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Financing, Government

HMJr announces that following securities will be refunded into regular Treasury issues during week of January 12:

7/8% EFC notes,	\$310,090,000
3% FFMC bonds,	236,476,200
2-3/4% FFMC bonds,	103,147,500
1-3/4% Treasury notes,	426,349,500

Total \$1,076,063,200
(See statement p. 17)

HMJr gives press emphatic denial of rumor that Federal Government plans to confiscate private savings accounts - 1/12/42.....	"	18-19
(See Press Service No. 29-48) - 1/12/42.....	"	36
SEE Tax, Legislation - 1/12/42.....	"	24-31
SEE Tax, Tax-Exempt Securities - 1/26/42.....	"	57-63

Financing, Government (Continued)

Under 2nd War Powers Bill, amendment to Federal Reserve Act is proposed to allow Treasury issues to be sold directly to 12 Federal Reserve Banks - 1/26/42.....

Book 20: 63-67

- a) Federal Reserve Board and Senator Glass favor amendment as facilitating financing war program - 1/26/42..... " 64-67
- RMJr to ask Congress to raise national debt limit to \$110 billion, or perhaps remove it entirely - 2/9/42..... " 130-31
- Request that debt limit be raised or removed is "imminent" - 2/19/42..... " 158-59
- SEE Tax, Legislation - 3/2/42..... " 204-59
- SEE Tax, Legislation - 4/27/42..... " 404-20
- RMJr announces that \$2 billion will be borrowed in May and in June to complete fiscal year; largest ever borrowed in history of nation - 4/27/42..... " 421-22
- RMJr feels that President's program to check inflation and finance war program will succeed through various forms of taxation and voluntary savings if given a fair chance - 4/30/42..... " 427-35
- a) Will know results of voluntary savings plan by July 1 - 4/30/42..... " 432-33
- b) Feels 87% of excess profits is all that will allow profit system and produce revenue for Government - 4/30/42..... " 434

Financing, Government

Defense Savings Bonds and Stamps:

- RMJr gives press statement showing \$25,650 million Defense Bonds and Stamps sold in December, 1941 - (4 times more than in November, 1941 and more than total sold in 6 months between May and October, 1941) - 1/5/42 " 3
- a) 25¢ stamps are most popular; total of 100 million stamps of all denominations sold, largely due to newsboy distribution and newspapers' promotion - 1/5/42..... " 4
- b) Investment bankers, through new President of International Bankers' Association, have offered to help sales of Defense Savings Bonds and Stamps; arrangements being worked out - 1/5/42..... " 4-5

Financing, Government (Continued)

Defense Savings Bonds and Stamps:

December figures on Defense Savings Bonds total \$528 million plus - 1/5/42.....	Book 20: 12
Walter Disney confers with HMJr on making animated cartoon for Treasury - 1/5/42.....	" 14-15
"Off the record" HMJr states that President preferred not to change name from "Defense" to "War" bonds as sales were going so well - 1/12/42.....	" 34-35
a) Gallop poll also indicated that 66-2/3% of people favored not changing name - 1/12/42.....	" 35
Payroll deduction plan going extremely well; HMJr wants voluntary deductions from "current earnings"; denies flatly any thought of seizing savings to force purchase of bonds - 1/29/42....	" 86-90
HMJr issues statement showing \$1,060,547,000 Defense Savings Bonds bought in January, 1942, bringing total purchased to date (all series) to \$3,597,756,000 - 2/2/42.....	" 100 & 128
(See Press Release of 2/3/42, p. 128)	
Congress voting on appropriating \$80,000 to pay for Walt Disney picture, "Donald Duck" made to promote sales of Defense Bonds and Stamps - 2/9/42.....	" 132-43
a) HMJr feels it is one of best investments Treasury has made - 2/9/42.....	" 132-43
b) Payment is only to cover "out-of-pocket expense" incurred by Disney in making picture; is not same as getting free newspaper and radio publicity - 2/9/42....	" 133-43
1. Only newspaper to raise question of expense was Col. E. R. McCormick, President and Publisher, Chicago Tribune; and only trade journal was Editor and Publisher.	
2. Brokers in New York Stock Exchange and banks all handling advertising gratuitously.	
3. Disney stopped all other production to make "Donald Duck"; also some of his other pictures are being replaced by "Donald Duck" which costs him a great deal of money.	
4. 1100 reels have been made for displaying over US.	

Financing, Government (Continued)

Defense Savings Bonds and Stamps:

Through mutual friend, Judge Campbell of Chicago, Bishop Shell offered his services, as one of America's outstanding citizens, to aid Treasury in promoting sales of Defense Savings Bonds - 2/19/42.....	Book 20:	162-63
a) HMJr very glad to have him in advisory capacity - 2/19/42.....	"	163
HMJr told Congress he had funds to pay for "Donald Duck" picture; they were satisfied; nothing but praise of picture has been received - 2/23/42....	"	183-84
Slump in sales of Defense Savings Bonds during February due to usual seasonal factors - 3/2/42.....	"	191-92
(See Statement pp. 202-203)	"	260-81
SEE Tax, <u>Studies</u> - 3/9/42.....	"	302-03
Bill providing that demand bonds may be used to pay taxes, covers only Defense Savings Bonds - 3/16/42.....	"	303
a) Provision was made to help taxpayer pay taxes, does not anticipate lowering sales - 3/16/42.....	"	316-18
Treasury studying idea of paying overtime in Defense Savings Bonds; but HMJr fears it might interfere with voluntary savings and purchases of them - 3/19/42.....	"	343 & 348-53
HMJr will appear before House Ways and Means Committee with representatives of United Automobile Workers Union and General Motors to demonstrate what joint cooperation of Government-Labor-management can accomplish on volunteer payroll deduction savings - 4/16/42.....	"	355-83
"Off the record," HMJr announces that quotas have been established for counties, states, and nation on basis of 10% of all earnings, approximately \$1 billion per month - 4/20/42.....	"	357
a) Testimony on Hill showed 20 million people being employed by 54,000 concerns - 4/20/42.....	"	259
b) Name has been changed from Defense Savings Bonds and Stamps to War Savings Bonds and Stamps - 4/20/42.....	"	

Financing, Government (Continued)

Defense Savings Bonds and Stamps:

- c) No coercion will be used; strictly voluntary - purely an American and Democratic plan - 4/20/42..... Book 20: 362-63
- d) Millions of people want to do more to aid war effort, but there is no other vehicle as effective as buying bonds through voluntary payroll savings plan, if GPA and Agriculture place price ceilings and WPB stops production of cars, refrigerators, etc., in cooperation - 4/20/42..... " 365-83
1. President favors program as do unions.

War Savings Bonds and Stamps:

- SEE Financing, Government (Defense Savings Bonds and Stamps) - 4/20/42..... " 365-83
- Navy Personnel of Manila Bay area wire RMWR they have purchased approximately \$½ million War Bonds - 4/30/42..... " 424
- General Motors reports that of 90 plants, 50 have subscribed 100% to payroll savings, exceeding 5% of income; expect to increase to 10% of income in time - 4/30/42..... " 424-26
- SEE Financing, Government - 4/30/42..... " 427-35

Foreign Capital

- SEE Foreign Funds Control - 1/5/42..... " 13-14

Foreign Exchange

- SEE Stabilization - 1/22/42..... " 41-52
- SEE Stabilization - 2/9/42..... " 144-45
- SEE Stabilization - 2/23/42..... " 185-88

Foreign Funds Control

- Materials, seized by US under freezing orders from governments conquered by Germany, will be sold and funds added to their frozen assets - 1/5/42... " 13-14
- 3-member committee, composed of Dean Acheson (Assistant Secretary of State) representing State Department; Leo T. Crowley (Chairman, FDIC) representing Justice Department; and Edward H. Foley, Jr., (General Counsel) representing Treasury Department, will continue administering alien property matters under Executive Order amending "Trading with Enemy Act". No Alien Property Custodian to be appointed at this time - 2/19/42... " 164-75

Foreign Funds Control (Continued)

- a) \$7 billion frozen assets of Axis powers (as compared with only \$500 million in last war) will be kept intact for 2 reasons:
 - 1) To rid them of Axis influence; put under American operators to conserve assets, make them produce at maximum and take what new contracts they can handle.
 - 2) Retain them intact until they can be disposed of by settlement under negotiated peace terms - 2/19/42..... Book 20: 168-71
- b) General Aniline and Film Corporation produces 90% of dyes for service uniforms and also has secret photographic processes of great interest to Army and Navy - 2/19/42..... " 171
- c) Before Treasury could take over stock control of any company, original authority contained in first War Powers Act, which had been taken away, had to be restored - 2/19/42... " 175
- SEE Appointments and Resignations, re: Alien Property Custodian, Leo F. Crowley - 3/2/42..... " 282
- Treasury will continue handling program already operating under powers delegated to it; specifically agreement on West Coast giving Federal Reserve Bank full power to work with General DeWitt; and to finish work started on reorganizing (Americanizing) General Aniline Film Corporation, also frozen funds, gold, etc., will remain under Treasury until Mr. Crowley specifically requests transfer of certain phases along with personnel that can be spared - 3/12/42..... " 282-301
- a) Alien Property Custodian, Treasury and Justice must continue working together - 3/12/42..... " 286
- b) Licenses already issued by Treasury will remain in force until otherwise ordered - 3/12/42..... " 291-92
- c) John E. Mack, President of General Aniline will be replaced by Robert McDonnell - 3/12/42..... " 293-98
- d) Program worked out by Treasury for Schering, General Aniline, and American Bosch Magneto will be carried out by Treasury - 3/12/42.. " 298-301

Foreign Funds Control (Continued)

1. Stock of Schering has not been vested, but records and personnel have been under investigation for some time.
2. All foreign-held shares of General Aniline (97.5%) have been taken over by Treasury in name of EDWf.
3. Management of companies will be in hands of skilled persons under Treasury and Alien Property Custodian.

Gallop Poll

SEE Financing, Government (Defense Savings Bonds and Stamps) - 1/12/42..... Book 20: 34-35

General Aniline & Film Corporation

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General Motors Corporation

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Germany

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Glass, Senator Carter (Va.)

SEE Financing, Government - 1/26/42..... " 63-67

Gold

SEE Stabilization - 1/22/42..... " 41-52
 SEE Stabilization re: China - 2/2/42..... " 107-26
 SEE Stabilization re: China - 2/9/42..... " 144-45
 SEE Stabilization re: China - 3/2/42..... " 198
 Gold mining industry having difficulties because of low priorities given them on dynamite, steel, etc., but this will not affect monetary policy as gold reserves are ample - 3/30/42..... " 328-30
 a) Mining of chrome, copper, zinc, etc., have higher priorities as more critical metals - 3/30/42..... " 330

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Home Economics Department, Department of
Agriculture

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International Bankers' Association

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Stamps) - 1/5/42..... " 4-5

SEE Financing, Government (Defense Savings Bonds and
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Knudsen, Hildagard, Home Economics Division,
Department of Agriculture

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Lend-Lease

SEE Stabilization re: China - 2/2/42..... " 107-26

SEE Stabilization re: China - 2/9/42..... " 144-45

Edward R. Stettinius, Jr., (Lend-Lease Administrator)
called on HMJr to discuss progress of purchase and
delivery of Lend-Lease goods, particularly steel,
for Russia - 2/19/42..... " 160-61

a) Purchases and deliveries are on schedule, but
if needed priorities will be asked of War
Production Board to expedite delivery -
2/19/42..... " 160-61

b) Great quantities of Lend-Lease materials being
bought for Russia - 2/19/42..... " 160

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Mack, John W., President, General Aniline
Film Corporation

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Manila Bay Area, 16th Naval District, Navy Personnel

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Massena Power Line

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Mexico

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Military Service

HMJr opposed to War Department drafting Treasury
attorneys to serve as attorneys for themselves,
but will not ask deferment of young men not
directly connected with war - 1/22/42..... " 52-55

a) To date, only 3 men have been deferred at
HMJr's request - 1/22/42..... " 53-55

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2/19/42.....

" 160-61

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bought for Russia - 2/19/42.....

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Mack, John E., President, General Aniline
Film Corporation

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Manila Bay Area, 16th Naval District, Navy Personnel

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Massena Power Line

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directly connected with war - 1/22/42.....

" 52-55

a) To date, only 3 men have been deferred at
HMJr's request - 1/22/42.....

