that the Federal Government collected in any one year was \$2,700,000,000, and this figure was

not reached until 2 years after the war had ended. Today the total volume of tax collections is six times as great—and the trend is still upward. Up through the fiscal year 1940, Federal receipts never exceeded \$6,000,000,000. Since then, they have mounted by leaps and bounds, partly through drastically increased rates and levied exemptions, and partly as a result of increased national income. From 1940 to 1941, Federal tax collections increased moderately to \$8,300,000,000 to \$7,000,000,000. In the fiscal year 1942 they rose to \$12,000,000,000. In the fiscal year 1943, just closed, they jumped to \$22,000,000,000. And in the current fiscal year, we are now informed, they will be over 41 billions—representing a seven-fold increase over 1940.

These figures express more clearly than words the reason why we must get on with imposing further taxes. Yet each time the administration has recently proposed a new tax bill, it has omitted the amount of its previous revenue. Thus in 1942, Congress was asked to raise three and one-half billions. Last year the request was for seven and six-tenths billions. This year, the request was raised to twelve billions, then reduced to ten and one-half billions. It would seem that the order should have been reversed, and that as we approach the point of tax exhaustion the additional burdens to be piled on should get less and less, instead of more and more.

It twelve billions had been added to the present Federal tax load, as suggested by the administration, it would then have totaled fifty billions, or slightly less than half the contemplated outlay in the present fiscal year. Including the ten billions being collected by the State and local governments, this would have brought the total annual tax burden in this country to sixty billions.

However desirable it may be to absorb some of the war cost currently, and at the same time combat the threat of future inflation—and I would be the last to quarrel with the desirability of other objective—the fact is that we have about reached the saturation point in taxes, and must therefore be exceedingly careful in piling on additional burdens. To do too far may result not only in the destruction of the great middle class, which is the very backbone of our country, but also in destroying incentive, which is so necessary to the success of the war effort. Moreover, business must be left something to carry through the readjustment period following the termination of hostilities.

The committee thought it inadvisable to increase taxes by any such figure as \$12,000,000,000, as requested by the administration. The committee examined the whole situation carefully, and then made provision for such increases as seemed practicable, keeping in mind the cardinal rule of ability to pay as well as the dictum of Chief Justice Marshall that "the power to tax is the power to destroy."

With the corporate excess-profits tax rate raised to 95 percent in the bill before us, it seems clear that there can be

no further increase from this source, aside from what may be realized as a result of the acceleration of war production.

Moreover, it would seem that the present upper rate on normal corporate profits—50 percent—cannot go much higher. I have not forgotten that during the last World War, when individual rates reached a maximum of 77 percent, the corporate income tax was only 12 percent—the equivalent of the maximum normal rate on individuals. Nor have I forgotten that in those days, and up to the time the New Deal philosophy of taxation was given effect, responsibility was great to the fact that a cordiality doing business in corporate form, and that, therefore, allowance should be made for the tax paid by the corporation in assessing the shareholders, which was done by exempting dividends from the normal tax on individuals.

Now, we not only will lose the corporation up to 40 percent on normal profits and up to 95 percent on excess profits under the bill, but we shall tax what is left, when paid out in dividends at the full normal and surtax rates in the hands of the stockholders. Someday, I hope we may get back to sound and defensible principles in taxing individuals doing business in corporate form. Despite the eagerness of war, England has continued to adhere to the sound practice of treating the corporate income tax as a tax upon the shareholder, reduced at the source, for which due allowance is made in assessing the individual income tax.

Last year, the Treasury asked for a 55-percent rate on normal corporate profits, but Congress refused to go above 40 percent. There has, as you know, been considerable agitation for an allowance for post-war reconversion reserves. Of the desirability of such reserves there can be no doubt. The Congress has already given recognition to the principle of a post-war reserve in connection with the excess-profits tax, 16 percent of the tax being set aside for the use of the corporation in the post-war period. While this credit is all right so far as it goes, this credit is of such magnitude as to build in any appreciable amount for post-war industrial rehabilitation purposes. Moreover, the credit only applies where the corporation has excess-profits tax liability, whereas thousands of other corporations not benefited by other corporations have an equal need for such reserves. No matter how the necessity of being ready to provide peacetime jobs for the millions who will be thrown out of war work with the cessation of hostilities, not to mention the millions of returning soldiers and sailors who will be looking forward to resuming their normal pursuits. The kind of a corporate tax policy which the Congress adopts I know will have a profound effect upon the ability of business and industry to provide these jobs when the war boom ends.

If we are to succeed in maintaining a high level of employment and national income in the post-war period, I firmly believe it is essential that our Federal

war policy be such as to give some encouragement to venture capital. In my opinion, there are endless possibilities for the development of new industries after the war if a war tax policy is pursued. These industries can easily pave the way for an era of post-war prosperity instead of a post-war depression, and it is to the interest of the Government to see that these industries are nurtured and developed. The war has opened up new frontiers in science and invention, and if the resource and industry of our people are not unduly hampered by ill-considered Government policies of taxation and restraint we can look forward to the enjoyment of unparalleled prosperity and improved living standards.

Before passing to other phases of the tax problem, I should perhaps briefly mention the matter of renegotiation of war contracts, on which the Ways and Means Committee has been conducting public hearings preparatory to proposing certain revisions in the existing law. Prior to the enactment of the excess-profits tax in 1940, the only restriction on war profits was under the Vinson-Trammell Act, which limited the allowable profit on naval vessels and planes. When Congress passed the excess-profits tax law, it suspended the provisions of the Vinson-Trammell Act as being unnecessary. Later, there was added as a rider to one of the appropriation bills a measure known as the war contract renegotiation law, providing for the renegotiation of war contracts where excess profits were found. This law, as even Member here knows, has given rise to much controversy and dissatisfaction, particularly because of the lack of any definite standards for the administration of the law. Most war contractors seem to feel that the law is unnecessary because 80 percent of any excess profits will be taken under the excess-profits tax law in any event, and they further feel that the time spent in going through the renegotiation proceedings has actually held up the war production effort. The war agencies, on the other hand, feel that the renegotiation law is sound in principle, though they admit there is room for improvement in the administrative machinery. They have contended further that the function of such renegotiation costs at a minimum cannot be accomplished under the excess-profits-tax law, nor, so they assert, can such a law provide effective incentive to war contractors to keep production at a maximum and costs at a minimum. A number of clarifying changes has been made so as to eliminate some of the present uncertainties and improve the administration of the law.

Summing up the corporate-tax picture, this bill does not raise any substantial amount of additional revenue through higher corporate rates. I believe that the inadvisability of doing so was conceded by Mr. Randolph Paul, the Treasury tax adviser.

It is obvious that if any large amount of additional taxes, such as we have demanded by the President, had been imposed and realized, the burden would

have had to fall largely on the individual taxpayer, whether in the form of income or excise levies.

So far as the individual income tax is concerned, there was no longer any room for increases in the topmost brackets. We can hardly expect to take in taxation more than 30 cents out of every dollar a man earns, which is the present maximum. This means that whatever increases may have to be made in the future will have to be in the middle and lower brackets, principally the latter, and we seem to be rapidly approaching the limit even there.

One difficulty with any general increase in rates in the lower and middle brackets is that it would have falling and unequal impact on persons who have not benefited from the war boom as against those who have so benefited. I realize, of course, that there is a tremendous reservoir of excess purchasing power in the hands of large segments of the people today, indicating that the point of tax exhaustion has not been reached in all cases. The incident, however, is to reach this so-called inflationary purchasing power without benefiting those who are already struggling under the existing tax load. There are millions of persons who either have not had an increase in income since the war or have actually suffered a decreased income. They do not have the money capacity to pay increased taxes as war veterans and others whose incomes have doubled, tripled, and perhaps even quadrupled. For example, the man who has received \$5,000 income over a period of years finds today that his actual purchasing power has been considerably reduced through mounting taxes and higher prices for everything he buys. Moreover, he has fixed commitments which must be met, such as insurance premiums, mortgages payments, and so on. By contrast, his neighbor, who as a result of the war has received an increase in income from \$2,000 to \$5,000, and who does not have those fixed and often long-standing commitments, is enjoying new-found liquidity despite the relatively high taxes he has to pay.

In the case of so many of the excise taxes, the products of which they are levied are no longer available, such as passenger cars, electric refrigerators, and radios. In other cases, such as gasoline, consumption is restricted. Thus in a number of instances, receipts have fallen off in the face of increased rates. In the case of practically all of the excise levies, the rates have been increased again and again since they were first imposed.

The Federal estate tax also offers little opportunity for increased revenue, since the rates are already rather high, reaching a maximum of 70 percent. The Treasury urged still higher rates last year, but Congress refused to approve any increase.

Since existing sources of taxation offer little possibility of raising substantial additional revenue, practically the only potential source of new revenue as yet untapped is the sales tax. For years Congress has toyed with the idea of enacting such a levy, but the administration has always been bitterly op-

posed. Back in 1923 the Ways and Means Committee recommended to the House a manufacturers' sales tax, based on the successful Canadian system, but it was overwhelmingly defeated. Since that time the sales tax has never been able to command the support of a majority of the Ways and Means Committee, and hence has not been included in any of the more recent tax bills, nor in this one. It has, however, been the subject of much discussion.

The arguments which have been most generally used against the sales tax are that it falls heaviest on those with the least income, and is deflationary in character, since it discourages consumption. While it is perhaps true that the sales tax is more burdensome to the poor than to the well-to-do, this argument would be more valid if the sales tax were the only means of raising revenue for the support of the Government. But as long as it is employed in connection with progressive income taxes, the ability-to-pay principle is preserved.

One difficulty about the Federal Government enacting a sales tax at this late date, even if there had been no other objection, is that the State has largely preempted this field. Moreover, they have varying rates and exemptions, and varying methods of collection. For the Federal Government at this time to impose a sales tax with different rates and exemptions, and a different method of collection, probably would have caused a great deal of confusion.

It has been estimated that it would require a retail sales tax of 10 percent, without exemptions, to produce \$5,000,000,000 of revenue. If food were exempted, the yield of a 10 percent retail sales tax would be only \$3,000,000,000. This even if a sales tax were enacted, the Treasury's first proposal of \$1,000,000,000, or even its request for \$1,500,000,000 in additional revenue would have to be far from realization.

In this connection, I feel I ought to make some reference to the fact that the long-standing difference between the administration and the Congress on tax policy have made the task of the Ways and Means Committee most difficult in these already trying times. In recent years the Treasury has presented a detailed tax program to Congress, and when Congress has not seen fit to go along the administration has used its tax propaganda machine to try to overcome congressional opposition. Congress has been held up to scorn and ridicule, and has been accused of shifting the tax burden from corporations and the wealthy to the backs of the masses. Of course, we in Congress get used to this very unwarranted situation, and are wholly unimpressed. In the first place, the Treasury has no business having a fixed tax program. It is the duty of the House of Representatives, under the Constitution, to originate revenue bills. The executive branch is merely supposed to administer the laws that Congress enacts. It is perfectly proper for the Secretary of the Treasury to make recommendations to Congress when requested, but in my mind it is improper for the

Treasury to work out a tax program of its own and then insist that Congress enact it into law without regard to the views of those who are to be taxed or as to what is for the best interest of the country.

The founding fathers had a very definite reason for placing the power to initiate revenue bills in the House of Representatives, whose members must give an accounting of their stewardship every two years. This important power over the purse was purposely denied to the executive branch. The attempt of the latter to usurp the functions of Congress in laying down tax policy is simply a part of the general trend during the last decade, and in my opinion is a high time it was stopped.

I recall that in 1941, when the Ways and Means Committee, in considering the \$3,000,000,000 tax bill, worked under the apprehension that we were increasing the tax level from \$1,000,000,000 to \$13,000,000,000. The next year, however, we found that it had actually been raised to \$18,000,000,000. Again last year, when we were giving to \$1,000,000,000 bill, we were going to understand that it would raise the tax level to \$30,000,000,000. Yet early this year, the President informed us in his budget message that the tax level had actually been increased to \$31,000,000,000.

The problem of Government financing is one which will continue to plague the Congress and the Executive Branch for some time to come. As long as we retain a retail sales tax of 10 percent, we can probably raise by taxation, in the immediate future, the national debt will continue to pile up. When the national debt reaches \$300,000,000,000, as some think, the interest burden alone will be as much as \$100,000,000,000 to pay the entire expenses of the Government in the extravagant pre-war period, without reference to any provision for the retirement of the principal.

Following the last World War, we retired the debt at the rate of \$1,000,000,000 annually for 10 years. Then the depression put a stop to further curtailments. Even if we are able to increase the amortization rate to \$3,000,000,000 annually after the present war, it will take a hundred years to pay off the debt.

When we contemplate that our post-war Budget will have to provide a minimum of perhaps ten billion by debt service, it becomes apparent that we will never see a reduction of the cost of Government to anything like the pre-war level, even comparable to that in the heyday of New Deal extravaganzas. Besides providing for debt service, we may have to maintain a huge army, navy, and air force to police the world, which will cost many billions annually. We will have to provide hospitalization and disability compensation for the casualties of the war. We will have to make large appropriations for post-war rehabilitation. We will undoubtedly be called upon to continue financial aid for post-war recovery in other countries. All these costs will be superimposed upon the regular operating expenditures of

the Government, which seem inevitably to increase year by year. I would not venture to predict the exact size of our post-war Budget, but I know it will be staggering when compared to the pre-war level.

At the present time our national income is the highest in all history, yet the more we have been able to raise in Federal taxes has been forty-one billion. If the national income should drop precipitately after the war, the maintenance of our present high taxes would not produce anything like forty-one billion. In other words, we will be unable to raise by taxation in the post-war period to cover not only the high price of expenditures which we may then expect but the amortization of the national debt as well. This is a problem in need of a strategy on the insanity of our best minds. It can best be solved by endeavoring to maintain national income at a high level in the post-war period; otherwise, the burden of taxation which would be required to keep the post-war Budget in balance would be absolutely crushing in its severity. Waste, extravagance, and boondoggling must be stopped. The tax outlook for the future is not a very pleasant one to contemplate.

I reveal that in order to minimize the burden as much as possible, it is imperative that every effort be made to eliminate every dollar of wasteful and extravagant spending. Heretofore, congressional efforts at economy have rendered woeful nonmateriality. The time has now come to scrutinize more keenly and more carefully the huge appropriations being made for war purposes of the more than three hundred billions already authorized by Congress, only one-third has actually been spent. If it should be found that only 10 percent of the total appropriations were unnecessary, a savings of thirty-three billions could be made. After the last World War it was found that a considerable portion of the funds appropriated had actually been wasted, and there is no reason to believe that the present war will be no exception. The congressional economy committee, headed by Senator Byrd, which is largely responsible for the economies in Federal spending already effected, has accomplished much in this respect without in any way interfering with the war effort. To the extent that economies in military spending are contemplated, the task of financing the war is simplified.

Mr. ROWE: Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Ohio.

Mr. ROWE: I notice in today's paper that Under Secretary of War Patterson makes the statement that where military affairs are concerned they do not consider the cost in connection with the Canal project for oil up in Canada. That \$17,000,000 is a part of the \$13,000,000,000 which the gentleman referred, that it is returned or that will not be used?

Mr. REED of New York. As I understand, the \$13,000,000,000 up to this time perhaps cannot be construed strictly and literally as a saving, because it is still

there to be spent or distributed around to the different departments to spend as they see fit. What the Congress could do, if that be true, is to pass a resolution that the \$13,000,000,000 and any other money the departments save or fail to spend, or that is unnecessary for the prosecution of the war, should be turned back to the Treasury, and then if they need any of that money later, they should come before the Congress or the proper committee of Congress and make their case, and another appropriation can be made to take care of it.

Mr. ROWE: Do I understand now, that the \$13,000,000,000 of formerly committed dollars is now reserve dollars?

Mr. REED of New York. Yes.

Mr. ROWE: I note further in today's paper that the Secretary of the Treasury proposes a \$10,000,000,000 post-war bank. Is there anything in this tax bill being considered today in the way of funds to be contributed in that direction?

Mr. REED of New York. No; there is nothing that has anything to do with that. We will hear all about that later in the session.

Mr. CASE: Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from South Dakota.

Mr. CASE: In regard to the \$13,000,000,000 War Department budget officer, General Richards, was prepared to say to us when we had our hearing on this matter that they would set over to the Budget Bureau approximately \$10,000,000,000 that would be in a budget reserve, to be drawn only by permission of the Budget Bureau.

In the hearings we conducted that week for some 3 days we went into the total field of expenditures further, and as a result of that they agreed to set over to the budget reserve an additional \$2,300,000,000. However, some of us were not satisfied that that should stay exactly in the status of a budget reserve without being control of it by Congress, so we contacted from the budget officer of the War Department and the several heads of the branches of the War Department who appeared before us the explicit statement—and it is a part of the record testimony of a subcommittee. That none of the \$13,000,000,000 will be removed from the Budget reserve by any amount without coming to the War Department subcommittee of the Committee on Appropriations and also getting the sanction of that committee.

I may say that that was a concession that was won by the committee on the express statement made in the committee that without some such reservation some of us would feel obligated to introduce of very type of resolution the gentleman from New York suggests. It will be understood, of course, that appropriations expire June 30, 1944, and the unspent funds automatically revert to the Treasury.

Mr. MICHENER: Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Michigan.

Mr. MICHENER: I do not believe the statement made by the gentleman from South Dakota justifies an affirmative

action on the part of the Congress. It is possibilities, not probabilities, that should be taken care of by law by Congress.

Mr. REED of New York. I consider 100 percent with the gentleman from Michigan for this reason: I believe that every dollar that is spent by this Government should be first appropriated and approved by this Congress.

Mr. MICHENER: If that money was not used for the purpose for which it was appropriated by the Congress, then it is entirely wrong to have that money transferred to the control of the Budget Bureau or any other bureau to be used if and when some individual in the department might see fit to use it. If the money has not been expended for the purposes for which it was appropriated then it should revert to the Treasury.

Mr. REED of New York. The gentleman is absolutely right.

Mr. CASE: I think this is a matter that does concern the Congress and that a frank statement on it should be made. I happened to raise in the committee the same question the gentleman from New York asked, whether or not the committee should not take action to have that money revert to the Treasury. There was some support for it. I felt that way about it myself. However, the plea to come back to the committee was not made merely as a matter of testimony, a matter of record, that before any part of that \$13,000,000,000 will be spent the Committee on Appropriations will be consulted. The budget officer of the War Department, General Richards, Secretary Patterson, and General McNarney, the Assistant Chief of Staff, all gave their solemn testimony that that money would not be expended without coming before the Committee on Appropriations and asking for it again.

Mr. MICHENER: If that is true, the proper way to do it would be to have action by Congress rather than to accept the promise of Department representatives to a subcommittee.

Mr. REED of New York. Absolutely, and not only in writing but make it a resolution of Congress.

Mr. CASE: It is in writing as a matter of record before the committee. Although much of the testimony before us was of a military nature and of the record, this matter is a part of the record.

Mr. REED of New York. I do not care anything about the testimony.

Mr. CASE: Further, there are some items in that \$13,000,000,000 which it might be important to have available relating to the reduction in certain provisions which are related to military attractions. If we had insisted upon getting that resolution, if I and one or two others who supported me in the matter had insisted on getting the resolution, we would not have been able to have impounded as much as \$13,000,000,000.

Mr. REED of New York. Congress may impound whatever portion of the \$13,000,000,000 it desires.

Mr. MICHENER: Would it not be better to impound it and know what we

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have impounded rather than to transfer to some agency or bureau \$13,000,000,000 to be used if, when, and how the bureau might see fit.

Mr. CASE. It is impounded. It is not left to the Budget Bureau alone. Mr. MITCHENER. It is not impounded by law, yet Congress has apparently lost control over it. That is what I am concerned about.

Mr. CASE. The Congress, through the Appropriations Committee, has reserved control of \$13,000,000,000 over which it did not have control.

Mr. MITCHENER. The Appropriations Committee has no authority to re-allocate any of the money. At most it can leave only a promise.

Miss SIMMER of Illinois. Mr. Chairman, will the gentleman yield?

Mr. REED of New York. I yield to the gentleman from Illinois.

Miss SIMMER of Illinois. I notice here that the individual income tax increases are to be in \$104,000,000.

Mr. REED of New York. The reason for the increase is that the normal tax had to be increased to implement what we now know as the Victory tax. It does pick up a little revenue, but it is very slight.

Miss SIMMER of Illinois. It seems to me you are using a very serious thing here for two reasons. First, we passed a bill yesterday which scarcely enough votes to override a veto—and we may not have enough votes to override it when it comes back—a bill to give \$1,000,000,000 worth of subsidies chiefly for the purpose of subsidizing the consumer grocery bills of the white-collar class, which is the very class you attack. Here you are in a war situation where you need this managerial and white-collar class. You might to keep up their salaries. And you bring in this decrease. It seems to me that is entirely inconsistent with the idea of profit and the means of getting things done.

Mr. REED of New York. When you look at the whole picture in order to get rid of this very objectionable Victory tax it had to be worked out on a mathematical basis. It does bring in a little revenue, but it is not of great consequence to the general run of taxpayers. In view of the \$6,500,000,000 which the Treasury might put on individuals.

Miss SIMMER of Illinois. Do you mean to say that increases make no difference to you personally, but will just replace the Victory tax?

Mr. REED of New York. That is true. Just to replace the Victory tax.

Mr. CARLSON of Kansas. Will the gentleman yield?

Mr. REED of New York. I yield for a question.

Mr. CARLSON of Kansas. We did repeal the earned-income credit, which we did to simplify the tax system, and that does increase taxes somewhat. And also we removed the deduction from taxes and excises from personal income. That is where we picked it up.

Mr. REED of New York. To answer the lady from Illinois a little further, you must recall the President wanted to increase individual income taxes five times

that amount. He wanted, as I have said, to put on \$6,500,000,000 additional to the tax load of individuals, which would have hit the white-collar people. When Mr. Keenan, of the Federal Reserve, appeared before our committee his proposal was \$16,000,000,000 increase in taxes. We are now showing a retrenchment of \$13,000,000,000, provided it can be returned to the general fund of the Treasury. How many more billions of dollars the spendthrifts are pouring into rat holes right now is to be ascertained by future investigation.

Mr. HINSHAW. Will the gentleman yield?

Mr. REED of New York. Yes.

Mr. HINSHAW. I would like to know from the gentleman from South Dakota (Mr. CASE) whether or not the Army came in voluntarily and disgorged the \$13,000,000,000 or whether it was dragged out of them.

Mr. CASE. The war credit for the service should go to the boys in Africa and Italy, in Alaska and Australia who have made these arduous voyages. The credit for the purchase of the savings should probably be divided between the War Department, the budget officer of the General Staff, Brigadier General Richards, and the committee. The War Department came in in response to a letter which the chairman of the committee wrote for the committee last summer shortly after the recess. The letter was predicated upon the reduction in the armed forces. As the gentleman knows, at the time the War Department appropriation bill was prepared last May, it was planned to have an army of 8,200,000 men at the end of the fiscal year. Subsequently plans were curtailed so that we currently plan an army of 7,700,000 men. That reduction of 500,000 men automatically suggested to the committee and to the chairman of the committee the possibility of some saving, not merely in the pay of these soldiers, but in the equipment and material that would be provided for them. That particular phase was responsible for about \$2,500,000,000 in the money that is reappropriated. That, however, is a further investigation of the appropriations made last June on the basis of the changed military situation at sea with the conquering of the Galapagos and at least a reduction of their effectiveness, with the result that when the War Department made its report to us a week ago they proposed impounding \$12,000,000,000. That was increased by \$2,700,000,000 to a total of \$14,700,000,000 as a result of the hearings the committee conducted last week.

Mr. HINSHAW. Does not the gentleman think the War Department is to be complimented for bringing in that money?

Mr. CASE. Yes; I do.

Mr. MONRONEY. Will the gentleman yield?

Mr. REED of New York. I yield.

Mr. MONRONEY. The gentleman from New York is one of the most distinguished and scholarly members on the minority side of the Ways and Means Committee.

Mr. REED of New York. I will have to plead not guilty, sir.

Mr. MONRONEY. I would like to ask him if when this tax bill which we are passing without prolonged debate today, having a freeze on the Senate, should they raised in there, will we be forced to vote for that in a conference report? I would like to see what the sentiment is in the Ways and Means Committee.

Mr. REED of New York. I cannot express the sentiment of the Ways and Means Committee as I have not the opportunity of divination to know what the Senate Committee may do. I understand that some of the most distinguished men in the other body are in favor, of course, of freezing the tax where it is, and whether that will attempt to put it in this bill I do not know. I wish I could inform the gentleman. I can speak only for myself, as far as I am concerned, but from all the evidence I have been able to examine as to the amount of revenue that has been laid up and the necessity to accomplish that function at this time, there is no reason for building up a larger reserve. All it does is to print bonds and to put them in a box and go out and spend the money. I think it is better to leave the money in the banks.

Mr. MONRONEY. The gentleman does not mean we should be given a question of this great import as a conference report to study, does he?

Mr. REED of New York. As I say, I cannot speak for the majority of the Ways and Means Committee. I do not want to attempt to speak for its majority on that question. Just what the situation might be at the time, whether it is necessary to do it or bring it in, I do not know. I do not like to see a tax bill muddled with a big question of that character. I am not in control of it.

Mr. MONRONEY. It seems to me that would be very bad legislative procedure. That would not give the House a chance to express its true views on this and legislate as we should on a matter of that importance.

Mr. REED of New York. It would be the first time that another matter is attached to a tax bill.

Mr. ELLSWORTH. Will the gentleman yield?

Mr. REED of New York. Yes.

Mr. ELLSWORTH. I would like, before this bill passes, to make inquiry regarding the 2 percent tax on freight transportation. I come from the far West and that tax bears on a percentage basis rather than a unit basis as is the case with the other taxes. That is perfectly natural. I am not criticizing anybody for it, but I have yet to find anybody who is truly fond of taxes. If you had sat day after day listening to people who appeared before us—fine, splendid, patriotic people, some representing corporations and some party-whips and some individuals—I think if you had examined the testimony you would find nearly every instance, each and every one came before us and they said, "We know you must have money and we are in

need of taxes. We feel, however, that we are taxed for all that we can afford to pay." Now, as a matter of fact, concerning the demand of the new department for \$10,000,000,000 and another department for \$12,000,000,000 and another one for \$10,000,000,000, I think that after all the people must realize that this is a rather modest demand, even with its transportation tax. I would like, in the course, to see many items in the tax bill removed.

Mr. ELLSWORTH. Possibly I should explain my comment. The objection that I hold, and I think the one that is held by the people out there, is not an objection to paying a tax but it is an objection to the basis on which the tax is levied. Take, for example, lumber; the 2 percent tax on the lumber which amounts to an average of about 13 cents per thousand feet. The lumber freight tax from competitive areas is much less. Freight tax should be on a unit basis—not percentage.

Mr. REED of New York. I can see your point and I do not blame you for raising it.

Mr. ELLSWORTH. I just wanted to make it clear that it is not the amount of the tax. That is not the point involved.

Mr. REED of New York. I understand.

The CHAIRMAN. The time of the gentleman from New York (Mr. RAZAL) has expired.

Mr. KNUTSON. Mr. Chairman, I yield such time as he may desire to the gentleman from Michigan (Mr. WOODRUFF).

Mr. WOODRUFF of Michigan. Mr. Chairman, the Ways and Means Committee, because of its refusal to provide additional revenue of ten and a half billion of dollars in the bill we have before us, has been editorially castigated by certain editors of the metropolitan press. Ordinarily, editors of such publications are well informed and their opinions are worthy of consideration by the public. However, in this instance, the ones to whom I refer apparently are yielding to the importunities of the Secretary of the Treasury and other members of the administration, and doing so without knowledge of many facts which this administration is concealing from the public, and which cannot be justified upon any grounds whatsoever. I believe it is almost unanimously agreed that when our soldiers and sailors are fighting on battle fronts all over the world, when we are also providing money, food, and all types of military supplies to our allies, that every expenditure of the Government should be closely and critically examined by the Congress, and that appropriations should be provided only for those things which are directly needed to bring victory to our arms at the earliest possible moment.

I think we all have been hearing stories coming from Central and South American republics, as well as other parts of the world, to the effect that those countries are being overrun with agents of this Government who are committing our people to expenditures of money to an extent that will shock the people of this country when the facts are known.

Confirmation of this statement can be had if the Appropriations Committee will force from the proper officials a detailed account of what these agents of the Government are doing in those countries, and to what they are committing the taxpayers of this Nation.

Mr. Chairman, the Congress approved the original Lend-Lease Act. It has since revised the act for an additional 7 years. This law gives to the President of the United States the authority to spend the billions provided under the law in any way he sees fit, in his opinion, such expenditure will contribute to our national defense. This is the only restriction placed upon the Chief Executive in this regard. Certainly when Congress approved the legislation and the more than \$70,000,000,000 which have been either directly appropriated, allocated to the lend-lease fund through Executive order, or expended for ships and arms which have been contributed or made available to our allies and other nations, it naturally expected that the President would make expenditures from this fund only for purposes which would directly and substantially contribute to the winning of this war. I believe neither the Congress nor the country would have given any measure of approval to this act if it had been known that the money which we must borrow on the credit of the taxpayers for this purpose, and which the taxpayers must eventually dig down in their pockets to pay, whether with the interest thereon, until those debts are finally retired, and no informed person, whether a Member of Congress or private citizen, can believe we can retire in the next four generations the enormous debt we have piled on our people—if they had had the slightest suspicion that this Government would establish W. P. A. projects and other "boondoggling" activities all over Central and South America, and probably all over other sections of the world.

How many Members of this House, for instance, know that we are now committed to spending in the next 3 years in Central and South American republics \$4,000,000,000 for every imaginable thing, not one of which will in the slightest degree contribute to the early success of our arms and bring peace to this world? How many Members of the House know that the national budgets of 20 Central and South American countries in 1941 totaled only \$1,075,000,000? One Latin American editor said, "36,000,000,000. There are 120,000,000 people in Latin America. That is \$50 apiece. If our friendship were actually for sale, \$50 friendship would not be enough, but if we would sell what we have set up in Latin America, W. P. A.'s, N. Y. A.'s, and P. E. A.'s, and the spending of this six billions is in the hands of a number of agencies of the United States Government. It is understood there are more than 15,000 projects of different types. For example, this money is being spent to stock the streams and lakes of Venezuela with game fish. Right now there is a fishery mission in Mexico. We paid for a fish survey in the ocean adjacent to Panama. We are financing the preparation of a handbook

of South American Indians. Also, a Guide to Official Publications of Latin America, a Law Guide, and Central American Legal Studies. We are paying for a survey of collections of Latin American music. The reward is replete with things of this sort.

Mr. Chairman, I am indebted to the distinguished Senator from Nebraska, the Honorable HENRY BURTON, for the things I am discussing.

Mr. CURTIS. Mr. Chairman, will the gentleman yield?

Mr. WOODRUFF of Michigan. I yield.

Mr. CURTIS. I think it should be mentioned that the Senator will file a very lengthy and detailed report in the Senate in a day or two, and the entire expense of this trip covering some 20,000 miles, did not cost the taxpayers anything, and was undertaken by the Senator individually.

Mr. WOODRUFF of Michigan. I am very happy to have that inserted into my remarks. I hope every Member of the House and certainly every Member of the Senate will carefully scrutinize the report that the Senator will file with the Senate. I am sure we will all find it highly enlightening.

This splendid public official traveled 20,000 miles in the countries to the south of us and while there gathered information which should be in the possession of every citizen of the United States. In an article in the December issue of the Reader's Digest, the Senator has disclosed the shocking conditions existing in those countries and the fantastic lengths to which the administration would go in taxing our people and spending their hard-earned money.

To those who criticize the Ways and Means Committee for refusing to pile upon the already overburdened taxpayers of this country an additional \$10,500,000,000 at this time, while things such as I have mentioned, together with all the other things which Senator Burton has described, as well as the probable similar activities the administration is engaging in all over the world, I commend a careful reading of the splendid article by the distinguished gentleman from Nebraska.

Certainly, Mr. Chairman, something should be done about such fantastic expenditures.

Mr. CURTIS. Will the gentleman yield further?

Mr. WOODRUFF of Michigan. I yield.

Mr. CURTIS. That article is in the CONGRESSIONAL RECORD today.

Mr. WOODRUFF of Michigan. I thank the gentleman.

Certainly Congress should promptly amend the Lend-Lease Act and take from the President the power he now has which he is so shamefully abusing, and place that power in the hands of some agency not as profuse in spending the taxpayers' money as the President has proved himself to be. I commend my remarks and Senator Burton's splendid article to the Foreign Affairs Committee of this House, and appeal to that committee to report an amendment to the act which will accomplish this. Further, I commend to the Appropria-



in the Ways and Means Committee until this year. This is a legislative matter that did not originate in the House. The Senate added an amendment onto a House bill. The central idea in the renegotiation law was first furnished by a Member of the House, and the idea was then taken up in the Senate and an amendment was added to House legislation. It was the gentleman representing a Midwestern State who first proposed the idea. I refer to the gentleman from South Dakota (Mr. Cass). He is the real author. He is the man who furnished the first germ of thought out of which this program has grown. Since this matter has never been adequately discussed in this House it is unfortunate that we must crowd it so fast today. What do we mean by renegotiation of contracts?

We mean that in 1943 Congress enacted legislation that provides that in cases where the Government has made a contract for the production of materials or food which the Government needed to carry on the war that in case there was excessive profits relating to the contractor or subcontractor the Government could renegotiate such contracts with the purpose of dissipating some of these excessive profits. We are all in favor of preventing big millionaires, but we must take these profits heavily and according to the Constitution.

Here is a provision of the law that has been the base of much confusion and I think much unjust and illegal actions. Give attention as I read:

(b) This subsection (b) shall be applicable to all contracts and subcontracts hereinafter made and to all contracts and subcontracts heretofore made, whether or not such contracts or subcontracts contain a renegotiation or readjustment clause, unless (1) such payment agreement was made prior to August 28, 1942.

Those who sought to enforce the renegotiation law proceeded to renegotiate contracts which contained no renegotiation clauses and contracts on which the rights of the parties had all been established before the renegotiation law was passed. They sought to violate contracts duly entered into before the law under which they were let up as a board or group to do renegotiation. I maintain that this was unconstitutional and absolutely unjustifiable.

Why do we need another renegotiation law? We have this law of last year. I will tell you why we need it. Because it has been administered so shamefully, it has been little short of a national disgrace the way the law has been administered. To what do I allude, you ask? What did they do to carry out such a castigation from me? For 1943 you says, before our committee. Fine. American citizens from all over the Nation, contractors and businessmen, came in and poured out before us their complaints against the arrogance and the tyranny of these individuals who sought to carry on these renegotiations. Out of that has come this new proposal. We here propose to amend the law of last year. This bill before you is far from perfect, it is not nearly as good as I would like to have it, but it is the best we can do under the circumstances. In it are some provisions

which I should like to have seen omitted. And there were some provisions that I thought would have strengthened the bill greatly that I and others who agreed with me were not able to have included.

If anybody should ask you what is the main fault with this bill I think you should say to them that the main fault is that it still gives too much discretionary power to those who are to carry on the renegotiations. We attempted many times to write into this bill strong and unambiguous language that would carry on these renegotiations but we were thwarted and checkmated by those who had brought down upon their heads the anathemas of so many sorely aggrieved Americans who had been unjustly imposed upon. I am not defending any dining contractor who might have been defrauding the Government. I think such men should be made to disgorge and should be punished criminally if possible. I am only interested in seeing a man who contracted openly with the Government be governed or treated openly by the renegotiation.

Now let us see what we propose to do by way of amending this law under which so much injustice has been done. In the first place we establish a cut-off date beyond which this renegotiation business cannot run. These fellows cannot run on forever. This bill under consideration provides that no renegotiation shall be had on contracts entered into after the end of the war.

Another provision of this bill tends to curb the activities of these energetic gentlemen. I refer to the provision which raises the limit from \$100,000 to \$500,000. This will permit some of the little fellows to escape. It will let most of the little contractors out. Although the department which first indicated their approval of this change I understand that they now see that some will escape their clutches and wish this provision were omitted. Personally I was not strong for this change for I feel that anyone who has been unjustly enriched should pay up regardless of whether the amount of his contract was \$100,000 or \$500,000. I support this change because I feel it is best to play safe against those who have shown a disposition to be unfair.

One of the most salutary provisions of this new bill is that provision which sets up a fair court review. Else your life, when these so-called renegotiators went into a contractor's office and said they were going to negotiate, about all that would do would be to find out what the businessman's bankbook showed and then they proceeded to demand about all he had. Evidence before our committee and information that has come to us individually will convince any fair-minded man that threats open and covert were made in many cases and that many men paid out millions of dollars without knowing how the renegotiators based their demands. Under the old law the contractor had no relief. He had no recourse and when he asked for a bill of particulars as to why he was being required to pay a large sum of money, he was told that he had better pay and pay

quick else his money would be withheld and he would get no more contracts. And when he asked to be permitted to take his case up with Washington he was admonished that he would be far worse than those who came to Washington first and that he would be quietly submitted to the tactics of those who are officers of the law.

