

Treasury Department
Division of Monetary Research

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Date November 27, 1943 19

To: Memorandum for the Secretary's Files

From: Mr. White

Secretary Stimson, upon receipt of this letter, spoke to Mr. Stettinius and they apparently agreed that this procedure would not be politically acceptable. Secretary Stimson attempted to get in touch with Secretary Morgenthau and spoke to me over the phone, saying they were arranging a meeting between Secretaries Hull, Morgenthau and Stimson for Saturday.

However, the State Department having definitely decided that the suggestion was not politically acceptable, it was felt that such a meeting was not called for. The decision has been made (which has not yet been accepted by the French Comite) to use an Allied Military currency with the three flags displayed on it and with the words in French. The Bureau of Engraving and Printing is now proceeding to prepare such a currency.

A memorandum of the meeting held in the War Department, at which the State Department made known its views, is appended.

H.D.W.



SECRET

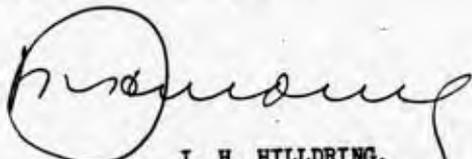
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WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
CIVIL AFFAIRS DIVISION
WASHINGTON 25

26 November 1943

MEMORANDUM FOR DR. WHITE:

In view of developments of the last twenty-four hours, I believe that you may want to withdraw this letter. I am returning it with that idea in mind.



J. H. HILLDRING,
Major General,
Chief, Civil Affairs Division.

Atch.-Ltr. fr. Secty.
Morganthau to Stettinius

SECRET





THE SECRETARY OF THE TREASURY
WASHINGTON

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 Comité but this fact would not appear on the face of such currency;
- (2) the currency would bear the following legend:

"Républic Française
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,

Henry M. Nathan
Secretary of the Treasury

Secretary of War.

Honorable E. R. Stettinius, Jr.,
Under Secretary of State,
Washington, D. C.



CONFIDENTIAL

November 26, 1943

MEMORANDUM FOR THE FILES:Re: Occupation Currency

A meeting was held this afternoon in Mr. McCloy's Office on the above subject. Present were General Hildring, Major Hilliard, and Mr. George Harrison, War Department; Mr. James Dunn, State Department; Commander Spears, Navy Department; Mr. White and Mr. Luxford, Treasury Department.

1. General Hildring opened the discussion by stating that after considerable discussion with Mr. Monet of the French Comite, Secretary Stimson had discussed with Under Secretary Stettinius the question of using "Republic of France-Tresor Central" currency (the Monet proposal), and it had been decided by Under Secretary Stettinius that such currency would not be used because it was politically objectionable.

2. General Hildring stated that in the course of the discussions with Mr. Monet, it had been proposed by Monet that if we would not accept the Comite's proposal for French currency, would we allow the Comite to proceed to design and order the production of such currency with the clear stipulation that it would be placed in the hands of American and British military authorities and would not be used until a French Government had been recognized by the American authorities. It was agreed by all present that there would be no objection to the Comite preparing such currency on the terms suggested, it being understood that so far as the use of such currency was involved, the Allied forces would have access to such currency on the same terms as they were using Allied military currency, and that such terms would be made known to the French Comite or recognized French Government before such currency was used. Procedurally, it was agreed that Monet would be informally advised of our approval after Mr. Dunn had cleared it with Secretary Hull and that the matter would be raised formally by the Comite presenting a proposal to the State Department for acceptance and that the State Department would clear such formal proposal with the Treasury Department before indicating acceptance.

3. Having eliminated from consideration the question of using Republic of France currency of the type proposed by Monet in lieu of Allied military currency, the question was raised for decision as to whether we wanted to use an Allied military franc note of the same general type as we are employing in Italy or whether we wanted to use an Allied military note bearing the three flags of United States, Great Britain and France together

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with the legends in French. It was agreed that the latter type of currency was preferable, notwithstanding the fact that it might take a little longer to prepare. Procedurally, it was agreed that the Military would advise Monet of the rejection of his proposal and the decision to use the three flag currency at the same time as he was advised that we were prepared to accept his proposal for the preparation of the "Republic of France" currency to be used only when the United States recognized the French Government. This advice would be furnished in the first instance by the Military.

4. Mr. White advised the group that we had discussed the Allied Military mark with Sir David Waley and that it was agreed between the two Treasuries that probably such currency should be designated as "V-Marks" or some similar indicia since it was altogether possible that German currency might be completely depreciated by the time of our entry into Germany, and it would be necessary to have a conversion rate between our military currency and that in circulation. He stated that it also had been agreed that we should discuss the matter with the Russian authorities to ascertain whether the use of Allied military currency of this character was acceptable to them and pursuant to such arrangement, Mr. White had discussed the matter with the Rumanian financial representative here who had advised that he would raise the matter with Moscow and might expect a reply within a couple of weeks. Mr. White emphasized that this is all understood to be on a Treasury to Treasury basis and subject to formal clearance with other interested parties in the various governments once some proposal had been tentatively agreed upon by the Treasuries. Those present indicated their approval and General Hilldring expressed the view that there was almost as much urgency for the German currency as there was for the French.

Someone then raised the question as to the type of currency that would be used in Denmark. Mr. White advised that we contemplated the use of an Allied military note in Denmark and that such proposal would be cleared with the British. He then raised the question as to whether it should be cleared with the Russians. Both General Hilldring and Mr. Dunn advised that it need not be so cleared but Dunn qualified his statement to the extent of saying that he would notify Mr. White if, after discussion in the State Department, others should hold a different view.

Mr. White then raised the question as to whether we wanted to be consulted by the Russians in connection with the question of currency for Poland and Rumania. General Hilldring indicated that the Army did not. Mr. Dunn stated that he felt that that would be the view of the State Department but that he would raise the matter and advise Mr. White.

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Mr. White then raised the question as to whether the Russians should be consulted with respect to currency proposals for Norway, Belgium and The Netherlands. It was agreed that there was no necessity for such consultations.

Question was raised as to whether we should discuss the Allied military postage stamp for France with the French, and it was agreed that such question should not be discussed with them until after we had disposed of the currency problem.

Inquiry was made as to the status of our discussion with the Belgians concerning the use of their currency in Belgium. Mr. White advised that he had delayed final arrangements with the Belgians until such time as the French matter was disposed of since he felt that our decision on the French matter would serve as a guide on the Belgian issue.

Reference was made to the rate of exchange for the yen. Mr. White advised that at the Navy's request that matter had been held in the strictest confidence but that now he could advise that the rate had been set at 20 military yen to the dollar and so far as present operations were concerned, all yen in the areas involved would be conclusively deemed to be military yen. His position was taken so as to leave us free on the question of ultimately deciding the rate of exchange for the regular Japanese yen.

RAR

JDN

AIRGRAM

RA

Chungking

Dated November 27, 1943

Rec'd 2 p.m., Dec. 16

Secretary of State

Washington

A-92, Nov. 27, 1 p.m.

CONFIDENTIAL

Following resume recent economic financial developments in occupied areas reported November 15 by Drumright from Loyang:

Japanese collecting grains at low official prices thereby augmenting hardships people. Shanghai trade at standstill since institution cotton control measures and factory production there virtually suspended owing lack raw materials. Living costs occupied areas now well above those in free China. Flight from CEB currency continues with wealthy Chinese anxious obtain fapi, US currency or goods. In Shanghai area fapi notes reportedly command premium as high as 5 to 1 over CEB notes although remittance rate remains about 14 thousand fapi for 10 thousand CEB. US dollar premium Shanghai has reached CEB \$120. Considerable influx US dollars brought to Shanghai by merchants from interior. Gold about CEB \$12,500 per ounce. Kiangsu crops good. Shantung crops fair to good south and east but total failure in north and west districts. Coming winter and spring will see much want and starvation in Shantung and Hopeh. To combat drought Japanese have sunk 300 thousand wells north China during past two years.

GAUSS

CEB/hcr
cc:FEA, Chungking

ehj Copy
12-22-43

NOT TO BE RETRANSMITTEDBRITISH MOST SECRETU.S. SECRET

NO. 388

Information received up to 10 A.M. Nov. 27.

NAVAL

Mediterranean. 26th. In attack on Westbound convoy off Bougie enemy aircraft shot down by our shore-based fighters. One ship set on fire.

2.

MILITARY

Italy Sangro bridgehead improved despite rise in river. Near coast our troops now hold position within 1 mile of Fossacesia (4 miles over Sangro) while further to left bridgehead extends to depth of 2 miles from River. Passage of additional armour over river on 25th prevented by condition of approaches after rain. 1 patrol 2nd New Zealand Division crossed River Sangro 5 miles N.W. Atessa. Castel Di Sangro Area is firmly in our hands.

Dodecanese 24th. Patrols raided Misero and Piskopi Islands and effectively interfered with enemy telegraphic communications.

Russians Russians have captured Gomel and a substantial area to the North and North West. West of Propoisk they have captured Khachniki.