" 53-55

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Treasury studying matter of repeal of Silver Pur- chase Act - 2/2/42.....	" 100-06
a) One recommendation HJR favors is selling some surplus silver to industry, where increase of use has grown tremendously - 2/2/42.....	" 101

Silver (Continued)

- b) Industry has been using silver instead of materials where there is a shortage, such as lead and tin; increased commercial use should hold price firm - 2/2/42..... Book 20: 103-05
 - c) Cites instance of spraying thin coating of silver on cans because of tin shortage - 2/2/42..... " 103-06
 - 1. Cost of container not materially increased by use of silver.
- Treasury legal division is studying problem of whether US can release silver stocks for commercial purposes without legislative authority; HWJr has recommended twice in year that all silver legislation be removed - 3/30/42..... " 323-28
- a) Would be used for replacing other critical materials such as tin, copper in processing aluminum, etc., silver would later be returned or newly mined silver used to reimburse Government - 3/30/42..... " 324-26
 - b) All newly mined silver of Western hemisphere, outside US, is being taken up commercially at price somewhat over Treasury figure of 35 1/4¢ per ounce - 3/30/42..... " 326-28
- Government not buying silver, all going into industrial use, but under terms of agreement, if industrial demands fall off, Mexico will again sell to US - 3/30/42..... " 329-30
- Silver contract to furnish New York State Power Authority 126,000 lbs. per week for Aluminum Company of America to build Massena power line is held up by War Plant Corporation on some loss technicality - 4/23/42..... " 392-403
- a) Will be used as substitute for copper - 4/23/42..... " 396
 - b) Legislation being drafted to permit Treasury to sell silver outright and relieve Treasury of indemnity responsibility - 4/23/42.. " 398-99
 - c) HWJr feels that, with vast increase in industrial demands for silver, it should be possible to sell silver newly mined in USA at world market prices; favors repealing all silver legislation - 4/23/42..... " 398-403

Silver (Continued)

1. Mexican and Canadian prices are 35¢
ounce - US mined silver, 7 1/2 ounces.
2. More silver that can be substituted for
copper, etc., means more bullets can
be made.
3. Mexico and Canada thus far have main-
tained 35¢ price but demand will run
price up if newly mined US silver is
not released for sale at world market
price.

16th Naval District, Manila Bay Area, Navy Personnel
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RMJr to speak from Washington, January 26, for
benefit of Warm Springs Foundation - 1/26/42..... " 72

Stabilization

Harry D. White in Rio de Janeiro attending conference
of Americas working on plan to establish common
unit of currency, supported by gold or silver
stabilization fund, for carrying on international
export trade - 1/22/42..... " 41-52

a) Stabilizing currency of nations too complex
to undertake; loans to China and offer to
Argentina were made to help them stabilize
their own currencies - 1/22/42..... " 46-48

b) RMJr feels stabilization arrangement should
not be limited in duration - 1/22/42..... " 49

c) Argentine Congress has never ratified loan
offered; no funds have been withdrawn -
1/22/42..... " 48-49

d) American business would benefit by eliminat-
ing exchange risk of dealing in depreciated
currencies - 1/22/42..... " 50-51

e) Only seeking to establish an "export dollar"
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\$500 million loan made to China - 2/2/42.....	Book 20:	107-20
a) HWR to appear before House Foreign Affairs Committee to testify on loan - 2/2/42.....	"	108-09
b) Loan being made under the 26 Power statement and United Nations statement of January 2, to aid each other against the Axis - 2/2/42.....	"	115-16
1. England also giving help.		
c) Loan may be in form of both dollars and gold - 2/2/42.....	"	117
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To save time Congressional finance committees and Treasury have adopted new procedure of having their respective staffs collaborate on working out most mutually agreeable tax plans before HWJ testifies on Hill - 1/22/42.....	"	24-31
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a) Loss in tax revenue, occasioned by men going into armed forces, will have to be absorbed by those remaining in civilian capacities - 2/23/42.....	"	182
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b) In discussing \$25,000 limitation on salaries, Randolph Paul points out: 1) with 90% tax on \$100,000 income, man would have to make \$290,000 to clear \$50,000 after taxes; 2) to clear \$25,000 after Federal taxes (state, municipal, et. al., not considered) man would have to earn \$65,000; 3) Randolph Paul will appear before Ways and Means Committee on April 28, at which time he will, no doubt, be asked for suggestions - 4/27/42.....	"	411-20

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Studies:

Research Division of OPA furnished HWJr figures showing potential purchasing and tax power of various income groups (average family of 3½-4 persons) as basis on which he opposed lowering income tax exemptions or imposing sales tax, as follows:

1. \$750 income of single person pays \$130 in "hidden" Federal, State, and local taxes; or 17.3% of income; works 8 weeks to pay taxes. (1942 basis of Federal, 1941 basis of State and local tax figures).
2. \$1500 income of married person with no dependents pays \$250 or 16.7%; works about 8 weeks to pay taxes.
3. Average family (3½ persons) with income of \$500 are in debt \$410; must have aid from community.
4. Family income of \$750-\$1000 in debt \$176.
5. Family income of \$1000-\$1250 in debt \$104.
6. Family income of \$1250-\$1500 save \$46 a year.
7. \$2500 is income level of majority - 3/9/42... " 260-81
8. Family income of \$1500 or over save \$155; savings increase rapidly from there on.
 - a) Taxes on cigarettes, candy, soft drinks are "semi-luxury" taxes - 3/9/42.... " 269-70

Tax (Continued)

Studies:

- b) Defense Savings Bonds will be sold to people earning regular or increased pay in war work - 3/9/42..... Book 20: 270-71
- c) Statistics compiled by Hildegards Kneeland, on loan to OPA from Home Economics Division, Department of Agriculture - 3/9/42..... " 274-75
- d) Groups below \$1250 have not enough purchasing power to cause inflation; but many will rise into \$1250 or over brackets doing war work and will be able to buy Defense Bonds and pay taxes - 3/9/42..... " 276-78
- e) Increased Social Security Taxes are "savings" against unemployment, old age, sickness, etc., are not to be compared with other types of forced savings - 3/9/42..... " 279-80
- f) HEMr hopes to sell \$1 billion bonds a month - 3/9/42..... " 280

Tax-Exempt Securities:

In Cleveland speech, HEMr stated he favored taxing outstanding tax-exempt state and municipal securities, but not taxing outstanding Federal securities - 1/26/42.....

- a) This is departure from previous position, but is approved by President on account of the war - 1/26/42..... " 57-80
- b) Matter of right of city, state, and Federal Governments to tax each other's securities, must be settled by Courts - 1/26/42..... " 59
- c) Taxing state and municipal securities is estimated to produce \$200 million additional revenue - 1/26/42..... " 60-63
- d) Must have favorable court decision and legislation repealing prohibiting law before taxation can be enforced - 1/26/42 " 69
- e) Federal Government has been taxing its own bonds since passage of Public Debt Act, effective March 1, 1941 - 1/26/42..... " 70
- f) HEMr "does not intend directly or indirectly to break contract with holders of outstanding tax-exempt government securities" - 1/26/42..... " 71
- " 73-74 & 80

Tax (Continued)

Tax-Exempt Securities:

- 1. On other hand there is no contract between Federal Government and holders of state and municipal securities.
- g) Outstanding Federal, State, and Municipal securities as of June 30, 1941, are:
 - 1. US Government and Federal instrumentalities, wholly tax-exempt, \$9.9 billion;
 - 2. US Government and Federal instrumentalities, partially exempt, \$35 billion;
 - 3. US Government and Federal instrumentalities, wholly taxable, \$11.4 billion;
 - 4. State and Municipal, \$20 billion - 1/26/42..... Book 20: 74-75
- h) Tax on outstanding State and Municipal securities would go in effect July 1, 1942 - 1/26/42..... " 76
- i) HWJr will present plan to Ways and Means Committee when called and will be speaking for Administration in doing so - 1/26/42. " 76-79
- j) Normal income tax will not be lowered, nor will it be increased; increases should be in form of surtaxes - 1/26/42..... " 79-80
- HWJr received only 1 favorable and 1 unfavorable telegram on matter of taxing State and Municipal securities - 1/29/42..... " 94-95

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- SEE Silver - 2/2/42..... " 100-06
- SEE Silver - 3/30/42..... " 323-30

Tin Cans

- SEE Silver - 2/2/42..... " 100-06
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"Trading with the Enemy Act"

- SEE Foreign Funds Control, re: Alien Property Custody - 2/19/42..... " 164-75

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War Production Board SEE Lend-Lease - 2/19/42..... SEE Gold re: priorities - 3/30/42..... SEE Financing, Government (Defense Savings Bonds and Stamps) - 4/20/42.....	" " "	160-61 328-30 355-83
War Supplies, Purchase of SEE Foreign Funds Control - 1/5/42.....	"	13-14
White, Harry D. Director, Division of Monetary Research SEE Stabilization - 1/22/42.....	"	41-52

Zinc

SEE Gold ref priorities - 3/30/42..... Book 20: 328-30

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, JANUARY 5, 1942.

H.M.JR: Sometime next week we are going to do a little refunding. Here is what we are going to refund. (Handing papers to Press.) These securities will be refunded into regular Treasury issues.

Q. Regular Treasury?

A. Yes.

Q. Notes or bonds, or aren't you ready to say?

A. I am not ready to say. I haven't caught my breath.

Q. They will be refunded into what, sir?

A. Regular Treasury issues. I mean, these RFC notes and Federal Farm Security bonds.

Q. The offering will be next week?

A. Yes.

Q. That is, you mean you will announce it next week?

A. We will do it. We have got to do it before the fifteenth.

Q. Oh, yes.

- A. We have got to do it before the fifteenth.
- Q. Do you have an open market committee meeting scheduled?
- A. No. I don't know whether we will have one, but we will certainly be in consultation with the Federal Reserve Board.
- Q. Will this clear you up until June?
- A. I think until June, yes, in good shape.
- Q. How about new money?
- A. New money?
- Q. Yes.
- A. No, we won't need any new money in January. We hadn't planned any. I mean, what we had planned, you see - I don't know whether we are going to be able to work it that way, but - well, I won't make any forecasts, but anyway, we won't ask for any new money other than Defense Bonds and Stamps.
- Q. In other words, beat that December record?
- A. Oh, yes, I hope so.
- Q. Has a date been set for your appearance before

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the House Ways and Means Committee on taxation?

- A. No, there hasn't been.
- Q. How is the so-called tax program getting along?
- A. Could I postpone but not skip that question?
- Q. Of course, sir.
- A. They have just given me this. I haven't had a chance to look at it. Can I do my homework in your presence?
- Q. Certainly.
- A. I will read it out loud, and then we will decide if it is worth giving to you.
- Q. Are you sure it doesn't have anything to do with taxes before you start on it?
- A. No.
- "Sales of Defense Bonds and Stamps in December totalled twenty-five million six hundred fifty million dollars."
- I will give you this if it is any good.
- "This is four times as much as the amount sold in November and is more than the total

sales of these stamps for the six months between May 1 and October 31. Twenty-five cent stamps was by far the most popular during December accounting for fifteen million. On the basis of dollar value, the figures show almost a hundred million individual stamps of all denominations reported during November. The large share of the credit for this wonderful result will go to the newspapers for their carrier boy distribution and the newspapers for their promotion."

How can you get a better story? Your advertisers on one hand and your newsboys on the other. Is it a sale? All right.

Q. Nothing about circulation figures, Mr. Secretary?

A. I think we will hold this for now.

Q. Mr. Secretary, why haven't the investment bankers been asked to do more in connection with that - with the sale of Defense Savings Bonds?

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- A. For background, while the old - I think I told you men this once before, but I will do it again. While the old president was in, he wanted to be paid for what they did.
- Q. Wanted to be paid?
- A. Wanted to be paid. And everybody has been simply grand, and we haven't had to pay anybody. As a matter of fact, it is an embarrassment right now how many people want to help. Now, the new president, whatever his name is?
- Q. Fleet.
- A. Has come in and with him a new policy, and they have offered to help on a patriotic basis, and we have accepted it, and we are just in the process of working out an arrangement whereby they can help.
- Q. Is that for the record?
- A. Well, for the record, the IBA, through their new president, has offered their services, and we are going to accept them, and I am sure that they will be very useful.