That is about the way they dominated people. It was a national disgrace. I do not make this statement as a partisan Republican. I know that many, if not all, of the members of the Ways and Means Committee on both sides were with me. I have heard many of them express themselves. I want to give credit to them and to others who were able to come right out in their own words and American citizenship to assist themselves and say, "This thing must stop. Now we are trying to stop it. To this end we provide a court review. Most of those who complained were anxious for a court review of some kind. What we provide in this bill is not perfect but it is a great step in the right direction. We provide that a central board of its members be set up. The members are to be selected from the departments of the Government which enter into these contracts. I preferred that they be civilians from among businessmen and that they be appointed by the President. But it was thought best since this was to be a temporary board that it be constituted out of the board as now set up. I hope that some of those on the present board will be reappointed. They should be cleared out. This bill provides that the board set up rules of procedure so that the public may know what to expect. The board should do this at once and notify every contractor of his rights under these renegotiation provisions. If this is done contractors may then know their own rights and will know that they are not bound by the inspectors who come to see them. This board will also be charged under this law with the duty of hearing aggrieved contractors who are not satisfied with the decision of the inspectors. This board is expected to deal justly and is supposed to know that Congress expects that the stenographer proceedings of the past may not be carried on in the future. This board has a great opportunity to release itself. A strong board imbued with a sense of fairness could carry this work on to the satisfaction of the contractors and to the financial benefit of the Government. If they clean house and convince the contractors and the public that they want to be fair most all of these renegotiation matters will be disposed of them and no further appeal will be made by the contractors.

For fear that the Board will not take the fair and conciliatory attitude that the law requires, the committee has provided in this bill that the aggrieved party may carry his case to the Court of Tax Appeals for a review. This court will then hear the matter de novo, as the lawyers would say. That means the fact question would hear it all over from the beginning.

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To summarize, the contractor can go to the Board to review the findings of the inspectors, and he can go to the tax court if he is not satisfied with the Board's decision. Let me say to you that already the investigators and the Board have awakened to the situation and there has been a decided improvement in their attitude toward the performance of their duties in a courteous and just manner.

There is one feature of this bill that my good friend the gentleman from Oklahoma (Mr. Downer) touched lightly. This is a very important matter. I think that he and I agree on it completely. I refer again to the matter of the unconstitutionality of the retroactive features of the present law. As I have heretofore stated the present law went into effect on the 28th of April 1942. The Supreme Court has repeatedly held that contracts create property rights that cannot be destroyed by retroactive provisions of laws subsequently passed. The fifth amendment of the Constitution provides that property cannot be taken except by due process of law. What is due process of law is not yet in this country properly determined by bureaucrats. This is strictly a judicial function and it is for the courts to determine and I know that Vice President Curtis act as though they view the Supreme Court, but I think this Court will uphold such a long line of judicial decisions that have been handed down on this question.

Personally, I should like to see this bill cut off with April 28, 1943. But what law these renegotiation authorities done. They have taken millions and millions of dollars out of people illegally and unconstitutionally. Some of those whom I think are among the chief perpetrators sat before us in our committee and acknowledged that they might have done an. They have taken millions and millions of dollars from contractors. Some by renegotiation and some by agreement. This raises a serious question. Shall we speak up boldly and counsel restitution because of the question of constitutionality or shall we give to the aggrieved parties the right to appeal. If we would take the course that right and justice would dictate we would encourage all those who have been renegotiated to demand refund. But since many of these have signed permanent settlements probably the best policy would be to side-step the constitutional question and permit all these contractors to appeal their cases if they wish to do so. That would include those who have settled and paid as well as those who have not settled or been renegotiated. Someone might say "That man ought to stick to his agreement." I say "No." He ought not to be compelled to stick to his agreement, because he had no chance to know his rights and because over here in his neighborhood with the same kind of a contract who has not yet been renegotiated. That neighbor is going to get the benefit of the provisions of this new law. The other man should have the same chance. I say to you that that man who was renegotiated, figuratively at the point of a gun, ought to have his day of freedom, his day in court, and his

ought to be permitted to take advantage of this law if he wants to do so.

Mr. ORANT of Indiana. Mr. Chairman, will the gentleman yield?

Mr. JENKINS. I yield to the gentleman from Indiana.

Mr. ORANT of Indiana. With reference to the right of appeal de novo to the Court of Tax Appeals, I commend the subcommittee for writing that provision into the bill; but on the further matter of which the gentleman speaks, to me the gravest omission in the bill as presented to the House is the failure to say in no uncertain terms that the bill shall not apply to contracts that were made and the goods delivered under it before April 28, 1942, because the gentleman, who is an able and distinguished lawyer, has just said that it is plainly unconstitutional as to those cases. Some of these days somebody is going into court and this whole thing is going to be declared unconstitutional, without a separation of that part before the effective date of the law, and chaos and confusion will follow.

Mr. JENKINS. I agree absolutely with what the gentleman says. Arrogance and tyranny carried on by bureaucrats under the guise of patriotism is not safe and not for the best interests of the country.

The CHAIRMAN. The time of the gentleman from Ohio has expired.

Mr. JENKINS asked and was given permission to revise and extend his remarks in the Record.

Mr. DOUGHTON. Mr. Chairman, I yield 10 minutes to the distinguished gentleman from Georgia (Mr. Vinson).

Mr. VINSON of Georgia asked and was given permission to revise and extend his remarks in the Record.

Mr. VIDSON of Georgia. Mr. Chairman, I want to take this opportunity to pay tribute to the distinguished chairman of the Ways and Means Committee, our beloved friend the gentleman from North Carolina (Mr. Downer), and to every member of that great committee, for their fair and intelligent approach to the important question of renegotiation in the equitable manner in which it has been handled, from the standpoint of both the Government and the contractor.

The great chairman and his able committee are entitled to the thanks of the House for having presented to us a great-ly improved statute dealing with renegotiation. Conflicting views were reconciled. They have done a good job under most difficult circumstances, and a careful analysis of the bill will readily cause anyone who studies it to conclude that it protects the Government and at the same time is fair to the contractor.

The Committee on Naval Affairs, as the Ways and Means Committee has generously noted in its report, has been concerned for many years with the problem of controlling profits on war contracts. This concern led to a series of public hearings, which disclosed huge war profits already being made on war contracts only a few months after Pearl Harbor, and finally resulted in Congress enacting the renegotiation law in an effort to control such profits. From the

very first there has been much discussion as to the manner in which the renegotiation law was being administered by the department, and there has been pressure for its repeal.

The interest which the Committee on Naval Affairs has always had in the expanding procurement program of the Navy, and the responsibility which we have necessarily assumed for that program, naturally caused us to be aware of these discussions and this pressure. We concluded that the questions which had arisen were so grave as to require an investigation by an interdepartmental committee by the Navy Department and the other departments which were given responsibility for the operation of the law. We made a careful study of this, and held lengthy hearings, at which representatives of the Navy Department and of the other agencies, as well as a cross section of business, testified. Subsequently, the committee filed a report with the House, in which all of the questions which had been raised were thoroughly explored. The committee print of this report was made available to the members of the Ways and Means Committee prior to the time that that committee's hearings on the same subject began.

The Ways and Means Committee, in the report which is now before the House, came to three general conclusions with respect to renegotiation. It concluded, first, that the law should be continued, with amendments, until the termination of hostilities. With this our committee is in agreement. After a thorough examination of the question, we came to the conclusion that renegotiation plays an important part in the obtaining of the necessary articles of war at fair prices to the public; its repeal would be unthinkable for the duration of the war.

Second, the Ways and Means Committee concluded that there is just ground for complaint about the existing law and its administration, particularly as applied to the small contractor. As one of the amendments designed to relieve the cause of such complaint, the Ways and Means Committee has recommended that from renegotiation contractors whose annual renegotiable sales do not exceed \$50,000. We, too, felt that some hardship cases had occurred, but we felt that a renunciation of them could be prevented by a more extensive use by the department of their powers under the law to exempt by administrative action contractors which were not susceptible of traces which were not by statutory exemption of the Ways and Means Committee was disapproved by a majority of the Naval Affairs Committee. I feel that it should be accepted in the interests of harmony. While it is not exactly what we favored, its purpose is good and it would be effective in preventing hardship to smaller contractors.

The minority report of the Ways and Means Committee goes much further, however, in its findings as to the hardships imposed on contractors by renegotiation than do the majority reports of

either the Naval Affairs Committee or the Ways and Means Committee, or, in fact, than the minority report of the committee. The minority report of the Ways and Means Committee is as follows:

The testimony before both committees is replete with instances where those administering the regulations law have been arrogant, high-handed, and even tyrannical in dealing with contractors and subcontractors. This powers given them have, in a number of instances, been abused. They have discriminated as between different contractors, allowing one a greater percentage than another under the same or similar circumstances. Also they have used direct and indirect means, in order to secure the submission of contracts and subcontractors to their findings. In many of their decisions by the courts law has been permitted. Certain numbers of contractors have been harassed, and their work interfered with, by having to go through the regulations process only to be given a decision in the negative, at considerable expense to themselves.

I am not as familiar with the record before the Ways and Means Committee as perhaps I should be. I am familiar, however, with the whole record of the testimony before the Naval Affairs Committee. When the minority report of the Ways and Means Committee says that the record of our committee is replete with testimony of the character indicated, it is entirely contrary to the facts. Members of our committee made a point of inquiring of witnesses who appeared as to the manner in which they had been treated by the administrators. Without exception the witnesses who came before us testified as to the fair and equitable manner in which the members of the Price Adjustment Boards had dealt with them, and praised them for the competent and fair manner in which they performed a difficult assignment.

Our finding of fact as to the fairness and competence of the Boards was unanimous, and our record bears no evidence upon which the statement in the minority report of the Ways and Means Committee can be based.

But to there any valid basis for the statement in that minority report that the Boards did not permit review of their decisions by the courts. If there has been any limitation on the right to appeal to the courts, that limitation has been found in the statute itself, and not in the activities of the departments. For the very reason that the present law is set clear as to the existence of a right of appeal to the courts, both the Ways and Means Committee and our committee have recommended the insertion of a provision in the law specifically conferring the right of appeal. We only differ as to the kind of an appeal that should be allowed. The Ways and Means Committee has recommended that review of the Board's decisions shall lie in a de novo proceeding before the Tax Court. While I am of the opinion that an entirely new forum by the Tax Court, after the Board has already tried the case and handed down its decision, is wasteful of both public funds and manpower, the important thing is to assure some form of judicial review of the departmental decision. So long as judicial review of some sort is provided for, I am not disposed to quarrel over the form

that that review will take. Accordingly, I urge that the Ways and Means Committee's recommendation in this respect be adopted.

The report of the Ways and Means Committee, in its third general conclusion, recommended that certain changes in the law should be made to make it more workable and equitable. Thus it recommends an amendment requiring the filing by all contractors of financial information with the Board. Our committee also urged such an amendment, finding that it was necessary to the efficient operation of the law.

The report of the Ways and Means Committee, as well as our report, concluded that it was only equitable that the contractor should be informed as to the facts upon which the determination of excessive profits is made, and of the reasons why the Board came to the conclusion that it did. The proposed bill would require the Board, upon the request of the contractor, to furnish such a statement to him. The absence of such a requirement was one of the principal defects in the original law, and I think it important that this defect be cured now by the prompt adoption of this recommendation.

Under the old law, there was no fixed time within which the departments were required to send a certification proceeding once it had been begun. It could drag on indefinitely. This seemed to us unfair, and we recommended that some limitation be placed in the law. The Ways and Means Committee has proposed that the Board be required to bring a renegotiation proceeding to a conclusion within 1 year after its beginning. This is an excellent amendment and should be adopted.

Another defect in the old law was that excessive profits were defined as excessive profits. No standards were placed in the law which the departments were required to follow in the determination of what were excessive profits. Our committee felt that it was essential that such a standard be written into the law, and on this point the Ways and Means Committee concurred. The standards which have been proposed in the bill now before the House are, in the language of the bill itself, similar to those which I proposed in the bill which I introduced. They were designed to lay down definite standards for the Board to follow, and yet to give the administrators a certain amount of needed flexibility in the operation of the law. While I agree with the bill itself, I am somewhat disturbed by language in the committee report, wherein it is said that—

"Our committee believes that in computing excessive profits consideration should be given to the financial problems in connection with reconstruction in applying Justice (c)."

The evidence before our committee indicated very clearly that the problems of post-war reconversion, through very slow and requiring prompt action by Congress, were not susceptible of solution through renegotiation. I am afraid, therefore, that the language in the committee report may furnish some basis for construction by the courts of an intent on

the part of Congress to make allowances for post-war reconversion in renegotiation. As one Member of the House, I do not intend my vote to indicate that I allowances for post-war reconversion are to be provided through renegotiation, then it should be done by direct legislation in the bill, and not by the committee report. Apart from this one qualification, I favor the adoption of the standards laid down in the committee's bill.

The Ways and Means Committee has also recommended that the function of renegotiation should be centralized in one new board, rather than in the departments themselves. Our committee, in considering the problem, recognized the desirability of having a uniformity of approach on the part of all engaged in renegotiation. We felt that this already had been attained by the voluntary and informal coordination which the departments engaged in renegotiation had achieved. It was our thought that the creation of a formal joint board would do no more than formalize an arrangement which already existed. I see no real objection to the creation by legislation of such a board, since one already exists by the voluntary action of the departments. And since the board to be composed of persons selected by the heads of the procurement agencies to whom the board's powers of renegotiation may be delegated, the proposed arrangement preserves the close relationship between procurement and renegotiation, which is one of the chief values of renegotiation. Accordingly, that amendment should also be enacted.

The report of the Ways and Means Committee also recommends the adoption of an amendment authorizing the Board to exempt from renegotiation contracts for articles of commercial character where it appears that competitive conditions affecting the price of such articles already exist. This amendment merely spells out in greater detail a power of exemption already enjoyed by the departments. Since it does not require, but merely authorizes, the discretionary exemption of certain contracts in circumstances where fair prices will be obtained without the need of renegotiation, it does no violence to the principle of renegotiation, and should be adopted.

With the principal conclusions and recommendations of the Ways and Means Committee I am in agreement.

Mr. MICHENER. Will the gentleman yield?

Mr. DINGELL of Georgia. I yield.

Mr. MICHENER. The gentleman knows much about this subject. His committee has gone into it extensively. What can you tell the House as to the amount of profits being allowed under Navy war contracts?

Mr. VINSON of Georgia. I can say to the distinguished gentleman from Michigan that we have recently made a complete analysis and an audit of every ship, and by using the word "cost ship" I mean a contract ship that has been delivered to the Navy, that has not been delivered to the Navy. The word that I used before that after renegotiation and before taxes, the prevailing price

made by the shipping industry per ship, such one by its name, has been running somewhere from 2 to 3 percent.

The CHAIRMAN. The time of the gentleman has expired.

Mr. DOUGHTON. I yield 5 minutes to the gentleman from Michigan (Mr. DINGELL).

Mr. DINGELL. Mr. Chairman and members of the committee, I was not going to take very much time in dwelling upon the bill except to say I shall vote for it. Under the circumstances, the bill constitutes the best effort of the committee. It is not my bill; it is not the bill of any individual Member. I do not think it necessarily the majority or the minority bill, I think it is the composite work of the committee, and under the circumstances the best that can be had at the present time. I thought beyond the bill might extend a little beyond the issues which it is expected it will produce, but that was not possible, and my views did not prevail. As a consequence the bill is a little short of what I thought was proper. I advocated, as you recall, saving half and raising half of what the Treasury requested. But here we have a bill of upward of \$2,000,000,000 and I still think, even according to present-day calculations, \$1,900,000,000 is an awful lot of money, especially as when you tack it on to what the taxpayer is expected to contribute already. This is an additional amount and will mean that ultimately the taxpayers of the United States will be called upon to pay \$4,900,000,000 to \$4,700,000,000.

Mr. MICHENER. Will the gentleman yield?

Mr. DINGELL. I yield to the gentleman from Michigan.

Mr. MICHENER. My colleague has suggested that his thought was that we should raise half of the amount asked by the Treasury and save half. I take it, then, my colleague believes there can be saved today in Government expenditures one-half of \$10,500,000,000 a year?

Mr. DINGELL. I think that is correctly stated, provided we get ourselves into the right frame of mind as to what the sources are where this money can be saved. I do not think on the ordinary running expenses of the Government you can save that amount without wiping out all of the running expenses allowed for the conduct of the various agencies. But you can save it, for example, with the Army, with the Navy, and probably in the construction of the harbor and ship. There is an awful lot of wastefulness about it. I think I brought out in the discussion with the Budget Director before the committee, and only recently we find that the Army did disburse \$13,500,000,000 previously appropriated. I hope whatever I might have said at the time the Budget Director ultimately reached the Army and might have had some effect in bringing about this voluntary return of unexpended money. As the gentleman from Michigan (Mr. MICHENER) knows, the Army and the Navy, I believe, have appropriated and have before them, or did have at the time I examined Mr. Smith, the Budget Director, \$200,000,000 appropriated

and allocated and unallocated, or as he stated, committed and uncommitted. That amount at the current rate of expenditure of \$7,000,000,000 per month is to carry the Army and Navy for upward of 26 months. In my estimation that amount of money piled up ahead of the spenders encouraged looseness. It encouraged the purchase of the entire salmon production, so it was stated in the newspapers. It encouraged the purchase of the entire smacksraft pack. It encouraged the expenditure of \$12,000,000 for the Pentagon Building, when we as Congress allowed but \$12,000,000. It encouraged the construction of 27 bridges near the Pentagon Building; the construction of 40 miles of road; the obliteration of one or two lakes in one spot out there and creating a new lake in another spot. It also encouraged the alteration of the entire northwestern section of the State of Virginia in connection with this project, and it encouraged such loose practice as to cause in Michigan recently the sale of \$1,000,000 worth of standard tools which were sold as junk for \$40,000 and then permitted these same people to sell back these standard tools to the Government.

The CHAIRMAN. The time of the gentleman has expired.

Mr. DINGELL. I ask for 5 additional minutes.

Mr. DOUGHTON. I yield 5 additional minutes to the gentleman from Michigan.

Mr. DINGELL. And it permitted these same purchasers of these standard tools to sell them back to the United States Government at new tools. In addition to that it encouraged the sale of a lot of machinery and equipment down in Arkansas as junk or surplus material, when it was not surplus at all. Only recently we see where there is \$100,000,000 expended for an oil pipe line or some thing or other up in Alaska that may or may not be justified. My aim all the way through has been to try to save money that is being loosely spent and that would have nothing to do whatsoever with the war effort.

Mr. MICHENER. I want to congratulate my colleague, the gentleman from Michigan (Mr. DINGELL) on the statement he has just made because he is an outstanding leader in his own party.

Mr. DINGELL. I thank the gentleman.

Mr. MICHENER. If I had made that statement, it might have been charged that it was a partisan statement. But we will all be glad to read the gentleman's statement as it is, because it is man's statement as it is, because it is true and it is fearless, and I am glad we have the cooperation of the distinguished gentleman from Michigan in endeavoring to stop this wasteful and needless expenditure of public money.

Mr. DINGELL. I thank the gentleman.

Mr. MANFIELD of Montana. I would like to ask the distinguished gentleman a question on a particular part of the bill before us for consideration today. I have received a number of communications from small independent motion-picture theater operators in my State, calling my attention to the fact

that the theater tax has been raised 100 percent. Will this tax be paid by the owners of motion-picture houses themselves, or by the people who buy the admission tickets?

Mr. DINGELL. It will be paid by the purchaser of the admission tickets. I might say it was originally proposed at 200 percent, but the committee cut it in two. However, the tax is expected to be paid by the purchaser of the tickets.

Mr. MANFIELD of Montana. Does the committee feel that it is going to increase the revenue considerably?

Mr. DINGELL. We were quite satisfied that that would not reduce the revenue; that there would be no diminishing returns, and that the industry, under the circumstances, could well stand the increase.

Mr. MANFIELD of Montana. I was thinking of the people who pay this tax. Does the gentleman think that this will discourage attendance and bring about less tax receipts from that source?

Mr. DINGELL. I think I answered the gentleman that there will be no decrease in the volume of revenues.

Mr. COOPER. Will the gentleman yield?

Mr. DINGELL. I yield.

Mr. COOPER. My recollection is that the increase in revenue is estimated at about \$103,000,000.

Mr. DINGELL. I thank the gentleman, and I yield now to the gentleman from Arkansas.

Mr. HORNELL. I cannot support any bill that provides exemption for married men with an income in excess of \$2,000 in one amount, and children in excess of \$150, and then have those receiving incomes less than \$2,000 and \$100 exemption of \$750 for a wife and \$100 per child. That provision in the bill?

Mr. DINGELL. I am not going to get technical in my answer to my friend. I will say this to him, that I am in entire accord with him with regard to exemptions. If there is to be any preference shown, I feel exactly as the gentleman feels about married men with children in the lower brackets. The greatest consideration should be given there. However, the committee did the very best it could under the circumstances.

Mr. COOPER. Will the gentleman yield?

Mr. DINGELL. I yield.

Mr. COOPER. As one who has had the privilege and pleasure of serving on the Ways and Means Committee for many years with the distinguished gentleman from Michigan (Mr. DINGELL), I just want to testify to the fact that he has been the leader throughout all the years in insisting upon more generous exemptions for dependents.

Mr. DINGELL. I thank the gentleman for his observation.

Mr. BREED. Mr. Chairman, will the gentleman yield?

Mr. DINGELL. I yield.

Mr. BREED. Can the gentleman tell us what is the maximum income which a person may have and still come under the minimum tax payment, as explained by the gentleman from Ohio (Mr. BREED)?

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Mr. DINGELL. I do not have the report before me, but I think that is pretty clearly covered in the report of the committee.

Mr. MILLS. If the gentleman will turn to pages 18 and 19 of the committee report, that information is set out in detail.

Mr. DINGELL. I thank the gentleman.

The CHAIRMAN. The time of the gentleman from Michigan has again expired.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 3 additional minutes.

Mr. DINGELL. Mr. Chairman, I ask unanimous consent to proceed out of order for this 2 minutes.

The CHAIRMAN. Is there objection? There was no objection.

Mr. DINGELL. Mr. Chairman, in analyzing the action of the House on yesterday which placed the stamp of approval upon devastating and unstrained inflation. I debit from the cold and merciless figures a clear and unambiguous result which places the stamp of infidelity upon the Republican Party of this Nation. The figures do not lie—and they cannot how be expunged from the records.

The so-called sound-money party has gone berserk. It has become the inflationist party, doing everything possible to bring down the value of the American dollar to the low level of the depreciated German mark of the era which followed the last war.

The figures gleaned from the Record show that 178 Republicans voted for inflation and were joined by 58 Democrats and 2 minority party members for a total of 278.

Against this attempt to scuttle the dollar and the wrecking of the Nation Democrats cast 100 votes, while Republicans cast only 18, with minority party casting 2 for a total of 117 votes.

Every Republican in this House except 19 voted for unrestrained devastating inflation, for the total depreciation of the American dollar, for lowering the lid off, and for high prices. By their vote in the House yesterday the Republicans threw to the hungry wolves of inflation more than three-fourths of our population.

In industrial Michigan where the ratio of urban-industrial population is even greater than the rural-agricultural average of the Nation, you can well appreciate the injustice to the consumer. What is the explanation for this deliberate and menacing move? Politics is the answer, catering to the spokesmen for the organized minority farm group. The Republicans must have forgotten their teachings of two years ago about sound money, and that the Nation and Michigan are preponderantly urban-industrial. Throwing the works in the cities is not going to aid the Republican Party—it will cause and destroy it.

This concerted action was not spontaneous—it was prompted by the party. If you believe that you can fool the vast majority of the people by your actions here yesterday, you are mistaken. The inflationist label will show through your party emblem. You will not be able to

obliterate or cover it when talking to your people.

Mr. KRUTSON. Mr. Chairman, I yield 5 minutes to the gentleman from Ohio (Mr. Bolton).

Mr. BOLTON. Mr. Chairman, it is my intention to bring to you one of the provisions of this law—section 104—which deals with personal exemptions and credit for dependents.

On page 16, line 13, of the bill as now presented under "(b) Credits for minimum normal tax, subparagraph (D)" there is this provision. I quote:

Married person living with husband or wife; in the case of a married person living with husband or wife, if a joint return is filed or if one spouse has no gross income, a personal exemption of \$1,200; or if such has a gross income and no joint return is filed, a personal exemption of \$800. If a joint return is filed, the husband and wife shall receive but one personal exemption of \$1,200 in the aggregate.

Again, on page 17, line 18, "Credits for minimum normal tax."

On the face of it it looks innocuous enough, perhaps, but on second reading the thoughtful person immediately sees the implications. Here is the whole matter of mandatory joint returns up again, and so camouflaged that most people fail to connect the section I have just read with the determination of the Treasury to force upon the people this wholly distasteful and unwarrantable tax provision.

Time and time again the Treasury has attempted to bring about the passage of this mandatory joint returns for husbands and wives living together, men and women carrying the responsibility of keeping alive the heart of American life and freedom—the home.

Each time the people of the country have expressed themselves, and each time the Treasury effort has failed. The sentiment of the country has not changed. Indeed it is probable that there is increasing awareness on the part of both men and women of the implications of a law of joint income-tax returns. Women are particularly aware of the dangers lurking in the shadows. They know that it is a deliberate attack upon their individual property ownership rights and of the rights to individual incomes. Men sincerely interested in the security and independence of the women, both within and without their own families, should be equally alert to the situation.

I have said that the Treasury Department has so far failed to impose this procedure upon the people openly, now they resort to new methods—methods that cover their crime purposes with incentive payments.

To put the section of bill into simple language, if a woman protects her individual right to own property and to have an independent income she is penalized. She must pay an income tax of \$600. Her husband, too, if he respects her as a person, must pay more than if both of them agreed to share out so much that women have struggled to obtain and to return her voluntarily, mind you, to the status of chattel.

A \$200 bonus will be given for the voluntary retrogression—this recurrence of services. Oh, no, they do not love to be a joint return, but \$200 is a lot of money these days, particularly when you have children. It may tempt many.

And what about another angle? Can the Treasury do without these many crossed taxes very sorely needed, and that the committee has felt the people were being pretty heavily squeezed. Why should this special amount be permitted when over and over the people have declared themselves against it. Do you people know now? In the Ways and Means Committee itself fully aware of what has been tucked away in the past of this bill.

Let me bring to your attention the procedure of the committee as I understand it.

The committee ruled that no testimony would be taken in open hearings relative to mandatory joint returns. They barred all opponents from expressing their views—it barred all the committee had heard was that the committee had heard all necessary evidence in previous open hearings. These hearings, if I remember correctly, were held in 1942. Since then the membership of the committee has very materially changed. I am inclined to believe that some of the members have read the earlier hearings, and that they would therefore have no considered opinions in the matter. Therefore, Mr. Chairman, open hearings were in order if fairness and justice were to prevail.

On July 17, 1942, after the last attempt to introduce this method of doing away with a part, at least, of private ownership of property I spoke on this floor, let me repeat it because it is still appropriate and relevant even though the open method of that time has given place to considerable camouflage.

I share the conviction of many that the Treasury has no intention of abandoning this mandatory joint tax returns as a measure by which to secure additional tax monies.

We are waging war against a ruthless and relentless enemy. It is not a war like any other war for it is a war to the death in every corner of the globe. Freedom is at stake, gentlemen, I would prefer that we carry the war to the enemy's door and, therefore, are more ready and willing to sacrifice even than men. But sacrifice is very different from acquiescence in a program of retrogression, particularly when the status of the home is involved, and the terms of the mandatory joint returns are such as to put women back a hundred years.

The women of America are being exploited to go into the production lines, they are being enlisted in noncombatant divisions of the Army and of the Navy, all this in addition to their basic responsibility which is to the home and children. It is a strange (perhaps) thing that some upon this present war are crying demands for more money and more. An's expense to attempt time after time to take from them their rights under the law. It is strange, also, to pick out the women of America who are asked, who are to carry the heaviest responsibilities in the future. It is so wrong to-American, the penalties those who voluntarily signed the

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most fundamental institution of our American way of life—the home.

I have an appeal to you in the question, I have to speak frankly to you, not just to the great married women but to the thousands of women throughout the world. It is so far-reaching so that, because women everywhere realize what American means for women here, and if the pressure of opinion makes of thought is permitted to the mandatory joint tax returns provision that being women everywhere will find the burden heavier than they can bear. The matter of enactment would be insupportable.

I am well aware that there are many very charming men who feel women entitled to own property, and to a way, rather recent of opinion of freedom under the law that we have seen. These are splendid allies for they would see the clock back, who are perhaps unaware of the market of this and the manner time and experience have brought about.

Let me therefore remind you that a woman's progress can be measured in a great degree by the status of her women. What is indicated to be the largest owners of property in the United States, is this owner to be made a travesty for those who are successful housewives?

Let women lead ourselves to an action that will take from many a group of women the happiness of being persons under the law in a moment when we must ask of that very group, not only the same good have always given, but the further savings than others to bear children for tomorrow's day.

The women of America are ready to meet national service with as great a courage as men in meeting the military grade. One of giving their men who are their very life but America may save the world. Have no doubt of the woman; they will not let you, but will they let tomorrow's world. But I charge you to keep faith with that same future by refusing to be party to retrogressive action no matter when it may come before you. Let us keep faith with America and its way of life.

The moment has again come. What will you do with it?

The CHAIRMAN. The time of the gentleman from Ohio has expired.

Mr. BOLTON asked and was given permission to retire and extend her own remarks.

Mr. DOWDSON. Mr. Chairman; I yield such time as he may desire to the gentleman from Indiana (Mr. Grant).

Mr. GRANT of Indiana addressed the committee. His remarks will appear hereafter in the Appendix.

Mr. GRANT of Indiana asked and was given permission to retire and extend his own remarks.

Mr. BRUNSON. Mr. Chairman, I yield such time as he may desire to the gentleman from Michigan (Mr. Jankowski).

Mr. JANKOWSKI. Mr. Chairman, it is my understanding that this bill will reduce the area of renegotiation of war contracts as follows:

First, By increasing the existing exemption of \$100,000 to \$500,000.

Second, By exempting agricultural products.

Third, By narrowing the definition of subcontracts to include only those entitled to become a component part of the final production.

Fourth, By exempting all subcontracts under exempt prime contracts and subcontracts.

Fifth, Providing for the discretionary exemption of standard commercial articles, as defined in the bill in cases where competitive conditions have been restored.

Sixth, By establishing a new war contracts price adjustment board of five members representing the Treasury, War and Navy Departments, the Maritime Commission, and the Reconstruction Finance Corporation, in the nature of a board of review. This board will review, on petition of the contractor, decisions of the departmental boards.

From these proposed amendments it is quite evident that the Ways and Means Committee realized that the present Renegotiation Act is not carrying out the will and intent of Congress. I think it may also be said that the committee was and is cognizant of the fact that the misadministration of the law presents a serious menace not only to our form of government, but to our economy. In fact, I have heard members of the committee from both sides of the aisle express great concern as to the ultimate effect of the administration of the act if carried to its logical conclusion on our system of government and our free institutions.

The proposed first four amendments are of minor importance, and while they may bring relief to a certain degree for a very limited number of war contractors, I believe it will be inconceivable that the proposed amendment would provide a remedy for a large class of contractors manufacturing standard commercial articles. However, the fact that this relief is made discretionary with the board presents the same evil inherent in the present set-up—namely, that it imposes a government by men instead of a government by law.

The same vice inheres in the proposed sixth amendment providing for a board of appeals. The appeal thereby provided will be from the individual board which renegotiated the individual contract to a combination of such boards, all and each of whom function as original boards in similar renegotiation of war contracts. Inasmuch as the greatest criticism of these boards is and has been that they are supplanting government by law with government by men in the renegotiation of contracts, it is not natural to assume that an such appeal the war contractor will meet the same fate that was meted out to him by the board of original jurisdiction. Under the very theory of the renegotiation of contracts, these boards must have to act either or they will have separately. I say, therefore, that while in theory they amendments may appear to offer remedial legislation, in essence the same weakness and fallacy still remains. And while the contractor may, by the proposed amendments, gain some relief from the vic of the renegotiation law, in reality he is still the victim of administrative domination from the late dictatorial domination by the very agencies with whom he first entered into contractual relations.

The truth of the foregoing statements is easily proved by a brief analysis of the renegotiation law and the history of its application during the past 18 months.

Renegotiation of certain war contracts was provided for in section 403 of the War Supplemental National Defense Appropriation Act of 1942 in April of that year. It was intended to accomplish a very wholesome objective. This objective was to prevent unconscionable profits and profiteering on war contracts by providing for the renegotiation of those contracts in which excessive profits were being realized or likely to be realized.

The act provides in subsection C—  
The Secretary of each department is authorized and directed, whenever in his opinion excessive profits have been realized or are likely to be realized from any contract with such department or from any subcontract thereunder, (1) to require the contractor or subcontractor to recompute the contract.

In plain words the purpose of the law was to afford a special remedy against fraudulent war profiteers. Its function was to supplant an action in tort or fraud for the recovery of unconscionable and fraudulent profits, which court action in fraud constituted the only remedy for the recovery of such fraudulent profits in World War I. This class of actions had drawn out so indefinitely that one of them at least dragged on for 25 years and was disposed of about the time of the passage of the War Contracts Renegotiation Act. This Renegotiation Act in itself constituted a radical departure from the fundamental principles of constitutional government.

Even Maurice Keenan, Chairman of the War Department Price Adjustment Board, described the renegotiation law as a dangerous and un-American statute. Instead of the war contractor who is suspected of fraud having the opportunity to meet the charge and lose on that charge in the courts, as guaranteed by our Constitution for over a century and a half, the renegotiation law placed the determination of that issue in the hands of those with whom he had made the contract who were the opposite parties to the contract but who were under the law, made the final judge, jury, and executive on that issue and its result.

In other words, it constitutes plain and unvarnished government by men instead of government by law.

Nevertheless the exigencies of the situation caused by the sudden plunge of our Nation into the greatest war in all history, requiring mass production on a scale never contemplated even by our mass producers, perhaps justified under the circumstances of the then existing national emergency. In all cases where the contractor is making an exorbitant profit on war materials, either because fraudulent advantage is taken of the Government, which, of course, amounts to actual fraud, or whether it be through indifference, inefficiency, or neglect of administrative officials, when, although there might be no actual fraud on the part of the contractor, it would amount to constructive fraud, there should be machinery to correct the wrong and prevent undue Government loss. And so I say that even though it was a dangerous and un-American statute, I believe that under the circumstances it

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had the general approval of the American people, providing that this remedy of renegotiation was confined to the purpose of the legislation and applied only in those cases in which excessive profits were realized as a result of actual or constructive fraud. However, this drastic remedy has not been confined by the renegotiation boards to war contracts yielding excessive profits, in other words, unconscionable and fraudulent profits. The opportunity for this abuse by the renegotiation boards was made possible largely by the enactment a few months later, and about the time that the renegotiation boards began to function, of the 90-percent excess-profits law, which provided that all profits on war contracts in excess of the basic earnings of the contractor, as measured by his average earnings from the years 1935 to 1939, should be subject to an excess-profits tax of 90 percent.

It must be borne in mind that the term "excess profits" in the tax law has a different connotation than the term "excessive profits" in the renegotiation law. The former encompasses profits in excess of a certain amount; in this case profits in excess of the average annual earnings over a given period before the war. These excess profits may derive from the operation of three 8-hour shifts instead of only one 8-hour shift before the war, entitling the war contractor to from two to three times its normal income, or there may be many other legitimate increases in the volume of business, resulting in increased but legitimate income for the industry. This legitimate profit, as long as it is not unconscionable profit, is the excess profit contemplated by the excess-profits tax. Although this excess profit is considered honest and legitimate, the tax law provides that being business as well as its consequent profit flowing from the war it shall not be retained, but 90 percent of this excess profit shall be recovered by the Government through the excess-profits tax.

This is the vital distinction. Excess profits are legitimate profits in excess of those previously earned, while excessive profit refers to marginal profit on articles which are priced too high and amount to actual or constructive fraud or gouging of the Government.