New Guinea Australian troops have captured Sattelberg.

3.

AIR OPERATIONS

Western Front 25/26th. 612 tons dropped on Frankfurt. Weather cloudy, bombing scattered, 12 bombers missing.

26th. Escorted Fortresses (B17) and Liberators (B24) dropped 1121 tons on Bremen. Weather cloudy but results when observed, good. 25 bombers missing. 173 escorted medium and light bombers (4 missing) dropped 193 tons near Cherbourg and Cape Griznez. 89 escorted Marauders (B26) dropped 111 tons at Cambrai and N.W. of Roye. The day's operations involved 1,019 bomber and 1,193 fighter sorties.

26th/27th. Aircraft despatched:- Berlin 450 (28 missing 8 crashed); Stuttgart 178 (5 missing); see mining 33; Intruders 33 (1 missing), leaflets 5. At Berlin weather clear and concentration of markers and bombs exceptionally good. At Stuttgart weather cloudy markers well concealed at first but spread later; several good fires mainly round railway centre. 7 enemy aircraft operated over Kent, Sussex and Surrey. 2 reached London area. A large number of flares were dropped but not many bombs. Damage and casualties slight.

Italy 24th/25th. 76 Wellingtons despatched against ball-bearing factory Turin but weather deteriorated and only 7 attacked. 17 aircraft missing (2 crews safe).

25th. 23 Mitchells (B25) dropped 34 tons on Ancona Harbour. 69 medium bombers dropped 43 tons on enemy positions near Lanciano.

Sunday
November 28, 1943
10:30 a.m.

TAXES

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

MR. GASTON: We just finished a minute ago and made some changes. Those are being retyped now, and I think it is in good shape.

H.M.JR: We are about twelve hours ahead of schedule.

MR. SULLIVAN: They will probably postpone it now.

MR. GASTON: You read the Walter George story, I suppose.

H.M.JR: I read it in the Tribune. It wasn't bad.

MR. GASTON: No, it just convinces him he doesn't need any new taxes. But that is to be expected.

H.M.JR: As a matter of fact, I gathered when I talked to George last night that he had already seen the budget. We have taken out all reference in my talk, (to Bell) except I am talking on the issue of ten and a half billion taxes, and that is all. We will confine the talk to that.

MR. BELL: What have you taken out?

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H.M.JR: All reference to explaining what happens to below five thousand and the sales tax.

I will have to have a memorandum next to me that I can use.

But why just pick those two things? Why not pick something else out of the hundred pages of the Ways and Means report?

MR. GASTON: The only things we pick out to answer from that report are those arguments in general against higher taxes. There are a couple of those that are dealt with. But the whole thing is a straight argument for higher taxes.

H.M.JR: No red herrings - so they can't attack me because they don't like my arguments on sales tax and my arguments on the people below five thousand.

MR. BELL: Well, I don't know that it makes much difference where the explanation is except you ought to get a play on this sales tax. It is the most misunderstood thing in the country.

H.M.JR: I agree with you, but Paul is up there with a hundred pages of his own.

MR. BELL: That is too long.

H.M.JR: I mean figuratively speaking.

MR. BLOUGH: We got one more revision in before thirty.

H.M.JR: That does very well, unless the Budget revises their figures again.

(To Gaston) I think we did the right thing to get the Budget cleaned up before this appearance.

(Mr. Gaston distributes copies of Draft C, dated November 29, 1943.)

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MR. BELL: About eleven pages.

MR. GASTON: No, there is a little more.

MR. BLOUGH: No, this is all.

H.M.JR: We missed you last night, Randolph. Were you working?

MR. PAUL: As it turned out, I wasn't; but I had to be subject to call on all kinds of questions and I didn't want to interrupt your meeting.

H.M.JR: I don't know whether you agree with what we did last night.

MR. PAUL: From what I heard of it, I thoroughly do. I think I have heard most of the main points.

H.M.JR: Good. Well, I am happy over it, so let's go to work on it.

Who is missing?

(Mr. Smith entered the conference.)

H.M.JR: Oh my God!

MR. SULLIVAN: You look like post-war planning! (Laughter)

MR. GASTON: Show them your socks.

H.M.JR: He looks like post-something! (Laughter)

MRS. KLOTZ: Looks like Hollywood to me.

H.M.JR: Boy, oh boy, oh boy!

MR. SMITH: I am going to put the theatrical element back in the thing. (Laughter)

MR. SULLIVAN: It is a nice try, however you make out.

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H.M.JR: I want either no answer or an honest answer: What did Mrs. Smith say when you left the house?

MR. SMITH: "My God," if you want to know.

H.M.JR: Well, if that doesn't put us in a good humor, what would? I am glad they have stopped investigating the Treasury for "Commies." (Laughter)

MR. SULLIVAN: Can you dance, Fred?

MR. SMITH: Yes.

MR. PAUL: You should have worn that on that boat trip.

H.M.JR: He still remembers that.

MRS. KLOTZ: You mean he will never forget that.

MR. BLOUGH: There are a couple more copies coming in here.

H.M.JR: Let's - all right, let's start. Most of them can't read, anyway.

Will you do it a paragraph at a time, with the hope this will be the last time over?

(The Secretary sends for Mrs. McHugh.)

MR. BLOUGH: (Reading) "When I appeared before the Ways and Means Committee of the house on October 4 to present the Administrations's suggestions for increased war taxes, I gave to that Committee as best I could a picture of the financial position of the nation and its wartime revenue needs. I stated that the fiscal situation required much heavier wartime taxation and that it was our opinion that the people could pay additional wartime taxes of at least \$10.5 billion. The Ways and Means Committee and the House reached a different result and approved a bill increasing revenues by only \$2 billion. In view of this wide difference on a matter so important to the present and future welfare of this nation, we in the Treasury have carefully reviewed

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the fiscal situation. I am appearing before you today to present our conclusions."

H.M.JR: I am not exaggerating, I think we have used the words "wartime taxes" at least a hundred times in here. If we don't drive that home, we don't drive anything home.

MR. BELL: That is too much, isn't it?

MR. GASTON: No.

MR. BELL: I think you are really going to call attention to the fact you haven't used it before.

MR. GASTON: I don't think it is too much in here.

H.M.JR: We will see as we go along.

MR. BELL: Three times, I think, right here in this one paragraph.

(Mrs. McHugh entered the conference.)

H.M.JR: Is that date August?

MRS. McHUGH: There is one on September 1 with General Hilldring, but it wasn't written up.

H.M.JR: Who was here?

MRS. McHUGH: Mr. White, McCloy, and General Hilldring.

H.M.JR: I think that would be on September 1. And Mr. White didn't write that up?

MRS. McHUGH: No, sir.

H.M.JR: You might go after his office Monday.

MRS. KLOTZ: You may not have given him notice.

H.M.JR: He is supposed to; this may be a lesson.

MR. BELL: He may have, and not sent you a copy.

(Mrs. McHugh left the conference.)

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MR. GASTON: Stanley raises a point here that I think has some force. Up above we say "...the Administration's suggestions" and down in this paragraph we say, "...we in the Treasury have carefully reviewed the fiscal situation." It would appear to make this statement before the Senate Finance purely a Treasury statement instead of an Administration statement. I think it might be better to say "we."

H.M.JR: Right.

Now somebody, as soon as this is finished - I will call up Judge Vinson, and I want somebody to trot it over. I think that somebody will most likely be Fred Smith, because Paul and his crowd will all be tied up on your own statement.

MR. PAUL: Certainly will be. We have a lot to do there. Some of the things are being held open.

H.M.JR: Fred or John.

MR. SMITH: John could do it, probably better. They would go into a swoon if I walked in.

MR. SULLIVAN: I will do it.

MR. PAUL: I don't know whether he is at the office.

MR. SULLIVAN: I will find him.

H.M.JR: Just change that.

MR. BLOUGH: It is done.

H.M.JR: Anything else? Go ahead.

MR. BLOUGH: (Continuing) "The outstanding fact in our financial picture is the stupendous bill which this war will leave behind. On that point there can be no quibbling. We are accumulating debt at the rate of about \$180 million a day. Last month (October, 1943) the Federal Government spent \$5,426,000,000 more than it collected in

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revenue. In the fiscal year 1942 the deficit was \$19 billion, in 1943 it was \$56 billion, and in 1944 it is expected to be \$57 billion. On the basis of any estimates we can now make, we cannot foresee a public debt at the end of the present fiscal year of much less than \$200 billion. On such a debt the interest charges alone, even at the present extremely low rates, will be close to \$4 billion a year. As the war continues, the debt, the interest, and the problems of repayment will grow larger and larger."

H.M.JR: I like the way you have got this. Do you mind - one second, Dan. Were you going to say something?

MR. BELL: No, I was just going to call attention to one word. Go ahead.

H.M.JR: I like your "1942" and so forth. I don't like "...we cannot foresee." Why not simply say "we foresee"? I don't like the "cannot."