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- Q. The other was for background?
- A. Well, I would forget it. He is out. What is the use? He went out with Pearl Harbor. They have got a new deal in there. They suddenly discovered the American flag.
- Q. Now, can we come back to taxes, sir?
- A. Texas? .
- Q. Taxes.
- A. What about Texas?
- Q. How is the tax program getting along?
- A. I can't help you. Did you know that - have you seen "Dumbo"?
- Q. Yes, I did.
- A. Do you know Dumbo couldn't speak? That is why they called him Dumbo.
- Q. Yes, but he had Timothy Mouse with him.
- A. The trouble with him is that I have got too many Timothy Mouses.
- Q. I would like to meet one of them.
- A. There are too many of them around, that is my trouble.
- Q. Just to get us straight, does that mean that you

are Dumbo?

- A. That means me and Dumbo, we all, as the ad said today.
- Q. Mr. Secretary, could you answer this question? Is there a possibility that the tax program will be held up pending a showing of the Defense Bonds sales?
- A. No.
- Q. You gave out some pretty good suggestions in your radio address last night.
- A. Thank you.
- Q. About the family budgets being altered and taking in five, ten, or fifteen percent of their pay check which indicated that if you could possibly get it that way--
- A. You wouldn't need any taxes?
- Q. No, I wouldn't say that would foreclose all tax possibilities, but it might minimize the need for this withholding tax we have heard

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a lot about.

- A. Well, when do you men have that budget school?
- Q. Tomorrow.
- A. Well, you will know a lot more then, so keep patient.
- Q. About taxes?
- A. Yes.
- Q. Oh, it will be in there?
- A. Now, gosh, don't - you know, sit tight. All I said was that you will know a lot more after you see it. Now, don't tell anything to your editors or anything else, please or otherwise I will get a call from one Stephen Early.
- Q. Is he very tough?
- A. He is fair. He can be tough, but he is fair.
- Q. Mr. Secretary, when will you announce the details of your refunding on this next issue.
(Discussion off the record.)

- A. Well, I don't know, but chances are, and this is just for you gentlemen, the chances are that you will get it Saturday for Sunday's papers, but I am not going to commit myself.
- Q. Saturday for --
- A. For Sunday's papers.
- Q. A refunding on Sunday?
- A. Announcement. It will give them an extra day --
- Q. To think it over.
- A. To think it over.
- Q. And then you offer two issues?
- A. No, I don't know. Why not give it to them Sunday so they can have it and have an extra day?
- Q. But that is a precedent breaking thing. I have never heard of that. In the four years I have been here you have never financed on Sunday, made an offering, rather, for a refunding.
- A. We are not making it, but we let the fellows read it at home --
- Q. Can they read those Treasury circulars, Mr. Secretary?
- A. On Sunday? Well, somebody is going to read

them. The papers publish them. Why not let them read it on Sunday and then go to their safe deposit boxes Monday and get it out? We save a day that way. You see, if we do it Monday, and the chances are - we are right up against the gun on account of the fifteenth, you see, and then if we keep it open two days and let them read the thing on Sunday, they really have three days to think it over. We thought we would take advantage of it. But this is all - still --

- Q. That leaves a lot of room for speculation as to the security and other things.
- A. Well, I will feed it to you as I make up my mind. Just as soon as I get it, I will feed it to you.
- Q. Well, I do hope it comes out early, Mr. Secretary, because there are mechanical problems. Some of the financial --
- A. Saturday?
- Q. Yes. Some of the financial sections go in early, and the earliest we can get it for Sunday release --

- 11 -

- A. There is no football game or baseball game Saturday afternoon.
- Q. Yes, I know that, but the sections go in early for both the Herald Tribune and the New York Times.
- A. How early would you want it by Saturday?
- Q. By three o'clock.
- A. I will promise to give it to you not later than one.
- Q. Oh, that is grand. Is that on the record, that the offering is coming on Sunday?
- A. No.
(Resume discussion on the record.)
- Q. That is off the record?
- A. On the record, next week.
- Q. Mr. Secretary, there have been reports that you personally have favored and proposed the creation of a Department of Supply or some such agency, comparable to the British Ministry of Supply. Is that true?
- A. Well, I have no comment on that. On the theory that if I had done such a thing, it would be between the President and me, and I never comment on those things.

- Q. Would you be interested in heading such an Administrative agency?
- A. I have no comment.
- Q. What were the final figures on Defense Bonds for December?
- A. Five hundred twenty-eight million. Did you want the thousands? Five hundred twenty-eight million plus. Wasn't that the figure?
- MR. SCHWARZ: That is right.
- H.M.JR: Five hundred twenty-eight million plus.
- Q. Why do those differ from the daily statement by just a few million?
- A. You can't prove it by me. I am just giving you what they tell me.
- Q. Mr. Secretary, may I ask you this question?
I am very much interested --
- A. Excuse me. I think the figure I said was cash deposits. That might explain it, but if you want it, Chick will get you whatever the arrangement is.
- MR. SCHWARZ: There is a time lag in the deposits, Mr. Secretary.
- H.M.JR: In my statement last night I noticed five

hundred twenty-eight million cash deposits.

MR. SCHWARZ: That is right.

Q. I hope that was the basis the daily went on.

H.M.JR: Well, find out for them, Chick.

MR. SCHWARZ: Yes, sir.

Q. These articles that the Treasury has seized under the freezing orders, those Governments who are in that twenty-six nation declaration, would they be reimbursed for that material and have it added to their frozen assets?

A. My guess would be "Yes," sure. You mean if some of that stuff belonged to the French, for instance?

Q. No, I said to the twenty-six countries who signed that declaration the other day, not to make a separate peace unless --

A. I would think that - it is most likely French. I am just guessing, but it most likely would be French, Greek, and Jugoslavia, or something like that.

Q. Well, take those Governments. Take the question of the Government of Jugoslavia. They will be reimbursed for it?

- A. Yes. I imagine that is who the material was for, and when they went under they couldn't ship it, and it was left in the warehouse. Schwarz can check up - chick up - not hiccough - on my guess.
- Q. But the funds would still be blocked.
- A. The funds would be treated just like their other funds. If they had a million dollars' worth of aluminum bars for them or for Norway, the stuff would be sold, added to their frozen funds.
- Q. That is what I mean.
- By the way, Mr. Secretary, who are all these people that were in here before us?
- A. I will first tell you, and then I don't know what I am going to do about it. They were Walter Disney and people from his office. Have we announced that he is making a picture for us?
- MR. SCHWARZ: No, sir.
- Q. There were reports by some of the columnists. At least in today's Post there is an article that they were making pictures for the Treasury.

- A. Well, he is making a picture, and he brought a story in and his assistants, and all that sort of thing.
- Q. That was the two groups in here and out there?
- A. Yes, they were all the same. They had all this - these drawings here.
- Q. What are they making?
- A. A picture for the Treasury.
- Q. For the sale of Defense Bonds?
- A. I am not going to say what it is. We are going to keep that secret.
- Q. Is it a moving picture?
- A. Animated cartoon.
- Q. Maybe they are illustrating the budget, Mr. Secretary.
- A. You wouldn't have to go to school - but anyway, he is here - they were here and going over it, a proposed picture.
- Q. Was that the one you were talking about portraying Dumbo in?
- A. No, that was my - we won't say what kind of a picture. We never have any mysteries around

the Treasury.

Q.

Much.

A.

Anything else?

Q.

Thank you, sir.

	<u>Series</u>	<u>Callable</u>	<u>Maturity</u>	<u>Date of Issue</u>	<u>Amount Outstanding</u>
7/8% RPC Notes	R		1-15-42	2-15-39	\$310,090,000.00
3% FFMC Bonds		1-15-42	1-15-47	1-15-35	236,476,200.00
2 3/4% FFMC Bonds		3-1-42	3-1-47	3-1-35	103,147,500.00
1 3/4% Treasury Notes	A		3-15-42	6-15-37	426,349,500.00
					<u>\$1,076,053,200.00</u>

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, JANUARY 12, 1942

18

H.M.JR:

I have been asked to give this out. I have only got one copy. "In view of recurring rumors that the Government is planning to confiscate savings accounts, Secretary Morgenthau today entered an emphatic denial that this was so." You had better get a copy of it, or can I read it quicker? "I wish to state most emphatically that there are no foundations for such rumors," Mr. Morgenthau said. The Federal Government does not have under consideration any proposal involving the confiscation of the savings of this country for any purpose. 'Furthermore' he added, 'any one circulating rumors of this character is acting against the welfare of the nation.'

Q.

Well, can we ask you this question? Is there any plan on the way to either freeze savings accounts or permit only the withdrawal of certain amounts in any one certain period?

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Q.

Well, can we ask you this question? Is there any plan on the way to either freeze savings accounts or permit only the withdrawal of certain amounts in any one certain period?

- 2 -

A. Never heard of it.

Q. That is similar to the telegram that has been sent out?

A. Yes. It seems to be persistent.

Q. How about the tax on savings?

A. I have never heard of that.

Q. Would you like to expand your statement, Mr. Secretary, to take in any of these other possibilities?

A. What are they?

Q. Taxes, freezing.

A. Well, this is evidently - this is something that Mr. Bell felt should be answered and he asked me to do it at this press conference, and I am doing it. It evidently has come up sufficiently often to make a flat denial, which I am doing now. On the refunding, it has been well received and there is an assured success.

Q. In connection with that, Mr. Secretary, I didn't get my copy until four o'clock Saturday

afternoon. I had to hold up the page on that financing and almost missed it.

A. Well, I cleared it before twelve o'clock, wasn't it?

Mrs. Klotz: That is right.

H.M.Jr: I cleared it before - it was before--

Mrs. Klotz: Oh, it was before twelve o'clock.

H.M.Jr: Yes, it was before twelve o'clock. I can tell you exactly, just for curiosity.

Q. I am sorry to have to complain, but as I told you, there are mechanical problems on Saturday.

A. Well, I had you boys in mind, and let's say that I am right and I cleared it at twelve. There is no reason in the world - I gave you a deadline of when?

Q. One o'clock.

A. Well, there is no reason in the world. The thing was all made out. It was a question of one of two programs so there is no reason in the world why the thing shouldn't have been in your hands by one o'clock. I wasn't here.

Q. I personally came and picked it up here.

A. Well, I am sorry. It is inexcusable. It will not happen again.

Q. I really don't care--

A. No, I am glad you did it. I say it is inexcusable, because I rushed myself to give them a final statement, and certainly all they had to do was to take either plan A or plan B and let it go.

Q. Well, in view of your anxiety to give them a day extra, I was afraid it might have missed them.

A. Well, it didn't, and I thank your people for getting it in.

Q. Mr. Secretary, Mayor LaGuardia this morning--

A. I mean often I am to blame, and I am willing to take it, but not this time. I hope the girl tells me twelve o'clock. (Laughter)

Mrs. Klotz: She will.

Q. Mayor LaGuardia this morning took a crack at the Treasury plan for bills and also on the tax exemptions. He said he was going to oppose

it again. He said it wasn't a war measure, and the cities would be on Lend-Lease relief for two hundred years.

A. Can I let off a little blood pressure strictly off the record?

Q. Yes, sir.

(Discussion off the record.)

A. Well, if Mr. LaGuardia will make up what he is and then stick to it, I would take much more interest in what he has to say, but that is just - now I feel better. (Laughter)

Q. I second the motion.

The whole City of New York seconds the motion.

(Resume discussion on the record.)

A. It was eleven twenty-seven a.m. She is a truthful girl, and so am I. Eleven twenty-seven.

Q. Mr. Secretary--

A. I had you fellows in mind. I am sorry.

(Discussion off the record.)

Who asked me the question about LaGuardia?

Well, don't push me.

Q. He has spoken about tax exempts before, hasn't he.

As a matter of fact, he said he couldn't get in a word edgewise in the last conversation.

A. He said it?

Q. Yes.

He said he had defeated you twice.

A. Where did he say all this?

Q. At the conference of mayors this morning.

A. Oh, he was in that capacity? It wasn't as Chairman of the U. S.-Canadian Defense?

Q. No, it was the conference of mayors.

A. Well, we will see.

Q. O.K.

(Resume discussion on the record.)

- Q. Mr. Secretary, is any thought being given to a sales tax as a revenue measure in the next program?
- A. I am still not going to be very helpful on this tax program. I think you will have to rely on your leaks from the Hill.
- Q. They are getting awfully crossed. Could you help us out on one particular, sir? Stories have been printed to the effect that one of the basic methods used to raise this seven billion dollars in taxes that Mr. Roosevelt spoke of was suggested by Treasury for that Committee to be a withholding tax of fifteen percent.
- A. Let me again tell you what happened. The last thing Robert Doughton said as he left this room was, "Henry, it is executive, isn't it?" I said, "Yes." And that is the last thing we said to each other.
- Q. What did the others say?