The failure to make this distinction in the glaring vice of the renegotiation boards. It was the function of the renegotiation boards to recover excessive profits and the function of the Treasury Department to collect in taxes 90 percent of excess profits. Had the renegotiation boards confined renegotiation to those contracts involving excessive or unconscionable profits, it would not only be carrying out the will and intent of Congress but it would have proved a wholesome measure to effect those ends and purposes. Not only that, but it could continuously be functioning alongside the excess-profits tax, each in its proper field—the one to prevent profiteering and the other to recapture legitimate profits resulting from increased industry and business flowing from the war. However, as is the case with much other wholesome and efficient legislation, maladministration of the officials has

created far more vicious evils than those which were sought to be corrected. For instead of restoring incentives to those war contractors in which excessive profits were being realized, the Price Adjustment Boards immediately proceeded to renegotiate all war contracts. In other words, they invaded and operated in the field reserved exclusively for the Treasury Department and renegotiated excess profits. The very high rate of taxation—to wit, 90 percent—made it easy for them to intimidate the honest contractor by saying that 90 percent of his profits would be taken from him, anyway, under the excess-profits tax, and thereby making him of that, together with the slight margin constituting the other 10 percent.

To give a specific example, I know of a firm, and it is typical, having basic earnings of \$425,000 per year. In 1942, by running three shifts most of the time, their earnings were \$500,000 additional. The renegotiation board cooly told them that they would settle for \$250,000, or one half of the excess profits. The firm settled. Here then the renegotiation board was deliberately making the United States Treasury out of \$225,000 which would have been paid as excess-profits taxes, and the company out of \$25,000 which it would have been permitted to retain as legitimate profits except for this usurpation of authority. It is not difficult to understand and appreciate the company's claim that this slight margin of \$25,000 was necessary for them to meet their normal dividends and provide reserves for post-war conversion; and that as a result of renegotiation they felt compelled to lower their dividends. The renegotiation boards themselves admit that of the \$4,000,000,000 they had recovered by renegotiation, 70 percent or two billion eight hundred million would have been collected by the Treasury Department at all events. This leaves but one billion two hundred million, and the query is as to how much of that sum they have wrongfully taken from war contractors as excessive profits when in reality they constituted legitimate excess profit. This latter sum also undoubtedly includes the huge sums voluntarily returned by war contractors before and without renegotiation.

So that as it may, by wrongfully invading and raiding the field of the Treasury Department in the collection of excess-profits taxes, they have not only misled the Treasury Department, but here also an undue and odious onus on the war contractor, making excess although legitimate profits, and under this duress have misled him as well. They have stigmatized him as a war profiteer, penalizing him accordingly, whereas he was a patriotic American, willing to work harder and contribute the proceeds of his efforts to the war effort through the American principle of taxation.

In conclusion I wish to say that while the amendments proposed by the Committee on Ways and Means may give timely relief, they do not at all reach the cure of evil inherent in this dangerous and un-American statute. I believe that the war effort and the general welfare of the American people can be best bene-

fited by H. R. 2036, being the bill introduced for repeal of the renegotiation law. The present law, because of its maladministration, cannot be patched or amended to prevent the destruction of our free institutions. It must be rooted out entirely and we must make a fresh start.

In reply to those who have the temerity to say that this repeal bill is for the benefit of those who would make millions in the nature of corporate profits out of the war effort, I say that I, as much as they and more, want to prevent the creation of war millionaires, but I do not believe in burning the house to catch a rat. If the renegotiation law is repealed, renegotiation could be placed under the jurisdiction of a board independent of the departments which are parties to the original contracts; for instance, the Bureau of Internal Revenue. Then there would be no incentive to raid the field of excess profits, as the Treasury Department would have no object in making itself, but would confine itself, as the law intends, to these contracts in which excessive or unconscionable profits are being realized.

I could mention a dozen or more instances flowing from the present dangerous and un-American statute. The way in which it is administered simply does not fit into the American way of life, even in wartime. Let it suffice to say here that the renegotiation law, as the foremost fact show, has been distorted into an unconstitutional delegation of the taxing power to these boards and in appointing an American system of taxation with an arbitrary, discriminatory confiscation of totalitarian dictatorship. Some time ago the newspapers carried a story of an alleged claim by the administration that corporation taxes were eight hundred million less for 1942 than they were in 1941. From the foregoing facts it is clear that they were in reality at least \$2,500,000,000 higher, only they were collected differently. It is high time that the Congress courageously recaptures the taxing power, lest it be lost to them and the people forever.

Furthermore, unless we repeal the law and enact legislation confined to the law and enact purposes against excessive profits, we will destroy private industry by robbing it of the funds necessary for conversion when the war shall have been over, thereby destroying millions of jobs for our homecoming soldiers and for the civilian population.

Most of the Members of Congress and most of the American people are aware of the machinery to change the American way of living, to destroy the American capitalist system. The renegotiation-of-contracts law, regardless of its former efficacy, is at the present time one of the most promising mediums for those who are seeking the objective of taking over the economy of the country and establishing a socialistic or collectivistic scheme of government in these United States.

(Mr. JONKMAN asked and was given permission to revise and extend his own remarks.)

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Mr. KNUTSON. Mr. Chairman, I yield such time as he may desire to the gentleman from Wisconsin [Mr. BAUGHMAN].

Mr. BAUGHMAN. Mr. Chairman, we have before us for consideration a bill to provide increased revenue for the year 1944. It is to be regretted that because of a closed roll amendment on the floor of the House, it is also to be regretted that the Government effort has been made to make out of some of the surplus funds in the hands of the consumer.

The time to get money is when there is money, and at no period in the history of the United States has there been so much money in the hands of the taxpayer. We cannot hope to collect any of this money when the cash flows have passed and we are once more struggling with the problems of unemployment. It seems to me that it would have been a far more realistic view of our position to have made a serious effort to help pay for the war by increased taxation. If I had my way and could pass any measure I wish, I would make it a law that the maximum war is declared personal income should not exceed \$1,000 net per month and that no gifts could be made in excess of \$100,000 by any taxpayer. In addition to the above, I would establish a maximum percent of profits which could be earned by anyone, taking the excess over such amount for revenue for the payment of war obligations, and last but not least I would create a board which had the power to maintain a satisfactory relation and standard involving wages, commodity prices, and profits, as all three are interlocked and cannot be considered piecemeal in times of war emergency.

Perhaps it is an indication of the present appraisal of values when we see a resolution lumbering since last February in the Committee on Foreign Relations providing for the feeding of the starving children of the occupied countries of Europe; also there has been lumbering in the Committee on Agriculture since last May a resolution providing that committee to investigate the profits of all middlemen dealing with food, and no action has been taken on either resolution, but when whisky got across in the District of Columbia there was a rush made to investigate the reason for the scarcity with a view to taking appropriate measures to relieve the thirst of the afflicted, and yet mothers of small children can go through the streets of small city of Washington and not find heavy umbrellas for the cold months. But what is not of any importance—at least not nearly so important as the lack of a quart of whisky. I think it is time that we readjusted our sense of values and considered first things first.

I am opposed to this bill, and shall vote against it, although I know that there will be no opportunity to be recorded in a roll call.

(Mr. BAUGHMAN asked and was given permission to revise and extend his own remarks.)

Mr. KNUTSON. Mr. Chairman, I yield such time as he may desire to the gentleman from Iowa [Mr. BOEVEN].

Mr. BOEVEN. Mr. Chairman, with the power to tax there is the power to destroy. Apparently, the Ways and Means Committee of this House is lending its best efforts to curtail and at least partially destroy such a vast and important public service and utility as the Postal Service.

The Post Office Department is not a revenue-raising institution for the general purpose of defraying governmental expenses. It is the Nation's largest business institution and has been permitted to function as such for over 150 years unhampered by those who would seek to make it another revenue-raising Government. There, therefore, seems to be no justification for the action of the Ways and Means Committee in voting its approval of postal rate increases. It simply acted in haste and without much consideration for the facts. Postal rate changes seem to have been picked out from nowhere. On one day the committee voted approval of a 3-percent tax on parcel post, 2 days later it approved an increase in the first-class rate from 3 to 4 cents and 24 hours later cancelled this proposed increase. Certainly no careful consideration or study of the existing rates, or of the experience and processes of the past which led to their establishment, served as a basis for the rates now proposed. I also doubt very much whether the Post Office Department has been consulted about this matter.

The Committee on the Post Office and Post Roads of the House is, in reality, the board of directors of the Post Office Department and is so regarded by the Department. The need for increased postal rates should be determined by that committee with the sole purpose in mind of putting the Post Office Department on a sound financial basis as the Government's biggest business venture and should not attempt to bleed it for excessive taxation purposes without any regard for the future and the welfare of the Postal Service itself.

Out of a total estimated yield of \$1,901,000,000 in excess revenues voted by the committee, postal rate changes are estimated to produce \$175,000,000. In 1952 when postal volume and revenues dropped to \$385,000,000, the Post Office Department suffered a deficit of \$200,000,000. Anticipation at that time for higher postal rates to save the taxpayers unnecessary exposures to relieve the thirst of the afflicted, and yet mothers of small children can go through the streets of small city of Washington and not find heavy umbrellas for the cold months. But what is not of any importance—at least not nearly so important as the lack of a quart of whisky. I think it is time that we readjusted our sense of values and considered first things first.

In 1942, with the same low rate existing in 1952, revenues had increased to \$488,117,000 and the deficit was reduced to \$11,825,000, a saving to taxpayers of \$193,292,000. For the fiscal year 1943 revenues are estimated at the all-time high of \$661,050,000, with an all-time deficit only \$9,543,123, notwithstanding the Postmaster General Walker's own statement that additional revenue amounting to \$123,000,000 would have accrued to the service if all governmental departments and agencies had been

required to pay postage on their free permits issued as proposed under the Birch bill. With this additional revenue the service would have shown a profit of nearly \$100,000,000. These figures, and experience speak for themselves. Low postal rates encourage mailings and produce larger volume, higher revenues, and higher profits. Higher rates discourage mailings, reduce volume, and lower revenues and create deficits.

In 1947 Congress decreased the permit postage rate from 1 to 2 cents. The postpaid had been producing a normal revenue of \$20,000,000 a year. With a raise to 3 cents, the Post Office Department not only did not get the increase anticipated but the revenue dropped to \$19,000,000. I predict that if Congress once more unwisely adopts the higher rates recommended by the House Ways and Means Committee, mailings and revenues in each class of mail and service affected will fall off to such an extent that, not only the additional revenues anticipated from the increase will not be produced but the actual postal revenues will be less. And the Government will have less revenue at the close of its fiscal year from the Postal Service than it would have if present rates are retained and postal volume and revenues are permitted to expand.

No department of government is closer to the people than the Post Office Department. It comes in contact with the people daily. They want efficient service and as low postal rates as possible commensurate with such efficient service. I am sure that the people of the country do not want to see the Postal Service used as another taxation agency. When we once dig into the Post Office Department for revenue to carry on all the governmental functions of government, the competition immediately arises to continue this practice until finally the Postal Service is entirely destroyed and it simply becomes another agency of taxation. We should not disturb the structure now that has withstood the pressure of 150 years.

(Mr. BOEVEN asked and was given permission to revise and extend his own remarks.)

Mr. KNUTSON. Mr. Chairman, I yield such time as he may desire to the gentleman from Ohio [Mr. VOEHL].

Mr. VOEHL of Ohio, Mr. Chairman, I wish to elaborate a little further the suggestion I made earlier this afternoon to the gentleman from Oklahoma [Mr. DAWSON]. The need for post-war conversion funds for business is a problem which is of great concern to businessmen and should be of great concern to Congress. The suggestion has been made that businessmen be permitted to withhold from war taxes a post-war recon-

version reserve, in order to pay for the changes necessary in their plants. The argument has been made that the great benefit in furnishing prompt employment would warrant the withholding of these war funds. I doubt whether this form of tax exemption is feasible, and if it were put into practice, it would be doubtful if it would be so many governments surrounded with so many governmental regulations and inspections as to be very burdensome. Most businessmen are looking forward with longing to the

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day when they can avoid governmental forms and red tape in their business.

I have suggested to a number of members of the Ways and Means Committee and have discussed with businessmen the possibility of financing post-war reconstruction through a (let's-arrange-it) plan which would be just the reverse of the war building amortization plan. When the war plants were built we permitted industry to amortize the cost of the plant over a period of 5 years through tax deductions. Now industry needs current funds for necessary post-war changes. Many a business is making very large profit from a small plant, but this war profit is going largely to the Government in taxes and renegotiation, and as a result, and the business faces the future without necessary working capital. I believe that we could permit industry to withhold as much as half of the taxes due for this purpose and amortize the payments over a period of 5 years.

For instance, a business which owed \$300,000 in taxes in 1944 could withhold one-half of this amount, or \$150,000, for reconversion purposes, under proper safeguards to be prescribed by law. This amount might be sufficient to finance all or a major part of the change-over. In the next 5 years, in addition to the regular taxes of the business, it would pay \$50,000 a year in amortizing the payments which had been withheld. Interest would be charged approximating the interest on the Government debt so that there would be no ultimate loss to the Government. The only danger would be that the business might fail in the post-war years and the Government would not be able to make full collection. To that extent, the Government would be sharing the hazards of the businessmen's post-war fortunes. It might be feasible to make the amortization period longer than 5 years. Such a plan would not solve all of the problems of reconversion financing, but it would accomplish much without red tape or overhead.

The gentleman from Georgia (Mr. Young) has stated this afternoon that his wheat problem must be reexamined soon. It is my hope that my committee can receive study and analysis at that time.

Although I realize that putting together a revenue measure is a monumental task, I confess my disappointment at many provisions of the present tax bill. I felt we should attempt to revise even minor items. I feel even greater relief from business relief proposals have been given to the renegotiation amendments. I still feel, as I have always felt, that it is a mistake to consider such a bill under a gas rule. The small attendance here, the lack of interest in the debate, is evidence that the membership of this House will not give any great amount of time and attention to consideration of a tax bill under a gas rule. Of course, however, I am going to vote for this bill, rather than abstain. I want to do my part in raising taxes to support the war effort.

(Mr. VORVÉ of Ohio asked and was given permission to revise and extend his own remarks.)

Mr. KNUTSON. Mr. Chairman, I yield 15 minutes to the gentleman from California (Mr. Gearhart).

Mr. GEARHART. Mr. Chairman, last December when we passed upon the so-called modified Rural plan I thought we had about reached the zenith in unwise legislation, but I am satisfied that in the present bill we have under consideration we have a real "runner-upper." We still have a pay-as-you-go-before-you-know-what-you-owe bill. The American people had hoped that the committee would supply them with a pay-as-you-know-when-you-know-what-you-owe bill. They wanted simplicity but, despite their plea, we still have all the complexities and all of the confusing uncertainties which were an integral part of the previous bill to which I have just alluded.

The American people are going to be greatly disappointed when they find that, on each of these succeeding quarterly periods, they will still have to go through the same mental gyrations and suffer the same indescribable confusion that they had to undergo when they were on the tax rack last September 15.

There are many features of this bill besides its complexities that compel me to withhold my assent to it. I object particularly to the transportation tax of 3 percent upon freight charges. As it is the long-haul States that suffer the most from a tax of this character, as California, of course, object to the unfairness of the operation of that kind of a tax upon the consumers and shippers of my great State. This tax is truly an unfair and discriminatory tax not against all of the border States or our great country, the Atlantic and Pacific Coastal States, the Gulf States, and the Mexican border States. Our specialty crops must be taken thousands of miles to the consuming markets, and when they are taken there and sold to the consumers not only does that production carry with it a high freight charge, which we know we cannot avoid, but it carries with it a 3-percent tax on that high freight charge, working as a penalty and nothing less.

Miss SUMNER of Illinois. Will the gentleman yield?

Mr. GEARHART. I yield to the gentleman from Illinois.

Miss SUMNER of Illinois. England and some of the other foreign countries, including Germany, have taken off the import duties and transportation tax as a means of avoiding having to give subsidies.

Mr. GEARHART. I am grateful for that observation. In order to emphasize let me point out that those of us who live in the West buy more per capita of automobiles, ice chests, radios, and things of that kind, but we do not buy them on an equality with the people who live in the center of the country where these things are produced. We have to pay a greater freight charge on them than others and then in addition thereto we have to pay this 3 percent on that excessive freight charge. The greater the charge, the greater the tax.

Mr. CURTIS. Will the gentleman

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Mr. GEARHART. I yield to the gentleman from Nebraska.

Mr. CURTIS. It is not true that the agricultural areas pay the freight both for themselves for the products and it is added on to the price that must pay for the manufactured goods. Likewise, the tax will follow the freight.

Mr. GEARHART. That is precisely because they catch on coming and going the agricultural areas are the most people of which suffer the most. If there was anything resembling equality in the application of this tax, I would be the last to protest.

Mr. CURTIS. The interior of the country does not have the advantage of waterway freight either.

Mr. GEARHART. The opposition to this tax which has been expressed throughout the country ought to be sufficient to convince those who are assembled here, if not to the members of the Ways and Means Committee, that this tax is unfair and discriminatory. Commissioner Eastman, known throughout the country as its greatest transportation expert, has condemned it time and time again and on a number of occasions asked the Congress to repeal it. The Interstate Commerce Commission has also asked the Congress to wipe it from the statute books. The Office of Defense Transportation also condemns the levy as amounting, unfair, discriminatory, unequal, unwise, and inequitable. Yet it remains a title bill—simply because it yields \$115,000,000. That—no far as I am concerned—is the only reason for it. Why a tax which is so discriminatory, unfair, and unequal in its operation imposed my colleagues on the great West and Means Committee so worthy of reprobation in the bill will remain one of the unsolved mysteries of modern times.

Mr. ELLSWORTH. Will the gentleman yield?

Mr. GEARHART. I yield to the gentleman from Oregon.

Mr. ELLSWORTH. Is it not true that the same amount of money could be collected on another basis? In other words, the percentage basis used is really responsible for the inequity, whereas if a per unit basis were used, the same amount on the commodity from wherever it may be shipped, then there would be no inequity, but we could still collect the same amount of money? Is that not true?

Mr. GEARHART. That is true. The gentleman from Oregon is quite correct. Other methods were suggested but for some strange reasons—reasons which surpass human understanding—the committee seized upon and came with an unyielding tenacity to the unaltered formula of three per cent.

Mr. ELLSWORTH. May I say, if I may, my recollection, the principle just mentioned applies on some other commodities, notably coal. They did not use the percentage method on coal. The tax on the transportation of coal is so much per car, which I think is the proper way of distributing a tax.

Mr. GEARHART. If the tax theory which was applied to coal were applied

to the board you would not hear of complaining loudly.

Another reason why I am opposed to this bill grows out of the provisions having to do with renegotiation. I am opposed to renegotiation because I am quite certain that the proposed statute is unconstitutional. All will agree, I am sure, that it is unconstitutional for Congress to delegate its legislative prerogative. Likewise, all will agree that it is unconstitutional to delegate the taxing power of the Congress to any agency.

The bill does all that in its so-called renegotiation provisions. The Congress, applying the definition to all the people, has defined what income is. But the tax on what income is in its application to a single individual. Congress, in writing the revenue laws, fixes the rate of taxation, the rate which shall apply equally to all of the people. The renegotiators are authorized to lay down a different rate of taxation—not on all the people—but upon the one person who happens to be the victim that they have started for renegotiation treatment.

Mr. CASE. Will the gentleman yield?

Mr. GEARHART. My time is so short—

Mr. CASE. May I ask the gentleman if he does not want to make a differentiation between the capture of profits and a reneging as to contracts that are entered into by a contractor where a renegotiation clause is part of the contract?

Mr. GEARHART. I agree that there is such a distinction. But notwithstanding, both are jumbled together and are treated the same way. Because in their operation upon the contractor the procedure and the effect are the same in respect to both capture of funds and reneging of contracts no good purpose would possibly be served by bearing that distinction in mind.

I am against the renegotiation clause for so many reasons it would be quite impossible to even list them within the short period which has been allotted me. For instance, the word "renegotiation" is a fraud upon the American people. That word is done on no relation to the meaning of that word. What does "renegotiation" mean? I think all will agree that to renegotiate means "to conduct conferences as a basis of agreement." "to treat with a view to coming to terms."

Is there anybody so glib as to believe that any contractor who is cited in for renegotiation is given any opportunity to decide whether or not he wants to renegotiate, or, does anyone think that, after renegotiating, the contractor has any right to refuse to accept the conclusions of those renegotiations or the conclusions the Price Renegotiation Board has arrived at? Not at all. The contractor is merely reached out for and taken by the nape of the neck and told "sign here." This is the new contract. There is no exchange of ideas, there is no meeting of minds, there is no agreement in respect to new terms. The whole procedure is arbitrary. In true totalitarian fashion, an order fixing new terms is, in like case, substituted for the voluntary con-

tract originally agreed upon. There is a confiscation of a portion of the profits which the contractor earned under his original contract without any compensation therefor whatsoever. This is a violation of the Constitution of the United States, only one of a hundred violations that I could name if time would permit.

Mr. KNUTSON. Mr. Chairman, I yield such time as he may desire to the gentleman from Illinois (Mr. Curran).

Mr. CURRAN. Mr. Chairman, I would like to comment briefly on the proposed amendments to the so-called renegotiation law embodied in the pending revenue bill. The proposed amendments constitute a decided improvement of the existing law, but were we not precluded by the "major rule" under which the bill is being debated I would offer an amendment to provide for the outright repeal of the entire renegotiation statute.

In the words of the former Chairman of the War Department Price Adjustment Board when he testified—page 7 of the hearings—before the Committee on Ways and Means, and I commend him for his frankness, "It is a dangerous and un-American statute." Such a law should never have been placed on our statute books, and I am personally convinced that if given the opportunity this House would see its complete repeal. I suspect that the administration leadership would not have brought the bill to the floor of the House under a closed rule were it not realized that an open rule would undoubtedly mean the elimination of renegotiation.

We are representatives of the people. We are custodians of constitutional rights. Once it is clearly understood the extent to which the renegotiation law suspended all other liberties—constitutional rights of American citizens I do not believe the membership of this House would accept any amendments except that providing for repeal. If the principle of renegotiation is un-American, the law providing for renegotiation does not become any less un-American by improving the technique or procedure of renegotiation.

This House has never had, nor do we have today, full opportunity to pass upon the real issue. That right has been denied us by administration strategists. It is denied us today. I must confess that the administration leaders have done a remarkably able job in preventing the issue from arising in the House.

Last year when the sixth supplemental national defense appropriation bill was before the House the distinguished gentleman from South Dakota (Mr. Case) secured the adoption of an amendment to limit profits on war contracts at 8 percent. There was no discussion of the amendment and to this day no one knows from the language of the amendment whether the 8-percent limitation was 8 percent of the contract price of costs, or of sales. Very few Members were on the floor at the time and, on a division, the amendment was adopted by a vote of 79 to 11.

The profit limitation provided by the Case amendment was fixed and did not rest in the department's discretion as

to what the profit should be. Moreover, the amendment related only to the particular appropriation then being made and to contractors dealing directly with the Government as prime contractors. Whatever the merits of the Case amendment, it had the great merit of fixing certain definite limitations.

When the appropriation bill came back to the House in the form of a conference report, which is not subject to amendment, renegotiation as we know it today upon that opportunity to have delegated to the department the power to determine for themselves what constituted excessive profits? Renegotiation thus originated as a part of a pressing war appropriation need, and the next time Congress had the matter before it was in the form of a conference report on the revenue bill of 1944 which embodied certain amendments to the renegotiation law written into an appropriation bill.

Suffice it to say, Mr. Chairman, that there never was a renegotiation bill as such before a committee of this House or before the House as a whole. It was always a part of some other important bill, and I venture to say that a great many Members of the House never realized there was such a law until they began to see the effects of it and began to hear from the people back home.

I have many times protested against broad delegations of power to the executive branch of the Government. I have opposed such procedure and will continue to oppose it as long as I am privileged to have a seat in this great body. The professed, straggling bureaucracy which is killing the American way of life and placing impossible tax burdens on the people is the product of these delegations of power. The unlamented N. E. A. was characterized as "delegation run riot," and the renegotiation law is subject to the same characterization.

Who determines in renegotiation what are excessive profits? Government appointees. By what rule or standard do they make that determination? There is none. Who decides in renegotiation the amount of money that may be earned by a particular contractor or subcontractor? Government appointees. Not to do they decide. No one knows. Not to do they decide. Truly, "it is a dangerous and un-American statute."

Let me read to you the definition of excessive profits as set out in the law:

The term "excessive profits" means any amount of a contract or subcontract price which is found as a result of renegotiation to represent "excessive profits."

In other words, Mr. Chairman, excessive profits are excessive profits to the amount that you, the price adjustment boards, decide they are excessive. It could be all the profits realized or it could be some.

Not only do the Price Adjustment Boards have the power to determine what is excessive as a profit on war work, they do not have to furnish the contractor with any statement as to how they arrived at their conclusion. The whole proceeding is in complete secrecy.

There is no public record of any kind. And the contractor must accept the decision of the Board who renegotiated his contracts as he will not receive payment for his products, which, in most instances, would mean that the company can no longer continue in business.

Mr. Chairman, that is not the American system of government, and I protest the continuance of any such law. If the administration of this law should fall into the hands of the many renegades now associated with the Government we will witness the complete destruction of the American system of free enterprise.

It has been argued that renegotiation is necessary to prevent war profiteering, and much has been said about the amount of money recovered through renegotiation. The figures that have been presented seem imposing, but they fail to take into account the taxes that would have collected on these profits had they remained with the companies. Existing law provides for a 90-percent excess-profit tax, with an over-all limitation of 80 percent on corporate taxes. In general, therefore, 80 percent of the money recovered through renegotiation would be received through taxation. Moreover, the pending bill provides for a 90-percent excess-profit tax beginning January 1, 1944.

When we write the excess-profit-tax law we provide for a post-war credit of 10 percent. In other words, the every dollar paid in excess-profit tax 10 cents would be set aside by the Treasury Department as a reserve to assist American business in the difficult post-war transition period to peacetime production. Renegotiation does not provide for any such reserve. Inasmuch as renegotiation is before taxes, rather than after taxes, American business has the post-war credit which Congress decided should be available for the future. Renegotiation is thus in direct conflict with the settled policy of Congress.

I fear for the future of American business if they are not permitted to build up reserves for converting plants to peacetime production, for meeting payrolls until the company can place itself on a peacetime production basis, and for rehabilitating their equipment now operating at maximum capacity. Unless business can set up appropriate reserves for the post-war period we will be confronted with the greatest depression in our history and all business will pass into the hands of the Government. We will thus lose through our own short-sightedness the very thing for which we are fighting and for which our boys are daily giving their lives—freedom.

There is no substitute for the American system of free enterprise. This is evidenced by the developments in the present war. Russia with 300,000,000 people and endless resources, Great Britain with 600,000,000 people and great natural resources, China with 400,000,000 people and endless natural resources, all look to the United States with 130,000,000 people. It is not the number of our people that makes us powerful. It is not the extent of our resources. Other countries have larger populations and greater natural resources. We are pow-

erful because of our system of free enterprise, and it is for us to preserve it at all costs.

The renegotiation law is destroying this system and should be repealed. The pending amendments limit the areas of renegotiation and set up certain standards for the determination of excessive profits. The amendments improve the existing law but its basic evils remain. I wish we would give the opportunity to vote its repeal and leave to the tax law the control of profits. That is the American way.

Mr. Chairman, I wish also to direct some remarks to title IV of the pending revenue bill, providing for an increase in postal rates. This title has no place in a revenue measure. Postage was never intended to be a tax, but rather a charge for the special service of the Government, and when the Committee on Ways and Means presumes to report a bill containing provisions for increasing postal rates it is assuming jurisdiction over a matter which belongs to the Committee on the Post Office and Post Roads.

The proposed increase in the rates will not greatly affect the individual, but it will materially affect American business. Surely it is recognized that during this period many companies have been obliged to discontinue the use of salesmen in reaching a market for their products. Companies which previously maintained a large sales force have had men to the armed services or in war production plants. Moreover, the gasoline shortage and the heavy burden on public carriers have made it necessary for hundreds of companies to find a substitute for traveling. The mails have thus become increasingly important to business, and it is now proposed by this in-creased postal rates to place another burden on business.

According to the committee report the estimated additional revenue from the proposed rates is \$134,869,990. While I do not have the details upon which this estimate was made, I venture the prediction that if these rates should go into effect the return will be far less than the estimate. There is a well-established economic law known as the law of diminishing return. If the return on 1,000 pieces of mail at 2 cents is \$30, it does not follow that an increase in the rate to 3 cents will increase the return to \$30. Invariably as the rate increases the number of pieces mailed will decline because the price becomes prohibitive.

But even assuming that some additional money may be realized by increases in postal rates, I am convinced that the effect of this action will be far more damaging to American business now so dependent on the mails than any sum that may for the moment be gained. At best the gain would only be temporary.

It does not seem to me logical, if it just does not make sense to propose an increase in postage rates when the Post Office and when the mails have become so important to the people as a whole. By this provision it is proposed to increase the burden of mail costs on the people while at the same time the vari-

ous Government departments, bureaus, and agencies continue to seem useless and unnecessary material through the mails under the franking privilege.

I am definitely opposed to this title in the bill, Mr. Chairman, and I wish it were possible to offer an amendment to strike it. I am sure such an amendment would have the overwhelming support of this House. Under the present rule such an amendment can only be offered by the Committee on Ways and Means. In the event it does not offer such an amendment, I hope that after the bill is under consideration in the other body title IV will be stricken. The Committee on Ways and Means, I understand, hold no hearings whatever on this subject of increase in postal rates.

(Mr. CHURCH asked and was given permission to revise and extend his remarks in the Record.)

Mr. KNUTTON, Mr. Chairman, I yield this time as he may desire to the gentleman from Pennsylvania (Mr. Gosens).

Mr. GROSS asked and was given permission to revise and extend his remarks in the Record.

Mr. GROSS, Mr. Chairman, much has been said here lately about the need for raising additional revenue for the purpose of financing our war effort and our ordinary government functions.

Also, much has been said about economy in government, and this is what I want to discuss. So that I shall not take up too much time, I will cite only one instance where economy and sound business operation on the part of our Government would have saved the taxpayers countless dollars.

The proposal to construct a pipe line from Texas to Illinois at a cost of \$44,000,000 was announced last February by Jesse Jones. The Defense Plant Corporation, upon the recommendation of the Petroleum Administration for War, agreed to finance the project which, after completion, would have a capacity of about 235,000 barrels per day of gasoline and light petroleum products.

The War Emergency Pipeline, Inc., was set up to construct the line and operate it for the account of the Defense Plant Corporation.

In April, Mr. Jones announced that Defense Plant Corporation, a subsidiary of the Reconstruction Finance Corporation, upon recommendation of the Petroleum Administration for War, had agreed to finance the extension of this pipe line to the harbor area of New York City.

This section, again to be constructed by War Emergency Pipeline, Inc., would complete the link from Illinois to the east coast.

The first section of the line—a 14-inch tube from Baytown and East Arthur in Beaumont, Tex., and a 20-inch line from there to Kierria City, Ill., and Seymour, Ind.—were approved at a cost of \$44,000,000.

Completion of the Seymour-New York area section, also a 20-inch line, will bring the over-all cost of the entire project to approximately \$69,000,000.

This pipe line, known in my country as the Big Inch, passes 100-100 miles

through our congressional district. Work has been going on in this area for some months and I have heard numerous complaints concerning wastefulness and pay-roll padding. After some personal investigation, I finally found an employee of the project who has acquainted me with many of the things which have been going on.

The man, a timekeeper, and an employee of the Government, when called upon by the attention of the House, was told to "give the boys a contract." Certain employees, after a few weeks, numerous threats, and prophecies to split up the "take" submitted to them, but came back day after day and worked for someone to be on making it necessary for the men to get the job each day to check the men. These employees receive time, time and one-half and double time for their extra hours.

So-called working hours deleted by the difference of this time clerk amounted to a saving of \$7,900.91 from the period July 10 to October 20, 1943. This figure covers only 1 of 22 working gangs.

The hourly wage of the men involved on this project range from 75 cents to \$1.50 per hour.

From the records which I have before me, it shows that on August 16, 28 men claimed hours at work which were deleted by the timekeeper, after a check-up. The hours deleted for this day total 171 hours and resulted in a saving of \$264.

The time allotted permits me to mention only some of the cases as follows:

Date	Hours Deleted	Men Involved	Saving
Aug. 16	171	28	\$264
Aug. 17	158	18	\$237
Aug. 18	158	18	\$237
Aug. 19	158	18	\$237
Aug. 20	158	18	\$237
Aug. 21	158	18	\$237
Aug. 22	158	18	\$237
Aug. 23	158	18	\$237
Aug. 24	158	18	\$237
Aug. 25	158	18	\$237
Aug. 26	158	18	\$237
Aug. 27	158	18	\$237
Aug. 28	158	18	\$237
Aug. 29	158	18	\$237
Aug. 30	158	18	\$237

Now, Mr. Chairman, having cited the saving in man-hour payments, I call the attention of the House to money which would have also been wasted had it not been for the honesty of this employee.

In cases where a worker was found to have claimed to have been on the job, his was not, a check was made of his particular type of work on the project.

These men who had been dishonest about their hours were usually operators of heavy equipment, such as ditching machines, bulldozers, tractors, heavy trucks, and welders. When it was found that they had not worked it was also found that their equipment had remained idle, yet a claim was made for reimbursement for use of the equipment.

In checking the daily time sheets it was found that 3,123 hours could be knocked off of equipment charges for the period from August 15 to October 14, a period of only 2 months.

This equipment was rented at prices fixed by the O. P. A. The equipment charged for in a month to ditching machines at \$1.50 per month.

While this equipment was paid for by the month, oftentimes machines broken down, and remained in the repair shop for as long as 3 weeks at a time because of lack of repairs as well as scarcity of mechanics. So there were many days when some of the equipment was not operated at all, and much was operated only part time.

I will now cite deletions for certain equipment for certain days as follows:

Date	Number of machines	Hours Deleted
Aug. 15	22	220
Aug. 16	22	220
Aug. 17	22	220
Aug. 18	22	220
Aug. 19	22	220
Aug. 20	22	220
Aug. 21	22	220
Aug. 22	22	220
Aug. 23	22	220
Aug. 24	22	220
Aug. 25	22	220
Aug. 26	22	220
Aug. 27	22	220
Aug. 28	22	220
Aug. 29	22	220
Aug. 30	22	220

Mr. Chairman, I feel that the foregoing statement justifies the claims of the minority members of the committee that honesty and economy in government would completely eliminate the necessity of any increased taxes.

Complaints of the dickering in connection with this project, made to officials of War Emergency Pipeline, Inc., a Government agency, answerable to the Defense Plant Corporation, have gone unheeded.

I believe that the Reconstruction Finance Corporation owes it to the taxpayers to bring a thorough investigation of the entire project out into the open.

Mr. ENUTSON, Mr. Chairman, I yield 10 minutes to the gentleman from New Jersey (Mr. McLean).

(Mr. McLEAN asked and was given permission to revise and extend his remarks in the Record.)

Mr. McLEAN, Mr. Chairman, were the pending measure just a revenue bill, I would not find it difficult to oppose it and this notwithstanding that I am not unmindful of the extraordinary needs of revenue for war purposes. These needs were fully considered on the enactment of the last revenue act.

I am going to support the bill, because I am in accord with the provisions which it is hoped will simplify the assessment and collection of the personal income taxes and clarify many of the provisions of existing law, including the revision of the Reconstruction Act. The only increases in the personal income taxes are nominal.

Also, I heartily approve of the proposal that in the future taxes shall be assessed on anticipated income and not made on retroactive charges to our tax law. Changes to our tax law have been too frequent and embarrassed by not knowing or being able to anticipate what their taxes would amount to.

My approach to the preparation of the measure has been with the conviction that before any new taxes were imposed sufficient time should be allowed to ascertain with some degree of certainty the revenue to be realized under existing

law. Treasury demands disregard this idea.

No sooner had the Revenue Act of 1943 been enacted, making drastic increases in personal income taxes, and before the yield of that measure could possibly be known, the Treasury was demanding further increases. The demand was made without regard to spending needs or the possibility of reducing expenditures by practicing economy and stimulating waste.

#### FORMAL TAX ASSES AS WITH ENOUGH

The Treasury, speaking for the administration, has asked Congress for \$10,000,000,000 in new taxes. This startling request comes after a series of stiff tax increases which have left the American people staggered under tax burdens beyond their wildest dreams. Not content with tax rates which may yield approximately \$45,000,000,000 in revenue this fiscal year, the Treasury would—without any qualms of conscience, add another \$10,000,000,000.

The revenue from present taxes, in the aggregate, are steadily increasing with a rising national income and the expansion of consumer spending. In fact, the receipts from existing taxes are rising faster than the Treasury statisticians have anticipated. When the Current Tax Payment Act was adopted several months ago, the Treasury was willing to admit that it would add only \$3,000,000,000 to tax revenues in 1944 and 1945. But at the end of last July the Treasury conceded that the real estimate was 100 low, and it raised its estimate to \$5,000,000,000. Recent reports indicate that this estimate is probably still too low.

The early operations of the pay-as-you-go plan disclose that there had been far more tax evasion than the Treasury has been willing publicly to admit. In fact, the Treasury has been very silent about the tax evasion. Collecting the income tax at the source, although it has placed inconceivable compliance burdens on employers, is sidling vast amounts to Federal revenue and will add still more as evasion is stopped and as the national income increases.