MR. BLOUGH: I assume the purpose of the "cannot" was that it can't be less than two hundred billion.

MR. PAUL: It seems to me more emphatic to say "we cannot foresee."

MR. GASTON: Of course, the present Budget estimate would indicate a deficit of one hundred and ninety-six; it probably will be larger.

MR. SMITH: "Not much less than--"

H.M.JR: Why not say "...we foresee a public debt at the end of the present fiscal year of about two hundred billion dollars"?

MR. BELL: Say "On the basis of the present Budget estimates, public debt at the end of the year will be about two hundred billion dollars."

MR. GASTON: Now then, you tie it down to the Budget

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estimates. You want to give the exact Budget figure. I don't like it.

H.M.JR: Why not what I say? I just don't like the English - "...we cannot foresee."

MR. PAUL: We can put it your way, but I don't think we ought to change to Dan's suggestion.

H.M.JR: I said, "...we foresee a public debt at the end of the present fiscal year of about two hundred billion dollars."

MR. BELL: Probably more than two hundred billion, because the General Fund balance will be much higher than it was last June 30.

H.M.JR: Well, "about two hundred billion." After all, it will be about five percent either way. Do you mind that?

MR. BELL: Oh, no, no.

H.M.JR: Would you do that?

MR. BLOUGH: It is done.

H.M.JR: Thank you.

MR. BELL: I suggest taking out one word. We took out the theatrical yesterday; we ought to take out "stupendous bill" on the first line of the paragraph. "The outstanding fact in our financial picture is the stupendous bill which this war will leave behind." Some other word would be better.

MR. GASTON: I think we ought to slam it in their faces. It is stupendous, by any calculations.

H.M.JR: Would you like "colossal"?

MR. BELL: "Large" or something like that.

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MR. GASTON: Fifty billions was stupendous; it was characterized as stupendous in hearings before the Ways and Means Committee and other committees here five or six years ago.

H.M.JR: I think that is a mild word, a sissy word.

MR. BELL: Overruled.

MRS. KLOTZ: Overruled, Danny.

H.M.JR: All right, Dan lost out on it.

MR. BLOUGH: (Continuing) "I do not suggest that we can eliminate the deficit and balance our war budget. I--"

H.M.JR: One second. Do you mind if I stop you right there? "I do not suggest that we can eliminate the deficit and balance our war budget." Why put in a sentence like that? It seems to me so silly.

MR. BLOUGH: We are going to change the organization and move into the question of justice. I have no case to make for that sentence, but we need another one if we don't have that one.

MR. GASTON: You are talking about how we ~~are piling~~ up debt at a tremendous - stupendous - rate, and then you say, "I don't suggest that we can cut out the deficit altogether and balance our budget, but I do say--" and so forth.

H.M.JR: I am not going to say that. It is silly.

MR. SURREY: "No one would suggest."

H.M.JR: No, I mean, no one is suggesting. With fifty-seven billion dollars and ten and a half billion, no one is suggesting we are balancing the budget. It is silly.

MR. BELL: "We cannot, of course, eliminate the deficit entirely."

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MR. GASTON: That is the same idea. Why not say, following the Secretary's idea, "In this situation, if we pay in taxes any less than we can now afford to pay, we shall be doing a gross injustice--"?

H.M.JR: I am willing to say that.

MR. BLOUGH: That strikes the first sentence? How was that?

MR. GASTON: Strike the first sentence, and for the words "I do say that" substitute "In this situation."

H.M.JR: "In the present situation."

MR. GASTON: No, I think it is better, if you don't mind, "In this situation." It is a situation that you have recapitulated about.

MR. BLOUGH: "In this situation, if we pay in taxes any less than we can now afford to pay, we shall be doing a gross injustice to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil. We shall not only be asking the 10,000,000 members of the armed forces to give important years out of their lives to fight the war. We shall also be requiring them as a large body of taxpayers to help pay in taxes after the war what we should and could have paid while they were fighting. That is not equitable war finance."

H.M.JR: Do you mind? Just a minute - on that "gross injustice" and "particularly great injustice," I think that the second loses its force.

MR. BLOUGH: The first could be "an injustice."

MR. PAUL: The first one could be "unfairness" or "great unfairness."

MR. GASTON: "We shall be unfair to those--"?

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MR. PAUL: The first time use the words, "We shall be unfair," and then use "injustice."

H.M.JR: That is all right.

Is that ten million figure correct?

MR. BLOUGH: I am having it checked.

MR. HAAS: I thought it was nearer eleven.

MR. BLOUGH: Well, we haven't had a chance since last night, yet.

MR. HAAS: I am going to check it.

H.M.JR: "...to give important" - "...the most important" - the second sentence from the bottom.

MR. BLOUGH: All right.

MR. PAUL: "...of future taxpayers--"

MR. GASTON: Seems to me that goes without saying - "...also be requiring them ... to help pay in taxes after the war--"

H.M.JR: It wasn't clear to me.

MR. PAUL: "...them as a large body of taxpayers" - they are not taxpayers now; they are exempted.

MR. BLOUGH: "Future taxpayers."

MR. PAUL: Use "could and should."

MR. GASTON: Should because we could.

H.M.JR: "That is not equitable war finance" - well, hell, I don't want to use that kind of language. I want to just say, "This stinks" or something like that. I mean, a soldier doesn't know and isn't interested in what equitable finance is.

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MR. HAAS: That is another word to mean unfair again.

MR. GASTON: Let's just strike that sentence.

H.M.JR: All right.

MR. BLOUGH: It goes into the next paragraph better without it.

H.M.JR: Now read that once more, will you?

MR. BLOUGH: "In this situation, if we pay in taxes any less than we can now afford to pay, we shall be unfair to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil. We shall not only be asking the 10,000,000 members of the armed forces to give the most important years out of their lives to fight the war. We shall also be requiring them as a large body of future taxpayers to help pay in taxes after the war what we could and should have paid while they were fighting." We took "help" out, there - "...to pay in taxes after the war what we could and should have paid while they were fighting."

MR. PAUL: You don't need the "help."

H.M.JR: Yes, I think that is a good strong statement.

MR. SULLIVAN: I like it except I don't like the word "bill" - "accumulated bill," in the first part of it.

MR. BLOUGH: "...to those who must face the--" what?

MR. SULLIVAN: Accumulated debt, isn't it?

MR. GASTON: The thought of the bill for the war - I think it strengthens the concept.

MR. PAUL: "Bill" is dramatic.

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MR. GASTON: Make them fight it and then pay for it.

H.M.JR: You (Smith) make a note for tomorrow morning. Let's see if we can't get this to the various soldier papers in London and the Middle East and Australia, will you?

MR. SMITH: Yes.

H.M.JR: And into this country, too.

MR. PAUL: Get it to The Yank.

H.M.JR: We could do it that way, but I would like to sort of clear the track from the top down. Will you do that, Fred? And don't forget Paul's son.

MR. PAUL: He will get it, anyway.

H.M.JR: All right, let's go ahead.

MR. BLOUGH: "It is clear that we are not paying all the wartime taxes that we can and should pay. We are not now fighting an all-out war on the fiscal front. All the estimates of national income, by whomever made, bear eloquent testimony to the fact that the ability of the American people to pay increased taxes is far from being exhausted. In 1939 individuals had incomes, after personal taxes, of \$68 billion. In 1944, it is estimated that individuals will have incomes of \$133 billion, after allowing for the full impact of the tax increases now on the books. That is, after paying taxes, incomes of people in the United States will have doubled since 1939."

H.M.JR: That is a powerful statement. Now, just one second, please - that is a very good paragraph.

MRS. KLOTZ: Very.

MR. BELL: I suppose it would detract from it to say how many times the taxes they are paying.

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MR. PAUL: I have got it in my statement - a statement that they haven't absorbed one-fourth of the increase in taxes.

H.M.JR: I think I like it just the way it is, Dan.

MR. BELL: I like it, too. They have doubled their income in spite of the much larger tax bill they are paying.

H.M.JR: I mean, this is something they can pick up.

Also, Fred, make a note to make a special effort to reach all the labor press.

MR. SMITH: Yes.

H.M.JR: O.K.

MR. BLOUGH: "The incomes of the American people are not only ample to pay much higher taxes. The spending power of these incomes is so great as to threaten rapid and burdensome increases in the cost of living. About half of American productive effort is going into war equipment and supplies for our armed forces. These products are not available for civilian consumption. Yet our people are being paid for all they produce. They thus have far more money to spend than there are goods on which to spend it. In 1944 this surplus of income over goods is expected to amount to over \$37 billion after payment of personal taxes. If those who hold this surplus income try to spend it on consumer goods the inevitable result will be black markets, ruptured price ceilings, substantial increases in prices and the cost of living, followed by tremendous pressures for higher wages and farm prices, which will set in motion further forces in the spiral of inflation."

H.M.JR: Now, just a second. I want to go back to Page 3, in the middle of the page - "In 1944, it is estimated that individuals will have." and so forth - is that '44 calendar year or fiscal?