- A. They didn't say anything.
- Q. Mr. Secretary, when do you contemplate having this next preliminary conference now?
- A. Well, I have been reading about it all day long and the staff under Mr. Stam and the staff here in the Treasury are supposed to get together, and when they have gotten together or have gone as far as they can in getting together, then they were to let their respective bosses know and me, and then we will have another meeting. That is the way it stands.
- Q. Mr. Secretary, what do you figure is roughly the capacity of the Treasury to borrow? I mean, how much money is there in the country to borrow? Thirty-four million sounds like an awful lot to me.
- A. I would love to be facetious, but, after all, it is too serious. Well, as I told the - as I made the statement, I feel confident that I can raise the money that the President has indicated is needed, and when I find that I

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can't, I will give somebody else a chance to do it.

Q. Mr. Secretary, Sir Frederick Phillips called on you today. Can you tell us what that was about?

A. Oh, just routine.

Q. Some very important things come under the heading of routine, don't they?

A. Sometimes.

Q. Mr. Secretary, do you still plan to get your program before the House Ways and Means Committee publicly by the twentieth?

A. Where did you get that twentieth stuff?

Q. From various sources that should know.

A. Well, who am I to argue with your sources?

Q. Well, I am not trying to argue, sir. I just was asking a question on it.

A. Well, I am going to refrain from answering.

Q. I am not trying to put over a fast one.

Has any date been set for your appearance there, Mr. Secretary?

A. No.

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- Q. Mr. Secretary, Congressman Boland, the party who introduced a bill today on capital gains to tax them a flat ten percent and to disregard the holding period - is that a bill that has the Treasury's blessing?
- A. No, it hasn't. I have never heard of it.
- Q. Mr. Secretary, do you plan to revive anywhere in the near future your--
- A. Excuse me. Until we appear before the Ways and Means, there is nothing.
- Q. This is independent of the general tax bill?
- A. No, I never heard of it. He is what you call a long ranger.
- Q. Mr. Secretary, pending your statement of the details of the bill, couldn't you give us some idea of the ideas or theories or philosophies that you think ought to govern the program.
- A. Not yet.

- Q. Well, Mr. Secretary, as a result of your meeting with the Hill leaders last week, can you express confidence now that that seven billion dollars will be raised in taxes?
- A. Well, I am going to come back to your question if you don't mind. What we are trying to do here this time is to follow a little different technique than we have ever followed before, and we are doing it at the suggestion of Congressman Doughton, and that is, instead of my going up and making a lot of recommendations without knowing whether any of them will be acceptable to the Committees in the Senate and the House, this time we are going to try to work out the plan and get just as much close together as we can before I come up, and that may mean some delay, but we all thought that it would be time well spent, and we have never done that before, and after all, both parties were represented at this meeting. We have tried to get as near an agreement as we can before I come up. Now, that ought to save a lot of time.

- Q. Well, there is one part of the program, it seems to me, you ought to be able to talk about, Mr. Secretary, and that is the size of it. Some of the people who were here came away with the idea that the program would have to be twelve billion dollars, rather than eight, in order to collect in the next fiscal year the figures the President had in his budget.
- A. Well, it is a question of an interpretation of the budget message.
- Q. And what, sir, is your interpretation?
- A. Well, I think - I am not going to interpret the President's budget message.
- Q. Everybody is taking a crack at it, Mr. Secretary.
- A. Well, that is all right. Do you mind if I go back to your question? If you don't mind, I would like to tell this to you, rather than giving you the answer that I did, if it is agreeable. State your question and my answer, if I could go over it with you once. It might

be misunderstood both ways. The reason I answered the way I did was, I don't want anybody anywhere to think that there is the slightest doubt but what we can raise the money, because if there is any doubt there is nothing which would be more pleasing to Germany and Japan and Italy than if they thought we couldn't raise the money when we are at war. If you feel you have got to answer the question, then I wish you would write it your own way, that the Treasury is confident they can raise the money, you see, just as we are confident we can manufacture the planes and so forth and so on. If you don't mind, I would like to go over that and simply say the Treasury's attitude is confident that we can raise this money, because after all, it is just the same. Is that all right with you?

Q. Do you mean you don't want a direct quote on it, or can we quote you direct?

A. I don't see why - it is like, "When are you going to stop beating your wife?" You can ask me each week, am I confident I am going to

raise the money. Do you see what I mean? I would like you men, if you don't mind, to write the story, that the Treasury is confident that they can raise the money.

Q. I think that a slight amendment puts over your point at the moment. You said, "When I feel I can't, I will let some one else try it." You could say, "If I felt I couldn't, I would let somebody else try it."

A. I would like to leave that out. I would much rather not say that. That is the way I feel. I am telling you if I couldn't do it I would go home, but I don't want to get it on that basis. I would much rather leave it that if you men would say this or say nothing, the Treasury feels confident that they can raise the money, and leave me out of it, and everything else.

Q. Well, can we make a slight refinement on that? May I ask you this question?

A. Please. I mean, if I thought I couldn't do my job, I wouldn't sit here.

Q. Will the Treasury ask for capital market

control measures of some type in order to leave themselves free to come to the market whenever they feel like it without any impediments to it?

A. Again for background, now, the SEC has been very anxious for us to do this thing, and the Fed and ourselves haven't found the necessity of doing it. They were very anxious to do it, and both the Fed and ourselves can't see that we need it, which backs up what I am saying, that we feel perfectly confident that we can raise the money.

Q. You are speaking of the Capital Issues Committee now, sir?

A. Yes. So if you don't mind, I would leave out the personal factor. Is that all right, boys?

Q. Yes, sir.

Mr. Secretary, I had a question. Do you plan at any time in the near future to revive your seven per cent tax on war profits program, or six per cent?

A. Six per cent limit. You will get all that

control measures of some type in order to leave themselves free to come to the market whenever they feel like it without any impediments to it?

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A. Six per cent limit. You will get all that

when I go on the Hill.

Q. Mr. Secretary, I know you don't want to talk about taxes, but there has been some talk about lowering the exemptions for the - personal exemptions. Would you care to comment on that?

A. No. They have got a lot of trial balloons going around, and while these two stiffs are working - I don't know which end they are going to come out. We have got Democrat members and Republican members to satisfy. I have got a man across the street that I work for, and I have got to satisfy him.

Q. Mr. Secretary, when is the big defense bond payroll pledge campaign going to start? Is it in progress now, with the pledge cards and everything?

A. Yes, it is in progress. I can't tell you. Supposing you get the defense bond boys to - see if they have got a story for them, Shaeffer, will you?

MR. SHAEFFER: Yes.

Q. I understood it was put off until the tenth of February, sir.

H.M.JR: If it has, it is for the payroll deduction plan, but get them a story on that will you?

MR. SHAEFFER: Yes, sir.

Q. When are you going to start calling those war bonds? It seems kind of silly calling them defense bonds. The President mentioned that. (Discussion off the record).

H.M.JR: Very much off the record, he is a good one to say that, because I have asked him twice, and both times he said, "Don't change a good thing." This has gone along fine, and leave it alone." So twice I have asked him. Now, don't for heaven's sake --

Q. Well, he didn't indicate --

A. Well, twice I have asked him, couldn't we call them war bonds, and twice he said, "Henry, the thing is going beautifully, leave it alone." So just to check up on myself, I asked the people up in Princeton to make a little poll for me, which they did, and sixty-six and two

- 17 -

thirds percent of the people answered, "Leave it alone," so as usual, I thought Mr. Roosevelt and the people agreed, so I thought I would leave it alone. But that is the story. I mean, twice he has told me, "Leave it alone. It is going beautifully. Don't change it." He is a little superstitious, just like we all are.

Q. Mr. Secretary, don't you think--

A. But old Gallup agreed. They said sixty-six and two thirds would leave it alone.

(Resume discussion on the record.)

Q. Don't you think you will have to revise now the original budget estimates, in view of this new price control bill, higher prices for farm products, which you have objected to some time ago, and that naturally affects the whole budget picture.

A. Well, it hasn't passed. It isn't on the statutes yet. Let's see what happens.

Q. Thank you, Mr. Secretary.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, January 12, 1942.

Press Service
No. 29-48

In view of recurring rumors that the Government was planning to confiscate savings accounts, Secretary Morgenthau today entered an emphatic denial that this was so.

"I wish to state most emphatically that there are no foundations whatever for such rumors," Mr. Morgenthau said. "The Federal Government does not have under consideration any proposal involving the confiscation of savings deposits of this country for any purpose.

"Furthermore," he added, "any one circulating rumors of this character is acting against the welfare of the nation."

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, JANUARY 22, 1942

- Q. Good morning, Mr. Secretary.
Did you have a good vacation?
- H.M.Jr: Too short, that was all.
- Q. How is our tax program?
- A. Well, the new plan of working with the Congressional tax staff, they tell me, is getting along very well.
- Q. When are the hearings going to be, sir?
- A. I don't know.
- Q. Stories have been printed to the effect that they are going to begin about February 1. Does that sound reasonable?
- A. I wouldn't know.
- Q. Also quite a number of proposals have come from Senator George on the various methods of raising taxes, one being a tax on manufactured articles over and above the cost of production, but not allowing full depreciation or depletion on each item.
- A. I have no comment.

Q. Mr. Secretary, there is some concern on the Hill about persons who had good jobs last year and since have lost their jobs or might lose them in conversion of industry, who might come up against some difficulties in paying their taxes. Is the Treasury concerned about that?

A. Well, naturally I would be sympathetic, but--

Q. Is anything being done about it to make their tax payments a little easier?

A. No.

Q. The President, as you know, suggested to Congress that they appropriate three hundred million for unemployment benefits which at least would indicate that that would be a considerable problem, the tax thing.

A. Well, as far as I know, nothing is being done about it.

Q. Have you any authority to extend those payments beyond the four quarterly payments, or does that have to be done by law?

A. That would have to be done by law.

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- A. Well, as far as I know, nothing is being done about it.
- Q. Have you any authority to extend those payments beyond the four quarterly payments, or does that have to be done by law?
- A. That would have to be done by law.

- Q. Do you favor monthly payments as, for instance, Herring of Iowa tried to get last year? That might be one way round this thing.
- A. Not necessarily. He would have to pay it monthly instead of quarterly.
- Q. But it might be easier to get a small monthly payment instead of a quarterly payment, might it not?
- A. It might, but I wouldn't want to be put down as favoring it. It isn't anything new. It is something which has been discussed around here at considerable length.
- Q. I thought that because of this conversion program and the prospect that a number of persons might be out of jobs, persons who might be becoming tax payers this year, might have concerned the Bureau or the Treasury.
- A. As I say, naturally we would be sympathetic, but whether there is anything we can do about it, I just don't know.
- Q. They can get extensions, as I understand it, if they ask for them, but thereupon have to pay interest, is that correct?

- A. As I understand it, I think you do have to pay interest on it.
- Q. There is some concern in the Southwest reflected from some of our newspapers down there that the loan sharks may be beneficiaries in this tax thing. That is to say, persons unable to pay their taxes might have to go to the loan sharks to borrow to pay you. Have you any ideas about that?
- A. No, but you have raised some very good points, and I am going to look into it. The questions you raised are excellent ones. I just haven't got an offhand answer.
- Q. In that connection, Mr. Secretary, is there any Treasury ruling regarding delay of tax payments on salaries of men inducted into the military services for twenty-one dollars a month?
- A. I haven't heard of any exceptions yet.
- Q. Mr. Secretary, doesn't the Selective Service Act take care of that?
- A. Not that I know of.

Q. That debt deferment?

They have to file a return, but they don't have to pay their income tax until six months after they leave the service, or any other debt.

A. Well, that takes care of that.

Q. They do have to file a return?

A. Well, I didn't know it.

Q. And they have the debt.

It is called Soldiers' and Sailors' Relief Act of 1940.

Their only hope is to get killed.

Is it fair to say that the Treasury will consider some plans to make it easier paying for these persons losing some income because of conversion?