#### THE REVENUE AND THE NATIONAL DEBT

It is too early to forecast what the final revenues from the present taxes will be during the present and the ensuing fiscal years. With the national income trending upward and with prices and consumer spending on the rise, tax collections are bound to increase. In view of the existing very high tax rates, further increases should be avoided at least until we know what revenues our present taxes will produce.

The Treasury has time after time revised its estimates of the national income. Not long ago it was speaking of a possible income of \$100,000,000,000. This was revised upward to \$125,000,000,000, then to \$130,000,000,000, and later to \$140,000,000,000. Now the Treasury declares that an aggressive increase of 10 percent of the national income will be \$150,000,000,000. We know it will not be long until this figure is revised upward to \$200,000,000,000.

Inevitably, as the national income soars, tax receipts also soar. The exist-

ing high tax rates will return more and more revenue month by month as a consequence. Therefore it is not necessary to raise these rates to gather in more tax collections. In fact, in particular cases, higher rates may produce less revenue because of their effects upon the incentives and resources of the taxpayers.

**CONSERVATIVE TAX RATES AND THE NATIONAL INCOME.**

Now, it may be urged that higher rates of taxation can readily be borne as the national income flow expands. But keep in mind that the tax rates have already been raised time after time.

Never before have the American people paid such high rates of income taxation. Never before have they paid over to the Treasury such tremendous sums of money. Before the war we were paying about a billion dollars a year in personal income taxes. In this fiscal year, according to the conservative Treasury estimates, the American people will pay over \$12,000,000,000 in income and Victory taxes.

But the appetite of the Treasury knows no bounds. It seeks to increase income-tax rates still higher, to raise the subject of some another \$4,000,000,000 upon the individual taxpayers, whose total tax payments to the Treasury would then be approximately \$20,000,000,000.

Mr. Paul, of the Treasury Department, recently stated in a public address that it would be reasonable to double the Government program and ask for \$1,000,000,000 in new taxes instead of \$10,000,000,000. You may be sure that if we exact the taxes the Treasury now asks, it would not be long until it came back for another ten or fifteen billion dollars. It would soon be asking for thirty or forty billion dollars in individual income taxes.

We must now seriously consider whether the present tax rates are all that the American people can bear without grave and permanent injury to the national economy. These rates will expand more and more revenue as the national income rises. It may be questioned whether it is not unnecessary and unwise to increase these rates for fear that the higher rates might cause demoralizing returns and drop in future revenue sources.

#### ABILITY TO PAY HIGHER TAXES

Because the national income goes up, it does not follow that the real purchasing power of all of the population increases. Prices have been rising and our dollars will buy far less now than they would a few years ago. Eggs which now retail at 70 cents a dozen were 40 cents, or less, a dozen a few years back. Fresh fruits and vegetables sold at prices before the war which were not much more than half of the prices prevailing today. Meats, poultry, fish, milk, butter, and other items in our diet were lower in price. So also were clothing, fuel, and other indispensable articles.

Moreover, many million incomes earned are receiving no more dollars in income than they received before the war, while others are receiving only a little more. Those in advanced years who are living on their small savings, the widows and their children who are sustained by

the proceeds of insurance left at death, and the vast army of white collar workers who must get along upon fixed incomes are being punished terrifically by our present taxes. So are the professional class whose incomes are fixed or almost constant. Many millions of our people have enjoyed little, if any, of the war prosperity in the form of higher incomes.

#### THE BURDEN TAXES

I have spoken here only of the income and Victory taxes. These are not the only taxes paid by the American people. There are the so-called excise taxes, a dispersed form of sales tax. On every package of popular-brand cigarettes, there is a tax of 7 cents. On furs, jewelry, and toilet preparations, there are taxes of 10 percent of the prices. On the transportation of persons there is a tax of 10 percent. On telephone services there are taxes of 10 to 20 percent. On other commodities and services there are corresponding taxes paid directly or indirectly by consumers. This bill will increase many of these excise taxes on commodities and services consumed by all of us. These are not simply the luxuries of the wealthy. We are all being hit at every turn by taxes upon tobacco, alcohol, admissions, sporting goods, gasoline, and many other items. Together these taxes will amount to about \$4,000,000,000 this fiscal year. To the \$20,000,000,000 which the Treasury wants to collect from our income directly, it wants to collect a further \$4,000,000,000 by various excises.

I have not spoken here of the customs duties, which will surpass \$300,000,000 this year. These will also be shifted to us as consumers and reduce our purchasing power.

#### WHAT OUR TOTAL TAXES

Now have I spoken of the taxes which individuals must pay to the State and local governments. The Treasury declares that individuals are paying \$2,500,000,000 directly to our State and local governments in property, income, and other taxes. This does not include taxes paid by renters upon property which they do not own, which would add at least another \$1,000,000,000. Nor does it include the general sales, the gasoline, the tobacco, the amusement, the alcohol, and other taxes which are collected indirectly from individuals in their purchase of taxed commodities and services. Together this last group of State and local taxes will garner to \$2,800,000,000. Directly and indirectly, the State and local governments are taking from individuals some \$5,000,000,000, aside from the taxes upon business property and income and from the social security contributions. If we include all of the personal and business income and property taxes, commodity, and pay roll, and all other taxes, the State and local governments are collecting a stupendous sum of over \$10,000,000,000.

#### REVENUES AND EXPENDITURES—WORLD WAR I, A FEW YEARS AGO

Altogether, Federal, State, and local taxes during the fiscal year 1944 will aggregate about \$30,000,000,000. Together

with minor excise revenues, nearly equal to our total governmental expenditures will be covered by nonborrowed funds.

This is a splendid accomplishment, if it is far superior to any record during World War No. 1. In the fiscal year 1919, which brought our last financial crisis, we were able to raise only \$10,000,000,000 in Federal taxes as compared with \$10,000,000,000 in expenditures of \$18,000,000,000. Federal taxes were only 38 percent of Federal expenditures. In this fiscal year 1944 Federal taxes may surpass 40 percent of Federal expenditures.

#### THE PROBABLE COURSE OF EXPENDITURES AND REVENUES

If the war in Europe should end in the near future, war expenditures would very probably decline rapidly. We have about attained the peak of our war production. Military needs in some lines have been provided for greatly in advance of present requirements, and a tapering off of war expenditures in the coming months is not improbable. Moreover, it should be possible to accomplish further economies in our war spending and to avoid some of the waste in war spending, without endangering a single life in the armed forces and without prolonging the war.

On the revenue side, tax collections are mounting with the growth of the national income, the expansion of consumer spending, and higher tax rates. The existing tax rates are already very heavy. We have already provided for increases of 122 percent in the income tax upon income received in 1943 and 1944. The social-security tax rates will automatically increase in January, unless Congress provides otherwise. The American people are buying great amounts of bonds and are placing billions of dollars into other forms of saving. All in all, our tax burden is not at an oppressive level, and further rate increases may be expected to add little destructive effects.

On the spending side, war outlays seem to have reached a peak and should soon start to decline. To the extent that governmental economies can be effected, and there is a strong sentiment in Congress and throughout the country for economies, spending needs may be further lightened.

#### CONCLUSION

In view of the known facts I strongly believe that the war has come to a halt upon further tax increases. I might have dwelt at length upon the stupendous tax burdens which have been placed upon business enterprise, which have paralleled the vast increases in individual taxes. Neither business nor the individual can, without grave injury, absorb higher tax rates.

Under these conditions, a tax holiday is demanded, at least until the full revenue effects of present tax rates are ascertained. Instead of increasing the tax rates we must seek to make the existing tax law more effective in order to produce the maximum of revenues under the present law.

Mr. EMBERTON, Mr. Chairman: I yield such time as he may desire to the

gentleman from Kansas (Mr. CRAWFORD, Mr. CARLSON of Kansas asked and was given permission to revise and extend his remarks in the Record.)

Mr. CARLSON of Kansas. Mr. Chairman, the voices of the people are being heard on the tax bill that is being reported to the House today. The tax bill under discussion is not only a product of the Ways and Means Committee; it contains the composite views of the American taxpayers. They have emphatically warned Congress that we must have less spending—not more taxes. This does not mean that the American taxpayer is unwilling to pay taxes, but it does mean that he no longer intends to have his money wasted. Evidence is everywhere of waste, extravagant spending, and money squandered recklessly. Studies and investigations by numerous official committees give ample proof that agencies of the Federal Government which were given large sums of money to spend in this emergency have been not only inefficient, but in many cases violated the trust and confidence that Congress placed in them. Congress itself is being criticized for many of these wasteful and unnecessary expenditures. They cannot justly escape all blame but neither should they be held responsible for executive and administrative agencies which are responsible to Congress for effective and efficient administration.

The taxpayer has one test for Federal expenditures—are they necessary for the war effort? There are indications that Federal taxes are now so high as to be undermining the tax base at an accelerating rate. This reduces future taxing opportunities, threatens extinction of the great American middle class, and imposes serious handicaps on business which may delay and prevent post-war resumption of production for peacetime and the employment so crucial in our economy. Legislative actions of today will create post-war problems of tomorrow. Tax policies during our war period may well be the determining factor as to our type of government in the post-war period.

The policy approved by Congress may well determine whether we are to continue as a democracy, operate as a despotic state, or be forced to adopt a totalitarian government. No one who truly loves his country has any fear that a totalitarian government in our Nation, General Spafford on the part of our Government and the people could and would bring this about. We must face our fiscal problems practically. The fiscal problems of the war period have been most difficult, but it is my prediction that the post-war problems will be even more so. If we do not lay a firm foundation for our post-war economy during the remaining days of the war we will be forced to take temporary and drastic steps to protect our domestic economy and preserve our type of government. There are three ways of financing this war and every other war. They are, first, taxation; second, borrowing; and third, inflation.

The question is asked, "How much should we try to raise by taxation?" The total way would be to levy taxes that

would take care of our Federal expenditures as we make them. This would eliminate the problem of both borrowing and inflation. Of course, everyone realizes the futility of even considering the levying of taxes to meet present Federal expenditures. Our national economy could not stand it.

During the past few years we have been levying taxes that would take care of 30 to 40 percent of our Federal expenditures. Present indications are that we will be able to meet 50 percent of our Federal expenditures in the fiscal year 1944 by taxation. This, in my opinion, is not only a worthy achievement for our people, but demonstrates that they are willing to assume a heavy tax load in order to insure freedom and democracy.

The difference between the amount we secure through taxation and our Federal expenditures must be borrowed in order to balance the budget. Our national debt has been growing by leaps and bounds. The present national debt is \$18,500,000,000. Present indications are that it will reach \$21,000,000,000 by the end of the fiscal year June 30, 1944. The amount of money borrowed can be reduced by increasing our tax load and reducing Federal expenditures. The tax burden for the fiscal year 1944 will increase and there must be a reduction in expenditures.

The President in his Budget message for the fiscal year 1944 advised Congress that we would spend \$100,000,000,000. Many are of the opinion that we could not possibly spend over \$90,000,000,000 in the fiscal year. Recent daily Treasury statements indicate that we may not reach this figure. The War Department has already advised Congress that they expect to spend \$13,000,000,000 less than the estimate in the Budget. No doubt the Navy will submit a reduction of four or five billion dollars in expenditures. Congress is going to insist on the paring to the bone of other items of Federal expenditures. They must be reduced. It is easier to give a dollar than to raise it by taxes.

Once a nation enters upon a spending program that shifts its production of goods and materials from consumer demand to production of instruments of war, it is some threatened with inflation. This has been true in every war and it is true at the present time. Inflation today is not only threatening—it is here. It constitutes a real problem. The Treasury Department has consistently urged that we greatly increase the tax burden on our citizens in order to mop up this inflationary spending money. They and other agencies have submitted estimates of the inflationary gap varying from a few billion dollars up to \$30,000,000,000. I am distrustful of figures which presume to measure this gap with any approach to exactness. Using 1943 figures as a basis it is possible to develop estimates of an inflationary gap ranging all the way from fifteen to twenty billion dollars all the way down to zero, depending upon how liberal or conservative the data are estimated. In fact, I believe it is possible to produce figures showing a negative inflationary gap while using estimates that have all the appearance of

being reasonable. My personal opinion is that the restrictive programs of the present administration are doing more to cause inflation than the consumers themselves. Instead of trying to increase consumers goods, such as food, clothing, oil, and gasoline, which would mop up excess purchasing power, the administration, through the O. P. A., is reducing the production of these commodities. With increased spending capacity it must have an outlet for consumer purchasing power. Consumers would rather spend a few cents additional per pound for food than have a rigid price-control program that will destroy production to the extent that no goods will be available.

#### THE ELIMINATION OF UNNECESSARY GOVERNMENT EXPENDITURES

The elimination of unnecessary Government expenditures offers the most direct and effective check upon inflationary policies. Federal expenditures can and must be reduced. The Byrd committee has from time to time called these unnecessary expenditures to the attention of Congress and made suggestions for a reduction of them. The Truman committee has from time to time called attention to the enormous waste of Federal funds. Innumerable instances could be mentioned, but I am not going to take the time to do it. We are not only spending Federal taxpayers' money recklessly in our own Nation—we are reaching out to every section of the globe. It is my conviction that there will be a general revolt among our people where the certain which shields much of the war and extravagance is lifted. The day of reckoning is coming and the restriction will be drastic. Just as a sample of what we are doing with the taxpayers' money I wish to call attention to the following news story which appeared in the press at the time we were holding hearings on the proposed (a) and a half billion dollar tax bill:

WASHINGTON, October 23.—The War Relocation Authority announced today that it had received a \$100,000 gift from the United States Office of Coordination of Inter-American Affairs to be devoted to sanitation work and health measures.

It will be remembered that our own W. P. A. carried out a similar project in this country, much to the disgust and expense of our taxpayers. And now we are going to do the same thing in far-away Uruguay, carrying out the good-neighbor policy as it were. But this is only one of many instances of extravagance and wastefulness that this administration is practicing, and it is high time a stop was put to it.

#### NATIONAL DEBT

Borrowing is an integral important factor in our war financing. Unfortunately, we were using deficit financing to balance our Federal Budget for 10 years previous to our entry into World War No. 1. It was hard to arouse the country and Congress as to the danger of this method of financing our national expenditures. Every imaginable demand was made upon the Federal Government. As a Nation we conceived various book-doctring programs on which to spend borrowed money.

Harry Hopkins, close adviser to the White House, on the eve of a recent election, said: "We will spend and spend, and tax and tax, and spend and tax. As a Nation we had swallowed the philosophy of the British monetary expert, Lord Keynes."

**KEYNES THEORY**  
According to Lord Keynes, a nation can spend without limit, regardless of its income, wealth, or debt, so long as we merely owe the debt internally to ourselves. The process of paying it off involves only shifting of money through taxation from one pocket to another. If the pockets were in the pants of the same individual there might be merit in this philosophy. Unfortunately, the pockets are quite often in the other man's pants.

Vice President Wallace and other New Deal administrators, advise us we need have no fear as to our national solvency, regardless of our monetary indebtedness. They labor under the impression that we can borrow and borrow and spend and spend. Their philosophy is that national debt is not dangerous but respectable and possibly virtuous as we owe it to ourselves.

The national debt per capita on October 31, 1943, amounted to nearly \$1,294, or an average of \$4,810 for a family of four. During the month of October 1942, the per capita national debt increased approximately \$48, while the increase for the year ending October 31, 1943, amounted to about \$517. The highest peak the national debt reached during World War No. 1 was about \$590 per capita, or 69.94 cents of the present debt burden.

**DEBTS OF FEDERAL GOVT**

In 1918 the Federal debt of the United States was only \$1,670,000,000. By 1926 the cost of the First World War had raised this debt to \$24,298,000,000. During the 1920's, the debt was reduced steadily, falling to \$18,185,000,000 by 1930. Then the depression years of the 1930's raised the debt to \$43,303,000,000 in 1940.

On October 31, 1943, the cost of the Second World War had already lifted the national debt to \$165,000,000,000. At the present rate of expenditures and current tax collections, it is estimated that by June 30, 1944, our national debt will have reached \$210,000,000,000. Estimates for 1945 reach \$280,000,000,000.

A national debt of \$390,000,000,000 in 1945 will mean a per capita debt of approximately \$3,232 for every man, woman, and child in the country. In brief, in the span of 25 years, our per capita debt will have risen from \$12 to \$3,232, despite an increase of 47 percent in our population in this period.

The carrying charge on this indebtedness at an average interest rate of between 2 and 3 percent places a heavy burden on every taxpayer. Production that will be needed for post-war economic reconstruction must carry this burden.

Through our present deficit financing, we are unconsciously but certainly shaping our post-war economy. We must, therefore, eliminate waste, unnecessary expenditures, demands for every dollar spent,

Per capita share of the national debt, World War No. 1 and World War No. 2 as of Oct. 31, 1943

	Total national debt	National debt per capita
World War No. 1		
Pre-World War No. 1 debt		
Oct. 31, 1918	\$1,670,000,000	\$13
Oct. 31, 1926	\$24,298,000,000	\$196
Oct. 31, 1930	\$18,185,000,000	\$145
Oct. 31, 1940	\$43,303,000,000	\$352
World War No. 2		
Oct. 31, 1943	\$165,000,000,000	\$1,339
Estimate for June 30, 1944	\$210,000,000,000	\$1,716
Estimate for Oct. 31, 1945	\$280,000,000,000	\$2,272

1. This does not include guaranteed obligations of the Government agencies, which amounted to \$4,150,000,000. Source: The Chicago Journal of Commerce, Nov. 4, 1943.

**COST OF OUR DEFENSE AND WAR PROGRAM**

Fighting a global war requires expenditures of funds that are beyond the comprehension of finite minds. World War No. 1 cost the United States around \$12,000,000,000. By August 1943 the Congress of the United States had appropriated nearly \$340,000,000,000 for the prosecution of World War No. 2. Commitments, which are made by largely verbal contracts awarded and the like, totaled around \$230,000,000,000. The actual cash paid out by the United States Treasury for war purposes amounted to over \$124,000,000,000.

Cost of our program in the U. S. Government (Conservative Estimate) (Billions of dollars)

Year and month	Programs	Commitments	Cash expenditures
1918	July	2.4	4.0
1919	December	14.1	14.1
1920	July	28.1	28.1
1921	December	77.7	77.7
1930	July	115.4	115.4
1931	December	207.8	207.8
1940	July	273.4	273.4
1941	July	366.2	366.2
1942	August	520.7	520.7

1. History of Current Program, June 1942, p. 26 and Appendix 2nd, p. 2. U. S. Department of Commerce, by Congress. Commitments include contracts awarded and the like. Cash expenditures are the amount of disbursements by the U. S. Treasury.

**WAR-BOND PURCHASES**

Are the much publicized War-bond drives a failure? A thorough analysis of the War-bond purchases in the First, Second, and Third War Loan drives convinces me that they are successful only in the dollar value of bonds sold. Every issue has been oversubscribed and that should be proof that the drives were successful. A War-bond drive is not successful unless the individual citizen purchases a large portion of the bonds sold. As of October 7, 1942, we sold approximately \$54,000,000,000 of War bonds in the three War-loan drives. The individual citizen bought only seven and one-

half billion dollars of this total. Generally speaking, over 80 percent of the bonds sold in the three drives were purchased by insurance companies, mutual savings banks, State and local governments, other corporations and associations, dealers and brokers, United States Government agencies, trust funds, and commercial banks. The commercial banks bought \$10,145,000,000 worth in the First and Second Loan drives. They were prohibited from making subscriptions in the Third Loan drive. They and other financial institutions formed purchasers over \$2,000,000,000 worth in the War bonds. Since September 15 the banks have cashed in for individuals or corporations \$3,000,000,000 worth of War bonds. Bonds purchased by banks create new credit. These purchases are highly inflationary. This policy demonstrates the futility of increasing taxes to close the inflationary gap as long as we sell large sums of War bonds to commercial banks. The insurance companies and other corporations and agencies purchased approximately \$32,000,000,000 in War bonds in the first three War-Loan drives. These purchases are not inflationary, but they fail to reach the individual excess purchasing power.

The Secretary of the Treasury has announced the month of January as the opening of the Fourth War Loan drive. The goal will be \$18,000,000,000. On the basis of previous purchases the individual citizen will take \$3,000,000,000 of its quota. It is time we face these facts. The day of depending on movie stars, entertainers, and theatrical performers to put over our bond drives must end. We do not question the motives of these patriotic people who have given so generously of time and talent. The bond quota has been oversubscribed. Despite this fact, I contend they have failed. Our people need to be informed of the danger of the concentration of large holdings of bonds in our financial institutions. We need an educational campaign that will reach every citizen. He must be convinced that it is in his best interest and his children's best interests to own this share to his own Government. Our sacrificing and patriotic people can and will assume this obligation.

Sales of securities in the first 3 war loans by classes of investors

In millions of dollars	First War Loan			Second War Loan			Third War Loan		
	First War Loan	Second War Loan	Third War Loan	First War Loan	Second War Loan	Third War Loan	First War Loan	Second War Loan	Third War Loan
Nonbanking investors									
Individuals, partnerships, and private corporations	1,400	3,200	4,400	1,400	2,800	2,800	1,400	2,800	2,800
Insurance companies	1,400	2,800	2,800	1,400	2,800	2,800	1,400	2,800	2,800
Mutual savings banks	60	120	120	60	120	120	60	120	120
State and local governments	20	40	40	20	40	40	20	40	40
Other corporations and associations, dealers and brokers	2,710	6,160	6,800	2,710	5,420	5,420	2,710	5,420	5,420
U. S. Government agencies and trust funds	20	40	40	20	40	40	20	40	40
Total	7,610	18,060	20,200	7,610	15,360	15,360	7,610	15,360	15,360

See footnotes at end of table.

Sales of securities in the first 3 war loans by classes of investors—Continued

In millions of dollars	First War Loan			Second War Loan			Third War Loan		
	First War Loan	Second War Loan	Third War Loan	First War Loan	Second War Loan	Third War Loan	First War Loan	Second War Loan	Third War Loan
Commercial banks	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Total	22,470	24,440	21,720	22,470	24,440	21,720	22,470	24,440	21,720

1. Sales reported through Oct. 8. Figures not yet in for the fiscal year amounts \$28,950. This provision was further strengthened by disallowing as credit to the prime contractor any commission, percentage, brokerage, or consulting fee paid or payable to any person, firm, or in connection with the soliciting or awarding by such person of a contract with a department, unless such person is a bona fide established commercial or selling agency retained by the contractor for the purpose of securing business.

**COMMODITY TAX**

Our committee is making further efforts to eliminate those fees on our taxpayers who render no service to our war effort, yet in the aggregate draw millions of dollars in fat commissions as war brokers. While our boys are giving their very all on the battle front—while our citizens are granting under a heavy tax burden—we hear of calloused and unscrupulous individuals who are concerned only about commissions and brokerage fees. These despicable creatures must be removed from the backs of the taxpayers. The House Naval Affairs Committee made an investigation of the commission agents and war brokers on the procurement of Government munitions. Legislation was recommended by that able committee and approved by Congress. No doubt great improvement has resulted from this action. Despite present Federal statutes, rumors continue that the problem is still with us. Evidence indicates that various means and devices are being used to evade the provisions of our present statutes. Suggestions are made that these brokers are being carried on the pay rolls and on the basis of contingent fees in order to reduce these unearned gains. A study of some of the individual cases makes one wonder how responsible manufacturers would be so glibly. The members of our committee were unanimous in making an effort to stop this reprehensible practice. We realize there are legitimate commission agents and brokers. It was not our intention to disrupt these necessary services. There is no doubt in my mind but what the committee wanted to reach this group of individuals who, either through political influence or friendship with the contractor, was receiving compensation in any form as a war broker. The language in the pending bill was drafted from the following crudely drawn but all-inclusive amendment that I offered. It is quoted here so as to give the intent of the committee:

Any amount paid by a contractor to a middle broker or an individual, partnership, or corporation, as a fee for securing the contract, whether paid directly by a retailer or otherwise, will not be considered as an allowable cost item for taxation or renegotiation. Any such agent or retailer, who is recognized as such in the mercantile field, are exempt from this provision.

The language in the proposed bill continues existing law which lists war-contract brokers as subcontractors and

makes them subject to renegotiation where the total amount received exceeds \$25,000. The language in the proposed bill broadens and strengthens existing law. The following statement analyzes the new proposal and is found on page 33 of the report accompanying H. R. 3657:

Your committee estimated the provisions of existing law as to war-contract brokers, who are subject to renegotiation if the aggregate of the amounts received by such broker for the fiscal year exceeds \$25,000. This provision was further strengthened by disallowing as credit to the prime contractor any commission, percentage, brokerage, or consulting fee paid or payable to any person, firm, or in connection with the soliciting or awarding by such person of a contract with a department, unless such person is a bona fide established commercial or selling agency retained by the contractor for the purpose of securing business.

**COMMODITY TAX STATEMENTS**

During the debate on the House resolution providing for the extension of the Commodity Credit Corporation several statements were made as to the inflationary effect of the Ruml plan. In the first place, the Ruml plan was never approved by Congress, and secondly, its approval would have been deflationary. There can be no doubt about that statement because current tax collections on a higher income than the previous year's base at the same rate siphons off a large amount of money than would have been collected in the current year on the past year's lower tax liability. Congress passed the Current Tax Payment Act of 1943. It became effective as of July 1 of this year. The statement has been made that this act was 75 percent of the Ruml plan. That is not an correct statement, but, regardless of that, tax collections will be fully current by March 15, 1945.

Let us analyze the results of this action and see how inflationary the action of Congress was. If Congress had not approved the Current Tax Payment Act of 1943 we would have collected \$9,000,000,000 in personal income taxes in 1943. This was the personal income-tax liability for the year 1943 payable in 1943 under the law provision to enactment of the Current Tax Payment Act of 1943. Under the Current Tax Payment Act we will collect approximately \$19,000,000,000 in 1943 instead of \$9,000,000,000 under the old method. In other words, we collected \$10,000,000,000 more in taxes because of the passage of that act and the fact that taxes will be collected on current income at last year's rates. This \$10,000,000,000 additional increase in tax collections for the year 1943 refuse every statement and argument that collecting taxes currently is inflationary. Let no one be deceived by statements that the present method of collecting taxes as approved recently in Congress is inflationary. Following is a colloquy between Mr. Randolph Paul, General Counsel for the Treasury, and myself as found on page 178 of the hearings on the Revenue Act of 1943:

MR. CANNON, Now, Mr. Paul, can you tell me how much additional personal income tax revenue we are going to collect in fiscal year 1944 because of the Current Tax Payment Act of 1943?

MR. PAUL, Roughly nearly \$10,000,000,000. MR. CANNON, That added to the \$9,000,000,000 would be \$19,000,000,000 that you should collect this fiscal year because we passed the Current Tax Payment Act?

MR. PAUL, Yes, we are collecting this year on the basis of a higher level of income, Mr. Cannon.

MR. CANNON, I fully understand that, but this is collections. We are making \$19,000,000,000?

MR. PAUL, I think that our estimate of individual income-tax collections for the fiscal year 1944 are \$17,000,000,000.

MR. CANNON, Well, \$19,000,000,000, roughly speaking, maybe we can get together on that.

MR. PAUL, That may be.

MR. CANNON, That additional \$2,000,000,000 we have picked up, was an acute very helpful in this drive to stop inflation; is that right?

MR. PAUL, Surely, surely that I have heard of in the Treasury opposed current collection.

MR. CANNON, At no time did the Treasury have to issue any bonds because of the recently passed Current Tax Payment Act?

MR. PAUL, I said that in answer to Mr. CANNON'S question.

**RENEGOTIATION**

The purpose of renegotiation is to prevent an individual or corporation from retaining unconscionable war profits. Theoretically, this is a commendable law because no patriotic American citizen wants anyone to get rich out of war profits. Practically, it has not prevented war profiteering and the making of war millions. It is true that it has recaptured the profits from individuals and corporations who have been engaged in war production. It has, however, had no effect on contracts not woveed directly in its work.

The hotels, department stores, liquor dealers, and so on, whose business has been and will continue to be accelerated by the war far beyond the increased acceleration in war industry are not subject to the Renegotiation Act. The justification for enactment of the Renegotiation Act was the national defense and war emergency. Necessarily a great and immediate expansion of our war program was imperative regardless of cost of our orderly procurement.

Our war effort required the immediate manufacture of many items and weapons and most of this material was produced on a large-volume basis. Under these conditions cost ascertainment was most difficult to secure and the profits were difficult to determine. The result was the approval of the Renegotiation Act.

The procurement officials have now had 3 years' experience in the purchase of war materials since Pearl Harbor. It does not seem to me that they can justify the reasonableness of this act as a reprofiting statute. Procurement officials who cannot purchase standard commodities in the open market and through competitive bid without a Federal reporting statute should be removed. An effort to being made by the officials in charge to designate the Renegotiation Act as a reprofiting measure instead of a tax measure. Regardless of their statements and efforts this act must be considered as a tax measure. It deals directly with the return of money in the Federal Treasury.

MR. CANNON, Now, Mr. Paul, can you tell me how much additional personal income tax revenue we are going to collect in fiscal year 1944 because of the Current Tax Payment Act of 1943?

which should have been removed through taxation.

There are, of course, instances where the tax base of a corporation was such that the 60 percent excess profits tax law did not secure full and complete elimination of excess profits. This frequently is our tax law and the need for reopening of new issues of war material has previously manufactured or produced is the only basis for the continuance of the act. It is a dangerous law. It takes the taxing authority away from the Federal Government and places it in the hands of an individual. The contracts are renegotiated under existing law, not by standard established by Congress. In this new profit and when individuals appointed by agents of administrative branches of our Government. Truly it can be said this is an-American statute.

Mr. MARSH KARKER, Chairman of the War Price Adjustment Board, testified before the Ways and Means Committee on September 8, stating: "The renegotiation of war contracts is a dangerous and un-American statute," but later concluded it on the grounds that "we are in a dangerous and destructive situation." Representatives of the War Department, Navy Department, Maritime Commission, and other agencies authorized to renegotiate contracts appeared before our committee. There is no doubt but what they are honest, capable, and patriotic. They protested vigorously any charges by members of the committee that they had shown favoritism as between manufacturers of individuals, that they had used duress in any form to secure the signature of the contractor or renegotiation, that they had in no instance destroyed or damaged the corporate structure of any corporation, and that they had at all times given credit and encouragement to manufacturers in order that the manufacturers reduce and eliminate cost as far as possible. Despite these protestations of their conduct of the proceedings witness after witness appeared before our committee testifying to the contrary. I am reminded of the old adage, "Four actions speak as loud as I cannot hear what you say."

Evidence clearly indicated that patriotic, capable Americans making an honest and invaluable contribution to the war effort on the home front were persecuted by individuals representing these agencies in the renegotiation of contracts.

With this background, the committee set about to revise and rewrite the Renegotiation Act. The results, I am sure, are not satisfactory. There were those in the committee who wanted to repeal the act immediately, then there were others who wanted to greatly expand the work and operations of the act. As no member of that committee I am convinced we have made great improvement in existing law. I do not expect to mention specifically the many changes that are proposed as they have been frankly discussed in the committee. I do want to mention one item

that was approved by the committee and later removed on the insistence of officials in the various agencies dealing with renegotiation. In this new profit and loss section 402-A of the proposed bill, which factors must be taken into consideration in determining excessive profits. During the writing of the bill I offered an amendment adding the following words to 1913 section 403-A:

FINANCIAL ASSISTANCE TO CONTRACTORS.

In the report of the committee you will find the following statement on page 26 at the conclusion of item 5:

Your committee believes that in computing excessive profits consideration should be given to the financial problems in connection with renegotiation in applying factor (2).

Contractor after contractor appeared before our committee and testified that the renegotiation of the profits had removed funds needed for post-war conversion. Our manufacturers must build substantial reserves for post-war conversion. If they are to immediately recover to post-war production and take care of our unemployment problem. The present policies of the renegotiating agencies in the regard are not only unfair to the manufacturers but they will prove disastrous to our future economic structure. In my opinion it will be much better for the manufacturers to retain a portion of existing profits for reconversion rather than open up the doors of the Federal Treasury for post-war reconversion loans.

Mr. KNUTSON, Mr. Chairman, I yield 5 minutes to the gentleman from New Jersey (Mr. HARTLEY).

Mr. HARTLEY asked and was given permission to revise and extend his remarks in the Record.

Mr. HARTLEY, Mr. Chairman, I wish to address myself to Title IV of this bill. I do so not because I expect to change any vote here this afternoon or have this title removed from the bill, but because I want to call to the attention of the Committee what has been done by the Committee on Ways and Means with reference to postage rates.

I have profound respect for every member of the Committee on Ways and Means, and I recognize the tremendous task they have had in trying to find ways and means to raise revenue.

Title IV is a tax on postage. Frankly, I do not think it comes within the purview of the Committee on Ways and Means to deal with postage rates. No hearings were held on this particular subject, and the Post Office Department was not consulted, nor were any of the thousands of small business throughout the United States who are to be severely hurt, particularly by the revision of third-class rates, nor were any of the charitable and educational organizations that depend upon third-class mail for the solicitation of funds for their work.

Title IV is based on the naive assumption that by raising the postage rates we are going to receive additional revenue.

The history of postal rates shows that the contrary is true. Back in 1923 we revised the rates on postal cards from 1 to 2 cents on the assumption that we would obtain double the revenue. The fact is that we received less than half the revenue after the rates on postal cards were increased.

Mr. GAVIN, Mr. Chairman, will the gentleman yield?

Mr. HARTLEY, I yield to the gentleman from Pennsylvania.

Mr. GAVIN, I have some figures here that may interest the distinguished gentleman from New Jersey.

Out of a total estimated yield of \$1,001,000,000 in excess revenues voted by the committee, postal rate changes are estimated to produce \$175,000,000. In 1932, when postal volume and revenues dropped to \$688,000,000, the Post Office Department suffered a deficit of \$201,385,000. Agitation at that time for higher postal rates to save the taxpayers this expense, was defeated by the argument that the deficit could only be wiped out by maintaining low rates and building up postal volume and revenues. This has proven the soundness of that argument.

In 1942, with the same low rates existing in 1932, revenues had increased to \$888,817,000 and the deficit was reduced to \$118,825,000, a saving to taxpayers of \$195,000,000. For the fiscal year 1943, revenues are estimated at the full-time high of \$941,000,000, with an all-time low deficit of only \$2,543,125, notwithstanding Postmaster General Walker's own statement that additional revenue amounting to \$103,000,000 would have accrued to the service if all governmental departments and agencies had been required to pay postage on their free penny mail as proposed under the Board bill.

With this additional revenue the service would have shown a profit of nearly \$100,000,000.

These figures and experience speak for themselves and I respectfully direct them to the attention of every Member of the House. Low postal rates encourage mailings and produce larger volume, higher revenues, and higher profits. Higher rates discourage mailings, reduce volume and lower revenues, and create deficits.

Mr. HARTLEY, I thank the gentleman for his contribution, even though he did take me off my feet very effectively.

Mr. KNUTSON, Yes; but he is making a good speech for the gentleman from New Jersey.

Mr. HARTLEY, That is right, I agree. The gentleman has mentioned penny mail. I call attention to the fact that the committee report states that the Post Office Department is operating in the red. If they did what they are supposed to do and took credit for penny mail, they would show a profit of over \$100,000,000. We Members of Congress are accused many times of being very callous in our use of the Franklin privilege. I wish to make a comparison to show you where the real cost of mailing exists. It is apparent from the following table:

Comparison of commercial-rate cost of (regular mail) (Congressional) and penalty (Government Departments) from fiscal year 1932 to 1943, inclusive

Fiscal year	Penalty Paid	Freight Paid
1932	\$6,139,880	\$775,000
1933	14,213,414	1,018,000
1934	21,286,982	1,177,000
1935	20,299,000	1,112,000
1936	24,941,327	1,123,000
1937	25,569,907	1,279,000
1938	28,151,125	1,605,000
1939	48,959,319	1,871,000
1940	66,337,400	2,000,000
1941	75,938,112	2,600,000
1942	7,868,000,000	1,900,000

Approximately.

The proposal to double the rates of postage on third-class mail matter is designed to raise \$74,400,000. The proposal completely ignores the law of diminishing returns. The additional revenue is based upon the postage actually received from third-class mail matter in the fiscal year ended June 30, 1942, aggregating \$74,378,000. As a matter of fact, the postage for third-class mail matter for the fiscal year ended June 30, 1943, was \$10,000,000 less than in the fiscal year 1942. This decrease in postage is due to a number of factors, among them the shortage of paper and curtailment of use of paper by order of the War Production Board.