MR. BLOUGH: Calendar.

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H.M.JR: Don't you think we should label it, Dan?

Mr. BELL: Label the first one and let the second follow.

MR. BLOUGH: "In the calendar year 1939."

MR. PAUL: The same thing might be said of "In 1944 this surplus" - the next page, line five.

H.M.JR: That is what I was coming back to. May I just go over this again, quietly? (The Secretary reads to himself)

You checked this, George - "...half of American productive effort--"?

MR. HAAS: We are going to check all these figures.

H.M.JR: You are going to change this to "calendar year 1944"?

MR. BLOUGH: It will be "In the calendar year 1944 this surplus--"

MR. PAUL: Just below ~~that~~, I think you can say, "substantial increases in the cost of living," or "in prices." You don't need both prices.

MR. BLOUGH: It said "price ceilings."

H.M.JR: I was coming to that. I think you are quite right.

You leave out "increases in prices"?

MR. BLOUGH: "Ruptured price ceilings and substantial increases in the cost of living."

H.M.JR: Yes. Would you say "tremendous pressures" or "continued pressures" or just leave it the way it is?

MR. PAUL: It is more than continued.

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MR. BLOUGH: It is either expanded or--

MR. BELL: "...set in motion forces--"

H.M.JR: All right. It is a good statement, Dan. Does the first sentence need a connecting link with the second, "...are not only ample to pay much higher taxes, but the spending power" and so forth?

MR. PAUL: I like it that way.

MR. BLOUGH: He suggested making it one sentence.

MR. PAUL: No, the short sentences are much better.

MR. BELL: Yes, but you have, "The incomes of the American people are not only ample to pay much higher taxes" - something ought to go on.

MR. GASTON: That is because you are used to the idiom. You can say "not only" in an independent sentence, as "not merely" or "not limited to." It simply points to something to follow.

MR. BELL: There is no question of what it means.

H.M.JR: Well, listen, you "grammartists" - what good - settle the thing afterwards.

(To Blough) Go ahead.

MR. BLOUGH: "Up to this point spending has been held down and we have avoided disastrous price increases. We have done this through a variety of measures. Price ceilings and rationing, wage and salary stabilization, and taxes already imposed have all had a restraining effect. The campaigns for the voluntary purchase of war bonds with their emphasis on saving have been a strong influence in curbing spending.

H.M.JR: Just a minute, please. Is that all right? How about the bottom of Page 4?

(No response)

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MR. BLOUGH: (Continuing) "But we cannot expect these controls to hold indefinitely in the face of a continued large surplus of income over goods and a great accumulation of spendable liquid wartime savings. Day after day the continued pressure of spending power has been cracking our price controls a little here and a little there and threatens to produce a major breakdown. We are courting danger if we do not do all that is possible through the tax mechanism to strengthen the foundations of our stabilization program."

MR. PAUL: In the fifth line, I don't think you need that "continued."

H.M.JR: What line?

MR. BLOUGH: "Day after day the continued pressure--"

MR. GASTON: I like either "continuous," "continuing," or "steady" - any one of those things, but I think you need the idea.

H.M.JR: You are overruled.

MR. PAUL: "Steady" seems much better.

H.M.JR: I like "the continued."

MR. BELL: You had "continued" in the previous sentence. You might change it to some other word, but you need something.

MR. SMITH: "Unceasing" - "incessant."

MR. GASTON: That is a good idea, Fred.

MR. BLOUGH: Do you like "incessant"?

MR. PAUL: I don't like it as well as "continued."

H.M.JR: I like "continued" - the way it was.

MRS. KLOTZ: "Continuing pressure."

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MR. BLOUGH: "Continuing pressure."

H.M.JR: In the last sentence, "...our stabilization program" - I have said right straight along, I don't think the high school boy and girl know what the stabilization program is. At the bottom of Page 5.

MR. HAAS: Does "price stabilization program" help that?

H.M.JR: I was going to put in the word "price" if that is correct; "...foundations of our price-stabilization program." Isn't that what it is?

MR. BELL: "Foundation of our program to hold prices."

MR. PAUL: "To hold prices in line."

H.M.JR: Isn't it a price-stabilization program?

MR. BELL: Wages and everything.

MR. HAAS: Prices and wages, and everything.

MR. BLOUGH: The basic purpose is prices.

H.M.JR: Let's put it "price stabilization."

MR. PAUL: I am a little troubled by that last sentence - "We are courting danger" - it seems such a weak statement - such an understatement.

H.M.JR: Well, I don't want to go any stronger than that, because if I do they will throw it right back. I don't want to talk about a collapse, and all that business.

MR. SULLIVAN: Too honest.

MR. BELL: This is one of the things that the Committee report criticizes, that public officials ought to talk the other way, and encourage people to save their money, and quit talking about scaring them into spending their money on commodities because of this inflation scare.

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MR. GASTON: We deal with that a little later, Dan.

MR. BLOUGH: Page 6: "I have been told that the American people do not believe in the dangers of inflation. I cannot believe that is true, but there may be a confusion of meaning. If by inflation is meant a situation where money becomes worthless, I agree that the danger now is not of that character. It is rather the danger of substantial and continuous and, at least in part, permanent rises in prices that would undermine standards of living, reduce the value of investments and impair the security we seek to achieve through savings and insurance. Unfortunately, lack of belief in the danger of inflation does not remove that danger. There are few indeed who have followed with care the developments of the recent past who are not concerned over the possible breakdown of the stabilization program. Higher wartime taxes obviously cannot meet the danger alone but they are necessary if it is to be met."

Now, that paragraph is largely repetitious and could be omitted entirely.

H.M.JR: I like it.

MR. GASTON: It deals with the point Dan raised a moment ago.

H.M.JR: I like it very much.

MR. PAUL: I think it is necessary.

H.M.JR: There are a couple of things that bother me; "...but there may be a confusion of meaning" - that bothered me a little bit. Does it bother anybody else?

MR. PAUL: No.

MRS. KLOTZ: No, that explains the whole thing.

MR. GASTON: To spell it out, there may be confusion as to what is meant by inflation.

MRS. KLOTZ: I think that is implied.

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H.M.JR: If it doesn't bother anybody else--

MR. SURREY: Make it two sentences.

MR. GASTON: No, I like it all right.

MR. PAUL: I think it is pretty good.

The word "situation" in the next line doesn't seem to me to be exactly the best word. It is all right, but--

H.M.JR: It is all right with me.

Oh, yes; before you said "...permanent rises in prices" you said "at least in part."

MR. BLOUGH: "At least in part" has been in for some time. I wouldn't want to say that all the rises were going to be permanent, because they may come down later. After the last war prices went up and then came down. Even when they came down they were way above what they were when they started up.

H.M.JR: Is that all right with you, George?

MR. HAAS: Yes, sir, that is well stated.

H.M.JR: All right. I like that sentence very much: "Unfortunately, lack of belief in the danger of inflation does not remove that danger." I wish you had put in brackets (Please note, Mr. Doughton).

MR. PAUL: Doughton is not the only one.

H.M.JR: That is a good paragraph. I like it.

Go ahead, please.

MR. BLOUGH: "I have also been told that some people have a defeatist attitude toward our fiscal problem. They argue that since the deficit is so large, the Government debt so huge, and the inflationary possibilities of surplus

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income and accumulated private savings so great, a few billion dollars more or less will not make a great deal of difference and that therefore we might as well avoid the unpopularity of imposing additional taxes. I think this would be a poor excuse to give to the returning soldier who will be interested to know what sacrifices we incurred at home to protect his future."

H.M.JR: I have nothing to add.

MR. BLOUGH: "In fact, however, \$10.5 billion of additional taxes would have very important effects on the deficit, the debt, and the inflationary pressure. It is almost exactly the total of all the reductions that took place in the Federal public debt over a 12-year period after World War I. In its direct effects on spending, in the assurance it would give that the Government takes its debt seriously, and in the sobering influence it would have on public understanding of the true cost of the war, a \$10.5 billion increase would be immensely beneficial."

H.M.JR: Excuse me, please. It is all right with me.

MR. BELL: The comparison of the twelve-year reductions in the debt makes this look awfully large to everybody. ---

MR. PAUL: That is a good little trick, it seems to me - a little arguing trick.

MR. BELL: What importance do you attach to comparing it with the twelve-year reduction?

MR. GASTON: It shows how hard a job it is to pay off debt once accumulated. The ten and a half billion, judged by past history, is equivalent to twelve years of labor to reduce your debt. So it isn't unimportant.

MR. BELL: Not the amount, but here you are asking ten and a half billion dollars a year and it took the American people twelve years to retire that debt before. I wondered if it didn't detract a little from it.

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MR. BLOUGH: Maybe we are carrying water on both shoulders. We are meeting arguments that it is too big and arguments that it doesn't really matter and amount to much. But they both have been made.

MR. PAUL: It is implicit that the Republicans were in power.