A. Well, you can say I will look into it.

Q. All right.

A. You can say I will look into it.

Q. Mr. Secretary, what is Harry White doing about currency stabilization down in Rio?

A. What is he doing?

Q. Yes.

- A. Well, you read that resolution?
- Q. Yes.
- A. Well, that was a Treasury suggestion.
- Q. I mean, what is likely to come out of it?
- There has been talk, for instance, of having a new international currency or taking a lot of gold out of Fort Knox and so forth and so on.
- A. Well, the suggestion of the resolution is simply that they call a meeting to consider these things.
- Q. Yes, we understand that, but I am just wondering if you could tell us what some of the ideas were that you thought might be taken up at that meeting?
- A. Well, I don't know what the other Republics had in mind, so I would have to wait until White got back to hear what suggestions they have.
- Q. I mean, what are your suggestions?
- A. My suggestions?
- Q. Treasury.
- A. Well, I am not prepared to say.
- Q. Well, the resolution, as it is phrased, refers

to the creation of a stabilization fund, international stabilization fund. There are some stories current, however, which talk about the establishment of a common currency which would be the same as Stabilization Funds.

- A. Well, there are a lot of suggestions. After all, there are all these different kinds of currencies in each of these Republics and a great many of them are blocked, and if some method could be worked out whereby there could be a method of settling our balances as between various Republics in this hemisphere, naturally it would be very, very useful, and it could be something like the old trade dollar or something which would be recognized as a common unit and which would have a definite value wherever it was used.

Q. Would that be hitched directly to gold?

- A. Well, it would be too early to say. It would have to have some base, and the thought was that if we could get an agreement in this

hemisphere, there is a possibility it might be extended to the rest of the world.

Q. Maybe I am awfully obtuse on this, but is this a revival of the commodity dollar idea that was prevalent back in the early days of the Administration?

A. No. It is just that everybody is groping. I mean, after all, here we are doing business, each country with the other. Now, if we can get down where they can sell goods to us and we to them, and then when we get down to paying it where we would have some unit of currency, that would be common to all of the Republics and to Canada and didn't have to figure it in all these different currencies, then we would have some kind of a fund back of it to keep this currency stable, it would help the flow of trade and would make us all that much closer to each other.

Q. Would it be purely an export and import--

A. It would be a domestic - it would be an export currency.

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- Q. Would that be a new currency or might that be an existing currency like our own dollar?
- A. It might be our own dollar or it might be a new currency.
- Q. Mr. Secretary, in that connection, two or three of the Latin-American countries have currencies which are pegged to the dollar and that fact is even noted on their monetary bills. Don't you think that might be a simpler system in establishing a new currency?
- A. It would be simpler, but it might not be acceptable to these people, but certainly--
- Q. Or you could peg the dollar to their currency, that way.
- A. Possibly, but out of the thing, there ought to be enough intelligence that we ought to be able to work out a method of settle-

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ment of debt between the countries for goods received so that American businessmen will feel free to export their goods to any country in this hemisphere and get paid in a currency which has a fixed value so he doesn't always have to be speculating if he is selling a ton of meat or any other unit, what is he going to get paid in.

- Q. Well, isn't the truth, though, that if you had a stabilization fund backing the currencies of the individual countries, you would still have the same result because the rates of exchange would be firm by the presence of the fund in back of it.

A. When you begin to try to stabilize a currency within a country, then you get into the whole question of their economic well-being. Now, it is next to impossible for us to take on that job, because you immediately get into -- the very first thing -- all different kinds of costs of labor, what they pay their labor and everything else, but if you confine it to their export trade, there is a chance, and a good chance of something being done, but if you begin to do what you suggest, it is next to impossible.

Q. Well, if that is true, then the Stabilization Agreements that we have made with China and offered to make with Argentina were of no value, because that is what they were, bilateral agreements to try to stabilize the Argentine peso in relation to the U.S. dollar.

A. Well, it was more to help them to stabilize their own currency, rather than anything else, and it was to help them to do their own job, rather than to keep it equal with the dollar.

In the case of China, they had their own internal problem. We tried to stabilize the dollar with the Chinese, taking into consideration their own internal situation. It is one thing for them to try to stabilize their own currency, and it is another thing for us to try to do it.

- Q. Mr. Secretary, in that connection, was any of that Stabilization Fund with Argentina actually used?
- A. I want to be checked, and you will have to check it. I don't think anything was ever ratified.
- Q. I was under the impression it was not ratified and never used.
- A. That is my impression, but Chick will find out. I don't think it was ever ratified, and if it wasn't ratified, it wasn't used.
- Q. And I was also under the impression that that didn't matter, that it did its job anyway.
- A. Well, that is something else I don't know, but I don't think they ever ratified it. I don't think their Congress has ever met

since it has been passed. I think that is the thing.

Q. They haven't ratified anything in fourteen years (laughter).

Mr. Secretary, would this Stabilization project be for the duration of the war, or permanent?

A. Well, if it is going to be any good, it ought to be permanent, or rather open-ended, rather than to run until terminated. It is a very difficult thing, but it is like everything else, nothing ventured nothing gained.

Q. Is there any possible backing for such a currency except gold?

A. Gold or silver. Most of these countries in the south mine silver, and they most likely would want part of it backed by silver.

Q. Is the purpose in order to make trade between the United States and the South American countries easier, is that the point of it?

A. Well, the first thing, right now we are not particularly worried about exports. The

question is to find the goods. But not so many years ago we were very much interested in our export trade and giving people employment. That day will come again.

Q. That is what I say. As far as the immediate situation is concerned, there isn't much need for --

A. It is one of the many plans for revival of peace-time trade, that is what it amounts to.

Q. Although we are very much concerned, isn't it true, Mr. Secretary, that it will probably be of more benefit to the other American Republics than ourselves?

A. Not necessarily, because, as you know, a lot of these Republics in South America now have a favorable balance of trade with us.

Q. I mean in the long run.

A. Again, not necessarily, because it is a question of our selling to them - don't use this as a direct quote - in a depreciated currency. It is the same old story. If we sell in a depreciated currency, our people

get less. It is the thing again of having a - going back, if the American business man can eliminate the foreign exchange risk in his export trade, it is all to the good. It is a very difficult thing, but it is certainly worth trying.

Q. Well, isn't it true, sir, that their favorable balance of trade which they are enjoying now will only extend for the duration of the emergency?

A. You don't know. How do you know anything, what is going to happen? You know the sun is going to set.

Q. Because of the type of things we are buying and can buy from them.

A. You don't know. At least, I don't.

Q. Mr. Secretary, would the use of this currency be confined only to foreign trade? Would it have any domestic value in our own markets?

A. My own conception - when they come back they may feel differently - if we could have this

thing, an export dollar, you see, which would be going a long way, but just as soon as you begin to talk about a currency which is good within the country, then immediately you go up against their own economic situation, which is, as you know, very mixed.

Q. I am trying to develop the idea whether it would be a super currency that would be good internally in the countries affected.

A. Well, I am not thinking of it in those terms. I was thinking in terms of an export dollar.

Q. Mr. Secretary, on another matter, has any policy been laid down by the Treasury as to exemptions for military service of key men, such as, say, bank examiners or others? In the last war the bank examiners, not the assistants, but bank examiners, were exempted.

A. Well, the only thing that we have done so far is this. I have had several cases. They didn't happen to be bank examiners. They were men who happened to be lawyers. Well now, if the Army wants one of my bright young lawyers

to put over there in their legal division, I think he is just as useful here as he is in the War Department, and being Secretary of the Treasury, I think he is a little bit more useful in the Treasury than he is in the War Department. But if it is - so far, if it is a young man with no dependents, irrespective of the position that we have held, I think so far that I have asked for three, and each one of those men were doing something directly connected with the war.

- Q. Yes.
- A. I think there have been three cases, and each man had something definitely of a military nature. Outside of that --
- Q. No other policy?
- A. No. I think there have been three. Those men out of eighty-odd thousand --
- Q. It wouldn't be Foley, would it?
- A. No, it is not Foley.
- Q. He is in that age class.
- A. No, it was not Foley.

- Q. Age and dependents, I understand, could take up to about fifty bank examiners, which would be pretty tough on the examining force, and the FDIC is also examining banks themselves.
- A. Up to now, if a man is called in the draft, irrespective of what his job is, with the exception of three, and I say those - yesterday I let three Secret Service men go, two for the White House, and a man down at our door.
- Q. Into the draft?
- A. Well, they went into the Army. I don't know whether they were drafted or not. One was a reserve officer, and I don't know what, but three went yesterday, so does that answer your question?
- Q. Well, as I understand it then, your policy would not be to ask exemptions for a class such as the examiners?
- A. No, or for any other group.
- Q. They would stand on individual cases?
- A. I say these three men happened to be definitely

working on military stuff for me, and I thought it was important. In fact, they were irreplaceable for the moment, and all three were before December 7. There have been none since December 7.

Q.

Thank you, Mr. Secretary.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, JANUARY 26, 1942

- Q. How about the elephant?
- H.M.JR: Elephant?
- Q. You know that is a Republican symbol.
- A. What?
- Q. The elephant.
- Has it been so long ago you have forgotten,
Mr. Secretary?
- A. The only elephant I subscribe to is Dumbo.
- Q. How about Sabu?
- A. All right, gentlemen, at your service.
- Q. Can you tell us anything of your meeting with
the British Ambassador and Sir Frederick today?
- A. No.
- Q. Well, one or the other of them have been in
to see you several times, haven't they?
There must be something afoot.
- A. I hope so.
- Q. Could you tell us, Mr. Secretary, whether

they are discussing with you their supply of dollar balances?

A. No, I can't discuss it.

Q. Well, Mr. Secretary, the thing that bewilders us is that inasmuch as we are leasing everything they get, virtually, why there should be an exchange program.

A. Well, I didn't say we were discussing that.

Q. What did you say?

A. Nothing. This was a call on me that I can't be helpful on.

Q. Mr. Secretary, I wonder if we can change with regard to your speech on Saturday in Cleveland.

A. Sure.

Q. The President in his budget message pointed out about future taxation on future issues. Mr. Eccles agreed with him in a speech before the conference of mayors about a week and a half ago, I believe. You, in your Cleveland address, came out for outright taxation of outstanding tax exempt state and municipal securities.

- A. That is right.
- Q. That is a change of your previous policy.
- A. That is right.
- Q. You have insisted, I think, on a number of occasions that you wanted to tax only future issues.
- A. Of Federal. I checked up on myself very carefully. I never made a statement before on taxing of outstanding state or municipal issues, and when I made this statement, I was talking for the Administration. I was not talking just for the Treasury.
- Q. Sir, in your appearance before the House Ways and Means Committee sometime ago, didn't you stress then the desire for the power to tax the future issues of State and Municipal securities?
- A. I have always - Treasury has always taken the position that we never would recommend taxing outstanding Federal issues.
- Q. There is the point, but you were thinking in terms of taxing future issues?

- A. Well, all I can say is before I went out the boys went over all my testimony and anything that I have said, and they found that I have never made a statement--
- Q. Can you say the same thing, sir, for other representatives of the Treasury like Mr. Sullivan?
- A. Well, I think I can. I didn't check what they said, but certainly for myself I am in the clear on it. I have never made a statement before. But be that as it may, if you will take my word for it, because they did go over my records. It was a departure. And when I did make that statement - I can say that when I did make it, I was talking for the Executive end of the Government.
- Q. Can you give a reason, sir, for the change of policy?
- A. Yes, in one word. War.
- Q. Wouldn't the same thing apply, sir, to Federal issues?

A. No, because where Federal issues are concerned, there is a contract between the Federal Government and the holder of these issues, and there is no contract between the Federal Government and a holder of a state or municipal.

Q. But the states have contracts with the holders of the outstanding securities.

A. But this is Federal taxation.

Q. The contract between the state and the holder, I believe very clearly expresses the fact that they shall not be subject either to state or Federal taxation.

A. Well, they have been talking about state taxation, but they can't talk about Federal taxation. The Governor or the Attorney General of a state or mayor - I mean, he has no authority to make any promises that there will be no Federal taxes on outstanding issues of states or municipalities.

Q. Likewise, sir, would it be possible that you would recommend that the states tax outstanding

issues of Federal securities?

A. What is the answer?

MR. SULLIVAN: That is a question for the court to decide on outstanding issues.

Q. Well, the President, I believe, indicated that he desired reciprocity on the whole question of taxation in that field.

MR. SULLIVAN: And on future issues we would recommend the be included in the statute provisions that the state governments could tax future issues of Federal securities.