Generally speaking, the postage rate on a large volume of third-class mail matter is 12 cents per pound, subject to minimum charge of 1 cent per piece. Under the Ways and Means Committee proposal this rate would be 24 cents per pound with a minimum of 2 cents per piece, and on mailings of third class matter which had only small quantities, the rate would be increased from 1½ cents for each 1 ounce to 3 cents for each 2 ounces, and subject to minimum of 3 cents per piece. It is obvious that the small matter of third-class matter in small quantities, who now pays 1½ cents per piece cannot pay 3 cents per piece for unneeded circular matter.

For the large matter of third-class mail matter in bulk, the rate of 24 cents per pound, or a minimum of 2 cents per piece, will likewise be forced to curtail tremendously the volume of mailings. Therefore, it is probable that the Post Office Department would not realize so much postage on third-class mail under the higher rates as it now receives at the lower rates. Furthermore, it is doubtful whether the Department would be able to reduce expenditures to any appreciable extent by virtue of the reduced mailings.

In 1923 the Post Office Department had some experience with higher rates than the present rates on third-class mail matter, and the higher rates resulted in a decrease in total postage received. The Post Office Department had similar disastrous experience with the doubling of the penny postal card rate in 1923, when it was increased from 1 to 2 cents. The postage formerly received from penny postal cards almost entirely disappeared from the postal account books. In the fiscal years 1933 and 1934 the maximum wartime rate on

second class was restored by amendment to the 1932 Revenue Act. The experience of the Post Office in this increase, which averaged approximately 24 percent increase over the existing rates, resulted in the Post Office Department actually receiving less revenue at the increased rate than it did at the lower rates. In all these cases of decreased revenues the Department was unable to make any tangible reduction in expenditures, and its deficit was greatest in those years when its receipts from postage were higher than rates was less than ordinarily.

In contrast, the Post Office Department is now operating on rates that encourage the use of postal facilities and notwithstanding the fact that the Department rendered free services for the Government departments amounting to \$154,800,000 for the fiscal year ending June 30, 1943, the Department had an operating deficit, that is, cash deficit without any credits for such free services, of only \$3,543,000, and for the 12 months period ended September 30, 1943, the Postmaster General announced that for the first time in the history of the Department the total cash receipts aggregated over \$1,000,000,000, and that the Department had a cash operating profit of \$12,000,000, notwithstanding no credit was taken for the enormous amount of free services rendered the other Government departments.

The Post Office Department has a monopoly on first-class mail matter. This is the only class of mail matter where the law of diminishing returns does not apply to the same extent as in the other classes of mail, for the simple reason that there can be no competition with the Post Office Department on the transmission of letters, whereas other classes of mail matter move by competing methods of transportation, or do not originate at all because postage rates of rates of transportation are too high.

The Post Office Department must of necessity maintain an enormous organization for the handling of first-class mail matter. The lower rates on other classes of mail matter, such as second, third, fourth class (parcel post) money orders, registry, insurance, etc., are in reality a matter of fairness and rates generally in the past have been fixed for those classes on a basis which will encourage the use of the maximum facilities of the postal establishment. The results for the 12 months ended September 30, 1943, which enabled the Department to show a cash operating profit of \$12,000,000 and at the same time render \$154,800,000 worth of free services for the other Government departments, for which they received no credit, should convince all fair-minded persons who wish to look the facts squarely in the face that postal rates on classes other than first-class mail should not be tampered with or without a most careful study.

The following letters and wires forfeit the inevitable result of this tax on the Postal Service:

ROBERTSON, N. Y.

Hon. PAUL A. HARTLEY, Jr.,

House Post Office Committee,

respectfully urge immediate reconsideration of proposed increase in third-class postage

rate. Our nonprofit religious organization, New Testament missions and other religious books required by military and civilian use. Armed Forces have been supplied with 2,000,000 New Testaments, for which we supplied original plans without cost to Government Printing Office. Armed Forces have also been supplied with millions of military manuals and my Sunday school through the U. S. C. at less than actual cost. Over 800,000 soldiers received gift books furnished by our members. Increased third-class postage rates would force us to abandon mailing to these members, who make it possible for us to continue this subsidized production of the most widely read religious books for servicemen and chaplains in the armed services and for inside building amongst civilians.

Rev. JAMES H. BREWSTER,  
Conventually of the Province of New York.

BALTIMORE, Md., November 17, 1943.

PAUL A. HARTLEY, Jr.,

House Post Office Committee,

Washington, D. C.

Our Group including contributors Appeal by mail for funds for charitable military work. Proposed increase on third-class postage rates will increase the income to our members by \$11,000 each year. This may prove to be more nations' approval, thus supporting religious activities and taking from the Post Office Department the great sum which we now spend on postage. Please register our objection to increase in postage rates.

REV. DAVID M. FORTYNE,

BALTIMORE, Md., November 20, 1943.

Representative PAUL A. HARTLEY, Jr.,

House Post Office Committee,

Washington, D. C.

The proposed increase in postage rates, especially on mail matter 60¢, would be impossible for us. Holy Trinity Fathers through increase in our annual postage expenses by \$50,000. We seek financial aid for missionaries and students for precluded through mail appeals. Increased rates will cause us to suffer irreparable loss and result to complete elimination of our mail.

REV. E. CYRUS STOKES,

Holy Trinity Fathers,

Park Heights Avenue, Pikesville, Md.

TOWNS, INDIANAPOLIS.

Millsboro, Pa., November 18, 1943.

Mr. PAUL A. HARTLEY, Jr.,

House Post Office Committee,

Washington, D. C.

Dear Sir: Our books for orphan boys is supported mainly by contributions solicited by mail. We object to Ways and Means Committee proposed increase in third-class postage rates as it would require us of funds necessary to care for orphans. Under proposed rate our mailing may have to be discontinued, causing great loss to the Post Office each year.

Security policy,

Rev. ERIC E. KRAH,

O. M. Club, Director.

FERRIS HONORSING & CO.,

New York, N. Y., November 17, 1943.

The Honorable PAUL A. HARTLEY, Jr.,

The House of Representatives,

Washington, D. C.

Dear Sir: We know that you will give careful consideration to the recommendations of the House Ways and Means Committee to increase certain postage rates. Once you have allowed us the facts, however, we are confident that you will decline against these recommendations.

First, there is the irrefutable fact that an increase in postage 1944 is followed by a large reduction in revenue. Thus there is a

decrease in revenue instead of an increase. To cite one example, when in 1917 the rate on petty postal cards was increased by 2 cents, revenue from this class of mail immediately dropped from \$20,000,000 to \$10,000,000.

Second, the Postal Service is an essential service and should not be employed on a test-day method. It plays a vital part in the daily life of the Nation, and it should not be considered as a luxury.

Third, the present postal rates are doing a good job in producing revenue. Postmaster General Walker has said that if all governmental departments and agencies were required to pay postage on their free postal mail, the Department would have three times as much as it has in 1942.

Fourth, the proposed 5 percent tax on parcel post would be a discriminatory tax against the mail-order business, and more particularly against the seed industry which does the bulk of its business with Victory gardens through the mail. It would seem that the Government is also interested in the seed industry in rural communities, where it is obvious that the people living in the larger towns have much less occasion to purchase by mail.

Lower postal rates encourage mailings, and they produce larger volume and higher revenue. Higher postal rates will have a disastrous effect on business mail users, and bring less revenue to the Government.

Very truly yours,  
Wm. H. BARRON & Co.,  
HARRY CANNON, President.

THEODORE SWINE CO.,  
BOSTON, MASS., November 11, 1942.

Hon. FRED A. HARRIS, Jr.,  
House Post Office Building,  
Washington, D. C.

Sir: We desire to state our profound regret at the proposed increase in the postal rates now being considered by the House Ways and Means Committee.

We feel that the Postal Service should not be used as a means of taxation. The proposed increases are so great that their purpose can only be the raising of money for other purposes, and not for the expense of the Post Office.

The rate increase would be an unfair discrimination against certain classes of businesses. For example, for 25 years we have shipped single pairs of shoes to the customer by parcel post, a. o. d. The doubling of the a. o. d. and the increase of the money-order rate would raise the cost of our shoes about 25 cents per pair. The raising of these rates would also affect the mail-order houses who do not use a. o. d. as the parcel-post rates are not to be increased.

The rate increase is a step against the Government policy of holding the line on prices. By a large increase in postal rates, there would have to be a corresponding increase in prices. Many firms would have to request higher price callings for their goods, for these excessive proposed increases could not be absorbed with present margins.

Furthermore, these new rates might result in an actual loss of revenue. For example, we would possibly abandon the traditional method of a. o. d. shipment in favor of prepaid parcel post, thus losing for the Post Office the revenue which we get from a. o. d. shipments. Many firms would turn away from the mails to other forms of distribution.

Therefore we object to the proposed increase as a form of taxation, as a discrimination against certain types of businesses in favor of others, as a cause of increase in selling prices on many items, and as an ill-considered plan which may result in a very slight increase in revenue due to a large loss of present Post Office volume to other means of distribution.

Respectfully yours,  
I. ENGLISH, General Manager,

STANDARD ASSURANCE, Inc.,  
New York, N. Y., November 5, 1942.  
Representative FRED A. HARRIS, Jr.,  
House Office Building,  
Washington, D. C.

My Dear Representative: May we ask you to please stop the increasing of postage rates from the present rates? A few of my reasons are as follows:

First, this will be a disappointment in the feeling of revenue to pay Government expenses because people will just reduce the use of the mails. If I remember rightly, in 1917, when the mail rate on postal cards was doubled, the revenue was reduced about 50 percent. I think this holds true in all classes of mail, because I believe that people will pay 5 cents to send an air-mail letter, when it only now costs 8 cents. I believe all the other proposed classes of mail at the new against the seed industry which does the bulk of its business with Victory gardens through the mail. It would seem that the Government is also interested in the seed industry in rural communities, where it is obvious that the people living in the larger towns have much less occasion to purchase by mail.

Second, such an increase will cause a restriction in all classes of mail that are sent to our boys in the armed forces and in our judgment that would be a national calamity. Third, such an increase will drive many mail-order houses out of business and thus automatically the revenue will be reduced. Our firm does not fall in that class.

Very cordially yours,  
L. L. TRULLY.

THE HENNING CO.,  
Chicago, November 8, 1942.

Hon. FRED A. HARRIS, Jr.,  
House Office Building,  
Washington, D. C.

HONORABLE SIR: The urgent and quickest way for Congress to make the United States Postal Department an incentive to prosper in the family of Government agencies is to permit the Ways and Means Committee to raise postal rates.

This statement comes straight from the man who has the statistics—the business firms—the large mailers of first- and third-class mail—the mailers who are now and who have been keeping the Post Office in the black.

Every large national mailer we have talked to (and the list of 9 of our customers' account for some 50,000,000 pieces of mail matter each year) is unhesitatingly opposed to this haphazard legislation.

No one could possibly gain from it, not even the individual who mails a single letter a day to a soldier, sailor, or marine. And everyone who mails, or who receives mail, or who handles mail and delivery is to the Nation's good whose would lose. And this is why: Instead of doubling present postal receipts (as some gullible seem to dream) it will halve them. The amount of mail matter to be mailed, at present, is that which totals a rate of 1-cent post-card rate to 1 cent back in 1937 cut the normal yearly revenue of \$29,000,000 down to \$10,000,000.

To ease up on the strained sentiment: The Nation's mailers do not want it. The recipients of mail do not want it. (They are all mailers themselves.) And we who serve the users of mail naturally do not want it. It would kill the "pete" that buys the "golden egg" for the Post Office.

Therefore, we respectfully appeal to you to vote against this pernicious bill.  
Respectfully,  
THE HENNING CO.,  
A. J. JOCK, President.

CHORDEN BROS. BUSINESS,  
Rockford, Ill., November 15, 1942.  
Hon. Congressman FRED A. HARRIS, Jr.,  
House Office Building,  
Washington, D. C.

My Dear Congressman: Recent press releases illustrating radical increases in postal

rates, particularly in the third-class division, would, if put into effect in full or part, practically put an end to business by a mail-order way.

We have been growing and shipping garden seeds by the thousands of lbs. within through the mail-order method. For more than one-third of a century, our average shipments is to exceed 1,500,000 copies. We sell seeds in all corners of the Nation and receive orders by mail in all proper quantities to plant in their aerial quantity of seed required for given acreage, depending on cultural directions, as well as catalog notes instructions for preserving their surplus produce.

It is a well-known fact that this service increased the past 5 years by Victory garden movement, made a great contribution to the welfare of the Nation. There is no other means of reaching and serving the vast number of customers except through the mail-order division, made possible by free postal service and reasonable rates.

The raising of the quantity of higher rates on business in order to properly reach the mail-order division is a losing proposition, but at the same time, if you tax the business of getting business before the business is secured, such as would occur in an increased rate on third-class matter, and shipping and seed packages, the Government would wake up with diminishing returns to come in developed back in about 1917 when they increased the penny postal card rate from 1 to 2 cents.

We solicit your earnest support and co-operation in a spirit of justice to all that the present postal rates are and remain as they are for the time being.

Yours sincerely,  
CONRAD BAIRD, Business,  
By LAWRENCE E. CONNOR,  
Secretary and Treasurer.

THE WARD-STURM CO.,  
Anderson, Ind., November 11, 1942.

The Honorable FRED A. HARRIS, Jr.,  
House Office Building,  
Washington, D. C.

Dear Sir: Being a very heavy mail user, we are naturally very much opposed to any possibility of increased postal rates.

We would like to register our protest against such action for the following reason: Increased postal rates as a means of taxation is economically unsound, as it will result in curtailment of the use of mails when, every possible, and this will at least partially defeat the revenue-raising purpose.

The item that gives us greatest concern is the proposed increase on a. o. d. packages. Doubling this rate as proposed would increase our postal cost and delivery more than \$640 a month on our average of 4,625 a. o. d. shipments per month. This increased expense cannot be passed along to the purchaser in the face of present price controls.

Such an increase in expense would seriously handicap our business.

We recognize the difficulty of the problem at hand and realize that you are doing everything possible to make an equitable contribution of the tax laws. We trust that it will be possible for you to find a more equitable and practical method and that postal rates will be continued without increase.  
Respectfully yours,  
THE WARD-STURM CO.,  
W. K. SPEAR, President.

OFFICE OF THE POSTMASTER GENERAL,  
Washington, D. C., July 7, 1942.

Hon. ROBERT L. DOUGLASS,  
Chairman, Committee on Ways and Means,  
House of Representatives,  
Washington, D. C.

Dear Mr. Chairman: I have your letter of June 25, 1942, which suggests certain action on the part of the Post Office Department in respect of postage rates on second and third

class matter. Careful consideration has been given to this letter, which informs me of the views of the Committee on Ways and Means and the respect of the committee also the feelings of the public be studied. I am sure that certain expressed, and make such recommendations as may seem appropriate.

This proposition of the Committee on Ways and Means is as follows:

The Postmaster General is hereby notified and directed to prescribe after notice and hearing, but not later than 90 days after the date of enactment of this act, regulations providing for such increases in the rates of postage applicable to mail matter of the second class (except free country matter) and mail matter of the third class as may be necessary in order that the revenues of the Post Office in the case of such increases shall be approximately the same as would be received if the rates of postage applicable to such mail matter were increased proportionately to the increase in the rates of postage applicable to first-class mail matter, from time to time, to meet the necessary of carrying on the business of the Post Office. The rates of postage provided for in such regulations shall become effective on the first day of the month following the date of the enactment of such regulations as the Postmaster General may provide therein.

The regulations prescribed pursuant to the provisions of the act shall be published in the Federal Register.

May I as the writer say that I heartily approve your proposal that the Postmaster General be authorized and directed to conduct a study of the purpose of examining and comparing postal rates and making recommendations to Congress with reference thereto. The proposal is the most important one we address postal history. The need for this study is most urgent. It is in the public interest that the history be published publicly. This is in the best interests of the Postal Establishment and the best of all ways as well. It should serve also to educate the public in a better understanding of the affairs of the Postal Service and should lead to a more clearly defined public policy.

I am glad, however, to make the following recommendations to your committee:

1. That the proposed legislation direct that the study, hearings, and authority embrace all postage rates and rates for all services performed by the Postal Establishment:

2. That no time limit be prescribed for the filing of rates but that the proposed legislation direct that the studies and hearings be begun promptly:

3. That the language of the proposed legislation be amended to require that postage rates and rates for postal services in major cities, and rates within classes, wherever the Government has the monopoly, be fixed so as to fairly approximate the costs and expenditures respectively attributable thereto.

4. That the proposed legislation be amended to require that costs and expenditures be determined respectively attributable to other classes, classes, and classifications within classes, wherein the Government does not have the monopoly, and that the rates be fixed in the light of the general welfare and the public interest; and

5. That the legislation be amended so that the rate of the Postmaster General regarding the rate of postage on a rate for the second class be not effective until 90 days after the expiration of the rate is reported to both Houses of Congress.

As my first appearance before the Bureau of the Budget and the subcommittee of the Appropriations Committee last year, I indicated that in my opinion there was a real necessity for a scientific study of costs and revenues and an intelligent application of the results of the study in the postal business.

For example, the magnitude or the nature of the Postal Establishment. For example, what is the income and losses of the Postal Service and service agency has been estimated. It is a business operated through the mails, 44,000 post offices. It employs more than 320,000 persons. It has over 200 million dollars of real property, and about \$2,000,000,000 of the value of more than \$1,000,000,000. It is a gigantic, involved, and complicated enterprise of immense details and tremendous day-to-day operation. Its work is most exacting and requires the best in efficiency. The huge enterprise is operated with a main or headquarters office personnel of 1,247 persons. It is a complex, intricate, and complicated in its workings by an inspection force of 783 men.

It is certain that the important and exacting work of mail and revenue studies cannot be carried forward adequately with the limited departmental and inspection force available, nor even with the staff of investigators with the tremendous task of day-to-day operation.

These views, as I have said, were presented to the Bureau of the Budget and to the subcommittee of the Appropriations Committee last year in connection with the 1942 estimate for the Postal Establishment, and again in the past few months in connection with the deficiency appropriation for 1942. The Congress sympathetically considered my suggestions, and we were allowed, effective July 1, 1942, for the fiscal year 1942, \$2,500,000 for budget and administrative planning, 4 minor executive plans, and 21 minor clerical plans for the departmental service, and the Postal Establishment, and the Bureau of the Budget and the Appropriations Committee were made to care for a continuing estimate to the Department a year ago. Before relief was granted, the war was upon us, and it seemed almost impossible to plan and place in operation. Not only was it necessary to institute and train the entire postal force, but we have the continual task of seeing to it that these procedures are followed and made more effective throughout the entire Postal Establishment.

In addition, the rubber shortage caused by the war has brought to the attention the problems of finding ways and means and forecasting plans for covering the rubber shortage of 2,000,000 tire-rolls per year, notwithstanding curtailments of rubber supply. Unless an adequate supply of rubber is made available, this will be a problem of first importance to the Nation, and it is necessary that changes in rates, subsidies, and mail-handling operations, not only during the war period, but requiring adjustments of comparable complexity after the war.

In addition to all this there have come tremendous demands for additional postal work and services from other departments and agencies of the Government to assist in the war effort.

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in the postal business, in general business, and in the national economy during the war and in the post-war period.

Departmental bureaus have been increased, officials and the inspection force have exceeded their own hours to the utmost. But I have not been able thereby to obtain the complete and accurate information to perform even our daily tasks in the matter and with the thoughtful and deliberate consideration that all of us in the Postal Service recognize as absolutely essential.

With the encouragement we have received from Congress in recent months, and realizing the desire of Congress to see that the Postal Service be implemented sufficiently to conduct its affairs on a business basis, I have in the meantime attempted, within the limits of available personnel, to make a start on certain phases of postal operations which are directly related to costs, revenues, and rates.

Postal Statistics has been managed upon revenue and expenditure figures. It has seemed to me that the real guide to the Government is to be found in the volume of costs. I have felt for some time, as I indicated in the hearings before the Appropriations Committee last year and again in my annual report for the fiscal year 1941, that the peak of postal revenues would be reached and that postal work volume and costs would increase. In discussing general postal business with the Appropriations Committee last year before the investigation was, I stated that I was very optimistic of the general financial picture of the postal establishment as then estimated for the fiscal year 1941, because costs were steadily mounting. I felt then, as I do now, that we should have more complete operation and cost data in order that significant changes in the trend of the Postal Establishment be brought promptly to the attention of the structure and legislative branches of the Government for necessary action.

In order to be informed currently of the situation, in February of this year I instituted a system of monthly reports from 175 of the largest post offices to reflect promptly trends in postal statistics. While the reports are not conclusive and as yet do not cover the detail which I believe the Department should have continuously before it, I feel that these reports are accurately representative of the situation. On the basis of this information, the fiscal year 1942 as a whole will show an increase in revenue over the fiscal year 1941, and the actual postal deficit will be the smallest since 1929. The Department has definitely passed the peak of revenues, yet the work-load volume is steadily increasing and will continue to do so. In my opinion, there will be a substantial decrease in postal revenues for the fiscal year 1942 and a substantial increase in work-load volume. This will cause expenditures to greatly exceed revenues and result in a substantial postal deficit.

To what extent, and in what amount this money this will be reflected, I am not yet in a position to approximate, since this is an entirely new phase in postal history. Heretofore when there has been a decline in postal revenues, there has also been a decline in postal work-load volume, not entirely corresponding, but nevertheless within parallel. The Department, therefore, plans that before, needs to equip their units operating volume, and cost data.

To obtain and analyze these essential data and to begin promptly the necessary budget and administrative studies work on the effective date of the 1942 appropriation, I had in readiness certain plans which were put in effect July 1, 1942. I have established the Office of Budget and Administrative Planning and laid down a program of work for it. I have brought together under the Bureau of Accounts all the work of the Department in connection with reports and accounts affect-

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ing over-all operations and the administration of funds.

Last year I started the work of surveying all mail handling and financial operations in the field in order that there might be available for the first time complete and factually accurate bases for the various important phases and simplification of postal operations, and for use in the analysis of factors of cost. The preliminary gathering of these data has been completed and graphic charts have been furnished to departmental officials and the inspection force for study.

As a result of information obtained during this preliminary survey the Department has been able to eliminate and reestablish more reports and forms than in any like period in modern postal history. This has been possible without curtailing in any way from the efficiency of operations and without disturbing the way in which postal and transportation data, by the dissemination of an report form, the Postal Service has been saved each year the sum of \$1,000,000 in printing and mailing costs. By the elimination of 200 reports, the work of preparing and verifying more than 47,000,000 returns in the field and reviewing them to the extent of 100 per cent has been eliminated. By the adoption of a new group of 8 reports, the Postal Establishment has not only saved the actual cost of \$44,000 envelopes, but what is more important, it has eliminated the work of preparing, handling, and distributing them each year.

In order that instructions for the guidance of the stamp post offices and sub-offices be simplified, made uniform, and consistent, and so that instructions might be more expeditiously and efficiently placed in effect by the postal personnel, I made certain changes in the work of preparing the Manual, 15, 1943. It has been found possible not only to curtail the publication of the daily Postal Bulletin in three weeks a year, but also to reduce the volume of the page matter published monthly, bi-monthly, and quarterly. The cost of printing the Postal Bulletin during the months of April and May 1943 and 1941 averaged \$6,300, whereas during April and May 1942 and 1943 it was reduced to \$4,400. This saving has been made notwithstanding the increase in per page printing cost of over 20 percent. By this curtailment and reduction of the Postal Bulletin, not only does the total cost to be as well reduced, but there will be a saving of over 1,000,000 envelopes each year.

I cite these few examples merely for the purpose of demonstrating the possibilities of better service at a lower cost, and when sufficient manpower is available to undertake consistently procedure, reports, and forms from the standpoint of efficiency and cost of operation. It is the responsibility of management to consistently seek to simplify and improve its operations and methods so that greater efficiency and intelligent economy may result. Savings due to these efforts are important and substantial in dollar amount.

However, these savings, in terms of percentage of total postal expenditures, are necessarily small. Economy in the Postal Establishment cannot be expected to be obtained until annual postal expenditures of more than \$800,000,000. Approximately 70 cents of each dollar expended is paid out for the services rendered in the field and 30 cents of each dollar is paid out for statutory limitations, requirements, and directives made over the years. Permanent savings have been made upon the basis of 10 per cent in time two classes of expenditures. These savings make it virtually impossible to fully or partially cut expenditures—if the mail is to be moved with dispatch—if the facilities of the Postal Service are available to the public, and if the postal organization is to be used by the Government to carry out national-policy programs. Thus the field of

opportunity for working out economies is limited to the remaining 60 cents of the dollar expended.

There remains but one alternative in the field of economy and that is to restrict the type and amount of service in the very tradition of the United States Postal Service. A step in this direction would, of course, have as its effect the curtailment of deliveries and dispatches, would reduce the facilities available for hire by the public, and would limit substantially the use of the postal organization by the Government in carrying out national-policy objectives. Such a restriction of facilities and a drastic departure from the national policy pursued by our Government since the creation of the Postal Establishment.

Another and even larger factor in this relation between revenue and expenditures is the work and service performed by the Postal Establishment for other governmental agencies. Other branches and agencies of the Government are required to pay for the work done by the postal organization to assist and implement their work. The free mail privilege for governmental agencies, and the program for editorial and maintenance equipment for other services for quarters located in post-office buildings and used by other Government agencies, are important and well-known services furnished by the establishment.

However, at no time in the modern-day history have so many services in such tremendous volume been expected of and required to be furnished by the Postal Establishment. Extension of letters, transmission of government orders, returns of mail for consistency, establishment of postal facilities for more than 700 military units, free mail privilege for our armed forces, setting and accounting for the \$8,000,000 motor tax stamps valued at \$200,000,000, setting and accounting for 15,000,000 Defense-War Savings bonds valued at \$638,000,000, setting and accounting for 1,917,000,000 Defense-War Savings stamps valued at \$632,500,000, and setting of other services which have been added to the postal work-load during the past year.

For the past year a serious effort has been made to obtain reimbursement from other agencies of the Government for this work. While the Department has had more success in obtaining reimbursement than heretofore, yet statutory restrictions and diversions prevent reimbursement for many of these services. On the other hand, the Postal Establishment is being reimbursed only a minor fraction of the expense incurred for these services. The performance of these services likewise has a distinct bearing upon the relationship of revenue and expenditures of the Postal Establishment and upon the revenue derived from the various classes of mail and special services and the costs and expenditures attributable thereto.

During the last year the Postal Establishment was also utilized to sell Government securities of two kinds, 25-cent Thrift stamps and 95 War stamps. While the volume and amount of these sales were tremendous, they were not a commensurate period of this war, greatly extended.

Postal Establishment sales of Government securities

	Dec. 1, 1937, 12 months	Dec. 1, 1942, 12 months	Per- cent change
Savings and War Stamps	\$44,000,000	\$28,000,000	-36.4
War Bonds	74,000,000	74,000,000	0
Total	\$118,000,000	\$102,000,000	-13.6
Total number of articles sold	483,352,000	429,244,000	-11.2

Another vital factor in these relationships has been the enormous costs incurred in our national economy due to war effort. In modern postal history there have been no such great shifts in population and no such great shifts in the volume of mail for field personnel, business, and transportation. The largest factor in this relationship has been the expansion of a richly populated, growing population and facilities. The business cities had their effect upon the postal business, but this effect was not only limited to declining or increasing postal volume and postal receipts. Postal revenue, both in actual, potential, and possible revenues, and in the last resort, to the Postal Service, they declining revenues about declining work volume.

In a period of business depression the adjustment of postal expenditures to revenues has never been easily made. Beginning in the early thirties, the Postal Establishment had the experience and felt the effect of decreased postal income and volume, which dragged sharply with the decline in postal business activity. The reduction in the volume of postal services and facilities must mean postal work-load and volume, and obviously less expenditures for personnel and transportation. It was necessary for more the maintenance and provide the services. Executive and legislative action, though essential, became imperative. This adjustment between revenues and expenditures took many months and was eliminated by the Payne-Furnell Act, effective July 1, 1933.

At this time the Postal Establishment has encountered no more change in the income cycle. It is confronted by growth, and at this time requires great shifts in population and mobilization of military forces, and a complete conversion of business to war industry. At previous times, principles, and factors which have not been considered in charting and forecasting the future of the postal business. The Postal Establishment has become vitally important and essential.

To illustrate this, it now appears that during May 1942, of the 178 retail post-office stamps sold, 178 stamps were sold. The total of total postal revenue, based on a purchase of \$2,331,480, or 5.82 percent in postal revenue and a decrease of \$29,130, or 1.26 percent in the number of sacks of postal mail dispatched, compared with May 1941.

In the same period the number of domestic money orders issued increased 80.01, or 13.29 percent; the number of articles which increased 1,024,080, or 394 percent; the number of paid domestic registered articles increased 1,548,000, or 100 percent; the number of free domestic registered articles increased 422,347, or 41.28 percent; the number of special delivery articles increased 377,523, or 94 percent; the number of articles of the special delivery class post received and dispatched increased 188,009, or 7.5 percent. This, notwithstanding the sharp decline in postal revenues above in these few items. There was a total of \$1,000,000 in the number of transactions in the various postal services.

The expenditures at these 178 retail post offices for the month of May 1942 totaled \$28,616,714.50, and for the month of May 1941 totaled \$27,639,000.00, an increase of \$977,714.50 or 3.5 percent. Business at this smaller office volume increased substantially. During May 1942 there were 229,000 fourth-class letters and 41,000 15-cent stamps valued at 6.15 percent over May 1941. There were 1,000,000 25-cent stamps valued at 1.75 percent. During the same month the volume of money orders paid at the retail post office and fourth-class post office increased 10.61 percent.

The usual relationships and work between the various services, volume, and transactions and as between classes of post office, no longer exist.

The present dynamics of the national economy will continue to have a most important bearing upon the relation of the revenues derived from the various classes of mail and the special services, and the costs and expenditures attributable thereto. The largest factor in this relationship has been postal revenue and expenditures, as the proposal of your committee indicates, growth in population and facilities. The business cities had their effect upon the postal business, but this effect was not only limited to declining or increasing postal volume and postal receipts. Postal revenue, both in actual, potential, and possible revenues, and in the last resort, to the Postal Service, they declining revenues about declining work volume.

In a period of business depression the adjustment of postal expenditures to revenues has never been easily made. Beginning in the early thirties, the Postal Establishment had the experience and felt the effect of decreased postal income and volume, which dragged sharply with the decline in postal business activity. The reduction in the volume of postal services and facilities must mean postal work-load and volume, and obviously less expenditures for personnel and transportation. It was necessary for more the maintenance and provide the services. Executive and legislative action, though essential, became imperative. This adjustment between revenues and expenditures took many months and was eliminated by the Payne-Furnell Act, effective July 1, 1933.

At this time the Postal Establishment has encountered no more change in the income cycle. It is confronted by growth, and at this time requires great shifts in population and mobilization of military forces, and a complete conversion of business to war industry. At previous times, principles, and factors which have not been considered in charting and forecasting the future of the postal business. The Postal Establishment has become vitally important and essential.

To illustrate this, it now appears that during May 1942, of the 178 retail post-office stamps sold, 178 stamps were sold. The total of total postal revenue, based on a purchase of \$2,331,480, or 5.82 percent in postal revenue and a decrease of \$29,130, or 1.26 percent in the number of sacks of postal mail dispatched, compared with May 1941.

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As a result of information obtained during this preliminary survey the Department has been able to eliminate and reestablish more reports and forms than in any like period in modern postal history. This has been possible without curtailing in any way from the efficiency of operations and without disturbing the way in which postal and transportation data, by the dissemination of an report form, the Postal Service has been saved each year the sum of \$1,000,000 in printing and mailing costs. By the elimination of 200 reports, the work of preparing and verifying more than 47,000,000 returns in the field and reviewing them to the extent of 100 per cent has been eliminated. By the adoption of a new group of 8 reports, the Postal Establishment has not only saved the actual cost of \$44,000 envelopes, but what is more important, it has eliminated the work of preparing, handling, and distributing them each year.

In order that instructions for the guidance of the stamp post offices and sub-offices be simplified, made uniform, and consistent, and so that instructions might be more expeditiously and efficiently placed in effect by the postal personnel, I made certain changes in the work of preparing the Manual, 15, 1943. It has been found possible not only to curtail the publication of the daily Postal Bulletin in three weeks a year, but also to reduce the volume of the page matter published monthly, bi-monthly, and quarterly. The cost of printing the Postal Bulletin during the months of April and May 1943 and 1941 averaged \$6,300, whereas during April and May 1942 and 1943 it was reduced to \$4,400. This saving has been made notwithstanding the increase in per page printing cost of over 20 percent. By this curtailment and reduction of the Postal Bulletin, not only does the total cost to be as well reduced, but there will be a saving of over 1,000,000 envelopes each year.

I cite these few examples merely for the purpose of demonstrating the possibilities of better service at a lower cost, and when sufficient manpower is available to undertake consistently procedure, reports, and forms from the standpoint of efficiency and cost of operation. It is the responsibility of management to consistently seek to simplify and improve its operations and methods so that greater efficiency and intelligent economy may result. Savings due to these efforts are important and substantial in dollar amount.

However, these savings, in terms of percentage of total postal expenditures, are necessarily small. Economy in the Postal Establishment cannot be expected to be obtained until annual postal expenditures of more than \$800,000,000. Approximately 70 cents of each dollar expended is paid out for the services rendered in the field and 30 cents of each dollar is paid out for statutory limitations, requirements, and directives made over the years. Permanent savings have been made upon the basis of 10 per cent in time two classes of expenditures. These savings make it virtually impossible to fully or partially cut expenditures—if the mail is to be moved with dispatch—if the facilities of the Postal Service are available to the public, and if the postal organization is to be used by the Government to carry out national-policy programs. Thus the field of



the elimination of the Victory tax and its integration with the regular income tax by providing for a so-called minimum tax.

To explain this integration properly, perhaps it would be well to trace briefly the history of the Victory tax and its present withholding system.

The Victory tax, when it was originally adopted in the Revenue Act of 1942, had two definite advantages: In the first place it afforded an opportunity to introduce into the income tax system at least a small measure of current tax payment for all taxpayers. At the time the withholding of the Victory tax was provided for it was hoped that as a result of experience under this tax, withholding could be extended to the regular income tax at some subsequent date. Another reason for adoption of the Victory tax was to reach the incomes of a large number of citizens who were below the income tax exemptions, but who nevertheless had some ability to pay income taxes, since in the case of a married person with four dependents, the income must reach nearly \$3,000 before it was subject to regular Federal income tax. The Victory tax was levied on gross income before any deductions, except business expenses, and applied after the allowance of an exemption of \$624, regardless of family status. Family status was given recognition not for the 5 percent gross Victory tax, but only for the net Victory tax after post-war credits.

The first withholding system was thereby made extremely simple for employers, as everyone was given the same exemption for withholding and the base of the tax was the wage received by the employee. At the same time, few adjustments were required at the end of the year for over-withholding or under-withholding.

Withholding of the Victory tax proved so well that we were encouraged, last spring, to attempt to provide for the withholding of the full liability of the first surtax bracket for all taxpayers. A meeting was held which was established in the Current Tax Payment Act of 1943, which also provided for an abatement of a portion of 1942 or 1943 taxes in certain cases taxpayers fully current through withholding and quarterly payments.

When the refinements of the income tax were thus introduced into the withholding system, the Victory tax, simple enough in itself, became an extra cog in the tax machinery. It required a different tax base from that used for the normal tax and surtax, and its special treatment of family status in connection with the post-war credit made it impossible to include the Victory tax in the tax table shown on the short-form income-tax return. Recently, a separate bill was originated in the Ways and Means Committee to eliminate these complications caused by the Victory tax post-war credit, which would in virtually all cases be taken currently. However, there still remain complications even under this improved Victory tax, and there was dissatisfaction with the use of a flat exemption for all persons, regardless of family status, since some very poor families would have to pay the tax, no matter

how many children had to be supported.

Now that we have under the Current Tax Payment Act, a withholding system which collects currently the full basic tax from all wage and salary earners, and the method of quarterly payments for others, it is unnecessary to retain the complicated Victory tax, and it seemed highly desirable to devise a simpler method of reaching those taxpayers below the income-tax exemptions. In effect, the minimum tax replaced the Victory tax in the lowest income brackets, and provision has been made for family status by modifying the previously used \$624 exemption for all, to: \$700 for married persons, \$500 for single persons, and a credit for dependents equal to \$100 each. The committee bill provides that the total income tax shall not be less than 3 percent of the net income in excess of these exemptions and credits. Under the improved Victory tax, the rates provided in the committee bill, the 20-percent rate will be applied where the individual is subject to the income tax, while the 3-percent rate will be applied in the case of those individuals subject only to the minimum tax. The withholding table brackets have been made considerably narrower than they were in the Current Tax Payment Act of 1943, thereby reducing in large measure the amount of under-withholding or over-withholding arising out of the fact that wages for a given employee may not fall precisely at the midpoint of the bracket where the tax figure contained in the table was actually computed.