MR. HAAS: They would have been reduced a good deal more if they didn't change the tax structures.

MR. BELL: That is really the argument.

MR. GASTON: Yes, I think it is all right on both counts.

H.M.JR: Who doesn't like that?

MR. BELL: You are talking about ten and a half billion not being so burdensome at this time with the American people, and yet you call attention to the fact that it is just equivalent to what it took twelve years to raise right after the last war to retire the debt in a similar amount. It seems to me it would detract from your argument some.

MR. SMITH: I am inclined to agree with Danny. I thought of that last night. It is a wonderful thing to get hold of and say, "Look what these guys are trying to make us do - twelve years' work in one." They can blow it up and use that as another hearing.

MR. BLOUGH: What can we substitute?

H.M.JR: Don't do anything; just leave the sentence out.

MR. GASTON: We have repeatedly said the Republicans didn't do enough. The other is, we have shown the tremendous income which would justify us in paying that amount.

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MR. SMITH: The trouble is, you never get a chance to answer. That is the problem. I mean, the accusation goes over big and nobody hears the answer.

MR. GASTON: All right, let's cut it out, the sentence.

H.M.JR: Yes.

MR. BLOUGH: Then there is nothing much left but the statement that they say it is not much, but we say it really is.

MR. GASTON: We say it would have a very important effect.

MR. BLOUGH: I have no objection to cutting it out.

H.M.JR: Let's cut out that sentence and study the paragraph for a minute.

MR. HAAS: I think the paragraph has something in it that is necessary.

H.M.JR: I think it is all right. We are just pounding it home.

MR. GASTON: Would you cut the sentence out?

H.M.JR: I would cut the sentence out.

MR. GASTON: Yes.

MR. BLOUGH: Page 8: "Perhaps the most superficially plausible and therefore the most insidious argument I have recently heard is that economy in governmental expenditures is a substitute for higher taxes. Economy is always an important objective and a tax bill makes it neither more nor less desirable. I am in complete and hearty sympathy with any measure that can be adopted to reduce governmental costs, to reduce even war costs so long as the reductions do not impair our war effort. But if we are to fight the war to a speedy conclusion we cannot relax our fighting

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or our production for war. That means we cannot significantly relax our spending. I am not in sympathy with any measures or any proposal to cut expenditures in any way that will make our total production anything less than an all-out effort."

H.M.JR: This is good. There is a lot of meat in this stuff. Let me read it over quietly. The sentence, "Economy is always an important objective and a tax bill makes it neither more nor less desirable" - that bothers me a little bit. I guess that is all right.

MRS. KLOTZ: That is all right.

MR. BLOUGH: The thought is that we all of a sudden think of economy when they have taxes up; it doesn't make economy more important then.

MR. PAUL: We ought to have economy at all times.

MR. BELL: "A tax bill makes it no less desirable," you might say.

MR. PAUL: "A little more desirable." Whether it is more or less, it is irrelevant to the tax bill.

MR. SMITH: "...doesn't change its desirability."

H.M.JR: The thing that bothers me is the argument - and I suppose that is what you are answering here - every time you have a tax bill up you save so much and have less taxes.

MRS. KLOTZ: That is what it conveyed to me.

H.M.JR: All right.

MR. SURREY: Merely the occasion to dramatize economy.

MR. SMITH: Getting theatrical on us, now!

H.M.JR: That is good. That is full of meat.

Go ahead.

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MR. BLOUGH: "At the time I appeared before the Ways and Means Committee, I said that 'while it may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for getting at this time all that the American people can possibly give us in additional taxation.' That is still my position."

H.M.JR: O.K.

MR. BLOUGH: (Continuing) "The Bureau of the Budget has just released estimates that total expenditures for the fiscal year 1944 which ends next June 30 will amount to \$98 billion instead of the \$106 billion in the estimate issued last August. It is understood that this decrease in expenditures represents a combination of changes in the war program and a delay in reaching the production goals of some items. Revenues were estimated at \$41 billion, or about \$3 billion more than in the previous estimate. The over-all result of the revision is to reduce the previously expected deficit from \$68 billion to \$57 billion for the fiscal year 1943."

H.M.JR: Let me read this. Do you mind changing this to read the same sort of way as above? Above you say that it is going to be ninety-eight instead of a hundred and six. I would like to have it read the same way: "Revenues were estimated at forty-one billion instead of thirty-eight billion," the same way it was done above.

MR. BLOUGH: "Thirty-eight billion dollars."

H.M.JR: So it reads the same way.

MR. BELL: That is right.

MR. BLOUGH: You don't need to go any further than just "thirty-eight billion dollars." "Revenues were estimated at forty-one billion instead of thirty-eight billion."

MR. BELL: Period!

H.M.JR: Is that all right?

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MR. BELL: Yes, it follows the same--

H.M.JR: Somebody may have the thirty-eight in their mind and just go back to the thirty-eight. It is the same way "from \$68 billion to \$57 billion."

It is not very important, but a little bit more consistent.

(To Blough) All right.

MR. BLOUGH: "There is nothing in the new budget figures in our opinion to warrant reducing our goal below \$10.5 billion. If no one had expected more than a \$57 billion deficit for the fiscal year 1944, the amount would appear tremendous, which it truly is. It is no less so because it represents a reduction from a previously estimated higher figure. \$57 billion is greater than last year's record deficit, and is three times the deficit of 1942."

H.M.JR: Wait a minute, right there. "There is nothing in the new budget figures in our opinion to warrant reducing our goal below ten and a half billion of additional taxes."

MR. BLOUGH: Yes.

MR. SMITH: Would that be stronger if you said, "There is nothing in that that changes the people's capacity to pay the ten and a half billion dollars"?

MR. SULLIVAN: The only change there is "capacity."

MR. BELL: Would it help if we put in, "If no one had originally expected more than--"? What makes it look now smaller is the fact it has been reduced eleven billion and you don't need taxes, but if you had had fifty-seven billion dollars originally--

MR. BLOUGH: That just means putting in the word "originally."

H.M.JR: Where does that go?

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MR. BLOUGH: Third line - "if no one had originally expected--"

H.M.JR: All right.

MR. BLOUGH: (Continuing) "Moreover, the rate of war spending is expected to rise beyond the present level."

H.M.JR: Now, right there, George, have for me a table I can just lay my hands on - how much we have spent, total expenditure figures beginning in January through to date, per month.

MR. BELL: I have got that. It is all ready.

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

MR. BELL: It is already made up, by months, and also the full national defense years.

H.M.JR: Could you give me a copy.

MR. BELL: Yes.

MR. HAAS: There is a figure, Dan, for this month which will probably be the highest figure to date - eight billion dollars. We might well consider putting it right in there.

MR. BELL: I doubt if it will go to eight. This will be the highest month, no doubt, because he is appearing on the 29th. You don't know the exact figure.

H.M.JR: Well, we can use that in argument.

MR. HAAS: "...at the rate which is about one hundred and ninety-five billion a year."

MR. PAUL: Yes, but you need that rate because you were lower before. I don't think it will interrupt this flow here.

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MR. BELL: They will have to rise some in order to reach the ninety-two, even.

H.M.JR: Go ahead.

MR. BLOUGH: Page 10: "The budget revisions do not in any way lessen our capacity to pay taxes; they do not in any degree affect our moral obligation to meet now all of the costs of the war that can be met by current taxation; and they do not affect in significant degree the serious inflationary dangers that face us for the balance of this fiscal year, the succeeding fiscal years as long as the war shall last, and in the postwar period. Our tax goal, as I pointed out to the Ways and Means Committee, was the amount that we believed could be fairly distributed without undue sacrifice and hardship. From every point of view it was a minimum fiscal program in the light of the deficit, the accumulated debt, and the inflationary pressure. The reduced budget estimates will make the \$10.5 billion in additional wartime taxes more nearly adequate, but that is all."

H.M.JR: Just a moment, please. It is a good sentence.

MR. SULLIVAN: Do you want to add "the people's ability to pay in the light of the deficit" - "the accumulated debt and the inflationary pressure, and the ability of the people to pay"?

MR. PAUL: We really said that in the sentence before.

MR. SMITH: I think you have the cart before the horse. I think that is the stronger argument, and then you ought to follow up on that deficit would still look big. That is sort of rhetorical.

H.M.JR: What do you mean?

MR. SMITH: Just switch those two paragraphs. It seems to me that the reduction doesn't change the capacity of the people to pay, is an argument that doesn't have an answer. I think that ought to go first. I would have put it first and then stuck your preceding paragraph second.

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H.M.JR: What do you think, Herbert?

MR. BLOUGH: Shift the whole paragraph?

MR. SMITH: Yes. In other words, to base your story on the fact that that reduction doesn't make any difference in the capacity of the people to pay, and that is what the ten and a half is based on. That is a good sound argument. Then your other one is a lot of monkey business with figures which is not easy to put over in a speech.

MR. GASTON: I am inclined to think that greater emphasis is achieved by putting the stronger argument last as a clean-up argument.