Q. But not an outstanding?

MR. SULLIVAN: We can't make that statement. That is for the court to decide.

Q. Incidentally, in the Gerhardt case, I believe the Treasury itself did not want to penalize the salaried officials of the New York Port Authority, I believe, when the courts decided in favor of the Treasury, and then the Treasury asked Congress to pass the '39 salary act in order to relieve them of that burden, and I

believe that was responsible perhaps for the assumption that the Treasury was not interested in taxing outstanding issues. Perhaps that gave the impression.

H.M.JR: Taxing outstanding what issues?

Q. State and municipal issues.

A. Well, John, you answer that.

MR. SULLIVAN: Well, I mean that is an assumption that may have been made because your statement is correct. It was at the Treasury request that the relief you speak of be granted, but I think it is a rather far-fetched assumption.

Q. Well, the thing I don't understand is why Mr. Sullivan says that it is up to the courts to decide whether states can tax outstanding Federal issues. Why isn't it then up to the courts to decide whether you can tax outstanding state issues.

H.M.JR: Go ahead, John.

MR. SULLIVAN: That will eventually be decided by the court, too. It is the same question on both sides.

Q. You foresee a court decision in either eventuality?

MR. SULLIVAN: Without any doubt.

Q. Mr. Secretary, Senator Taft made a statement on the floor of the Senate today in discussing the second war powers bill under which there is a proposed amendment of the Federal Reserve Act whereby the Treasury would sell directly to the banks, the twelve banks, Treasury issues. He said that would undermine the currency and place the Reserve Banks - remove from them the central banking function. Would you make any comment on that?

H.M. JR: Well, Mr. Taft makes a lot of statements which I don't agree with, and that is one of them. (Discussion off the record.)

Off the record. When I came out to talk in Cleveland, the newspaper man said, "Have you made this speech anywhere before?" I said, "No, why?" He said, "Well, Mr. Taft came out here a week ago and made a speech and got us

all in here and handed it to us, and we found he made exactly the same speech the week before in New York." So I said, "I wouldn't do that to you."

(Resume discussion on the record.)

Q. To go back to this question of tax exempt securities, in view of the fact that you anticipate court decisions in either case, anticipate a court contest, how long--

A. Do you mind just holding it? Have you got your question in mind? The Federal Reserve Board consulted with us on this recommendation, and it is not only the Board recommendation, but we joined with them, and before having the matter introduced, Senator Glass was consulted, inasmuch as he is the father of the Federal Reserve, and he gladly gave his consent, as he felt that in these times this was a provision which would be useful to both the Treasury and to the Federal Reserve System.

Q. Thank you. That is on the record?

A. That is on the record.

Q. Is there any intent under this new authority in the second war power bill to sell securities, long-time securities, to the Federal Reserve banks?

A. We don't know, but it is a power which might be useful, and the way it is now the only person that might object is the Government bond dealer, because if the Federal Reserve wants to buy from us, we have to sell to the dealer, and he gets his thirty-seconds in that manner or if we wanted to buy from them, but in this perfectly gigantic task that we have got ahead of us, I think that this is one of many powers which might be useful.

Q. You mean useful in finding a place to put bonds or is this merely a temporary operation?

A. Oh, temporary.

Q. Well, this really is a radical change of policy whereas before the Open Market Committee confined its operations to the stabilizing and only at abnormal times, but you are selling

directly to the Federal Reserve banks, isn't that a change?

A. I think prior to '34, and then I think I am correct (inaudible) Chairman of the Federal Reserve and any connection between the two was severed. He said, you did me a great service in relieving me of that responsibility and any connection - isn't that right? It was in '34, wasn't it?

Q. It was the banking act of 1935.

A. And they cut all possible connections. Well, now, the Federal Reserve approached us and they feel that this might be useful, and I concurred.

Q. We understand if you had a military operation coming up at some time (inaudible)--

A. Over a tax statement, particularly on the fifteenth of March.

Q. The main idea is to stabilize the money market?

A. That is right. We might want to transfer a half billion dollars on one day, and there is no reason why we have got to go through a

dealer in order to buy or sell to the Federal Reserve. We can do it through a dealer, but if we want to do it, there is no reason why we shouldn't be able to deal with one another.

Q. But you don't foresee any possibility of the central bank financing the Government debt in a big way.

Just like the Bank of France, the French Government borrowed directly from it?

A. Gentlemen, this is one of many - what I would call unimportant assistances which we may want.

Q. May I ask that question now, Mr. Secretary?

A. Now, please. There is nothing hidden, it is just that we want to be able to deal direct with each other. We might have a very, very bad day and we would maybe want to transfer something, and there it is. I think it is proper. It is the Board's suggestion, not ours. Senator Glass was consulted. He thought it was all right. As far as I know, there is nothing beneath the surface on it.

- Q. Would this be done in the sale of bills, short-term notes or long-term bonds?
- A. It would be more apt to be either bills or notes.
- Q. Let me ask you this, Mr. Secretary. Did the Reserve Board before in the past buy bills? I thought that they only bought usually medium or long-term bonds but rarely entered the bill market.
- A. I couldn't answer you.
- Q. There used to be a provision where you gave them one-day certificates just ahead of a tax collection date, and that is the thing apparently that is going to be done here.

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A. We have got more the tax date in mind than we have anything else. That is why we are letting four hundred fifty million of our bills run off right around the fifteenth to ease the money market. It is more the tax date than anything else. If there is anything deep or devious, it is over my head.

Q. Mr. Sullivan, the Secretary in his speech indicated that the taxing of state and municipal securities would yield two hundred million dollars a year additional in revenue, roughly that amount. In view of the fact that you expect a court contest in both of these things, do you think you will get your tax collections in the near future, or will that go over for several years?

MR. SULLIVAN: It depends upon whether they pay under protest or how they do it.

Q. Or whether they just don't pay? Is that the question? In other words, from the standpoint of the immediate future, isn't that going to be a very large contributing factor in cutting

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down the size of the tax bill Congress is going to have to write?

MR. SULLIVAN: Yes, I think it would be, because the liabilities would be outstanding, and we wouldn't anticipate an adverse decision by the court on taxing outstanding issues.

Q. Mr. Secretary, in view of Mr. Sullivan's statement about court action, are we to understand that what the Treasury intends to do is to send out tax notices to holders of previously tax-exempt state and municipals without waiting for legislation?

H.M. JR: Oh, no. No, we would never do anything like that.

Q. Well, if you feel the court will uphold you, what do you need the legislation for?

A. Well, John, you are carrying the argument.

MR. SULLIVAN: Well, there is legislation now prohibiting it which must be repealed.

Q. Mr. Secretary, what was the approximate date that the Federal Government began taxing the income from its own bonds that were issued after that date?

A. I didn't get the question.

Q. Approximately how long has the Federal Government been taxing income from its own bonds that were issued after that date? In other words, when did that law go into effect?

MR. SULLIVAN: The Public Debt Act of '41, to my recollection was passed in January, '41, or early in February of 1941.

Q. Effective March 1?

MR. SULLIVAN: I think that is right.

Q. That is the one that made them fully taxable. They were partly taxable before, weren't they?

H.V.JR: Yes.

Q. What reaction have you had to your Cleveland speech, Mr. Secretary, from the Hill?

A. None.

Q. From other quarters?

A. The people in Cleveland seemed to like it. They seemed to take it in their stride, and seemed to think that the thing that I was - the four loopholes I was talking about were proper, and that - there was quite a mixed audience there, and they seemed to think that

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in these times everybody should be willing to pay taxes on it --

Q. I am wondering if you will have a lot of fan telegrams?

A. To be perfectly honest, I haven't seen my mail today. As you gentlemen know, I don't speak very often, and I am doing the fourth speech in three days tonight, and then I am going to rest.

Q. Where are you speaking tonight, sir?

A. In here, for the Warm Springs Foundation.

Q. Mr. Secretary --

A. It is a little out of the ordinary for me, so as Miss Chauncey will testify, this is the first time I have seen her since Thursday.

Q. Mr. Secretary, did you talk over closing these loopholes with Senator George and Congressman Doughton before you made that speech?

A. No.

Q. You did not discuss that with them in those tax meetings or later?

A. No.

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- Q. Could you say, Mr. Secretary, whether you are definitely not going to ask for the taxation of outstanding Federal Government securities?
- A. This is my position, gentlemen, and I would like to get it over through the press, if possible. I feel that there is a contract, which stands between the Federal Government and the holder of these Federal tax-exempt securities, and I don't intend to directly or indirectly break that contract or circumvent it. Is that flat enough?
- Q. I think so. I understood that the Government Bond market had a little trouble getting itself adjusted today because there was some misunderstanding as to whether you were talking exclusively about state and municipals.
- A. They talked about my speech like aluminum. It was rare and hard to get a copy of.
- Q. It evidently was. I had to dictate it word for word this afternoon.
- A. Don't you feel like you had a priority?
- Q. As a matter of fact, the reports of your speech were rather garbled, anyway.

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A. That isn't my fault.

Q. That is probably what caused the misunderstanding. Mr. Secretary, in this statement that you made, you don't feel, carrying that on, that there is any implied contract, as far as state and municipal bonds are concerned?

A. Quite the opposite. I very strongly feel the existence of a contract. I feel that none exists between the Federal Government and the holder of a state or municipal. I feel that very strongly. I stood around and people talked, and certainly in Cleveland, as I say, you have a good cross-section there, and there was no - no, there wasn't any. I mean, they may have had it, but they were very polite about it. Then they have a liberal municipal government there, a reform government.

Q. Mr. Secretary, does Mr. Sullivan have handy any figures on the amount of outstanding state and municipals, and what the estimated annual income is?

A. He would be disappointed if you hadn't asked him (laughter).

MR. SULLIVAN: That is correct on half of his question. I haven't the yield on them, Mr. Secretary. The outstanding state and local securities, as of June 30, 1941, was twenty billion dollars. The outstanding wholly exempt U.S. Government and Federal instrumentalities securities were nine billion nine. The partially exempt Federal securities and the securities of Federal instrumentalities totalled thirty-five billion, and the wholly taxable securities of the Federal Government and its instrumentalities, eleven billion four hundred million.

Q. Can you break down that state and municipal figure by states and municipals?

MR. SULLIVAN: I have not.

Q. Could I check this back? The outstanding wholly exempt is the nine billion nine?

MR. SULLIVAN: That is correct.

Q. And the outstanding wholly taxable is eleven billion four?

MR. SULLIVAN: That is correct.

Q. And thirty-six billion for the partial?

MR. SULLIVAN: And twenty billion for state and municipal.

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Q. Are these holders of these tax-exempt securities the same type as those down in Florida, Mr. Secretary?

H.M.JR: You have got to make your own headlines. You are pretty good at it, too.

Q. This statement about taxing outstanding state and municipal securities would go into effect on July 1 on the ones that are outstanding?

A. That is right.

Q. Not to go back to those issued March 1?

MR. SULLIVAN: No, those are wholly taxable.

Q. Could you tell us whether you are going to appear before the Military and Naval Affairs Committee on war profits?

A. We are sending observers.

Q. Will this removal of the tax exempts be incorporated in the tax statement before House Ways and Means?

A. Yes.

Q. When will that be held?

A. Well, you had better ask Mr. Doughton that question. Mr. Sullivan and I are in the same boat.

We are just working with Mr. Doughton and waiting until the whistle blows.

Q. Has a date been set for the appearance, Mr. Secretary?

A. No, sir.

Q. How is Mr. Paul getting along with the drafting of the Treasury program?

A. Well, we are all working together, and when Mr. Doughton blows the whistle, we will all rush up on the Hill.

Q. I want to get this clean, Mr. Secretary. The removal of the tax exemption on state and municipals, must the elimination of it - what is that husband and wife tax?

A. Joint returns.

Q. Those two were not discussed with Mr. Doughton, those two tax proposals, before you made your speech?

A. Oh, I didn't want to embarrass Senator George and Congressman Doughton, so I just wrote my speech and went on up there after having been sure that it was all right, and had the approval

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of the Executive end of the - of Pennsylvania Avenue, and having assured myself as to that.

Q. A much simpler phrase is "President Roosevelt." We are going to say it anyway.

A. No, you are not.

Q. Yes, we are.

A. Are you?

Q. That has been the clear implication, sir, for many months.

You said the Chief Executive, at one time.

A. The Executive part of the Government.

Q. The President is the Executive part of the Government.

He is the top-ranking Executive part.