Several improvements have been made in the short-form income-tax return, the optional return to be used by persons having gross incomes of \$3,000 and less, composed of wages, salaries, compensation for personal services, and interest, or annuities. In the first place, the separate computations of Victory tax and credit taken currently have been eliminated. Second, provision has been made for the number of dependents in the income-tax table, thereby eliminating the deflection of the credit for dependents on the face of the return; third, the number of alternative headings for family status has been reduced to the short-form table from three to two. In computing the figures shown in the tax table contained in the bill, deductions of 6 percent have been allowed just as under present law.

For those using the long-form of return, also, the separate computation of Victory tax and credit taken currently have been eliminated. The income tax base subject to normal tax and surtax has been made the same for practically all persons—all those not receiving partially tax-subsidized interest. The computation of earned income credit has been eliminated. We believe these to be important steps toward simplification of the individual income tax.

By setting July 1 of the taxable year as the determination date for the family status of the taxpayer for the entire year, the committee bill achieves a further simplification: Under present law this date has been used only for purposes of the short-form return, making it necessary for users of the long form, whose

status has changed during the year, to provide exemptions and credits over the year. Hereafter July 1 will be used to determine the family status of all taxpayers for the entire taxable year, even for purposes of the declaration of estimated tax, and there will be no necessity for pro-rating.

In order to address the simplification of the short-form return, it was necessary to require married persons filing separate returns, each to take a single person's exemption. The effect of this provision is to reduce the total married exemption for the regular income tax from \$1,300 to \$1,050, if the option of separate returns is chosen; on the other hand, the minimum tax exemption for separate returns is \$700, and for separate returns \$1,000, an increase of \$50 in the total exemption under the separate returns option. The effect of this provision will be, in general, to reduce, but not eliminate, the advantage gained by persons in the higher brackets through filing separate returns as distinguished from joint returns. In the lower income tax groups this provision will not always operate to the disadvantage of the taxpayer when filing separate returns, because, as was pointed out above, the total exemption for the minimum tax would be greater with separate returns than with a joint return.

Two further modifications were made with respect to individual income taxes. Existing certain excise taxes, those levied directly on the consumer, have been allowed as deductions in computing net income. Some of the more important ones were the admission tax, the tax on communications, and the tax on transportation. As under existing law, the factor determining whether a Federal excise tax is deductible is the manner in which it is levied, rather than the justification of the deduction, it results in some discrimination against those persons whose Federal excise taxes paid are heavily weighted by nondeductible taxes, such as those on tobacco, liquor, sporting goods, and so forth. In addition, under existing law the same dollar amount of deductible Federal excise taxes paid results in a tax savings which was proportionately less with the surtax bracket in which the taxpayers' highest amount of income falls; for example, \$10 of deductible Federal excise taxes would result in a tax savings of 10 percent, or \$1.00, to an individual in the first surtax bracket, but would amount to 85 percent, or \$3.50, to an individual in the brackets from \$100,000 to \$150,000 of surtax net income.

These considerations, plus the fact that there was \$140,000,000 of revenue to be raised, influenced the committee in deciding to include the provision which, in the future, will disallow the deduction of Federal excise taxes paid, except those which are business expenses.

It was brought to the attention of your committee that blind persons who, in most instances, were unable to make certain additional living expenditures as a result of their infirmity. For example, many of them must employ guides or readers or attendants. It was, therefore, agreed

that a provision should be inserted in the committee bill to allow a special deduction of \$800 to every blind taxpayer for purposes of computing his taxable net income. In many cases, this allowance would relieve blind persons of any tax whatsoever, and in other cases it would materially reduce the tax. The committee adopted for the definition of a blind person the language used by the Social Security Board for the purpose of carrying out title X of the Social Security Act, as amended, relating to grants to States for aid to the blind. The Committee established July 1 of the taxable year as the date for determining the status of the taxpayer for the entire year for purposes of this special deduction.

Under the circumstances which faced the Committee, some of which have been outlined, the Committee proposals in regard to individual incomes should be accepted by the House although all the proposals may not meet with the approval of every Member.

Mr. DOUGLASSON I yield to the gentleman from Georgia (Mr. CASE) 15 minutes.

Mr. CASE, by unanimous consent, was granted permission to revise and extend his remarks.

Mr. CASE. Mr. Chairman, I feel sure that the bill the Committee on Ways and Means has brought here represents as much careful thought and hard work as any revenue bill this House has considered in many years. Beginning its deliberations September 4 the committee has spent 11 weeks of tireless work, with daily and many night sessions, exploring all fields of revenue. While the bill does not provide for any great increase of national revenue, it does, in my opinion, provide all the increase necessary at this time, and all that our people can, under present circumstances, pay.

When the great expenditures for national defense began it was thought by many authorities that if our people could pay as much as one-third of the cost of this war as we went along, we would reach a goal that would be good from every economic standpoint, but the American people are doing that and more. We are today paying nearly one-half of the Government's war expenditures as we go, and the American taxpayer is bearing the heaviest tax load of any in the world.

It was suggested that taxes be increased at least ten and one-half billion dollars for the next fiscal year, and this suggestion was said to be based on two propositions: First, the great need of the Government for the additional money, and second, the inflationary problem.

Let us consider the first proposition a moment. It was estimated on August 1 by the executive branch that 1944 Federal expenditures, including debt retirement and trust-fund disbursements, would total \$104,000,000,000, 497,000,000 of same being war expenditures.

Since that time the War and Navy Departments estimate that they will require unmet to the Treasury from \$13,000,000,000 to \$15,000,000,000 of this, leaving Government expenditures about \$90,000,000,000, of which \$32,000,

000,000 is for war purposes. This is, of course, the largest war expense of all times. A comparison with the war expenditures of other countries gives a better idea of it. It is estimated that the war expenditures of Great Britain in 1944 will be \$23,000,000,000, and that of Canada, \$5,500,000,000. However, the American taxpayer will pay next year more than the total war expenditures of both Britain and Canada; in fact, the most conservative estimate is that they will pay over \$40,000,000,000 in taxes, or one-half of our total war cost for the year.

Now as to the second proposition, the inflationary problem. A serious study of the many proposals brought here under the guise and in the name of preventing inflation will show that many of our economists are "straining at a mat that is swallowing a camel". I would not minimize the danger of inflation. Of course we must do everything we can to close the inflationary gap, but the answer certainly does not lie in placing on our people an additional tax load of \$10,500,000,000, a load that will be burdensome and cause suffering, when all the time that sum is only a fraction of the grand total of over \$100,000,000,000 of accumulated savings in the hands of individuals in the form of War Savings bonds, cash surrender value of life insurance policies, savings deposits, demand deposits, and idle currency. This represents 400,000,000,000 excess buying power. If we can maintain in this country the psychology that will render our people free of the fear of inflation there will be no harmful inflation, and I believe this psychology can be best maintained by strict economy in governmental expenditures, by effective price control and rationing, and by control of wages—and not by burdensome taxes beyond the ability of many of our people to pay, and not by subsidies which must be paid by taxpayers.

This bill, Mr. Chairman, I believe, raises as much revenue as can reasonably be borne by our people at this time without unduly disturbing our economy. As far as individual income tax is concerned we are approaching, I believe, the point of diminished returns. Few of our people know or realize that in America today, under existing tax laws for the years 1944 and 1945, no person, no matter how large his or her income, will have left during these years, after the payment of Federal taxes as much as \$24,000 net income per year. A man who had \$100,000 of net income will have to pay \$78,500 Federal taxes, leaving him \$21,500.14, and this tax increases from that figure of net income, until when we reach the man with a net income of \$700,000 we find that his taxes consume all of his income. This burden of taxation on individuals has been increasing so rapidly that our people have hardly been able to adjust their pocketbooks to it, and I think that it is wise for Congress to let them remain level for a while.

Corporate taxes are in a similar condition. It is recognized that the taxes which are now being imposed diversely

upon corporations, and indirectly upon the dividend income flowing to shareholders, are as high or higher than those imposed by the other Allied Nations.

It is of vital importance that our corporations be kept in sound financial condition so that they may be able to convert to peacetime production and provide employment for men leaving the armed forces after the war.

The withholding tax coming out of the weekly and monthly wages of every wage earner and salaried person in America has brought home to them the real meaning of Government expenditures. Every American now realizes Government spending as never before. These people will rise and demand economy and they know that every saving in Government expenditures will lighten their tax burden.

"A penny saved is a penny earned." There is no need to raise more taxes if public economies are practiced.

Mr. DOUGHTON. I yield 10 minutes to the gentleman from Indiana (Mr. LUDLOW).

Mr. LUDLOW. I shall address my remarks solely to the postal provisions which are found on pages 21-23 of the joint report before the Committee.

I am absolutely opposed to the increase in postage rates which are provided for in the tax bill. I think the provisions relating to postage should be stricken in toto from the bill. If it were not for the fact that the closed rule under which this bill comes before the House prevents the offering of amendments, I would propose an amendment eliminating the bill entirely. I hope that in the other legislative body, which operates slightly more democratically and where freedom of amendments is permitted, an amendment will be adopted striking all of these postal items. If that is done I will support the amendment when the bill returns to the House.

With all of the respect I have for the Ways and Means Committee and the able and eminent chairman and members who compose it, I think it goes entirely outside of the field of legislation and proper taxation and establishes a bad precedent when it undertakes to regulate postage rates. The Post Office Department is a great service institution and it should be careful to see that in its operations it is not hampered and handicapped by laws that impair its service character. Postage rates should be levied on a basis of justice to patrons of the post office and should not be fixed in with the doctrinaire requirements of the Government in respect to revenue. That is the only sound procedure. If we look at a postage rate policy with an eye on the revenue, we think it will squeak out taxpayers, the possibilities of crippling and destroying business are infinite hardships on postal patrons are great indeed. I have no hesitancy in saying that the postage increases carried in this bill will either drive many businesses to the wall or cripple them considerably, besides inflicting undue hardships on individual users of the postal system.

I wish to submit as a primary proposition that the Postal Service is not a

proper channel for taxation. I know that it has been so misused in some instances in the past, but that is no reason why we should continue and confirm a bad practice. It is understandable that the Ways and Means Committee in its proper and diligent search for every tax dollar should explore all prospects, but there are some fields it should not enter. This is one of them. Postage rates should be dealt with separately from taxation on the basis of the needs of the Postal Service and what is best for the patrons of that Service, and I think there is much argument to support the position that the subject should be handled legislatively by the regular legislative committee that is constituted to handle such questions, the House Committee on the Post Office and Post Roads, of which the able gentleman from Virginia (Mr. BUREN) is chairman.

The inadvisability of undertaking to make a revision of postage rates on a tax bill at this time becomes apparent when we are reminded that the Post Office Department now has that very matter under thorough consideration and investigation but has not had time to come to any conclusion thereon. The Appropriations Subcommittee of which I happen to be chairman, dealing with the Post Office Department appropriations, look legitimate at this situation and in the post office appropriation bill for the current fiscal year there was set up a cost ascertainment unit which will enable the Postmaster General to find out what it costs to handle each class of mail and to determine accurately and scientifically the profit on some classes of mail and the losses on other classes, the amount of increase of postage certain classes can be expected to stand without injustice to patrons and without incurring the risk of diminishing volume which might defeat the purpose of any increase. All of this information, accurately and scientifically ascertained and determined is essential as a basis for any postage increase that will be anything more than a haphazard guess in the dark inspired by a desire to reach out and grasp something to take. The cost ascertainment I speak of is something the Postmaster General has long yearned for. He has repeatedly lamented that although he is at the head of the largest business establishment in the world he has no idea what the actual cost is of handling the various classes of mail which either produce net income or drag down the net revenue of that establishment. Pursuant to the authorization which we gave him in our bill he has created his own ascertainment unit and has called to his service in directing the investigation two of the most eminent cost experts in the country, Charles A. Heis, comptroller, and Allan B. Crunden, assistant comptroller, of the American Telephone and Telephone Co. Mr. Heis and Mr. Crunden came to Washington early in this fiscal year and organized a staff of high efficiency which is now in the midst of investigating and developing the facts on which it will be possible

to make a sound revision of the postal rates.

I submit that it would be a massive waste viewpoint of this matter to follow the procedure to allow that cost ascertainment unit to function and to develop its findings before we undertake in the postage rates bill to put a tax bill without having any dependable idea of the effect of what we are doing. I hope that the able chairman and members of the Ways and Means Committee will consider the facts I have presented about the unit that is already functioning in the Post Office Department in respect to the revision of postal rates and that before the tax bill gets through Congress the provisions increasing postage rates will be stricken out so that later when we have committee that is constituted to handle such questions, the House Committee on the Post Office and Post Roads, of which the able gentleman from Virginia (Mr. BUREN) is chairman.

Mr. COLE of Missouri. Will the gentleman yield?

Mr. LUDLOW. I yield.

Mr. COLE of Missouri. I would like to compliment the gentleman on his speech. I am a member of the Post Office and Post Roads Committee. I do not oppose to any increase in postal rates.

Mr. BUREN. Will the gentleman yield?

Mr. LUDLOW. If I have time, I yield.

Mr. BUREN. I would like to compliment the gentleman upon his remarks and I regret that the rule under which the bill was brought here to prevent him from offering an amendment as he suggested. I would consider it a pleasure to vote for such an amendment.

Mr. LUDLOW. I thank the gentleman.

Mr. COLE of Missouri. Will the gentleman yield?

Mr. LUDLOW. Yes.

Mr. COLE of Missouri. I desire to observe that the Post Office Department is at the present time in the black of its first time in many years, in spite of all this penalty mail and Government pamphlets that they have to carry to the various parts of the United States and possessions.

Mr. LUDLOW. The gentleman is absolutely correct. The Post Office Department made \$1,300,000 in the fiscal year 1943, over and above all expenses put together. It is in the black to the extent of \$1,300,000.

Mr. COLE of Missouri. For the first time in many years.

Mr. LUDLOW. Yes.

Mr. COLE of Missouri. I see you will like to be able to vote to strike this bill from this bill.

Mr. LUDLOW. I thank the gentleman.

The CHAIRMAN. The time of the gentleman has expired.

Mr. DOUGHTON. I yield such time as he may require to the gentleman from Oklahoma (Mr. STEWART).

(By unanimous consent, Mr. STEWART was granted permission to rise and extend his remarks.)

Mr. STEWART. Mr. Chairman, I wish to voice my opposition to an in-

crease in taxes on theater tickets and first-class postage. In my opinion this phase of the proposed bill will bring less, not more, money into the tax tills. Why do you do that? I have been bombarded with letters from my district from the theater people saying higher admission prices will decrease attendance at theaters in the post where there will not be any more Federal revenue than is now derived from this source. I think we should lend an ear to their views in this matter. Theater men have certainly done their part in the war effort from the standpoint of morale, public education, and War bond drives. And school children are another angle to consider. They make up a larger part of the theater patronage and their limited funds are stretched and their limited funds would not stand the increase in admission. I think your Committee will agree to a proposal to place the tax on show tickets based to its present rate and give the show-going folk and the show people a chance to continue with their good work.

Now, about an increase in postage. I do not believe this should be saddled on the backs of the businessmen and patrons. I learned when the Ruml plan was being discussed in the session that such was the bill as H. R. 3987 would be in the office of your committee and that it would be a mere ploy to raise a portion of your fiscal obligations of \$12,000,000,000 to those who have made their big profits primarily out of war contracts—to shift the burden from the super-rich to the average and underprivileged taxpayer.

Mr. GAVIN. I thank the gentleman for his vote for the Ruml tax plan and I want to vote for this bill.

That does not permit me to discuss the many objections I have to this measure, but upon the subject of the increase in picture-show tickets and postage rates I have tried to make myself clear.

Mr. KNITTON. I yield to the gentleman from Pennsylvania (Mr. GAVIN).

Mr. GAVIN. I ask unanimous consent to revise and extend my remarks to the House and to include one wire and three letters.

The CHAIRMAN. The gentleman has permission to revise and extend his own remarks, but to include extraneous matter he must get permission from the House.

Mr. GAVIN. Mr. Chairman, I want to take this opportunity to state to Members of the House that postal rates should not be used for purposes of taxation. We all recognize the very difficult problem and the grave responsibilities confronting Members of Congress in enacting a tax program that will provide the tremendous revenues necessary to meet the needs of the Government. We in the Congress are charged with the responsibility of determining how these revenues are to be raised and where the taxes are to be applied.

In reaching such decisions I believe that Congress must and will take into consideration the maintenance and welfare of the various parts of our economic life that will be vitally affected by these taxes. Legislation, unless carefully considered, can destroy overnight the business in many instances have taken a lifetime to build.

We all realize that additional revenues must be secured; however, there can be no justification for the Committee to vote its approval of postal-rate increases without careful consideration, and give those vitally affected an opportunity to present their views to protect their interests and investments they have made.

I would like to know if the postal authorities have been consulted or if a careful study of existing rates or of the experiences of the past served as a basis for rates now proposed. I am of the opinion we should proceed more cautiously.

New Process Co., Harris, Pa., November 4, 1943.

Hon. Louis H. GAVIN, House Office Building, Washington, D. C. Dear Sir:

Dear Congressman GAVIN, Do not get me wrong that in a direct mail-order business, which is what there are a great many in the United States, the item of postage used in circulation items is about the largest item of expense. The volume of business handled depends on the number of circulation items that can be mailed with postage results depends on the responsiveness of various rate of postage. Obviously, when the cost of third-class postage goes up, circulation goes down, and if the rate are doubled for this class of postage, as now proposed, the amount of circulation of this kind will necessarily become but a fraction of what it now is, and it will be possible to negotiate without loss only the most responsive sale. This will result in tremendous loss of business for us and other direct mail-order concerns. Facilities built up in my office will largely idle, though carrying charges will continue, and employment of white-collar people who are for the most part not eligible for Government work will be reduced appreciably here in Warren, for example, where the post office employees live in the property of the local economy need not be pointed out to you.

And what will the Government gain from the proposed doubling of third-class rates—specifically, bulk rates, under section 362, Postal Laws and Regulations (with which you are primarily concerned)? The answer is that the Government will gain nothing. It is quite obvious that reduction in the volume of circulation forced on us will either by the uncommensurable loss in rate would drastically cut our postal revenue from this source. The only result would be to increase the loss to our employees, printers, other suppliers of all kinds, our suppliers, who depend upon our circulation of employees for patronage, together with no advantage to the Government.

We have received the facts above in the hope and belief that they will aid you in doing all in your power to combat the proposed increase, or rather doubling of third-class rates, which is a most important item of our Postal Laws and Regulations.

New Process Co., JAMES L. SHAW, President, MARION C. PROCTOR, Treasurer.

LANCASTER, Pa., November 22, 1943.

Hon. Louis H. GAVIN, Member of Congress, House of Representatives, Washington, D. C.

Dear Sir: I am writing you in regard to the proposed doubling of third-class rates, which is a most important item of our Postal Laws and Regulations.

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completely out of business. Last year our third-class postage cost us \$44,234.71, including the amount under new proposed bill would be supplementary taxation for our business. Your support of motion to rescind this bill will allow us to take the postal money transferred to the House Post Office and Post Roads Committee urgently required.

WILLIAM A. PERRY, President, Lancaster County Seed Co.

The INTERNATIONAL ASSOCIATION OF PRINTING HOUSE COMPOSERS, INC., 1100 Larch St. GAYNOR, House Office Building, Washington, D. C. Dear Sir:

1. Higher third-class rates will penalize small and medium-sized businesses, which are the largest users of third-class mail. The increased rates will seriously impair, or even destroy, one of the most economic methods of getting business, especially now when there is a shortage of manpower, gasoline, and tires.

2. Will larger businesses, the added operating expense which will be incurred through increased postal rates will cause our business profits to be so small that they will go into our Government pocket and putting it into another.

3. Business operating under price ceilings have no way of covering the additional expense which will be incurred through increased postal rates.

4. The Postal Service is an essential service and a public utility, and should not be classed as a luxury along with recreation, travel, and sports. Also, the Postal Service is not a proper channel for taxation.

5. Higher rates will reduce postal revenues instead of increasing them. Experience has shown that whenever postal rates are increased, the volume of mail sent drops, but that revenue are less under the higher rates than they were under the lower. I cite the following:

6. In 1917 the penny postcard rate was increased to 2 cents. Prior to the increase the Post Office Department had been receiving an average annual revenue of \$28,500,000 from this source. After the increase became effective the revenue dropped to \$10,000,000 a year, not only failing to produce the expected revenue increase, but even resulting in revenue being out to hand.

7. When in 1924 the Department increased the first-class letter rate from 2 to 3 cents, volume dropped from 4,000,000,000 to 3,000,000,000 pieces annually, the revenue decreased. It required 13 years to restore local first-class volume to the 1922 figure.

Very sincerely,  
DORRIS C. McILHERRICK

Coal Industry Fundamentals, Pittsburgh, Pa., November 9, 1943.

Hon. Louis H. GAVIN, House Office Building, Washington, D. C.

Mr. Dear Sir: Through the newspapers, we have learned that the House Ways and Means Committee's proposal to increase postal rates includes the doubling of third-class rates.

The doubling of so-called controlled-structure letter mail for the direct postoffice and the postal trade, we are large users of this postage classification. We pay the already high rate of 3 cents per piece.

For the first 6 months of this year our third class postage bill for the mailing of our magazines alone—not including our other expenditures for postage—total \$200,000. As this rate, our postage for the year will be in excess of \$25,000.

If the rate is doubled, it will result in non-payment of our \$33-year-old business, including the additional \$30,000 represents nearly 10 percent of our gross volume—a much higher percentage than any net profit we can secure.

New Process Co., JAMES L. SHAW, President, MARION C. PROCTOR, Treasurer.

LANCASTER, Pa., November 22, 1943.

Hon. Louis H. GAVIN, Member of Congress, House of Representatives, Washington, D. C.

Dear Sir: I am writing you in regard to the proposed doubling of third-class rates, which is a most important item of our Postal Laws and Regulations.

upon corporations, and indirectly upon the dividend income flowing to shareholders, are as high or higher than those imposed by the other Allied Nations. It is of vital importance that our corporations be kept in sound financial condition, so that they may be able to contribute to postwar production and provide employment for men leaving the armed forces after the war.

The withholding tax coming out of the weekly and monthly wages of every wage earner and salaried person in America has brought home to them the mounting cost of Government expenditures. Every American now watches Government spending as never before. These people will rise and demand economy and they know that every saving in Government expenditures will lighten their tax burden.

"A penny saved is a penny earned." There is no need to raise more taxes if public economies are practiced.

Mr. DOUGHTON. I yield 10 minutes to the gentleman from Indiana (Mr. LUDLOW).

Mr. LUDLOW. I shall address my remarks solely to the postal provisions which are found on pages 88-91 of the bill now before the Committee. I am absolutely opposed to the increase in postage rates which are provided for in the tax bill. I think the provisions relating to postage should be stricken in toto from the bill. If it were not for the fact that the closed rule under which this bill comes before the House prevents the offering of amendments, I would propose an amendment eliminating these provisions entirely. I hope that the other legislative body, which operates slightly more democratically and where freedom of amendment is permitted, an amendment will be adopted striking all of these postal items. If that is done I will support the amendment when the bill returns to the House.

With all of the respect I have for the great Ways and Means Committee and the able and eminent chairman and members who compose it, I think it goes entirely outside of the field of legitimate and proper taxation and establishes a bad precedent when it undertakes to regulate postage rates. The Post Office Department is a great service institution and we should be careful to see that in its operations it is not hampered and hamstrung by laws that impair its service character. Postage rates should be based on a basis of justice to patrons of the post office and should not be tied in with the fluctuating requirements of the Government in respect to revenue. That is the only sound procedure. If we look at a postage rate solely with an eye on the revenue we think it will appear out of balance, the possibilities of crippling and destroying business and inflicting hardships on postal patrons are great indeed. I have no hesitancy in saying that the postage increases carried in this bill will either drive many businesses to the wall or cripple them considerably, besides inflicting undue hardships on individual users of the postal system.

I wish to submit as a primary proposition that the Postal Service is not a

proper channel for taxation. I know that it has been so misused in some instances in the past, but that is no reason why we should continue and confirm a bad practice. It is understandable that the Ways and Means Committee in its proper and diligent search for every tax dollar should explore all prospects, but there are some fields it should not enter. This is one of them. Postage rates should be dealt with separately from taxation on the basis of the needs of the Postal Service and what is best for the patrons of that Service, and I think there is much argument to support the position that the subject should be handled legislatively by the regular legislative committee that is constituted to handle such questions, the House Committee on the Post Office and Post Roads, of which the able gentleman from Virginia (Mr. BREWSTER) is chairman.

The inadvisability of undertaking to make a revision of postage rates on a tax bill at this time becomes apparent when we are reminded that the Post Office Department now has that very matter under thorough consideration and investigation but has not had time to come to any conclusion thereon. The Appropriations Subcommittee of which I happen to be chairman, dealing with the Post Office Department appropriations, took cognizance of this situation and in the post office appropriation bill for the current fiscal year there was set up a cost ascertainment unit which will enable the Postmaster General to find out what it costs to handle each class of mail and to determine accurately and scientifically the profit on some classes of mail and the losses on other classes, the amount of increase of postage certain classes can be expected to stand without injustice to patrons and without incurring the risk of diminishing volume which might defeat the purpose of any increase. All of this information, accurately and scientifically ascertained and determined is essential as a basis for any postage increase that will be anything more than a haphazard guess in the dark inspired by a desire to reach out and grasp something to tax. The cost ascertainment I speak of is something the Postmaster General has long yearned for. He has repeatedly lamented that although he is at the head of the largest business establishment in the world he has no idea what the actual cost of handling the various classes of mail which either produce net income or drag down the net revenues of that establishment. Pursuant to the authorization, which we gave him in our bill he has created his cost ascertainment unit and has called to his service in directing the investigation two of the most eminent cost experts in the country, Charles A. Helm, controller, and Allan B. Crunden, assistant controller, of the American Telegraph & Telephone Co. Mr. Helm and Mr. Crunden came to Washington early in this fiscal year and organized a staff of high efficiency which is now in the midst of investigating and developing the facts on which it will be possible to make a sound revision of the postal rates.

I submit that it would be a common sense viewpoint of this matter and a wiser procedure to allow that cost ascertainment unit to function and to develop its findings before we undertake to fix postage rates blindly on a tax bill without having any dependable idea of the effect of what we are doing. I hope that the able chairman and members of the Ways and Means Committee will consider the facts I have presented about the unit that is already functioning in the Post Office Department in respect to a revision of postal rates and that before this tax bill gets through Congress the provisions increasing postage rates will be stricken out, so that later when we have before us all of the facts which we have before us here I hope that we will be able to revise the postage rates in a more logical and satisfactory way.

Mr. COLE of Missouri. Will the gentleman yield?

Mr. LUDLOW. I yield.

Mr. COLE of Missouri. I would like to compliment the gentleman on his speech. I am a member of the Post Office and Post Roads Committee. I, too, am opposed to any increase in postal rates.

Mr. LUDLOW. I thank the gentleman for his contribution.

Mr. BREWSTER. Will the gentleman yield?

Mr. LUDLOW. If I have time, I yield.

Mr. BREWSTER. I would like to compliment the gentleman upon his remarks, and I regret that the rule under which the bill was brought before us prevents him from offering an amendment as suggested. I would consider it a pleasure to vote for such an amendment.

Mr. LUDLOW. I thank the gentleman.

Mr. COLE of Missouri. Will the gentleman yield?

Mr. LUDLOW. Yes.

Mr. COLE of Missouri. I desire to observe that the Post Office Department is at the present time in the black for the first time in many years, in spite of all this penny mail and Government samples that they have to carry to the various parts of the United States and its possessions.

Mr. LUDLOW. The gentleman is absolutely correct. The Post Office Department made \$1,300,000 in the fiscal year 1943, over and above all expenses put together. It is in the black to the extent of \$1,300,000.

Mr. COLE of Missouri. For the first time in many years.

Mr. LUDLOW. Yes.

Mr. COLE of Missouri. I, too, would like to be able to vote to strike it out from this bill.

Mr. LUDLOW. I thank the gentleman.

The CHAIRMAN. The time of the gentleman has expired.

Mr. DOUGHTON. I yield such time as he may require to the gentleman from Oklahoma (Mr. STEWART).

(By unanimous consent, Mr. STEWART was granted permission to read and extend his remarks.)

Mr. STEWART. Chairman, I wish to voice my opposition to an in-

crease in taxes on theater tickets and first-class postage. In my opinion this phase of the proposed bill will bring less money into the tax tills. Why do I say that? I have been bombarded with letters from my district from the theater people saying higher admission tickets will decrease attendance at theaters to the point where it will not maintain its Federal revenue than is now any more from this source. I think we should lend an ear to their views in this matter. Theater men have certainly given their part in the war effort from the standpoint of morale, public education, and War Bond drives. And school children are another angle to consider. They make up a larger part of the theater patronage and their limited funds could not stand an increase in admission. They make up a larger part of the theater patronage and their limited funds could not stand an increase in admission. They make up a larger part of the theater patronage and their limited funds could not stand an increase in admission. They make up a larger part of the theater patronage and their limited funds could not stand an increase in admission.

Now, about an increase in postage. I do not believe this should be added on the backs of the businessmen and retailers. I sensed when the Ruml plan was before us earlier in the session that such a tax bill as H. R. 3987 would be in the offing and so here it is. I consider this bill a mere pike to raise a portion of your total forgiveness of \$10,000,000,000 to those who have made their big profits primarily out of war contracts—to shift the burden from the super-rich to the average and underprivileged taxpayer. I do not vote for the postal tax plan and I cannot vote for this bill.

This does not permit me to discuss the many objections I have to this measure, but upon the subject of the increase in picture-show tickets and postage rates I have tried to make myself clear.

Mr. KNUTSON. I yield to the gentleman from Pennsylvania (Mr. GAVIN).

Mr. GAVIN. I ask unanimous consent to revise an external my remarks in the Record and to include one word and three letters.

The CHAIRMAN. The gentleman has permission to revise and extend his own remarks, but to include extraneous matter he must get permission from the House.

Mr. GAVIN. Mr. Chairman, I want to take this opportunity to state to the members of the House that postal rates should not be used for purposes of taxation. We all recognize the very difficult problem and the grave responsibilities confronting Members of Congress in providing a tax program that will provide the tremendous revenues necessary to meet needs of the Government. We in the Congress are charged with the responsibility of determining how these revenues are to be raised and where the taxes are to be applied.

In reaching such decisions I believe that Congress must and will take into consideration the maintenance and welfare of the various parts of our economic life that will be vitally affected by these legislative, unless carefully considered, our country overnight businesses that in many instances have taken a lifetime to build.

We all realize that additional reve-

lues must be secured; however, there can be no justification for the Committee to vote its approval of postal-rate increases without careful consideration, and give those vitally affected an opportunity to present their views to protect their interests and investments they have made.

I would like to know if the postal authorities have been consulted in a careful study of existing rates or of the experience of the past served as a basis for rates now proposed. I am of the opinion we should proceed more cautiously.

New PENNSYLVANIA Co.,  
Warren, Pa., November 4, 1943.

Hon. LAMM H. GAVIN,  
Member of Congress,  
House Office Building,  
Washington, D. C.

Dear CONGRESSMAN GAVIN: We do not you are aware that in a direct mail-order mail-order business there are a great many in the United States, the item of postage used in distribution boxes as about the largest item of expense. The volume of business without circulation mail, and the number of clerical staff that can be paid with profitable results depends on the responsiveness of various lists of names. Ordinarily, when the cost of third-class postage goes up the business is forced to pay a greatly increased cost, and if the rates are doubled for this class of postage, as now proposed, the amount of circulation of this kind will necessarily become but a fraction of what it is now, since it will be possible to circulate without loss only the most responsible lists. This will result in tremendous loss of business for us and other direct mail-order concerns. Facilitating bills set to handle a large volume of business with efficiency will be largely lost, though carrying charges will continue, and employment of white-collar people who are the most important for employment in our industry will decline precipitately here in Warren, for example, where the post office employees play in the prosperity of the local economy need not be pointed out to you.

And what will the Government gain from the proposed doubling of third-class rates? Specifically, built rates under section 362, Postal Law and Regulations (with which we are primarily concerned)? The answer, to us, is that we have a "little or nothing," since it is quite obvious that reduction in the volume of circulating forced on us and others by the unaccountable boost in rates would drastically curtail postal revenues.

It is our only source of revenue, and we are to become like us, our employees, our customers, our suppliers of all kinds, our local merchants, who depend upon our credits of employees for patronage, together with us contribute to the Government.

We have recited the facts above in the hope and belief that they will aid you in doing all in your power to combat the proposed increase, or rather doubling, of third-class postal rates, insuring that the proposed increase in postal rates, together with the proposed increase in picture-show tickets and postage rates, will be applied.

Respectfully,  
New PENNSYLVANIA Co.,  
JAMES L. BLAIR,  
President,  
MARION C. PETERSON,  
Treasurer.

LANCASTER, PA., November 22, 1943.

Hon. LAMM H. GAVIN,  
Member of Congress, House of Representatives,  
Washington, D. C.

New tax bill (H. R. 3987) with its proposed doubling of third-class rates, would put us

completely out of business. Last year our third-class postage cost us \$48,330.71. Doubling this amount under new proposed bill would be catastrophic taxation for our business. Four years of months in arrears in revenue to the Government would be lost. We are sending the bill with a view to having postal money transferred to the House Post Office and Post Roads Committee urgently requested.

WILLIAM A. FERRY,  
President, Lancaster County Seed Co.

TWO INTERNATIONAL ASSOCIATIONS  
OF PRINTING HOUSE OFFICERS, Inc.,  
November 20, 1943.

Hon. LAMM H. GAVIN,  
House Office Building, Washington, D. C.  
Dear Sir:

1. Higher third-class rates will penalize small and medium-sized businesses, which are the largest class of third-class mail. The increased rates will seriously impair, or even destroy, one of the most economic methods of getting business, especially now when there is a shortage of manpower, gasoline, and tires.

2. With larger businesses, the added operating expenses which will be incurred through increased postal rates will come out of these businesses' pockets and put them in even greater financial straits.

3. Businesses operating under tight budgets have had no way of providing the additional expense forced upon them by the increase.

4. The Postal Service is an essential service and a public utility, and should not be classed as a luxury along with commodes, liquor, and cigars. Also, the Postal Service is not a proper channel for taxation.

5. Higher rates will reduce postal revenues instead of increasing them. Experience has shown that whenever postal rates are increased, the volume of mail sent is reduced to such an extent that revenues are less than the higher rates than they were under the lower. I cite the following proof:

In 1917 the penny postage rate was increased to 2 cents. Prior to the increase the Post Office Department had been receiving an average annual revenue of \$30,000,000 from this source. After the increase became effective the revenue dropped to \$10,000,000 a year, and only failing to produce the expected revenue income, but even resulting in revenues being out by half.

In 1928 the Department increased the first-class letter rate from 2 to 3 cents, volume dropped from 4,000,000,000 to 3,000,000,000 pieces annually, the revenue decreased. It required 19 years to restore lost first-class volume to the 1928 figure.

Very sincerely,  
DORRIS C. McMEIKEN

ONEAL BUSINESS PRINTERS, INC.,  
Pittsburgh, Pa., November 8, 1943.

Hon. LAMM H. GAVIN,  
House Office Building,  
Washington, D. C.

Mr. Dear Sir: Through the newspapers, we have learned that the House Ways and Means Committee's proposal to increase postal rates includes the doubling of third-class rates. As publishers of so-called controlled-circulation magazines for the dental profession and the dental trade, we are large users of this postage class material. We are not the only ones who are affected by this proposal. For the first 6 months of this year our third-class postage bill for the mailing of our magazines alone—*not including our other expenditures for postage*—totalled \$17,225. At the present rate of 3 cents per pound, we will be able to pay for the same amount of postage for only \$13,500.

If the rate is doubled, it can result in cessation of our 33-year-old business, since the additional \$3,000 represents a month's pay for our 33 employees. A much higher percentage than any cut profit we are ready to

Regraded Unclassified

Obviously, many other magazine publishers are faced with a similar situation if the three-class rate is increased substantially, let alone being levied. Moreover, the readers of magazines are interested, and the manufacturers who advertise in them are advertising media, who are deprived of publications upon which they depend.

In my opinion, the proposed increase of three-class rates would tend to produce any increase in the Government's revenue. If publishers' current profits are turned into losses, and if some publishers are driven out of business, the present high taxes we are paying would not be recouped.

Yours sincerely,  
M. B. MARSH, President.

Mr. KNUTSON. I yield to the gentleman from New Jersey (Mr. TOWE).

(By unanimous consent, Mr. TOWE was granted permission to revise and extend his remarks.)

Mr. TOWE. Mr. Chairman, I am opposed to this bill because of the provision in it which arbitrarily increases the three-class mail rates.