H.M.JR: I will go by Herbert, then.

MR. BLOUGH: Put your facts first and then clinch them with your argument.

MR. PAUL: This last argument on page ten, somebody up there told me to be sure to emphasize debt - the amount of the debt.

MR. GASTON: There is just one qualification I thought of, and I don't know whether it is advisable. The last sentence reads, "The reduced budget estimates will make the \$10.5 billion in additional wartime taxes more nearly adequate, but that is all."

Of course, the estimates themselves won't accomplish that. It is only if they are realized, and also it applies not only to this year, but the next year.

MR. PAUL: It is the reduced expenditures reflected in the budget that make it.

MR. BLOUGH: It is not really reduced expenditures, even.

H.M.JR: Personally, I would drop that last sentence out. It is a little too tricky.

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MR. GASTON: Yes, I think that is so.

MR. BLOUGH: All right.

MR. SURREY: "It is a minimum" instead of saying "it was." If you drop the last sentence, you would have to say "...it is a minimum."

MR. BLOUGH: Will the previous sentence be "is" too?

MR. PAUL: No, that is right, "...was the amount." We are talking about as he pointed out to the Ways and Means Committee.

H.M.JR: Where is the "is"?

MR. BELL: In the sentence just above the last.

MR. GASTON: "Our tax goal, as I pointed out to the Ways and Means Committee, was the amount," then the next sentence, "From every point of view it is a minimum fiscal program."

MR. BLOUGH: We go into the light again! (Reading) "In the light of all these facts, the House Bill, in my opinion, falls far short of even an attempt to meet our fiscal needs in a realistic or courageous way."

H.M.JR: Why is that "In the light of"? Where are you going back to?

MR. BLOUGH: Well, there are two "lights" there.

MR. GASTON: "In the light of all these facts--" just above. Where is the other "light"?

MR. BLOUGH: The previous sentence, "...in the light of the deficit."

H.M.JR: I don't see that.

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MR. BLOUGH: "From every point of view it is a minimum fiscal program in the light of the deficit."

MR. PAUL: I don't know - it kind of emphasizes it to say two "lights" there.

H.M.JR: You can say, "In view of all these facts."

MR. GASTON: That is better.

MR. BLOUGH: There is a "view" in the previous sentence, too. I think "In view--" would probably be better.

Now, I raise this point, that this paragraph does break the thought a little bit. We have been at ten and a half billion all this time. But I am wondering, it seems to me you almost have to pay your respects to the House some place.

MR. GASTON: The break, Roy, is the break of a conclusion. You are now entering into your conclusion. You have done all this; you now enter your conclusion: "In view of all these facts, the House Bill, in my opinion, falls far short of even an attempt to meet our fiscal needs in a realistic or courageous way."

Then I would strike out that "In conclusion" in the next sentence: "Let us bear in mind that an essential part," and so forth.

MR. BLOUGH: No paragraph?

MR. GASTON: I would make it a new paragraph, but cut out the "In conclusion." Your conclusion really starts with your summary.

H.M.JR: Just a minute, please. Do you want me to say that the House Bill is neither realistic nor courageous?

MR. BELL: Neither fish nor fowl.

H.M.JR: You want me to say that?

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MR. GASTON: Yes, I think that is the whole tenor of your speech. It is a strong statement.

MR. BLOUGH: There are three stingers in that paragraph.

MR. GASTON: We might cut out "an attempt" and say "...falls far short of meeting our fiscal needs."

MR. BLOUGH: "Realistic" and "courageous" are the stingers, also.

MR. SULLIVAN: "Courageous" is the stinger.

MR. GASTON: "...falls far short of meeting our fiscal needs--"

MR. BLOUGH: "...in a realistic way."

H.M.JR: Don't water it down. If you are going to say it, let's leave it.

MR. PAUL: "Attempt" doesn't water it down.

MR. BLOUGH: There is a difference between condemning the motives, you might say, and the courage of the House, and condemning their results. Now, it would be nice to go right after them. You get a little less kick-back if you continue.

MR. GASTON: As it stands here we are saying that the House didn't even try to meet this situation in a realistic and courageous way. If we cut out "even an attempt" we say that the House didn't meet it. They may have thought they were meeting it, but they didn't meet it in a realistic and courageous way.

H.M.JR: How would you do it?

MR. GASTON: I am inclined to say I would leave out "even an attempt."

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MR. SULLIVAN: I would leave out the "courageous" and leave in the "attempt." They didn't even make an effort.

H.M.JR: When they voted two hundred to seventeen, I don't think they made any attempt. Only Mr. Gearhart asked to be registered on voting "No" on this.

MR. GASTON: I reverse myself: I vote to leave it as it is.

MR. PAUL: Voorhis got up and said--

MR. SURREY: They would not have passed the tax bill if the Republicans didn't want to get renegotiation revised. Knutson said in Executive Session, "That is why we went along on the tax bill."

H.M.JR: Well, I would leave it. If they don't like it, I don't like what Mr. Doughton says about me.

MR. BLOUGH: That is right.

MR. GASTON: I probably think "even of" is better than "of even."

MR. SULLIVAN: Yes.

H.M.JR: Are you cutting out "In conclusion"?

MR. GASTON: I would suggest cutting that out because the preceding paragraph is really part of your conclusion.

H.M.JR: All right.

MR. BLOUGH: "Let us bear in mind that an essential part of fighting a war is paying for it in the right way at the right time. There is no escape from the costs of war. It is a great fallacy to suppose that we can fight history's greatest war to save what we hold most dear without financial sacrifice. Inevitably we shall experience much greater financial sacrifice than we have thus far. Taxation now, during the war, is the easiest way to make that sacrifice."

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H.M.JR: Let me read that thing. What do you mean, "Inevitably we shall experience much greater financial sacrifice"?

MR. BLOUGH: Well, we are going to continue, throughout the years, to pay and pay and pay some more.

MR. SURREY: Lower incomes, probably.

MR. BLOUGH: Yes.

H.M.JR: "Taxation now, during the war, is the easiest--" How about that word?

MR. BLOUGH: Is the least painful.

MR. PAUL: In the long run, it is the easiest.

MRS. KLOTZ: I think that is it.

MR. GASTON: It is easier to pay it when you have got it.

H.M.JR: All right.

MR. BELL: Do you want to put in there "...during the war, with its high incomes"?

H.M.JR: I think we have done enough.

(To Blough) Go ahead.

MR. BLOUGH: "In presenting our national fiscal problem to you, I have endeavored to perform the duty placed on the Secretary of the Treasury by law and tradition. I have endeavored to show you as objectively and as clearly as I can that a tax program of not less than \$10.5 billion is necessary to protect the financial and economic future of this country during the war and after the war."

H.M.JR: Read the next.

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MR. BLOUGH: "It is my conviction that the provision at this time of additional wartime taxes of that magnitude will promote the general welfare of the people of the United States."

MR. PAUL: I think that "will promote" - it would be better if you said "essential to." You are using the old constitutional phrase, but it is weaker.

MR. GASTON: I don't know, there is a solemn character to this thing.

MR. BLOUGH: Or "is essential to promote--"

H.M.JR: I don't like - "It is my conviction that the provision at this time of additional wartime taxes of that magnitude--" - I don't like "of that magnitude."

MR. SURREY: "It is my conviction that additional wartime taxes--"

MR. PAUL: "It is my conviction that additional wartime taxes at the magnitude I have proposed, are essential."

MR. BELL: "...not less than the magnitude I proposed."

MR. GASTON: "In amounts not less than I have proposed are necessary to promote--"

MR. PAUL: Yes, that would be better.

MR. HAAS: You could cut the whole thing out.

H.M.JR: I tell you where I would like to put this: "In presenting our national fiscal problem to you, I have endeavored to perform the duty placed on the Secretary of the Treasury by law and tradition. It is my conviction that the provision at this time of additional wartime taxes of this magnitude will promote the general welfare of the people. I have endeavored to show you as objectively--" - I would stick it right in there.

MRS. KLOTZ: I would go away with a nicer feeling.

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H.M.JR: Then you would leave it?

MR. SURREY: "It is my conviction that such a program--"

MR. GASTON: Why not just drop the last paragraph?

MRS. KLOTZ: I would.

MR. GASTON: I think Mrs. Klotz' feeling is pretty good on the point.

H.M.JR: You let her have her way?

MR. GASTON: Yes.

MRS. KLOTZ: This is the first time I have heard this.

MR. GASTON: In other words, where you hit a high point, you don't want to over-strain it.

MR. PAUL: That is a good ending, "...during the war and after the war."

H.M.JR: Wait a minute. I haven't ended yet.

MR. PAUL: You could add another sentence right after "during the war and after the war," just a simple sentence in the same paragraph. You have said it is necessary to protect the financial and economic future. You could add that it is necessary to promote the general welfare of the people of the United States.

MRS. KLOTZ: I don't like that sentence.

MR. PAUL: It is the platitude of the Constitution.