That is, you have often mentioned that you work for him.

A. I still do.

On the record, what I said was that when I made this statement, I was speaking for the Executive end of the Government.

Q. The Administration as a whole?

A. The Administration as a whole, is that what I said?

- Q. You said both.
- Well, just to get our consciences straight,
Mr. Secretary --
- A. Just one second. Again, thank heavens you can write anything that you want.
- Q. Mr. Secretary, you said --
- A. What about your conscience?
- Q. I was going to say, is there any way of saying you were speaking for the Administration without saying you were speaking for the President (laughter)?
- A. Well, as far as I am concerned, I was using that phraseology.
- Q. Mr. Secretary, could you say whether you have any intention of indirectly reaching some of the partially exempt Federal securities by lowering the normal tax --
- A. We were waiting for that one. Mr. Sullivan, do your stuff.
- MR. SULLIVAN: We have not considered lowering the normal tax on individuals or corporations. On the other hand, we are opposed to any increase in the normal tax, and we think that any

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increases the Congress considers should be increases in surtaxes, rather than in normal taxes. The reason why we are not considering a reduction in the normal taxes is, as the Secretary said, we do not wish to attempt to do by indirection what we think we cannot openly accomplish directly. We think it would be pretty much --

H.M.JR: We don't want to circumvent.

MR. SULLIVAN: That is right.

Q. Does that apply, Mr. Secretary, to the old Glass scheme of using tax-exempt income as a - some sort of a base so as to put taxable income of those people in a higher bracket?

H.M.JR: I think we have gone around the thing pretty much. I said I am opposed - let me go over it once more. I recognize a contract exists between the Federal Government and the men or women who have bought our securities, and we don't propose by direction or indirection to tax them on this income, as long as these issues are outstanding. Doesn't that cover the water-front?

- Q. Yes. The only question is that a year ago just about this time, sir, you were emphatically declaring that you were speaking of future issues and not present issues.
- A. Federal. I have never declared myself on state and municipals. I have been very careful.
- Q. What is the next step, Mr. Secretary? Do you expect to win on the Hill with this?
- A. This time?
- Q. Yes.
- A. Yes.
- Q. On the record, you expect to win on this recommendation?
- A. Yes. I think this is what people want.
- Q. Thank you, sir.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, JANUARY 29, 1942

- H.M.JR: Any nice tough questions this morning.
- Q. We just saw Harry White come out. Can you tell us what news he brought you, sir?
- A. Nothing but what you get through your own services, I am sure.
- Q. Well, we would like a little corroboration.
- A. No, I have got nothing.
- Q. Mr. Secretary, this week you saw not only Lord Halifax and Sir Frederick Phillips, but also a group of the Lend-Lease Administration. Can you tell us what that is about?
- A. Not yet.
- Q. Does it concern exchange in Latin-America?
- A. How many questions, five or twenty?
- Q. Until you stop me.
- A. I just wanted to know whether you had twenty questions.
- Q. Can you say, sir, whether it concerns the exchange problem in Latin America?
- A. I am not ready to talk about it yet.

- Q. How is the Johnson Act going these days, Mr. Secretary?
- A. I don't know, what do you think?
- Q. I don't know, I just wondered what you thought.
- A. I don't know.
- Q. Is it possible to Lend-Lease exchange?
- A. You mean --
- Q. Dollars.
- A. You mean foreign exchange?
- Q. Yes.
- A. I don't know. It has not been put to me before.
- Q. Pardon?
- A. I haven't got anything like that before me.
- Q. It has not been put to you?
- A. That is right.
- Q. The Procurement might possibly buy things in a foreign country for the account of a third country, might it not?
- A. Well, somebody else has been helping you, but I am not in a position to help you.
- Q. Oh, no comment on triple plays?
- A. No, I am not - somebody has been doing some leg

work, but I am not going to deny or confirm it.

Q. Well, there are several people way ahead of me. I am just catching up.

A. O.K. I am sorry, but I can't help.

Q. Well, one of the reasons--

A. I mean, if the people want to come in here and talk, that is their business.

Q. I might add, sir, that I got what little information I have from an official of the Treasury.

Who was it? (Laughter)

One of the reasons for the drain of--

Well, I mean, I just wanted to clear the skirts of your visitors, because I tried them, and they didn't talk. Oscar was funny.

Mr. Secretary, one of the reasons for the drain of foreign exchange of the Latin-American countries has been the substantial interest payments on outstanding securities held by the British. In the case of the Argentine railways

for instance, and there have been some schemes of repatriating the securities as the Canadians have done. I wonder would the Treasury Lend-Lease funds to the Latin-American countries to re-buy their securities held in London and at the same time help the British with dollar exchange.

A. I couldn't answer that.

Q. Mr. Secretary, we are getting reports that there are spotty runs on banks. For example, up at Wilkes-Barre, there was six hundred thousand dollars drawn out in one week of which a portion went into currency and a considerable portion, according to the bank's checking, went into Defense Bonds. In other words, they took it out of savings and put it in Defense Bonds. Have you heard any reports yourself.

A. Have you asked the Comptroller?

Q. No.

A. Was it at a national bank?

Q. No, it wasn't a national bank. C

A. I will look into it, and, if I get something, I will be glad to give it to you.

Q. You haven't had these things--

A. No. Ask Dave Morris to check it, will you?

MR. SCHWARZ: I will check it, both with Leo Crowley and with the Comptroller.

Q. In addition, the scheme of paying off bonuses for overtime in Defense Bonds has not come up to expectation in some localities. There have been reports where the employees getting Defense Bonds have waited for the time limit and cashed them, which is offsetting that--

H.M.JR: I read about that in the papers, but I have had no other reports.

Q. You have had no other reports?

A. The thing that is going extremely well, and the thing that we are working very hard on is the payroll deduction plan, and that is going extremely well, and company after company is taking it on. That is going well. That is our own plan. That is encouraging.

- Q. You are not encouraging, of course, the taking out of savings?
- A. Oh, no. I have made several statements about - no, the money that we want - that is why I mention it - the money we would like to get is to have everybody set aside a certain amount each week out of his payroll and buy Defense Bonds.
- Q. Current earnings.
- A. Current earnings: All the stress, all the efforts that we are making here, are directed at that. Now, it is a big country, and there are all kinds of plans growing up, and people are enthusiastic and want to do something, but the Treasury's own plan and the plan which is being adopted by the working men and the management is the regular deduction each week out of the payroll.
- Q. Mr. Secretary, have you heard of any - have you been informed of any instances of hoarding of currency?

A. Yes, there is some going on, and I made a flat statement - the story which has been going around - I tried to - I did correct it flatly in Cleveland, is that we are going to, in some way or other, seize a certain amount of the savings in the savings banks. We have no such thought, and I make a flat denial of it, and the thing is so persistent that you can't help but be a little bit suspicious as to who is starting the rumor.

Q. Could you tell us who you suspect?

A. No, but I would suspect the same people that you would, but I can't prove it.

Q. Mr. Secretary, have you heard any reports that a considerable part of the bank savings deposits were being withdrawn because of some misunderstanding about the foreign funds?

A. No, but - no, there isn't - it isn't large, but there is a certain amount of hoarding going on through rumors that we were going

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to go in and take over a certain amount invested in Government funds. It is a constant rumor.

I asked the newspapermen to hit hard in Cleveland, and they did. Anything you men could do would be helpful.

Q. Do you consider it serves a useful purpose, Mr. Secretary, to write more stories along this line?

A. I thought I hit it pretty hard in Cleveland. They asked me to do it there, and the men particularly were worried because the thing started in Cleveland.

Q. I mean with regard to--

A. Right now?

Q. Right now.

A. If you leave it to me, I would leave it alone, but that is up to you.

- Q. I meant only as a matter of advice, sir.
- A. I think by repeating it all the time you are bringing it to their attention, and if you are asking my advice, my advice would be, until I hear about it again from some banks, I would leave it alone.
- Q. The reason I asked, Mr. Secretary, was that unless you wanted us to write a story about it --
- A. But I don't want to read --
- Q. I would rather not.
- A.in some news weekly that I have attempted to clamp down on the thing, and so forth and so on.
- Q. Oh, no. For the record, I want to say that I brought it up voluntarily and not as a matter of censorship.
- A. I mean in a weekly magazine or something, but if that is understood, that is all right.
- Q. What else can we say about this?
- In collaboration of the same idea, Mr. Bruere announced that twenty-nine million had been withdrawn from savings banks.

- A. You men decide amongst yourselves. Excuse me. You men decide amongst yourselves. You can decide now or you can wait.
- Q. I think purely as a matter of checking the thing that I agree with Perimeter that the best way you can stop it is not to mention it.
- A. Well, it is up to you men. You decide amongst yourselves.
- Q. No comment about hoarding of money. All thrown out.
Everything will create suspicion. There is no two ways about that.
- A. All right. Thanks for asking the question.
- Q. Mr. Secretary, it pains me to tell you that you were misinformed by your staff on the state and municipals, that there is a release issued on March 14, 1941 listing future issues.
- A. Of state and municipals by name?
- Q. Yes.
It had the word "future" underscored.
It said the Secretary consistently opposed taxing outstanding state and municipals.

A. On March 14?

Q. Nineteen forty-one.

MR. SCHWARTZ: There is one written by the legal staff on the Port Authority case. The lawyers had written that.

H.M.JR: What year was that written?

Q. Nineteen forty-one.

A. Did you discover it?

Q. I thought I was correct about it, and checked around.

A. The only way to correct the thing is to have you swap places with somebody in the Treasury, and then I will be safe.

Q. Let's put it this way, Mr. Secretary, it took us about fifteen minutes to check through various things and find out.

And also the transcripts of the press conferences.

A. Well, I am glad you are right and I am sorry I was wrong because before I went out to Cleveland I had a check made and that is what I was told.

Q. They didn't check very many places.

I think we were all so sure of the thing that none of us mentioned it in our stories of the press conferences.

A. But I had a check made. Is that right, Chick?

MR. SCHWARTZ: That is right. I might say that I don't find anything previous to that statement by the legal division to support that statement.

H.M.JR: Which is the thing you had?

Q. March 14, 1941.

A. In what?

Q. Official Treasury release.

It was in connection with that court test case on the New York Port Authority.

A. But not in a press conference?

Q. Yes, November 28.

And January 2.

In the hearings on the Hill too.

A. It is nice to be wrong. It keeps you human.

Q. Mr. Secretary, on that point have you heard anything from any of the state governors or attorney generals, or from any of the municipal heads about their position on your proposal?

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- A. I have had two communications, one from Mr. Epstein which he circulated pretty generally all around, which the papers ran on Monday, and then I think it is the governor of Rhode Island who sent in a telegram favorable.
- Q. Do you have the text of the telegram?
- A. You can have the telegram.
- Q. Favorable to what part?
- A. Favorable to your stand?
- Q. To my stand on taxing income from outstanding state and municipals.
- Q. Has Rhode Island got any outstanding?
- A. Maybe he is a patriotic fellow.
- Q. Knowing Mr. Epstein's --
- A. Maybe he is a patriotic fellow.
- Q. Of course I guess nobody gives a darn for the outstanding bondholders. They have no protection. But these fellows, the cost of money is going up for the City of New York, and they are concerned about that, I understand, more than they are for the holders of the outstanding bonds who are not organized.
- A. You can make those remarks and --

- Q. These aren't my own remarks, Mr. Secretary.
- A. I say you can comment, but we have had, as I say, the Epstein telegram and one from the other. As far as I know, there is nothing more. That is all.
- Q. Can we have the text of that?
- A. Yes, Chick will give it to you.
- Q. Epstein was unfavorable, is that correct?
- Oh gosh, I'll say.
- A. That is an understatement.
- Q. I read it on Sunday.
- A. That is an understatement (laughter). But that is nothing new. It is the Port Authority of New York position, which has been consistent.
- Q. The Little Flower hasn't sent you a telegram, has he?
- A. Not yet.
- Q. Any reaction on the trade dollar, Mr. Secretary?
- A. None other than what you have seen.
- Q. Well, did Harry White bring you any favorable --
- A. Oh, I got - well, I don't want to make - I would rather prepare it.
- Q. Did he arrange that conference of finance ministers?