Many publications which are of great educational value in this class of mail for distribution. These publications are not direct advertising mediums. They render a distinct service and it is quite possible that their distribution will be seriously reduced in the future. If this provision remains in the bill and finally becomes law, a group of publishers in this country will be singled out to pay a disproportionate share of the tax sought to be enacted under this bill.

Mr. KNUTSON. I yield to the gentleman from Missouri (Mr. ARNOLD).

(By unanimous consent, Mr. ARNOLD was granted permission to revise and extend his remarks.)

Mr. ARNOLD. Mr. Chairman, the proposed increase in taxes on telephones will necessitate the discrimination of telephone service in numerous farm and rural homes.

Mr. Chairman, the telephone is a necessity; it is not a luxury. The telephone industry has been classified by the War Manpower Commission as one of the 33 most essential to the prosecution of the war.

Local telephone service is essential to the domestic and business life of every community. It is vital to the national welfare.

The independent telephone companies of the country operate in about 12,000 of the 14,000 communities that enjoy telephone service.

This independent-company service includes more than 4,000,000 telephones, or about one-fifth of the total telephones in the United States.

More than 50 percent of these 4,000,000 telephones are in residences.

One million telephones are in rural homes, serving farmers.

Dwindling gasoline and tire supplies make the telephone all the more essential to farmers.

Without the telephone the farmer would not only be handicapped in farm operations, necessitating frequent contacts with neighbors and business people in town, the health and safety of his family would be jeopardized for want of ready communication with the family physician.

The proposed increase in taxes on telephones is confiscatory. It will necessitate the discontinuance of telephone service in numerous farm and rural-town homes.

The tax is discriminatory. It is more in the nature of a selective sales tax than an excise.

The tax is an increased and unnecessary burden upon already overburdened local, independent telephone businesses. While the tax is paid by the subscriber, the telephone company is responsible for its collection. The job of serving as tax collector, computing, collecting, recording, and remitting grows more onerous all the time.

Telephone companies are experiencing an acute shortage of manpower. It was testified before the House committee that the turn-over of female help is almost 400 percent in some offices, and that if 13 girls were hired on Friday, only 6 would show up on Monday.

While the expense of collecting the tax is not available for the more than 6,000 independent telephone companies in the country, if figures were available they would show a sizable amount which these companies have to spend to do the collecting and remitting of taxes. Such costs, of course, become a part of the operating expenses which are ultimately paid by the telephone users, and thus constitute a further tax increase.

There are something over 6,000 independent telephone companies in the United States. These have been classified into four groups, as follows:

- Those having an annual operating revenue in excess of \$100,000.
- Those ranging from \$50,000 to \$100,000.
- Those ranging from \$25,000 to \$50,000.
- Those having less than \$25,000 annual operating revenue.

In groups A and B together there are something over 200 companies. Groups C and D, therefore, represent about 6,200 companies, and these are typical of small business enterprises about which there has been so much said and so little done.

These 6,200 companies have a total of 2,333,614 telephones, or an average of 384 telephones per company. In other words, the typical independent small telephone company has an annual operating revenue of less than \$50,000, and an average subscriber list of 384 telephones.

Mr. Chairman, it would seem that in all fairness, and in proportion to ability to meet the costs of the tax burden and continue in business, the small independent rural telephone company with a subscriber list of less than 850 telephones should be exempted from further tax increases above those at present in force.

The failure of small business concerns is a calamity which our country cannot afford to let come to pass. To give small independent telephone companies a push toward failure by congressional act is unthinkable. And yet that is what we will be doing if we approve these tax increases.

In this matter, the Congress has a great opportunity to protect small busi-

ness enterprises, as if implicitly committed itself to do in the appointment of both Senate and House committees on small business. These committees have actively been very active. I am informed their annual expenditures for all their operations, including travel, investigation, clerical help, etc., have been, for Senate and House committees, respectively, \$57,445.22 and \$47,500, for a total of approximately \$105,000 for a year of investigation of small business problems and conditions. Here we have an opportunity to make to the taxpayers some return for all this money of theirs which has been so spent.

Mr. Chairman, the results of the proposed increase in taxes on telephones is well set forth in a letter and a telegram which I recently received from the presidents of two of these small companies located in the First Congressional District of Missouri, which I include herein as follows:

FARMERS TELEPHONE CO.,  
Mills, Mo., November 11, 1942.  
Hon. Wm. A. Rorer,  
House of Representatives,  
Washington, D. C.

Dear Sir: We are a small enterprise producing against higher taxes on the telephone industry.

Congress has picked communities up from the rest of the utility field for a tax burden in the revenue law enacted in 1941. The result is a 3-percent monthly fee on local exchange service, which was increased to 10 percent last year.

We accepted this tax cheerfully and have cheerfully acted as a tax-paying citizen for the Government. Now across a proposed raise in this tax.

As you probably know—coming from the part of the country—that a large percentage of rural and small-town telephone users keep their phones mainly because they have no other relatives in the same forms and feel that they must have their telephones.

However, many have told me that if rate on telephone service is increased again they will be forced to discontinue their telephones and that if this 12- to 20-cent increase goes into effect there is nothing else to them to do.

We feel that this proposed increase is a selective tax and a discriminatory one, and is unfair to the industry and, in addition, it will weaken the morale of the rural and small-town people, who cannot afford telephone service.

In large cities and large corporations one might work out, but small communities are unable to pay and still keep our service up to the standard we wish to have.

We maintain that a telephone is real communication and is necessary and not a wasteful luxury.

I am writing to you when I feel understand conditions here, so that you can understand the protest to the members of the war and Manpower Commission.

Will you write me with the able to help us. Sincerely,  
Vernon L. Lark, President.

GALLAGHER, Mr. November 18, 1942.  
Hon. Wm. A. Rorer,  
Congressman, First District,  
House of Representatives,  
Washington, D. C.

These people are from an increase in the telephone tax on the telephone service of our District and De Kalb County are members of which approximately 100,000 are farmers. This service is not a luxury but

a necessity with dwindling gasoline and tire supplies. With your knowledge of these rural communities, you have a 15-percent rate on telephone service is confiscatory. Is anything you can do to block this tax increase will be greatly appreciated.

Very truly yours,  
Joseph M. Rorer,  
President Inter-County Telephone Co.  
Mr. KNUTSON. I yield 5 minutes to the gentleman from South Dakota (Mr. CASE).

Mr. CASE. Mr. Chairman, I shall address myself to two phases of the bill, at least, two phases of the discussion this afternoon which have to do with the appropriations in which the War Department Appropriations Subcommittee is interested. That is as to the savings under this \$15,000,000,000 that was reported the other day and as to the re-estimation features of the bill.

Already this afternoon during the remarks made by others, there has been some discussion of this \$15,000,000,000 and its relation to the fiscal budget of the Government. Because of limited time I am only going to refer to that at this time to say that the true credit, the real profit for the saving of that \$15,000,000,000 should go to the boys in Australia, in Alaska, in Africa, in Italy, in Sicily, and on the high seas, who are responsible for the change in the military situation which made possible that financial cut-back from the military picture as it was presented to us last May.

With respect to the reestimation features of this bill, as I said early during the afternoon, the gentlemen from Oklahoma (Mr. DAWSON) and the gentleman from Minnesota (Mr. KENNEDY) and the members of the subcommittee that handled this provision are entitled to a great deal of credit, as are other members of the committee who worked on this most difficult problem we have in connection with war financing.

Reestimation was developed in the War Department Appropriation Subcommittee to meet a special and extraordinary problem. It was a problem that has scarcely been touched upon here today, the problem of vast and extraordinary profits being made on war contracts. It is a problem on which the public has been getting both one side, lately. Here is a circular put out by Mr. Edward G. Budd, president of the Budd Manufacturing Co., and the Budd Wheel Co., entitled "The Dangerous Injustice of Reestimation," which was on your desks this morning. Now, the situation in the Budd companies is the kind of situation that produced a demand for something to curb excessive war expenditures and since this circular appeared yesterday and today, I use it as a convenient illustration of the problem. After reading the circular I called on the War Department for their figures in the Budd case and I have here a break-down of the credit sheet of the Budd Manufacturing Co. Contrary to the impression one might receive from the generalities in this circular that they had made a profit of only 1 percent or something like that, listen to these figures from the records in possession of the War Department:

The Budd Wheel Co. for the fiscal year ending December 31, 1942, did a war business of \$4,571,500. Its profit, before taxes, was \$2,599,000, or 52.3 percent on its total volume of business. Its profit after taxes, if there had been no reestimation, would have been \$3,033,000, or 66.3 percent of the net worth of the company. After reestimation its profit was still 12 percent of its net sales, and its net profit after payment of taxes was 36 percent of the net worth of the company.

When the War Department Appropriations Committee ran into situations like this, it is any wonder that some of us thought that you, and you, and you, would be held accountable by the members of your district if you permitted these vast sums of money to be paid out of the Federal Treasury without any attempt at recovery?

One further reference to the facts on the Budd Co. The salary of Mr. Budd in 1938 was \$43,200, from the Budd Manufacturing Co. In 1942 that was jumped to \$60,410. But in addition to the Budd Manufacturing Co. they now had the Budd Wheel Co., and from the Budd Wheel Co. Mr. Budd received an additional salary of \$140,810, making an increase in his annual salary from \$43,200 in 1938 to \$205,000 in 1942.

Result: a massive and grossly increased profit and salaries were coming before us in the spring of 1942—yet the full facts on any case you hear about. You will understand what I mean when I say that the origin of reestimation was the situation that we confronted.

The Government, the country, was in a situation parallel to the general who found his child about to die. He said "Send for a doctor." Somebody said, "Which doctor shall I get? Shall I get the expensive doctor?" "Well, there is only one in town. You run and get him and do not ask what it is going to cost." The father said, "We have to have a doctor right away. This is a case of life and death."

A lot of the war contracts were made in that fashion. I do not justify them. I supported the effort of the gentleman from Michigan (Mr. BROWN) to eliminate cost plus and cost plus-fixed-fee contracts before we got into the war. But that last, and later we got into life war and contracts were let right and left. Many times neither the contractor nor the Government had any idea of what the cost would be to change a washing machine factory to a munition factory. So we sent for the doctor—any doctor we could get. After the doctor came, perhaps he found his costs were not so much as expected and that his price went high.

The CHAIRMAN. The time of the gentleman from South Dakota (Mr. CASE) has expired.

Mr. KNUTSON. Mr. Chairman, I yield the gentleman 3 additional minutes.

Mr. CASE. So what do we propose? Go back to the father who sent for the doctor to treat his child. After he had the doctor's bill, it is possible that he found the bill pretty stiff. He negoti-

ated. Perhaps he just said, "Let us look this over. I cannot see you again at this rate. Let us reprice this a little." Anyway he negotiated. Repricing is nothing new in business and nothing new in industry.

The amendments which this bill will propose are spot amendments in the bill. As a matter of fact, I went before the committee and I suggested to them that I thought the same as I did over a year ago, when we adopted the statute originally, that the statute was imperfect. That it was merely a start. That somebody should work on it further and perfect the details, or even try something else if it would do a better job.

This committee has done a splendid job in the amendments offered. It has given excellent study to the whole problem. Naturally I am pleased to find that five of the changes that I suggested to the committee are incorporated in the amendments now offered in the statute.

For instance, there is the explicit right of appeal by setting up a tax court, a court of appeal, and before that a review body. So that now the right of appeal will be expressly provided in the statute.

In addition to that, the size of the exemption is to be raised from contractors with war business up to \$100,000, increased to extend up to \$400,000 total Government war business.

In addition to that there is a definition of standard commercial articles, which makes it possible for the Secretary or the Single Price Adjustment Board to examine the articles where substantial competition exists.

For they have also adopted the idea of one central price adjustment board, so as to create uniform policies throughout the program for all agencies concerned and provision is made for terminating reestimation when the war ends, not 3 years afterward.

I know my time is about to expire again, but let me say again that there is no perfect answer to the problem of excessive war profits. You may have ideas that will further improve the statute, and "if you know a better hole, go to it."

There is not a Member of this House who has not repeatedly publicly and privately said that he would do all in his power to prevent excessive war profits if we ever got into war again. The law was new; it was not perfect and these amendments, while they improve it, will not make it perfect. But it works. It has saved over \$6,000,000,000 of the taxpayers' money and is getting better prices on new contracts.

You take any one of the celebrated cases and get the facts from the War Department or the Navy Department and you will agree with me that were it not for reestimation there is not a Member of this House who could go back to his district and defend the excessive profits that would have been made from War and Navy and ship contracts, without reestimation.

The CHAIRMAN. The time of the gentleman from South Dakota has again expired.

Mr. DOUGHTON, Mr. Chairman, I yield such time as he may desire to the gentleman from Oklahoma (Mr. JOHNSON).

(By unanimous consent, Mr. JOHNSON of Oklahoma was granted permission to revise and extend his remarks.)

(Mr. JOHNSON of Oklahoma addressed the Committee. His remarks will appear in the Appendix of today's Record.)

(Mr. MARCH addressed the Committee. His remarks will appear hereafter in the Appendix.)

Mr. KNUTSON, Mr. Chairman, I yield 1 minute to the gentleman from Indiana (Mr. GRANT).

Mr. GRANT of Indiana, Mr. Chairman, I ask unanimous consent to proceed out of order for 1 minute.

The CHAIRMAN: The gentleman from Indiana has unanimous consent to proceed out of order.

Without objection, it is so ordered.

There was no objection.

Mr. GRANT of Indiana, Mr. Chairman, last August a letter from the State which I have the honor to represent, Mr. Charles H. Rubin, of Mishawaka, Ind., was with the American Seventh Army in Italy. He was then confined in a hospital suffering from malaria and shell shock. On August 4 he wrote his family saying:

Dearest Paton: I passed my face yesterday, and looked at me in the pass, and passed me.

That family kept the letter and that unfortunate incident, that hurt to itself.

Following the widespread publicity given the incidents relating to Lt. Gen. George H. Patton, Jr., in the last several weeks, this family has made known the contents of that letter. Of course, they could not help but feel as any American father and mother would feel over such an incident, but like every other American, their paramount thought is the early and successful end to the war.

It is with considerable pride that I read to you, Mr. Chairman, a statement which was issued today in Mishawaka, Ind., by the father of this young soldier:

I hold no personal feelings against General Patton. If he is a good man, as they say, let's keep him. We need good men. I am willing to let the case rest as it is and drop the whole thing, and get on with the war. I want to make it clear that I do not make public the letter from Charles to spite the general; otherwise, we would have made it public long ago. As it is, we kept silent about the whole affair until a part of the incident was made in the newspaper. Then we felt that we should inform the South Bend Tribune of the letter we had received from our son. We don't want to stand in the way of a promotion to General Patton.

That, Mr. Chairman, is the kind of stuff of which Americans are made. Let the Army handle its own problems and let us get on with the winning of the war.

Miss SUMNER of Illinois. Mr. Chairman, will the gentleman yield?

Mr. GRANT of Indiana. I yield.

Miss SUMNER of Illinois. Would the gentleman tell us the date of that incident?

Mr. GRANT of Indiana. This letter was dated August 4. It said the incident happened the day before.

The CHAIRMAN: The time of the gentleman from Indiana has expired.

Mr. KNUTSON, Mr. Chairman, I yield 3 minutes to the gentleman from Nebraska (Mr. CURTIS).

Mr. CURTIS, Mr. Chairman, a little while ago when members of the Committee on Ways and Means were asking unanimous consent to extend their remarks I was earnestly in the hope that some member of the committee would ask unanimous consent to expunge everything the committee had done up to now. I realize, however, they have a tough job and I am very much pleased over the fact that we are sending this bill over to the Senate today. I feel that the American taxpayers are entitled to a tax bill that is not retroactive, and I hope the bill comes back and becomes a law before the calendar year 1943 expires.

The chairman of the committee told us that in the last 5 years the tax hand of Uncle Sam has reached down into the incomes, pay envelopes, and other properties of the American people to the extent of absorbing out tax revenues from \$9,000,000,000 a year to \$43,500,000,000.

I wonder who was hurt by taking that additional \$34,500,000,000? I believe for the most part people continue to consume food; so do they continue to buy clothing—at least what is available to be bought—but I believe, Mr. Chairman, that more than any other group in America has been hurt by this extension of the tax program, our religious and charitable institutions have been hurt. It has been the endowed colleges, the hospitals of America, the orphanages, if you please, and the churches of America that have taken the brunt of this cut in the national income by reason of our tax program.

In 1942 the contributions to religious institutions were the lowest on a percentage basis in the history of America. In 1943 it will be still lower. An unfortunate thing happened when we passed the withholding tax—something that violated a principle long established in America. We have always had that 15 percent of an individual's income if contributed to religious and charitable institutions was exempt from taxation; but under the law—whose sole income is a million of them—whose sole income is a salary subject to the withholding tax. In order for them to carry on paying to these splendid institutions they must pay a tax on exempt income and then at the end of the year file a claim for refund or credit against the United States Government.

The result is that it is making a tremendous inroad upon the income of these splendid institutions.

I offered a bill to the committee which would provide that an employee may notify his employer of his anticipated contributions at the beginning of a taxable year and have that amount subtracted from his wage at each pay-roll period before the withholding tax was applied.

That principle has the support of the colleges of America of practically every denomination, Protestant and Catholic. In the very few minutes at my disposal I do not have time to go into this thoroughly. I could read resolutions from the Protestants, the Lutherans, the Christian Scientists, the Catholics, the American Association of Colleges, and various fraternal associations. Yet the committee turned a deaf ear to that proposal. Eventually it will come. We cannot go on taxing exempt income and then expect people to file a claim for a refund at the end of the year. We cannot go on destroying the institutions that make for a strong citizenry and have any national income or property left in this country.

The CHAIRMAN: The time of the gentleman has expired.

Mr. KNUTSON, Mr. Chairman, I yield such time as he may desire to the gentleman from Michigan (Mr. MICHENER).

(Mr. MICHENER addressed the Committee. His remarks will appear hereafter in the Appendix.)

(Mr. MICHENER asked and was given permission to revise and extend his own remarks in the Record.)

Mr. KNUTSON, Mr. Chairman, I yield 3 minutes to the gentleman from California (Mr. HINSHAW).

Mr. HINSHAW, Mr. Chairman, I do not intend to take the full 3 minutes by any means. I hope no one will berate me for a few minutes to express my gratitude for this moment of vindication.

A little over a year ago when we were considering the conference report on the tax bill for which I had previously voted, the conference report came into the House from the Senate containing what is now known and what was then known as the Victory tax. I believed that as things went to call it, piece of legislation that I had voted against, with only one other Member of the House, to vote against it. Two of the most affable gentlemen of the fourth estate who preside over the destinies of our words approached me following that vote and asked: "Did you vote against that Victory tax?" I said, "I did."

Those words went far and were very the country and the nation was very bitterly condemned at home. That day I received election and some of my friends and political opponents stated, "Hinshaw has voted against victory by voting against the Victory tax." Now, I find that the noble Committee on Ways and Means, the Treasury Department and everybody in the United States agrees that it was a miserable tax to start with.

I therefore appreciate those few sweet moments of vindication. The Victory tax is repealed by this bill. I should not have been enacted in the first place.

Mr. Chairman, this bill we are considering today will please me and Mrs. John Public are entitled to a simplification of tax returns. It is a simplification of the Ways and Means Committee that the Ways and Means Committee take a long vacation from considering new forms of taxes, so that they may be able to retire into their cabinet

and do a job of simplification. It takes a Philadelphia lawyer and a Congressional accountant to make out one of these returns and even then there is no even chance certainly that the return is correct. They do not need paying taxes but they do need the art of profound dependency. They contemplate making not the returns.

Mr. DOUGHTON, Mr. Chairman, I yield such time as he may desire to the gentleman from Pennsylvania (Mr. KELLEY).

Mr. KELLEY, Mr. Chairman, I am opposed to this tax bill. There are several reasons. The principal reason is the inclusion of the minimum tax provision whereby the families of lowest income are subject to taxation. The exemption for a married man is but \$500 and but \$100 for each child. Does not one ever give a thought to the unemployed, the poor to win meat, bread, and fuel, and their consequent inability to pay taxes? This smacks of rank injustice.

(Mr. KELLEY asked and was given permission to revise and extend his own remarks in the Record.)

Mr. DOUGHTON, Mr. Chairman, I yield 5 minutes to the gentleman from Wisconsin (Mr. FLANNAGAN).

Mr. FLANNAGAN, Mr. Chairman, I am disturbed over this bill in more ways than one.

In the first place, I am afraid that we are dodging our tax responsibility. Under the tax bill passed sometime ago, we have billions of dollars and now in response to the demands of the President and the Treasury for a bill that would produce ten or eleven billions of dollars, we come in with a bill estimated to bring in some \$2,000,000,000. Do not forget that we are spending billions of dollars, the greater part of which we are borrowing, and that some day we have got to pay back every cent we borrow. The time, in my opinion, to increase taxes is when our people are making money, as they are today, and can stand the additional burden. Are we meeting our responsibility as representatives of the people, when the Treasury needs money like it never did before, by forgiving billions of dollars to us in the first tax bill, and then in response to a request from our Secretary of the Treasury for a bill providing for two or three billions of dollars, bringing in a bill for only \$2,000,000,000?

On yesterday, when the subsidy bill we before the House, the argument was made that, in paying subsidies, we were asking our soldier boys to not only do the fighting but to pay a part of our food bill as well. While I thought the argument stirring and dramatic in bringing in the first tax bill and in this tax bill only giving the Treasury two of the ten or eleven billions asked for, I am not so certain that the argument cannot be advanced that in pursuing such a course we are forcing our boys to do both the fighting and the paying.

In the second place, I do not think title VII, which provides for the renegotiation of war contracts, has any place in a tax bill. Why? Well, let me tell you why. A tax bill has to be brought in under a closed rule. This is necessary in order to prevent amendments that would

in all probability, wreck the bill. A tax bill, being highly technical, needs careful and painstaking consideration, and it would be impossible to write such a bill upon the floor. No, we are not objecting to the war rule, so far as it applies to that part of the bill relating to taxes. What I am objecting to is lacking title VII into the bill and attempting to see me into voting for or against the bill as a whole. It has been observed, and I understand from good authority, that while the bill under consideration will raise around \$2,000,000,000, the opening up of hundreds of closed-contract cases, cases that have been finally settled, and renegotiating settlements of these cases under the new rules set forth in title VII, will in all probability cost the Government some \$3,000,000,000. We are about to raise \$2,000,000,000 by taxes, give away \$3,000,000,000 in opening up and renegotiating settled war contracts, and wind up some \$1,000,000,000 worse off than when we commenced? I wonder.

If it is right for these closed cases to be opened up, why did not the committee bring in a separate bill on the subject, and give the membership of the House an opportunity to look thoroughly into the matter? Why legislate on the subject in a tax bill. We are about to put through legislation by tacking it onto a tax bill that it would be impossible to get through if considered independently after free and open debate and with the right amendments?

Mr. Chairman, because this bill contains title VII, I cannot vote for it.

Mr. BAIDOFF, Mr. Chairman, will the gentleman yield?

Mr. FLANNAGAN. I yield to the gentleman from Wisconsin.

Mr. BAIDOFF, The gentleman from California (Mr. GANNAM) and the gentleman from Illinois (Mr. CANNON) objected to any renegotiations. I wanted to ask them if they felt that the soldier who was drafted into the service had the right to renegotiate?

Mr. FLANNAGAN: The charges was made here yesterday that in paying a soldier we were asking the soldier boys to do the fighting but to pay a part of our food bill. I am wondering what the soldier boys are going to say when they come back and find that in the first tax bill we forgave seven or eight billion dollars, then came along with a bill providing for renegotiation of contracts that will probably cost the taxpayers \$3,000,000,000. Are we asking our soldier boys to do the fighting and the paying also? I wonder.

(Mr. FLANNAGAN asked and was given permission to revise and extend his own remarks in the Record.)

Mr. DOUGHTON, Mr. Chairman, I yield 5 minutes to the gentleman from California (Mr. YOUNG).

Mr. YOUNG of California. Mr. Chairman, the remarks of the gentleman from Virginia, who just addressed the Committee, outline one of the reasons why I opposed a closed rule on this bill. First of all, may I say that my regard for the members of the Ways and Means Committee is a very sincere one and when I am going to say in criticism of this bill I am sure they will all understand. I have sincere appreciation for the fact that the members of that committee, even after year, have been patient and kind enough to listen to me come before them and testify.

The most clear obligation of the Congress has not been fulfilled in this bill. The job that Congress should have done in taxation has not been done in this bill. I agree with the chairman of the Ways and Means Committee when he said that there has been too much talk about inflation. There has been too much of the wrong kind of talk about inflation. There has been too much talk about how a change in a farm price or a change in a wage level is going to cause inflation. I do not believe it does. These things are the result of an inflationary situation.

Furthermore, inflation is not nearly so ruinous to a nation as deflation is. I have warned before of this, and I warn again that our greatest danger to the rank and file of the people in this country—and especially to agriculturists—is going to be from an attempt to bring about a deflation after the war is over. But that attempt will most certainly be stronger in the extent that we permit an inflation to take place now. Furthermore, the Government has taken the responsibility for determining by and large the level of income of almost every single person in this Nation. As long as it is true, we have a corresponding obligation to see to it that the money they receive is not deflated or diluted in value, which is what will happen to the extent we permit inflation to happen.

The reason I think the tax bill should have been written from the standpoint of the real needs of the country is because the Government has the one hand and the divergence between the potential supply of consumer goods and the income of the people on the other is truly an awful thing. The only real answer to inflation, since inflation is a monetary problem, is to remove the pressure upon prices. The way to remove the pressure on prices is not fundamentally by raising up an O. P. A., not fundamentally by paying subsidies—these are second-best methods that you have to use if you do not use the fundamental method—the fundamental method is to write your tax law so it does the job. That was the burden of my testimony to the committee several weeks ago. I advocate then a program different from the Treasury proposal, but one which would have yielded about the same amount of revenue to help pay now for this war.

Briefly, the figures are as follows: \$124,000,000,000 of income paid out, \$121,000,000,000 of personal income, leaving a total of \$13,000,000,000 of spendable income in the hands of the people, not evenly distributed, most of it distributed to the people getting fairly good incomes. At the same time, the maximum consumer goods we can produce will be \$90,000,000,000. If we continue to produce for the war, as of course, we must do so, we could raise more money by taxes.

I would be hard, I know it would be hard. I agree with everything anybody said about its being hard. But this is a hard



will extended by him we mind not that the United States Survey continues to be as good a reader as any outsider in the whole world.

General Forrest said the way to win was to "go there with the counter force." To today we are you get there and you get there as fast as you can.

He then said that the way to win is to go there as fast as you can.

He is beginning to lose—not because he has lost his bearings but because he has nothing to go into the future.

The Allies are beginning to march in victory because they have marshaled the full might of the world.

Hitler planned the perfect crime against the world. Like every dictator from Cato to Napoleon, the every paragraph made to Hitler that the American people were to begin a protracted war without control of the world.

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vide similar debate opportunities of course in helping the people.

We have tried promises to disarm. We have said promises not to wage war. We have found that words were not enough.

It is a sustained age strength depends on us. We would be plain simple if we would only do it with this war and walked away from the peace table without provision for its replacement.

We would not be selfish to that boy on the front line who writes his father that he hopes American statement would look over the front and better of future Americans.

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This is the great unorganized group of Americans.

In both junior and senior to this group of people, I have introduced H. R. 3093, which will permit them to receive an increase of not more than 15 percent of the salary they were drawing as of January 1, 1941.

This is in keeping with the Little Bill formula as applied to wages.

It is urgent that this bill be passed immediately.

A Buck Private's View of the General Patton Incident

SPEECH OF HON. JED JOHNSON OF OKLAHOMA

IN THE HOUSE OF REPRESENTATIVES Wednesday, November 24, 1943

The House in Committee of the Whole, House on the state of the Union had under consideration the bill (H. R. 3097) to provide pay and allowances for certain members of the Army, Navy, and Air Force.

Mr. JOHNSON of Oklahoma, Mr. Chairman, I have asked the indulgence of members of the Committee at this time to read a letter I have written to our popular and able Chief of Staff of the United States Army, in which I set forth my painful duty to discuss the General Patton incident and request that in view of the wide publicity given same, the general in question be removed from his command immediately.

The letter follows: NOVEMBER 24, 1943. Gen. George C. Marshall, Chief of Staff, War Department General Staff, Washington, D. C.

Dear General Marshall: I am taking the liberty of writing you with regard to the deplorable incident involving Lt. Gen. George S. Patton, Jr., who evidently is in a very bad way.

I have read a number of accounts of the incident since the story was first told in a hospital tent in Sicily last August.

Today the country is "officially" told the general and his commanding officer were activated and in continuing to maintain the log of the incident immediately with the general demanding no representation against him.

General Patton is continuing to maintain the log of the incident immediately with the general demanding no representation against him.

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been discussed if the story had not broken over the radio.

The incident for which the general was relieved of duty is a critical period. Patton, yesterday an evacuation hospital, was walking among the wounded, talking with them on the spot and speaking to them when, he came upon a soldier sitting on a cot with his hand in his hands, weeping.

In reply to Patton's question as to what was the matter with him, the soldier was quoted as replying: "My nerves. I guess I got 'em again."

According to those present, the general then burst into a rage, and, employing profanity, raised the soldier's wrist and threw him to the floor.

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military expert. I have profound confidence in you as a military leader, and as a member of the House Appropriations Committee have voted for every dollar the Army has requested, realizing any doubt in favor of the demands of our great military leaders.

I feel that we have a great Army, and I want it to continue to be great and well equipped.

I do not have a personal acquaintance with General Patton, but I have some responsibility to our fathers and mothers of our country's defenders.

I would not wish any surveillance on the general's private life.

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stands upon thousands of young Jewish boys in Palestine who have been pleading for a chance to fight their enemies but have been prevented from so doing because of political considerations.

It makes us think of hundreds of thousands of Italian Italian soldiers waiting only to equip and outfit.

It makes us think of the fact that the Chinese and millions of Indians who might be recruited.

It makes us think of the fact that the Chinese and some other of the British Commonwealth do not draft for overseas service.

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The Drafting of Fathers

EXTENSION OF REMARKS OF HON. ANDREW C. SCHIFFLER OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES Tuesday, November 23, 1943

Mr. SCHIFFLER. Mr. Speaker, under leave to extend my remarks in the Record, I include the following editorial from the Wheeling News-Register, Wheeling, W. Va.:

The Drafting of Fathers

It is surprising to witness a father torn from his home and children, but when the larger social and economic aspects are considered, the situation seems the purely personal and because of grave national concern.

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The Plight of the White-Collar Worker

EXTENSION OF REMARKS OF HON. JOHN P. NEWSOME OF ALABAMA

IN THE HOUSE OF REPRESENTATIVES Wednesday, November 24, 1943

Mr. NEWSOME. Mr. Speaker, every Member of this House is fully aware and deeply concerned about the plight of that great group of American citizens known as white-collar workers.

This concern has been expressed in the remarks on this floor made by many Members.

These are the people who are being squeezed by the frozen salaries and the increasing costs of living and higher taxes.

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These are the people who are being squeezed by the frozen salaries and the increasing costs of living and higher taxes.

The article follows:

CAPITOL CITY  
(By John O'Donnell)

In these days when Captain Hill capitulates with the brain circles of Germany and the world is planning to surrender to an unscrupulous Congressman rise in the ancient hall of the House and plant the name of two oppressed constituents, some of the well-bred, maintaining them by name and demanding relief for their wrongs.

Representative Maurice F. Egan, Republican of New York, represents the Twenty-sixth District of the Empire State, in which reside Henry Packer, an farmer, now a schoolmaster, Franklin D. Roosevelt (whose dietary supplement is the White House), and that old apple-kicker and dairy headman of Franklin, Henry Morganthau, Jr., greatest Secretary of the Treasury since the late William Woodin.

Last election Jay Spurge Roosevelt, of Dutchess, wrote himself down as a "free-grower" at his village estate South, early passing on the innocent title of dirt farmer, but cherishing and jealously guarding a future dedicated to the nurture of groves of Christmas trees.

Spurge Roosevelt didn't shoot it, but neighboring farmers, who are not so well-groomed as the sage old squire had picked up a lot of meek knowledge on Christmas trees and their use from his study of leaf-lice and the C. P. A. B. A. But anyway, the squire's quiet dirt farming and the squire's peaceful neighbor Representative F. Egan, of Otsego.

There come the ominous tidings from Fulkton, At the very heart of the Empire State and Madison Bore milk farms, a worded and waded old dirt farmer Henry Morganthau has put his dairy herd up for auction and announced he will stick to apples. Henry has been casting an envious eye at the apple fields of New Deal Senator Eric Smeator, Vice of Virginia and as he has his personal working with neither earth for a dividend in the market, will do his utmost to concentrate on apples and to sell with this hundred head of blooded Jerseys and Holsteins.

Since the demands for justice raised recently by Representative F. Egan in behalf of constituents Roosevelt and Morganthau. It was all very much to be expected, so far as we know, there have been very few times when either Spurge Roosevelt or old Maine Henry of Fulkton helped out Hak in his political career. We recall times when both made observations that could be taken as questioning the political wisdom of Representative F. Egan. But Hak isn't one to bear a grudge when a couple of farmers' constituents get into trouble. Hak spoke right out in meeting and placed the blame where it belonged.

"Due to the existence of New Deal and C. P. A. regulations, Franklin D. Roosevelt in my district has had to abandon the claim of being a dirt farmer and assume a new title of developer or distributor of Christmas trees," said F. Egan sadly. The announcement was heart-breaking, but F. Egan recovered his composure and continued, "I have a very good substitute, Henry Morganthau of Dutchess, available to cope with New Deal price regulations and the C. P. A. selling price on cows, has relinquished his title as a dirt farmer, in order to be a dairy herd, and become a horticulturalist."

We tried in other Farmer Morganthau up by writing him to hold onto his cows for a little while, because we had a tip that Governor Dewey was trying to get the New Deal to lift these cows off the ground to save the Morganthau herd from starvation.

We got back from the Treasury's public relations department a first-person discussion by Farmer Henry on the status of his dairy herd.

As we understood it, old Farmer Henry would keep the herd if he only had a cow-making and cow-leasing family. "Dairying is a family affair in the East," observes the family cow of the Fulkton old. The man, his wife, and children have to get out and all work-up know, milk the cows. On this basis with 12 or 14 cows, that can make a dairy pay."

We realized that it would be a bit difficult for Henry to jump up from his Treasury desk at sundown and dash out to the barnyard to greet the Jerseys and Holsteins. Said Henry sadly:

"My neighbors have 12, 13, or 20 cows, and the whole family pitches in and works. I can't compete with that kind of labor. They can make a good living that way. I can't."

Then, nostalgically:

"But I can make a good living raising apples. I've got to make a living. I've got to spend the rest of my life on the place in Fulkton, and I can make a very good living raising apples."

Then, with a touch of sentiment in his honest farmer's heart, softly brushing aside a tear with his left-colored hand, Farmer Henry gave the confident assurance:

"Every one of those cows is going to find a good home. I'm confident of it. And they will be milked, too. So you can see there will be no loss to the Nation so far as milk production is concerned."

Keep De Marigny Out of the United States

EXTENSION OF REMARKS

HON. JOHN M. COFFEY

OF WASHINGTON

IN THE HOUSE OF REPRESENTATIVES

Wednesday, November 24, 1943

Mr. COFFEY. Mr. Speaker, recently, in a Miami, Fla., newspaper, there appeared a striking editorial regarding the so-called Count Alfred de Marigny, who has indicated a desire to emigrate from the Bahamas in the United States.

I am convinced that the American people, by a large majority, are bitterly opposed to providing an asylum for such undesirable as this man, De Marigny, and his pals. We have enough problems in this country without taking on the burden of supplying food and the necessities of life to such as these. His recent conviction of using "hot" oil, stolen from the Royal Air Force, is alone sufficient to justify his being excluded from the United States. The testimony taken in his recent murder trial indicates that he does not possess the character to warrant his being welcome here. But the editorial speaks for itself. Here it is:

"The verdict in the Sir Harry Oakes murder case will hold a stupor upon the international population, not for the conviction of the accused Alfred de Marigny but for the recommendation the Nassau Jurors attached to it."

"Not guilty, by a vote of 9 to 3, with an unanimous recommendation for deportation." The people of the United States are interested in the recommendation of the verdict. De Marigny fled from the French island of Martinique to the Italian Coast. The long, long way from Nassau, where a murder jury asked that he be kicked out of the Bahamas. The United States is done badly by,

Miami is only 130 miles distant. A fast plane can do it in less than an hour. And the city of Palm Beach has been previous charging upon our island neighbors to get out of the country for reasons of credit so they can enjoy the trial.

We believe that this community and the American people will agree with the letter in the Voice of the People on this point. The power that be must certainly act on the right side. The United States should investigate and prosecute. We let us see if these same powers will keep out the undesirable of Nassau. We don't want him here."