MRS. KLOTZ: But it doesn't fit in here.

H.M.JR: I like it the way it is now. We will leave the last thing off.

Then I thank you all very, very much.

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MR. BELL: How about the word "protect," hoy?

MR. BLOUGH: "...protect the financial and economic future"? What would you like?

MR. BELL: Suppose you don't get ten and a half billion.

MR. BLOUGH: "...necessary to protect"--

MR. PAUL: "...necessary to" and leave out "protect."

H.M.JR: Herbert, could you come over here just a minute? Do you remember last night we were arguing about the Government taking this thing seriously?

MR. GASTON: I am inclined - we might say that the elected and appointed representatives of the people take the public debt seriously.

MRS. KLOTZ: The Government has taken the debt seriously.

MR. BLOUGH: It could be "renewed assurance" also.

H.M.JR: Page seven.

MR. BLOUGH: It could be "renewed assurance."

MRS. KLOTZ: Yes, that changes it.

MR. GASTON: It is really the people's debt.

H.M.JR: It is a point that I raised last night. What I would have liked to say last night was that the Congress--

MR. GASTON: Would you like it if we said, "In its direct effects on spending, in the renewed assurance it would give that the elected and appointed representatives of the people take the problems of the public debt seriously"?

MRS. KLOTZ: That is much different from this.

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H.M.JR: That comes nearer to saying "the Congress." They all know I take it seriously. Does that make you (Mrs. Klotz) feel better?

MRS. KLOTZ: Oh, yes.

MR. BLOUGH: I am all right on that.

H.M.JR: Stanley, did you hear that? (Mr. Surrey reads it over.) I think something like that is a little better. It worried me last night about the Government.

H.M.JR: Fred, Mrs. Morgenthau called up to say she thought your argument against the sales tax was so good. Who is going to write the argument for me, in case I am going to do it?

MR. PAUL: It is pretty well written in this previous draft.

MR. SURREY: It is a good statement.

H.M.JR: What was the part that you had on the sales tax?

MR. SMITH: Essentially the same as they had in the previous draft. I thought it was a little better.

MR. BLOUGH: It was really eloquent. If he could recapture that and put it on paper--

MR. PAUL: You are going to hold that in case you get asked the questions.

H.M.JR: Wait a minute. Blough, in giving me a separate statement on the sales tax, do you have what Fred said?

MR. BLOUGH: I don't.

MR. SMITH: It is a previous draft. I think you could just copy it. It was a layman's explanation of tearing down excises. I can pick it off my desk and hand it to him.

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H.M.JR: Would you mind doing it?

MR. SMITH: Not the slightest.

MR. SULLIVAN: I will get ahold of Vinson.

H.M.JR: If you don't mind, I will do it myself.

(The Secretary places a call to Judge Vinson.)

November 28, 1943
11:35 a.m.

323

HMJr: Hello.

Operator: Judge Vinson is not in his office. Shall I try his residence?

HMJr: Yes.

Operator: All right.

HMJr: Hello.

Operator: Judge Vinson.

HMJr: Hello. Hello.

Fred Vinson: Hello, Henry.

HMJr: Good morning.

V: How are you, sir?

HMJr: Fine. I just this second finished my statement.

V: I see.

HMJr: And I'd like to have John Sullivan bring it out to you so that we can get your comments.

V: All right, I'd be glad to see it.

HMJr: Could he come fairly soon?

V: Yes, he can come right away.

HMJr: Now, just where do you live?

V: Wardman Park.

HMJr: Wardman Park?

V: 200-I, it's in the annex.

HMJr: Well, he'll be out there about noon.

V: All right, be glad to see him.

HMJr: Thank you.

V: All right, Henry.

Draft C

November 28, 1943

PROPOSED STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE SENATE FINANCE COMMITTEE

When I appeared before the Ways and Means Committee of the House on October 4 to present the Administration's suggestions for increased war taxes, I gave to that Committee as best I could a picture of the financial position of the nation and its wartime revenue needs. I stated that the fiscal situation required much heavier wartime taxation and that it was our opinion that the people could pay additional wartime taxes of at least \$10.5 billion. The Ways and Means Committee and the House reached a different result and approved a bill increasing revenues by only \$2 billion. In view of this wide difference on a matter so important to the present and future welfare of this nation, we ~~as the~~ ~~Committee~~ have carefully reviewed the fiscal situation. I am appearing before you today to present our conclusions."

The outstanding fact in our financial picture is the stupendous bill which this war will leave behind. On that point there can be no quibbling. We are accumulating debt at the rate of about \$180 million

- 2 -

a day. Last month (October, 1943) the Federal Government spent \$5,426,000,000 more than it collected in revenue. In the fiscal year 1942 the deficit was \$19 billion, in 1943 it was \$56 billion, and in 1944 it is expected to be \$57 billion. On the basis of any estimates we can now make, we ~~cannot~~ foresee a public debt at the end of the present fiscal year of ~~about~~ ^{about} \$200 billion. On such a debt the interest charges alone, even at the present extremely low rates, will be close to \$4 billion a year. As the war continues, the debt, the interest, and the problems of repayment will grow larger and larger.

~~In this situation I do not suggest that we can eliminate the deficit and balance our war budget. I do say that if we pay in taxes any less than we can now afford to pay, we shall be ^{unfair} ~~doing a gross injustice~~ to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil. We shall not only be asking the 10,000,000 members of the armed forces to ^{the most} ~~give~~ important years out of their lives to fight the war. We shall~~

- 3 -

also be requiring them as a large body of ^{future} taxpayers to ~~help~~ pay in taxes after the war what we should and should have paid while they were fighting. ~~That is not equitable war finances.~~ //

It is clear that we are not paying all the wartime taxes that we can and should pay. We are not now fighting an all-out war on the fiscal front. All the estimates of national income, by whomever made, bear eloquent testimony to the fact that the ability of the American people to pay increased taxes is far from being exhausted. In ^{the calendar year} 1939 individuals had incomes, after personal taxes, of \$65 billion. In 1944, it is estimated that individuals will have incomes of \$133 billion, after allowing for the full impact of the tax increases now on the books. That is, after paying taxes, incomes of people in the United States will have doubled since 1939. //

The incomes of the American people are not only ample to pay much higher taxes. The spending power of these incomes is so great as to threaten rapid and burdensome increases in the cost of living. About half of American productive effort is going into

- 4 -

war equipment and supplies for our armed forces. These products are not available for civilian consumption. Yet our people are being paid for all they produce. They thus have far more money to spend than there are goods on which to spend it. In ^{the calendar year} 1944 this surplus of income over goods is expected to amount to ^{more than} over \$37 billion after payment of personal taxes. If those who hold this surplus income try to spend it on consumer goods the inevitable result will be black markets, ruptured price ceilings, ^{and} substantial increases in ~~prices~~ ^{and} the cost of living, followed by tremendous pressures for higher wages and farm prices, which will set in motion further forces in the spiral of inflation.

Up to this point spending has been held down and we have avoided disastrous price increases. We have done this through a variety of measures. Price ceilings and rationing, wage and salary stabilization, and ^{the} taxes already imposed have all had a restraining effect. The campaigns for the voluntary purchase of war bonds with their emphasis on saving have been a strong influence in curbing spending.

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But we cannot expect these controls to hold indefinitely in the face of a continued large surplus of income over goods and a great accumulation of spendable liquid wartime savings. Day after day the continued pressure of spending power has been cracking our price controls a little here and a little there and threatens to produce a major breakdown. We are courting danger if we do not do all that is possible through the tax mechanism to strengthen the foundations of our stabilization program.

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I have been told that the American people do not believe in the dangers of inflation. I cannot believe that is true, but there may be a confusion of meaning. If by inflation is meant a situation where money becomes worthless, I agree that the danger now is not of that character. It is rather the danger of substantial and continuous and, at least in part, permanent rises in prices that would undermine standards of living, reduce the value of investments and impair the security we seek to achieve through savings and insurance. Unfortunately, lack of belief in the danger of inflation does not remove that danger. There are few indeed who have followed with care the developments of the recent past who are not concerned over the possible breakdown of the stabilization program. Higher wartime taxes obviously cannot meet the danger alone but they are necessary if it is to be met.

I have also been told that some people have a defeatist attitude toward our fiscal problem. They

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argue that since the deficit is so large, the Government debt so huge, and the inflationary possibilities of surplus income and accumulated private savings so great, a few billion dollars more or less will not make a great deal of difference and that therefore we might as well avoid the unpopularity of imposing additional taxes. I think this would be a poor excuse to give to the returning soldier who will be interested to know what sacrifices we incurred at home to protect his future.