Lessons From World War No. 1

EXTENSION OF REMARKS

HON. WALTER C. FLOESER

OF MISSOURI

IN THE HOUSE OF REPRESENTATIVES

Wednesday, November 24, 1943

Mr. FLOESER. Mr. Speaker, as the St. Louis industrialist, Mr. R. J. Hannell, Vice president and secretary of the Century Electric Co., in St. Louis, Mo., has sent me a prepared memorandum entitled "Lessons From World War No. 1," which I think is worthy of the attention of the Members of the Congress:

LESSONS FROM WORLD WAR NO. 1—SIXTH AND SEVENTH CONTRACTS

WHAT WILL HAPPEN WHEN THIS WAR ENDS?

1. If the war contractor or subcontractor will study the developments which followed immediately after Armistice Day, November 11, 1918, he will be fortified in his conclusions regarding his problems when this war ends. At least three developments, following immediately after World War No. 1, were so connected to war contractors as they were difficult for them to understand:

REMARKS OF STATISTICAL ASSISTANTS

2. At the end of World War No. 1, the immediate ending in attitude on Government contracts and payment procedures was so sharp as the difference between day and night. As soon as the Government's need for war materials ended, the pressure subsided, and the production of materials on military and procedural developments subsided.

WORDS OF THE COMPTROLLER OF THE TREASURY

3. When World War No. 1 ended, the Comptroller of the Treasury let the Government contracting firms with a letter which outlined Government payments to war contractors. "An act of Congress was proposed to open the gates and this was accomplished a month after the armistice by the passage of the Debt Act."

RESPONSIBILITY FOR DELAYS IN PAYMENTS AND TERMINATION SETTLEMENTS

4. A part of the delay in payments which war contractors suffered at the end of World War No. 1 came about through their responsibility for the delay. They were not quick to assist the war effort without requiring full transactions to be fully covered by legal orders and contracts. A part of the payment hold-up, however, was caused by internal Government procedural requirements, over which the war contractors had no control whatsoever. In-

ally legislation by Congress to keep the Government payment procedure open when the war ends is needed now just as the Debt Act was required in 1918.

ADMINISTRATIVE DEFICIENCIES IN 1918 AND IN 1942

5. War contractors and subcontractors in 1918 and in 1942 would have contained their utmost efforts to improve their contracts and to spend the necessary time at the contracting Government point and to remain there until these questions are solved. Once fully executed, these commitments should be de-

THE IMMEDIATE DEVELOPMENTS

6. A few developments followed in quick succession after the armistice on November 11, 1918. These comprised war contractors on the part of their subcontractors, their sales, and their work.

7. The speed of termination and cancellation of war contracts.

8. Speed. The problem of keeping labor employed. Although the responsibility of the businessman, labor problem, because far more acute also actually at hand on a large scale than when considered in the abstract.

9. The resurgence of human procedure and contract technicalities, the renewal of emphasis on responsibility and accountability as applying to Government contracts, and the cancellation of all assessments which had been allowed in order to make the production of war material the first and foremost consideration.

10. A slow-down in payments on Government contracts which with many war contractors resulted in the stopping of payments for 4 to 6 months.

11. A slowdown in the termination process which led to the settlement of the completed portions of contracts and agreements suspended. This resulted in delays of 1 to 10 months for the smaller war contractors and delays of 6 to 18 months for the larger war contractors.

WHAT CONTRACTORS SHOULD REMEMBER

12. All of the elements which brought about the above sequence of events are present today. The steps is set for a repeat performance of the same. The only substantial difference today is that the volume of contracts to be terminated will be not less than 4 times larger to amount that they were in November 1918. This cancellation volume can result in 4 to 6 or 10 times the stress for those who are not.

WHAT CONTRACTORS SHOULD REMEMBER

13. Most of the hardships which war contractors and subcontractors suffered in 1918 and in 1942 and which developments outlined in paragraphs 5, can be eliminated.

RECOMMENDATIONS

14. First, avoid all unbalanced verbal orders. Complete orders, memorandum orders, Government commitments, and all production arrangements from the Army, Navy, Marine Corps, Maritime Commission, and other Government departments. Make sure all work has all such internal commitments are properly authorized in writing, including the signature of a Government order official in each case.

15. Second, issue Government purchase orders on a formal contract duly executed by the contractor on extensive forms submitted by the Government. Military contracts are especially subject to payment delay and are in the worsting class contract forms to be avoided. All such cases were declared void following the Armistice on November 11, 1918. Investigate such unbalanced verbal orders and make sure that all Government formal contract papers have been referred to them.

16. Third, sign all contract papers and other communications which have been submitted to you by the Government. Do not permit excuses to delay the immediate return of such instruments to the proper Government department, fully executed. If you are holding contract papers which modifications must be made, assign the task to an authorized representative and spend the necessary time at the contracting Government point and to remain there until these questions are solved. Once fully executed, these commitments should be de-

17. Fourth, have a working check made at once of all change orders, modifications, alterations, etc., which have occurred on your unbalanced contracts and orders. Make sure that each alteration is properly supported by written authorization from the originating Government department.

18. Do not allow Government collections to drag.

19. Fifth, settle all open claims. When the cash of contract negotiations ceases at the end of this war, such claims will be lost in the confusion or delay of settlement determination.

20. Seventh, legislation required to prevent "hold-ups in payments" and "delays in termination settlements." Set up an central office for supervising these matters instead of the present haphazard various groups to work on these problems.

The Lawyer's Place in an Upset World

EXTENSION OF REMARKS

HON. JOHN JENNINGS, JR.

OF TENNESSEE

IN THE HOUSE OF REPRESENTATIVES

Tuesday, November 23, 1943

Mr. JENNINGS. Mr. Speaker, under leave to extend my remarks in the Record, I include a great and timely address by the Honorable Malcolm McDermott, Dean of the School of Law of Duke University. This address was delivered before the North Carolina Bar Association in Raleigh on October 22, 1943.

Dean McDermott was Dean of the law department of the University of Tennessee before going to Duke University. He is a learned lawyer and a great American.

He was engaged for many years in the active practice of the law in Knoxville, Tenn., where he won high rank in the profession.

Mr. McDermott's address follows:

Mr. Speaker, President, ladies and gentlemen of the North Carolina Bar Association, I am in with a feeling of optimism that we are in with a bright future. Our battle, our trials, and all our energies are centered upon one great objective and property are properly authorized in writing, including the signature of a Government order official in each case.

Second, issue Government purchase orders on a formal contract duly executed by the contractor on extensive forms submitted by the Government. Military contracts are especially subject to payment delay and are in the worsting class contract forms to be avoided. All such cases were declared void following the Armistice on November 11, 1918. Investigate such unbalanced verbal orders and make sure that all Government formal contract papers have been referred to them.

But you said I know, also, that there is another kind of planning going on, a kind that is not being disclosed to the public. It is the kind that is being done in the dark, from all of the windows. It appears that the plan is an unending one. Step by step it is being put into effect. The post-war period will not be a period of the unending one. The reconstruction under the wartime emergency act, according to these planners, make the post-war achievement of their plan as easy

17. It is this internal post-war plan for America that I want to discuss, and so as to clarify, fully and impartially as I can, judging it from the point of view of the evidence that has come to light.

The danger is that such the prescription of world problems, with our eyes fixed on the international scene, we are going to miss what is being done in our own country on the inside. Obviously, if America is to play her proper part in world affairs, she must be kept strong and solid within. These qualities that have made her great are not to be preserved, but to be re-created, but also for that of the world at large.

It is the peculiar function and duty of lawyers. I submit, to try to bring these vital matters. If our constitutional government is endangered, if the rights of the people are being infringed, if the foundations of the Republic are being undermined, then it is the lawyer of America who must raise his voice and say:

As you know, we are the only professional group who take an oath to support, maintain and defend the Constitution. We are the only class of citizens who on the preliminary trials who take that solemn vow. Furthermore, it is the lawyer who is best qualified for this task. He is a free lance. He is not bound to a knowledge of the Government's administrative system, he can perceive what is going on beneath the surface and what others fail to note. It is the lawyer who speaks out and is preserved, but also for that of the world at large.

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Nov 24, 1943  
HOTEL WADE HAMPTON

Operated By South Carolina National Hotel Co.

COLUMBIA, SOUTH CAROLINA

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HOTEL MARIANA COURT  
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HOTEL CACTUS  
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HOTEL ANSELMO COURT  
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HOTEL  
HOTEL LEE  
\*  
MOUNTAIN LEE

says we have made mistakes  
that we have not called  
them "War" taxes instead  
of excess profit taxes.

no man should make  
any money out of this  
war. Find out what  
I have said about this  
revidiously.

7 + 9. made available  
to time deposit Bank  
10% of this a \$100,000  
which ever is larger.



ASSOCIATION OF NATIONAL ADVERTISERS INC.  
285 MADISON AVENUE, NEW YORK CITY, N. Y.

OFFICE OF THE PRESIDENT

November 24, 1943

Hon. Henry Morgenthau, Jr.,  
Secretary of the Treasury  
15th Street & Pennsylvania Avenue  
Washington, D. C.

Dear Mr. Morgenthau:

That was a great talk you gave us at the concluding dinner of our Wartime Conference last week and now that I am back at my desk I want to express the thanks of all of us along with my personal appreciation.

I heard nothing but the most favorable comments on all sides and I am sure it will do a lot of good. We are sending out your talk to all of our members and all of the advertisers of the country and I know it will result in better understanding of the continued need for supporting the War Loan Drives as well as other Government campaigns.

Sincerely yours,

Paul B. West

November 24, 1943

*Personal*

Dear George:

I got a good laugh out of your letter of November 22nd. I often wondered why you were so helpful to me in preparing War Bonds speeches. Now I know that you have inherited that gift from your Uncle Rob.

You may be pleased to know that I met your boss, Bill Hart, in New York, and whether it was the influence of my speech or the "spirits" of New York - be that as it may, he thinks you are a great guy, and volunteered your services for the Fourth War Loan Drive. So in the language of Uncle Rob, he has swallowed the Treasury propoganda, hook, line and sinker, and you will be my bait for the month of January.

With kindest regards,

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Mr. George Albee,  
Route #1,  
Accord, New York.

P.S.: Have you accepted the advice of the Secretary of the Treasury and disposed of your chickens?

Route #1  
Accord N.Y.  
22 Nov 1943

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

Dear Mr. Secretary:

I have read - twice - the draft of the speech  
you delivered before the advertising men.

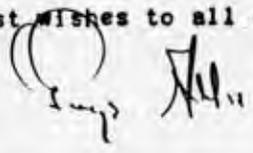
I think you were wise, first of all, to make  
a speech before them and, second, to give them a  
straight narrative. I assume that Fred prepared the  
draft. (I recognize a few cliches.) Whoever did it  
gave you an excellent job - straightforward, direct  
and marching along in easily assimilable sequence like  
a short story.

My congratulations, for what they are worth.

It was kind of you to call Governor Lehman.  
I am afraid he has already found a public relations  
man, to judge from the excellent releases that ~~xxx~~  
find their way into the newspapers, but if he has  
not I am sure that I shall hear from him. Actually  
Mrs. Albee's health demands that we stay in the  
country. But I am so strongly impelled to find a  
place for myself in some such group as Governor Leh-  
man's that - if he agreed to take me on trial for  
six months or so - we would try Washington for that  
length of time. The Federal services are the only  
place for a man like me. I inherit it, I guess. I  
had an uncle who took care of fish in the Bureau of  
Plants and Fisheries. He was very happy there, was  
Uncle Rob.

I hope that Mrs. Morgenthau is herself once  
more, and that all news of your boys remains good.

With kindest wishes to all --



November 24, 1943

Dear Frank:

Several months ago in discussing a cooperative arrangement between the Navy Department and the Treasury Department for promoting the sale of War Bonds through the financing of actual equipment, we agreed that War Bond campaigns having as an objective the raising of sufficient money to pay for various types of naval vessels should be confined to campaigns conducted by states, cities, counties or other political divisions of the population. We had in mind such campaigns as were conducted in the cities of Chicago and Atlanta to finance the replacement of lost cruisers bearing the names of those cities, and also smaller campaigns conducted by county and local organizations to finance and ~~put~~ commemorative plaques in smaller war vessels, such as submarine chasers, P.T. boats, etc.

The question now comes before me in a somewhat different form through the desire of the National Maritime Union, CIO, to finance and put a commemorative plaque in a submarine chaser. I am very sympathetically inclined to this campaign, because I believe that it is natural and

- 2 -

logical for members of an organization of American seamen to wish to finance a war vessel. The Maritime Commission is entirely willing to have them finance and name Liberty Ships, but this is too much like a "busman's holiday" to carry a particularly strong appeal to members of the National Maritime Union.

Whereas I can see the logic of limiting the financing of naval vessels so as to eliminate many types of citizen organizations from feeling that they have a special interest in any given vessel, I will be much pleased if you will make an exception in the case of the maritime unions and shipbuilding unions of both the CIO and the AF of L. Members of those unions certainly have a special interest in ships of war.

I make this recommendation particularly because we have encountered real problems in developing Payroll Savings Plans for American seamen. These seamen are apt to work for a different employer on each voyage and it is, therefore, not possible to sign a payroll deduction authorization which will be continuous, as in an industrial plant. Sales of War Bonds to merchant seamen can usually only be negotiated at the time their ships return to port and they are paid off. We are very dependent for the success of this program on the cooperation of their labor

- 3 -

organizations. Therefore, when the National Maritime Union undertakes to organize a campaign to sell enough War Bonds to finance a submarine chaser or other war vessel, the Treasury Department finds this a good answer to a difficult problem and wishes to back the union up in every possible way.

For this reason I hope that you will feel justified in relaxing the rule heretofore agreed to, to the extent of allowing the National Maritime Union to sponsor and put a plaque on a submarine chaser in case its members buy the required amount of War Bonds in their present campaign.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,  
Secretary of the Navy,  
Washington, D. C.

JLR:myr;fgt

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

November 24, 1943

TO Secretary Morgenthau

FROM Randolph Paul

We have completed the Lazard case along the lines indicated in my previous memoranda to you.

We are now informed that Lazard intends to offer William H. Schubart of the Bank of Manhattan a partnership on terms that he is likely to accept. Unless you direct otherwise, we will advise Lazard that we have no objection to Mr. Schubart becoming a partner.

*no objection - approved RRP*

*12-9-*

Treasury Department  
Division of Monetary Research

262

Date November 22, 1943 19

To: Secretary Morgenthau

From: Mr. White

*W. W.*

Our stabilization agreement with Brazil, which runs to 1947, provides for the sale of gold to Brazil, at its request, to the amount of \$200 million at the price in effect under the Provisional Regulations of the Gold Reserve Act. Under this agreement we have already sold Brazil more than \$170 million in gold.

The Minister of Finance of Brazil has asked that the agreement be amended to increase the amount of gold to be sold to a maximum of \$300 million. There is no credit aspect to these gold sales, as payment is made in dollars at the price prescribed by the Regulations.

NOV 24 1943

Sir:

Pursuant to a request from the Minister of Finance of the United States of Brazil and current discussions which have been held with the Brazilian Embassy in Washington, it is agreed as follows:

The letter of July 15, 1937 of the Secretary of the Treasury of the United States of America to the Minister of Finance of the United States of Brazil, as said letter has been previously supplemented and modified, is further modified by changing the figure in item (1) from "\$200,000,000" to "\$300,000,000".

It is understood that the authority of Banco do Brasil to act as fiscal agent of the Brazilian Government in connection with all transactions undertaken under the arrangement provided for by said letter dated July 15, 1937, as supplemented and modified, shall continue in full force and effect.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Fernando Lobo,  
Charge d'Affaires of the  
United States of Brazil,  
Washington, D. C.

The foregoing is agreed to on behalf of the United States of Brazil and the Minister of Finance of the United States of Brazil.

Charge d'Affaires of the United  
States of Brazil.

RB:ec 11/15/43

PROPOSED LETTER TO BE SENT FROM THE CHARGE D'AFFAIRES  
OF THE UNITED STATES OF BRAZIL TO SECRETARY HULL

BRAZILIAN EMBASSY

Washington

Your Excellency:

I have the honor to refer to the letter dated July 15, 1937 from the Secretary of the Treasury of the United States of America to the Minister of Finance of the United States of Brazil, as supplemented and modified, relative to the sale of gold and the purchase of cruzeiros with dollars.

2. I am directed by my Government to certify to your Government that I was authorized to modify the aforementioned Agreement by means of the Agreement of 1943, executed by me and the Secretary of the Treasury of the United States of America, the duplicate originals of which Agreement have been delivered to the respective parties. I am also authorized to declare that the new Agreement represents the valid and binding obligations of the Brazilian Government and the Minister of Finance of the United States of Brazil, in accordance with its terms.

3. I shall be grateful to Your Excellency if a copy of this letter be sent to the Secretary of the Treasury.

I take the opportunity to renew to Your Excellency the assurances of my highest consideration.

His Excellency Cordell Hull,

Secretary of State of the United States of America.

RB:ec 11/15/43

THE SECRETARY OF THE TREASURY  
WASHINGTON

November 24, 1943

Sir:

Pursuant to a request from the Minister of Finance of the United States of Brazil and current discussions which have been held with the Brazilian Embassy in Washington, it is agreed as follows:

The letter of July 15, 1937 of the Secretary of the Treasury of the United States of America to the Minister of Finance of the United States of Brazil, as said letter has been previously supplemented and modified, is further modified by changing the figure in item (1) from "\$200,000,000" to "\$300,000,000".

It is understood that the authority of Banco do Brasil to act as fiscal agent of the Brazilian Government in connection with all transactions undertaken under the arrangement provided for by said letter dated July 15, 1937, as supplemented and modified, shall continue in full force and effect.

Very truly yours,

*Henry M. Voth*  
Secretary of the Treasury.

Honorable Fernando Lobo,  
Charge d'Affaires of the  
United States of Brazil,  
Washington, D. C.

The foregoing is agreed to on behalf of the United States of Brazil and the Minister of Finance of the United States of Brazil.

*Fernando Lobo*  
Charge d'Affaires of the United  
States of Brazil.



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NOV 24 1943

My dear Mr. Ambassador:

Reference is made to the letter dated September 22, 1943 from the Secretary to the Presidency, Mr. Amadeo Lopez Castro, to the Assistant to the Secretary of the Treasury, Mr. Harry D. White, and to conversations which Mr. Baron and Mr. Pazos have had with representatives of the United States Treasury Department, relative to the sale of gold by the Government of the United States to the Government of the Republic of Cuba.

It has been indicated that the Government of the Republic of Cuba will wish to purchase from the Government of the United States approximately \$100,000,000 of gold during 1944 at the price provided by section 44 of the Provisional Regulations issued under the Gold Reserve Act of 1934, as the same may be in effect at the time of each sale. I interpret our Agreement of July 6, 1942, as amended, to cover the sale of that quantity of gold, provided that the aggregate amount of gold for which payment has not been made shall not exceed \$5,000,000 at any one time. If payment for the gold is made at the time of the sale and delivery thereof, the \$5,000,000 limitation does not apply. Accordingly, I do not believe that any further agreement between our Governments is necessary at this time.

Very truly yours,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

His Excellency,  
The Ambassador of Cuba,  
Washington, D. C.

RB:ec 11/22/43

## EMBAJADA DE CUBA

Washington, D. C.

September 22, 1943.

Dear Mr. White:

This is to confirm our conversation of this morning. As I stated then, the Cuban Minister of the Treasury, Ing. Eduardo I. Montoulieu, has requested me to consult your Department on the possibility of increasing our gold purchases under our agreement of July 6, 1942, as extended on July 1, 1943, in order to meet the abnormal situation that is expected to develop next year.

The Cuban Government is concerned about the effects of the strongly favorable balance of payments expected next year, which if not adequately dealt with will increase the accumulation of foreign balances in the banks, the dollar circulation, and consequent disturbances in our monetary market. We wish to prevent these disturbances and at the same time to continue to build up at a faster rate a reserve in gold and foreign exchange under the scheme recommended by your technical mission in November 1941 and put into effect by our law of May 2, 1942. In this connection, we are considering the advisability that the Sugar Institute might sell to the Cuban Treasury part of the New York funds to be paid to it for the next crop by Commodity Credit Corporation, receiving pesos at Havana with which to make part of its payments to the producers. In this way, we might avoid unnecessary transfers of funds and obviate the possible ill effects of paying all these sums in dollars to the producers.

Though we have not yet determined to what extent it would be advisable to carry ahead the plan during the next year, we are contemplating operations of from \$100,000,000 to \$150,000,000, and thus we need the agreement of the United States Government to sell us gold to this amount, and the facilities of the United States Bureau of Engraving and Printing to print peso notes to an amount of \$100,000,000. As you know, the Bureau is at present filling an order from us for \$30,000,000. The denominations of the notes would be further determined in accordance with the needs of the market.

As I know the difficulties involved in this plan, mainly because of the great stress under which the Bureau is working, I wish to thank you for the kind cooperation which you offered us this morning, in line with your already long record of service to our country.

With warm personal regards from Mr. Montoulieu, in whose behalf I am writing you this letter, I remain

Sincerely yours,

(Signed) Amadeo Lopez Castro,  
Secretary to the Presidency.

Mr. Harry D. White,  
Assistant to the Secretary,  
Treasury Department,  
Washington.

11/24/43

SECRET

Dear Mr. Stettinius:

The following type of franc currency has been proposed for use by the Allied military forces in connection with the French operations:

- (1) the currency would be issued by the French Comite but this fact would not appear on the face of such currency;
- (2) the currency would bear the following legends:

"Republic Francaise  
Trésor Central"

In the view of the Treasury and War Departments such currency will meet the monetary requirements of the operations in France, and we feel that of the alternatives available, currency with the above inscription will prove the most satisfactory. The British Treasury has indicated that such currency will be entirely acceptable to their Government.

As you know, this matter is most urgent and it is hoped that we may have your immediate decision as to whether this currency is acceptable from the political point of view.

Very truly yours,

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

Secretary of War.

Honorable E. R. Stettinius, Jr.,  
Under Secretary of State,  
Washington, D. C.

26

November 24, 1943.

Dear Mr. Cox:

The Secretary is away from Washington and I am therefore acknowledging your note of November 19, which encloses a copy of material contained in a cable in regard to occupied Europe.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Honorable Oscar Cox,  
Office of the Administrator,  
Foreign Economic Administration,  
Washington, 25, D. C.

GMF/dbs

FOREIGN ECONOMIC ADMINISTRATION  
OFFICE OF THE ADMINISTRATOR  
WASHINGTON 25, D. C.

November 19, 1943

Dear Mr. Secretary:

You may possibly want to consider the release of some information of the kind that appears in the attached cable at one of your press conferences.

I should think that security reasons would not block the issuance of most of this material.

Sincerely yours,

*Osborn Cox*

The Honorable

The Secretary of the Treasury

Enclosure

BRITISH CONFIDENTIALCOMBINED COMMITTEE FOR FRENCH NORTH AND WEST AFRICAN CIVIL AFFAIRSThe following communication was received 17 November, 1943

BOC Airgram 147, 11 November, 1943

From: NABP

To: Secretary of Treasury and CONA

Subject: Conditions in occupied Europe.

Ref: BOC Airgram 103; BOC Airgram 114; BOC Airgram 119

MR. ORCHARD  
 MR. SIMONS  
 MR. MITCHELL (S)  
 MR. ENGLISH (S)  
 MR. KURTZ  
 MR. WASHINGTON  
 MR. HANCOCK

The following information has been gleaned from intercepted mail relating to conditions in France and the other occupied countries of Europe. The mail was intercepted during the months of September and October and covers the period from early May to the middle of October. It is subject to the same cautions with respect to accuracy and reliability as was the material transmitted in previous airmails.

ECONOMIC CONDITIONS IN FRANCE

It was reported in June that, as a general matter, French industry was suffering greatly from lack of raw materials and a short labor supply. An exception noted appears to have been in the chemical fertilizer industry, which was described in some detail by a Swiss writer. A factory for the production of fertilizer was said to be in full operation near Agille. While the output of another was stated to have been reduced about 30%, it was regarded as functioning effectively. In still another area chemical fertilizer plants were reported to be in full operation, albeit suffering from a shortage of packing paper.

Shortages of fats were the principal causes for civilian complaint in the letters examined. In early July it was said to be impossible to obtain fats unless one was prepared to pay 500 to 600 francs a kilogram. One writer reported that he had been able to obtain margarine but once since January, 1943, another, that he had no oil since October, 1942, and a third that he had none for six months. Farmers, so before, suffered the less from these shortages mainly for the reason that they were able to obtain butter.

It was variously reported that, in some areas, there were no wines; that meat could be obtained but once a week; and, for urban residents, that 30 grams of butter were available each month. Eggs were reported as selling at 40 francs a dozen and chickens at from 100-200 francs a piece. In

Page One  
 (over)

11-17-354

BRITISH CONFIDENTIAL

a town in the region of the Pyrenees, it was said that, for each child, one half to two pints of milk could be obtained daily.

Several letters noted that, in many areas of France, the summer season had been unusually dry, thus curtailing the output of fresh vegetables and fruits. In place of these products people were drawing upon stocks of dried vegetables and canned fruits.

As was the case in previous correspondence monitored, there were many complaints based upon the shortage of clothing and shoes. Illustrative of this was a letter from one writer stating that his father had one pair of shoes, while he and his sister had nothing but slippers.

Many writers attributed the extreme shortage arising in various areas to acts of pillage, of varying degrees of refinement, by the occupation authorities. One town received reports that, despite the dry season, the local fruit crop would be quite good. When the time for harvest had passed without the expected fruit reaching local markets, it was reported that it had all been shipped to Germany. The tactics of the Nazi authorities were making themselves more severely felt in many other ways. According to one writer who had escaped to Turkey, the Germans were peremptorily expelling many people from their apartments and homes to make the space available for billeting purposes. An Alsatian reported that his brother had been drafted into the German army and sent to the Russian front and his family deported because another member was in the French navy. Furthermore, the bombing operations were the cause of wholesale evacuations reported in areas around Paris and in places such as Lorient, in Bretagne, the latter said to have been completely destroyed.

A letter dated 4 October, 1943, reported that epidemics of infantile paralysis had broken out in the sections of Le Fay de Borne, near Clermont-Ferrand, and in L'Allier, in the Vichy region.

MANPOWER

Reports from France itself indicated that during the months of the summer and early fall, the recruitment of civilians for forced labor in Germany or in German factories continued unabated. In July it was reported that the 21, 22 and 23 year old males had virtually all been called to Germany. The condition of men sent to Germany was stated to be deplorable, and the conditions of civilian laborers in Germany was said to be sufficiently bad to induce thousands to escape to Spain, despite the great risk involved. Toward the end of August the drafting of women of 21 years of age for forced labor in Germany was stated to be imminent. It was said that in the forced labor camps people from all of the occupied nations were mixed together, - and that men and women were housed in the same rooms.

BRITISH CONFIDENTIAL

The trend toward prisoners of war in Germany becoming civilian workers appeared to increase during the summer and early fall. A civilian worker was said to be paid 70 pfennigs an hour instead of 70 pfennigs a day, which was stated to be the pay of prisoners of war. While general conditions of discipline, etc. remain about the same as under the military, guards were removed. Civilian workers are permitted to move about freely, are given two weeks' leave upon their agreement to become civilian workers, and, contrary to previous reports, they reported receiving better food and more food and clothing packages. Civilian workers were also granted more privileges such as cigarettes, the use of postal system, admission to coffee houses, etc.

Whether or not the actual food conditions had improved upon a prisoner of war becoming a civilian worker is somewhat questionable, although on the basis of the correspondence recently examined it appears that some improvement can be noticed. In this connection, it might be noted that the so-called "Ptain parcels", a scheme devised by Marshall Ptain to send parcels to each French prisoner of war, never materialized. Prisoners of war receive a few parcels through the French Red Cross and the British Red Cross, but complain because nothing was received through the American Red Cross. On the other hand, civilian workers in factories were served lunch at the factory, occasionally had fresh vegetables, and reported generally that they received better food than they had as prisoners of war. In late September, 1943, it was reported that civilian workers received more bread. However, shortages of clothes and shoes continued to be subject of comment.

A significant conclusion might be drawn from the correspondence was that it appears easier for civilian workers to obtain food packages from France than for prisoners of war. Civilian workers were permitted to receive a package each time they had a ticket authenticating the receipt. These tickets were obtained from the Director of the Civilian Camp and each worker was allotted three tickets a month; two of the tickets were good for food parcels and one for clothing. A sample food parcel consisted of 2 packages of sardines, 2 pounds of sugar, 1 package of cocoa, 1 package of tobacco, 4 cigarettes, 4 packages of vitamin tablets, 1 piece of soap, 1 package of coffee, 2 cans of meat extract, 1 package of beans and 1 package of nuts. While this same food package system was also available to prisoners of war, the letters indicated that it was somewhat easier for civilian workers to obtain packages. In addition, the liberty accorded civilian workers meant that they could obtain some food elsewhere, a privilege not available to prisoners of war.

It was estimated that approximately 240,000 prisoners of war have become civilian workers in the period from June to October, 1943.

ACTION: Treasury and State

DISTRIBUTION: "A"

W. G. Threl

MR. CECIL  
MR. EDWARDS  
MR. MITCHELL (4)  
MR. SHERRILL (1)  
MR. KURTZ  
MR. WALKER

## PARAPHRASE OF TELEGRAM SENT

To: American Embassy, Chungking, China.  
Date: November 24, 1943, 10 p.m.  
Number: 1690

## FROM THE SECRETARY OF THE TREASURY FOR ADLER

1. The Treasury has been informed by Mr. T. L. Soong and Mr. Hsi Te-mou that Dr. Kung concurs with Treasury that the 1941 Agreement should not be renewed under present circumstances.

2. You are requested herewith by Treasury to submit your resignation to Dr. Kung as of December 31. You may, however, at your discretion postpone date of resignation until the last day of January 1944, if it is your opinion that another month may be necessary to conclude the Board's affairs.

HULL  
(W)

HEL

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

Chungking

Dated November 24, 1943

Rec'd 10:06 a.m., 25th,

Secretary of State,

Washington.

U.S. URGENT

2228, November 24, Midnight, (SECTION ONE)

FROM ADLER TO SECRETARY OF TREASURY.

One. Saw Dr. Kung yesterday and asked him for quotation on price at which Chinese Government would be willing to make CN dollars 400,000,000 monthly available to United States Government. We had long and amicable conversations though Kung tended to be evasive except toward close. He reviewed Chinese financial situation at some length, claiming that change in official rate would undermine confidence in fapi and accelerate rise in prices, to which I replied Treasury was not raising question of official rate and that it made no difference to internal prices whether United States Government expenditures were financed at price of twenty to one or of hundred to one. Kung, after commenting that experts could understand that but not laymen and that it was impossible to keep secret price at which Chinese Government sells fapi to us, stated that China has advanced CN dollars

CONFIDENTIAL

For security reasons the text of this message must be closely guarded.

-2-, #222B, November 24, Midnight, (SECTION ONE) from  
Chungking.

dollars 3,000,000,000 since outbreak of Pacific war for constructing airports and providing transportation facilities, et cetera, for USAAF, that China was preparing to ask us for another loan, and that any increase in the expenditures for USAAF would merely mean an increase in amounts he would ask for.

Two. At this stage I mentioned the three alternative methods of payment indicated in your point three (re your 1672 of November 20th.). Kung first rejected all three and offered as alternatives:

(A) His going over USAAF expenditures with Generalissimo and General Stilwell--which he is to do in near future--finding out where it was possible to cut them: and agreeing to bear a proportion, which he did not specify, under reverse Lend-Lease. I pointed out that reverse Lend-Lease negotiations had been protracted and that it might take some time to conclude them, to which he claimed that his government had already decided to agree in principle and that agreement might be consummated in near future.

(B) His not objecting to Treasury shipping U. S. currency to China to be sold in black market, adding that sales in quantity would push down price. But he did not recur to this suggestion in his final offer.

GAUSS

NPL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, CHUNGKING, CHINA  
 TO: Secretary of State, Washington  
 DATED: November 24, 1945.  
 NUMBER: 2228 (SECTION TWO)

3. I went on to point out that USAAF expenditures are being financed at the official rate, that expenditures of the Government of the United States in China are out of all proportion to return on them and that the United States is selling gold now in the Middle East to finance its expenditures. These remarks emphasized your point two. In reply Dr. Kung indicated that he had no objection in principle to the selling of gold on our account in China, but sales in any quantity would push the price down and also compete with the gold selling policy of China without yielding enough to cover our needs. I pointed out that sale of gold for account of the United States need not compete with China's sales if they were conducted through one selling agency. In agreeing with this point he indicated that the Central Bank is at the present time selling gold for the Government of China. He commented in passing that the cost of shipping gold is so high he is considering selling certificates representing claims on gold rather than selling the gold, which would be kept on earmark with the Federal Reserve Bank.

4. Dr. Kung finally said he was willing that the choice of one of the following alternatives be offered to the Treasury Department:

A. EA above.

B. Your SC (Department's 1672 November 20) subject to the consent of the Generalissimo and paying 40 to 1 in exchange for United States dollars for needs of the United States Government over and above what is obtained by selling gold on our account.

5. My comments on the offer are as follows: For 4A refer to my comment on EA above; for the reason stated above - apart from the fact that Dr. Kung would not specify the proportion of United States expenditures China would be willing to finance by Lend-Lease in reverse--it is not worth serious consideration as an alternative, though as a supplementary measure it may be worth consideration. For comments on 4B:

(A) From the above conversation and from other sources it is clear that China does not propose to sell much gold and that Dr. Kung does not expect us to succeed by this means in raising

-2-

nearly enough currency to cover the expenditures of this Government. It might be possible, however, with the exertion of sufficient pressure to push the sale of gold to the point where an appreciable part of our needs would be yielded.

(B) 40 to 1 is a miserably low price. My suggestion on this is that the Treasury Department request at least 100 to 120 to 1 in which case it might be possible that not less than 80 could be finally settled upon.

6. With Dr. Kung's remark that this was a preliminary discussion the conversation was concluded.

GAUSS

DVM

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

Secretary of State

Washington

2231, November 24, 5 p.m.

TO SECRETARY OF THE TREASURY FROM ADLER

Raised question with Dr. Kung in accordance with your instructions in conversation yesterday. He replied that missionaries had been receiving thirty to one for missionary expenditures since May 1 and that all famine (repeat famine) relief expenditures had been receiving forty to one from same date. He was in course of negotiating with Foreign Missionary philanthropic and cultural organizations about further adjustment in rate they receive (re your 1474, October 13).

Above confirmed by reliable source according to which missionaries had been receiving forty for famine relief expenditures. According to same source Dr. Kung will probably give above organizations forty for all their expenditures in China.

GAUSS

BB

Chungking

Dated November 24, 1943

Rec'd 2:37 p.m., 26th

NOT TO BE RE-TRANSMITTED

U.S. SECRET

COPY No 12

BRITISH MOST SECRET

OPTEL NO. 385

Information received up to 10 A.M. 24th November, 1943.

1. NAVAL

Mediterranean 21st/22nd. Allied Coastal Craft sank a Petrol Lighter South of LEGHORN.

22nd. One of H.M. Minesweepers, mined and sunk off BARI.

Levant 20/21st. A further 3,000 Greeks and Italians were evacuated to TURKEY from SAMOS.

2. MILITARY

Italy 8th Army. In Coastal Sector 78th Division has strengthened Bridgehead over SANGRO and completed three bridges. Indian troops have established Bridgehead West of APSSA. Further South Canadian troops have captured S. ANGELO (16 miles S.W. of APSSA). Our patrols have also advanced 3 miles east of ALFEDONA (15 miles N.E. of ISERDIA).

5th. Army In patrol action near North of R. GARIGLIANO heavy casualties were inflicted on enemy at coast of one wounded.

Russia 23rd. Russians extended their Bridgehead North of GOMEL. Situation in ZHITOMIR is obscure but Russians have probably given some ground.

Burma - CH' HILLS 19th. Japanese occupied positions West by our Levy troops 14 miles N.W. PAKAW. Total. In FORI HILL Area company of Indian Troops carried out successful raid against Japanese.

3. AIR OPERATIONS

Western Front 22nd/23rd. 2,366 tons dropped on BERLIN. 23 d. 96 Marauders (B.26) (2 missing), bombed two Airfields in N. FRANCE. Mitchells (B.25), Bostons (A20) and Typhoons dropped 59 tons on military objectives near GRIS NEZ. 23 Beaufighters (4 missing) attacked Convoy off TEXEL seriously damaging five Escort Vessels and leaving an 8,000 ton Tanker sinking.

23/24th. Aircraft despatched:- BERLIN 382 (20 missing) (4 crashed) COLOGNE 6 (1 missing), Intruders U/7. Preliminary reports on BERLIN thick cloud over target, Markers concentrated and fires still burning from previous night.

Italy 22nd. 155 Medium, Light and Fighter Bombers attacked communications in Central ITALY and 232 attacked Targets in Rattle Area.