In fact, however, \$10.5 billion of additional taxes would have very important effects on the deficit, the debt, and the inflationary pressure. ~~It is almost exactly the total of all the reductions that took place in the Federal public debt over a 12-year period after World War I.~~ In its direct effects on spending, in the assurance it would give that the ^{renewed} ~~Government takes~~ *elect and* ~~the debt seriously,~~ *of the people take the problems of the public* and in the sobering influence it would have on public understanding of the true cost of the war, a \$10.5 billion increase ^{in total} would be immensely beneficial. *N*

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Perhaps the most superficially plausible and therefore the most insidious argument I have recently heard is that economy in governmental expenditures is a substitute for higher taxes. Economy is always an important objective and a tax bill makes it neither more nor less desirable. I am in complete and hearty sympathy with any measure that can be adopted to reduce governmental costs, to reduce even war costs so long as the reductions do not impair our war effort. But if we are to fight the war to a speedy conclusion we cannot relax our fighting or our production for war. That means we cannot significantly relax our spending. I am not in sympathy with any measures or any proposal to cut expenditures in any way that will make our total production anything less than an all-out effort.

At the time I appeared before the Ways and Means Committee, I said that "while it may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for getting at this time all that the American people can

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possibly give us in additional taxation." That is still my position.

The Bureau of the Budget has just released estimates that total expenditures for the fiscal year 1944 which ends next June 30 will amount to \$98 billion instead of the \$106 billion in the estimate issued last August. It is understood that this decrease in expenditures represents a combination of changes in the war program and a delay in reaching the production goals of some items. Revenues were estimated at \$41 billion, ^{instead of} ~~or about~~ ~~\$3 billion more than in the previous estimate.~~ ^{\$38 billion.} The over-all result of the revision is to reduce the previously expected deficit from \$68 billion to \$57 billion for the fiscal year 1944. ^{additional} ^{taxes}

There is nothing in the new budget figures in our opinion to warrant reducing our goal below \$10.5 billion. If no one had ^{originally} ~~expected~~ more than a \$57 billion deficit for the fiscal year 1944, the amount would appear tremendous, which it truly is. It is no less so because it represents a reduction from a previously estimated higher figure. \$57 billion is greater than last year's record deficit, and is three times the deficit of 1942.

~~RECEIVED,~~

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~~the rate of war spending is expected to rise beyond the present level.~~

The budget revisions do not in any way lessen our capacity to pay taxes; they do not in any degree affect our moral obligation to meet now all of the costs of the war that can be met by current taxation; and they do not affect in significant degree the serious inflationary dangers that face us for the balance of this fiscal year, the succeeding fiscal years as long as the war shall last, and in the postwar period. Our tax goal, as I pointed out to the Ways and Means Committee, was the amount that we believed could be fairly distributed without undue sacrifice and hardship. From every point of view it ~~was~~ ^{is} a minimum fiscal program in the light of the deficit, the accumulated debt, and the inflationary pressure. ~~The reduced budget estimates will make the \$10.5 billion in additional wartime taxes more nearly adequate, but that is all.~~

N In ~~the light~~ ^{the light} of all these facts, the House Bill, in my opinion, falls far short of ~~even an attempt~~ to meet our fiscal needs in a realistic or courageous way.

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~~In conclusion,~~ let us bear in mind that an essential part of fighting a war is paying for it in the right way at the right time. There is no escape from the costs of war. It is a great fallacy to suppose that we can fight history's greatest war to save what we hold most dear without financial sacrifice. Inevitably we shall experience much greater financial sacrifice than we have thus far. Taxation now, during the war, is the easiest way to make that sacrifice.

In presenting our national fiscal problem to you, I have endeavored to perform the duty placed on the Secretary of the Treasury by law and tradition. I have endeavored to show you as objectively and as clearly as I can that a tax program of not less than \$10.5 billion is ^{needed} ~~necessary~~ to ^{safeguard} ~~protect~~ the financial and economic future of this country during the war and after the war.

~~It is my conviction that the provision at this time of additional wartime taxes of that magnitude will promote the general welfare of the people of the United States.~~

as amount not less than \$10.5 billion program

H H

- 7 -

But we cannot expect these controls to hold indefinitely in the face of a continued large surplus of income over goods and a great accumulation of spendable liquid wartime savings. Day after day, the continuous pressure of spending power has been cracking our price controls a little here and a little there and threatens to produce a major breakdown. We are courting danger if we do not do all that is possible through the tax mechanism to strengthen the foundations of our stabilization program.

- 14 -

There is nothing in the new budget figures in our opinion to warrant reducing our goal below \$10.5 billion of additional wartime taxes. If no one had originally expected more than a \$57 billion deficit for the fiscal year 1944, the amount would appear tremendous, which it truly is. It is no less so because it represents a reduction from a previously estimated higher figure. \$57 billion is greater than last year's record deficit, and is three times the deficit of 1942.

~~Nevertheless, the rate of war spending is expected to rise beyond the present level.~~

Sunday, ,Nov. 28, 1943

Last minute changes while writing reading
copy of Secretary's testimony before the Senate
Finance Committee on the tax bill.

- 2 -

The outstanding fact in our financial picture is the stupendous bill which this war will leave behind. On that point there can be no quibbling. We are accumulating debt at the rate of ^{over \$150} ~~about \$180~~ million a day. Last month (October, 1943) the Federal Government spent ^{45.6 billion} ~~\$5,426,000,000~~ more than it collected in revenue. In the fiscal year 1942 ~~the deficit was \$19 billion,~~ in 1943 it was ^{\$27} ~~\$36~~ billion, and in 1944 it is expected to be \$57 billion, ^{again,} On the basis of any estimates we can now make, we foresee a public debt at the end of the present fiscal year of about \$200 billion. On such a debt the interest charges alone, ~~even at the present extremely low rates,~~ will be close to \$4 billion a year. As the war continues, the debt, the interest, and the problems of repayment will grow larger and larger.

- 5 -

The incomes of the American people are not only ample to pay much higher taxes. The spending power of these incomes is so great as to threaten rapid and burdensome increases in the cost of living. About half of American productive effort is going into war equipment and supplies for our armed forces. These products are not available for civilian consumption. Yet our people are being paid for all they produce. They thus have far more money to spend than there are goods on which to spend it. In the ^{fiscal} calendar year 1944 this surplus of income over goods is expected to amount to ^{about \$36.} ~~more than \$37~~ billion after payment of personal taxes.

- 4 -

It is clear that we are not paying all the wartime taxes that we can and should pay. We are not now fighting an all-out war on the fiscal front. All the estimates of national income, by whomever made, bear eloquent testimony to the fact that the ability of the American people to pay increased taxes is far from being exhausted. In the ~~calendar~~ ^{fiscal} year 1939 individuals had incomes, after personal taxes, of \$⁶⁵68 billion. In ^{the fiscal year} 1944, it is estimated that individuals will have incomes of \$¹²⁶133 billion, ~~after allowing for the full impact of the tax increases~~ ^{paying the taxes allowance for all present taxes.} ~~now on the books~~ That is, after paying taxes, incomes of people in the United States will have ^{almost} doubled since 1939.

- 14 -

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- 15 -

The budget revisions do not in ^{alter the fact} any way lessen ~~our capacity to pay taxes;~~ ^{What we can pay much higher taxes.} they do not in any degree affect our moral obligation to meet now all of the costs of the war that can be met by current taxation; and they do not affect in significant degree the serious inflationary dangers that face us for the balance of this fiscal year, the succeeding fiscal years as long as the war shall last, and in the postwar period. Our tax goal, as I pointed out to the Ways and Means Committee, was the amount that we believed could be fairly distributed without undue sacrifice and hardship.

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COPY NO

12BRITISH MOST SECRETOPTAL No. 389

Information received up to 10 A.M. 28th November, 1943.

1. A successful reconnaissance was carried out on 26th/27th by a Commando Patrol which landed from a motor torpedo boat North east of DIEPPE, no enemy were met and the patrol returned safely.

2. NAVAL

On 2nd Norwegian submarine sank a 3,500 ton ship and a whaler off FRONDHJIM. On 24th in the same area she torpedoed a 4,500 ton escorted ship and probably torpedoed a 3,000 ton ship in convoy. A 10,000 ton Norwegian tanker was torpedoed in Indian Ocean Southwest of ADDU ATOLL yesterday.

3. AIR OPERATIONS

26th/27th. BERLIN 366 Lancasters and 7 Mosquitoes attacked dropping 1431 tons composed of 791 tons H.C.; 640 tons incendiaries and including 359 4,000 pound bombs. Visibility good but spoiled later by smoke from fires. Old fires still burning and mass of new ones started by well concentrated bombing. Fighters active over FRANKFURT area on the way and also over BERLIN toward end of attack.

STUTTGART 422 tons dropped. Bombing fairly well concentrated and glow of some good fires in two distinct areas seen through clouds. Few fighters seen.

ITALY 27th. Allied heavy and medium bombers dropped 122 tons on railway objectives in North and Central ITALY including the RECCO VIADUCT near GENOVA and the railway centres at NIMINI and ANCONA. 515 Medium, Light and Fighter Bombers operated over the battle area.

OFFICE
SECRETARY OF TREASURY

1943 NOV 27

TREASURY DEPARTMENT