- A. I don't know, but you can ask him that, Chick, and ask him to prepare a little statement on how they felt about the thing, will you?
- Q. Well, would we be very, very far off to say that the Treasury, in order to relieve the financial situation of some of these Latin-American countries, might possibly in the future finance the repatriation of the securities held in London? At the same time they have got blocked sterling they could release, you see, and ease the British situation.
- A. Well, if you are asking me, I mean --
- Q. I am asking you so you can tell us. Hasn't the Treasury already done that, Mr. Secretary?
- A. Well, I can't get in on the discussion at this time. I can't get in on it at this time.
- Q. Anything new on taxes, sir?
- A. No, except we are working.
- Q. No date fixed yet for your appearance before the House Ways and Means Committee?
- A. No. You gentlemen may or may not know Mr.

Stam fell down on the ice somewhere.

Q. Yes, I read.

A. And was laid up for a week, so that set the thing back for a week.

Q. I saw him hobbling in here yesterday (laughter). Do you have any more preliminary conferences scheduled with the Senators and Representatives, with Senator George and Representative Doughton?

A. Nothing scheduled.

Q. Mr. Secretary, do you have any comment on Governor Lehman's budget message in which he proposes a twenty-five per cent reduction in state taxes?

A. I guess I had better not say anything. I haven't read it carefully enough. Are you going to write I refuse to comment on it, or how are you going to write it?

Q. He said, "I guess I had better not comment on it."

A. Well, repeat the question then.

Q. Would you comment on Governor Lehman's proposal to reduce state taxes by twenty-five per cent?

- A. I think I would stick to that, "I guess I had better not comment on it."
- Q. Would you also not comment on Mr. Doughton's proposal that states cut their taxes?
- A. Same thing.
- Q. Anything on financing?
- A. Nothing for this month.
- Q. It is pretty near gone.
- A. That is right. No.
- Q. Will there be some announcement the first of next month? There is some talk about next week.
- A. No. We will have a financing for new money in February, but I don't think - in fact, I know it will not be next week.
- Q. Mr. Secretary, have you done anything about - has the Treasury done anything about any - advocating any legislation to make the calendar and fiscal years coincide?
- A. No. I think that would be up to the Budget. I have been for it for a long time.
- Q. Some of the Treasury experts aren't, Mr. Secretary.

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A. Well, that is what makes horse races.

Q. Thank you, Mr. Secretary.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, FEBRUARY 2, 1942

- Q. Well, Well.
Good old Donald.
- A. Have you seen the picture?
- Q. Yes, it is a grand picture.
- MR. SCHWARZ: People in Radio City Music Hall stood up and cheered.
- Q. Any financing, Mr. Secretary?
- A. No. This is my - you might pass them around.
It is the statement on the Defense Bond sales in January. You can use it as a direct quote or any way you want.
- Q. May I have one for my two hundred fifty million readers, please?
- A. Give him two copies.
- Q. Mr. Secretary, before the experts get busy, you were sufficiently questioned, I think, before the House Appropriations Committee, but with regard to what you said about silver, do

you have in mind proposing any legislation to repeal the existing silver laws?

- A. Well, we are studying it.
- Q. How can you accomplish that, Mr. Secretary?
- A. Well, I can't accomplish it, but Congress can.
- Q. Well, I mean that is just the repeal of the Silver Purchase Act.
- A. Well--
- Q. Or would it be just a modification?
- A. I am not really ready. It is still in the study stage.
- Q. What might become of some of that silver now that is being bought?
- A. Well, one of the principal things that - where it would go of its own accord would be in industry. There is a tremendous increase in the use of silver in industry.
- Q. Mr. Secretary, would you advocate the sale by the Treasury to industry of some of the surplus silver?
- A. That would be one of the recommendations I would make.

- Q. You would?
- A. I would, yes.
- Q. Well, is that consistent with the good neighbor policy? After all, the silver is sold in Mexico, Peru, and some of the other Latin-American countries plus Canada, and if the Treasury pulls a plug out of the market and the price of silver declines, it will not only hurt Canada and other silver producing countries, but also China which uses it as a base for its currency.
- A. Well, I think you are jumping to conclusions, Nick, that we are pulling a plug.
- Q. Pardon me, I would say the support for the market.
He hasn't got it repealed yet.
- A. Well, the demand for industry is so great that there is no reason to believe that the price would go down. There is no reason to believe that the price would go down below the world price.

- Q. Wouldn't the Government take a good deal of a loss on their silver if they sold it to industry?
- A. Well, by the time you do the bookkeeping, I don't know whether we would take a loss or not.
- Q. It would be purely a bookkeeping loss anyway, wouldn't it?
- A. But leave me out of that stuff, please. I haven't done my bookkeeping.
- Q. Mr. Secretary--
- A. I don't know where it would leave us. Leave that remark off, will you?
- Q. In speaking of industrial uses of silver, do you have in mind using it as a substitute for some other things?
- A. Well, they are doing it on their own.
- Q. They are using silver instead of lead.
- A. And on tin cans they have worked out a method of spraying. They are spraying it with a very fine coating of silver instead of tin. There

is a shortage of tin and it became a really important matter. As I say, the use of silver in industry and for national defense is going ahead by leaps and bounds, and it is perfectly possible that it - that we can not only take everything that everybody offers us but more besides, so it doesn't at all necessarily follow that the price would drop below the world market, the world price.

Q. This price of about thirty-five and one eighth is about a fair price on its own level, is it?

A. I don't want to say, but that is the world price. That is what I am talking about.

Q. You mean, whatever is the world price?

A. Yes, the world price today. I mean, it doesn't necessarily at all follow that if the support was withdrawn--

Q. Mr. Secretary, there is no world price.

A. Excuse me one minute. And we haven't been buying any silver to speak of now for a long time because all the silver that is being bought is

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being bought by other than the Government.

It is being bought by industry.

Q. Mr. Secretary, the tin can experiment, a very thin coating of silver, did that appreciably increase the cost of the tin can over the tin coating?

A. I understand not.

Q. In other words, we could get tin cans silver plated with a thin plating at not much greater cost than the tin can?

A. I understand that is correct, because the plating is so very, very thin that - I haven't heard that it increases the cost of the container.

Q. Does that take out the requirement of tin? I mean, is there still a tin base?

A. I believe not.

Q. I mean, it eliminates the use of tin?

A. That is my understanding, but I wouldn't want to go out through all the news services on that, but I understand that it is a complete

substitute, but you had better check up with the Bureau of Standards or somebody.

Q. They only spray tin on the metal, I think, Mr. Secretary.

A. The base is metal, but the coating is tin, and I understand it is the silver that takes the place of the tin over sheet steel, that is what it is. It is sheet steel which is coated to keep the thing from - it is the iron which I think is poisonous to the food, and the tin is an insulator. The silver takes the place, but the spray is so very, very fine that I believe they can do it, but I wouldn't want to sit here and say it as an authority.

Q. There is one other thing which doesn't quite follow that, but it may have been discussed at a previous conference, I don't recall, the possible substitution of some silver and alloy in the making of nickels, and using the nickel, of course, for war purposes?

- A. Since you have referred to it, these men have a brain trust in their research department, and anything that I say now, they go back over it, so I have got to be very careful. I don't know. At the future conferences, I refuse to commit myself.
- Q. I wouldn't call it a brain trust, Mr. Secretary. It is a research committee.
- A. With or without brains?
- Q. Mr. Secretary, at the President's budget seminar, he said, "There is a pressing need for providing taxation relief for businesses in debt," that is, businesses that have fixed obligations that have to be paid. Has the Treasury any proposals yet for the form that should take?
- A. Well, we have no proposals other than those which I made at Cleveland which met with a hearty editorial support.
- Q. Thank you, Mr. Secretary.
- Mr. Secretary, did Mr. Soong tell you what he was going to do with that half billion dollars.

- A. I think you will have to get that from Dr. Soong.
- Q. I tried.
- Get it from whom?
- A. From Dr. Soong.
- Q. And he referred me back to you.
- A. Well, I guess we will have to leave it like that.
- Q. Can you tell us what the provisions of the loan are?
- A. No, I am going to testify in executive session tomorrow.
- Q. Will it bear interest, Mr. Secretary?
- A. I am not ready to say.
- Q. Before what committee is that, sir.
- A. I never know. Anyway, it is the committee of which Chairman Bloom is chairman.
- Q. Foreign Relations.
- Foreign Affairs.
- A. I never know whether it is House Foreign Affairs or Foreign Affairs Committee. Which is

the Senate?

MR. SCHWARZ: Foreign Relations.

Q. Foreign Relations.

H.M.JR: Anyway, the one that Mr. Bloom is chairman of.

Q. Do you expect to give out a statement after your testimony, Mr. Secretary, in order to prevent garbling, you know.

A. Mr. Bloom assured me - I missed the ribald. It must have been good. Mr. Bloom assured me there would be no leaks. Anyway, when I go up there, if there are any, he will have to do the talking.

Q. I would like to bet with you on that, Mr. Secretary. (Laughter)

When is that, in the morning, sir?

A. Ten o'clock.

A. Mr. Secretary, do you have any clarification today of the international currency recommendations?

A. The only ones I have got, I again refer you to the editorial writers.

Q. What happened to Harry White's statement that

was in the process of making for four hours last week and suddenly was called off?

A. Chick, you will have to give an explanation of that.

MR. SCHWARZ: I told them that he is checking with the State Department people to get the final reports from Rio.

Q. It was all announced in Rio, Mr. Secretary.

MR. SCHWARZ: He will have something for you yet.

Q. Mr. Secretary, could we have a seminar with Mr. White?

H.M. JR: I don't know.

Q. To see if the lid has lifted?

A. I don't know. I can't make any promises.

Q. There is a definite proposal for a conference of finance ministers of all the twenty-one Republics.

A. Well, I don't want to put the heat on anybody, but Chick will have to do a little exploring.

Q. Those resolutions have been given to the press by the State Department.

A. I didn't know that. I have been on the Chinese thing for four days.

- Q. That is resolution number fifteen.
- A. I don't know anything else other than Chinese.
- Q. Mr. Secretary, when they speak about repealing the Silver Act, does that mean the Silver Nationalization and the Silver Purchase Act, too?
- A. What I said was, as far as I was concerned, they could repeal it all.
- Q. You have said it any number of times. That takes it all in.
- A. Whatever it is.
- Q. And the Thomas amendment?
- A. Silver. That is as far as I went. That was enough for one day.
- Q. Yes, but you have to have silver as a basis to carry out the Thomas amendment.
- A. No, not Thomas currency. I think you are wrong.
- Q. Well, that is as it rises. Is that pure?
- A. It is pretty much what the presses can turn out.
- Q. It requires a good press, I understand.
- A. Pretty much.

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Thomas won't agree to that, and unless you feel you have to, I would just as lief you didn't say I said it. I would just as lief you didn't say anything.

- Q. Have you discussed the silver situation with the silver Senators?
- A. I haven't discussed it with anybody outside the Treasury. That is my trouble. (Laughter)
- Q. Mr. Secretary, is there anything on the visit of the--
- A. What do they call it, the Lone Rider, isn't it?
- Q. The Lone Ranger.
- A. That is me. (Laughter) Heigh-ho, Silver!
- Q. Did you have an engagement with Dr. Soong today? Mr. Secretary, do you have any idea yet when you will--
- A. Yes, he was in today.
- Q. Mr. Secretary, the Finance Minister of Brazil left today to come to see you presumably. Is there anything you can tell us?
- A. Now, again, I don't want to say no, and I don't want to say yes. It is in the hands of

the State Department. Certainly the last thing in the world I want to be is discourteous. Until I saw it, I didn't know, but for heaven's sake let's get something from the State Department, what we should say.

MR. SCHWARZ: I will get it.

H.M.JR: The Minister of Finance is on his way, and they certainly will want to get ready for him.

Q. They all down there want a big press just like on the Mexican agreement. They were very helpful on that, and we will be very grateful for your help.

A. Frankly, they haven't told me, but I don't want to say that. Call up the man over there, Schwarz.

MR. SCHWARZ: I will get McDermott.

H.M.JR: Tell McDermott to let me in on the secret.

Q. Mr. Secretary, what is the Brazilian national drink, if you are going to sign another one of those agreements?

A. You like that, do you?

Q. I don't know, some of that stuff was pretty bad.

A. How did you like that tequila?

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Q. It was just like Churchill's statement, so many people getting drunk on such a small bottle.

We had had coffee, too.

A. One thing Mr. Early said he would like me to correct, in the statement he gave out, was that Mr. Jones and I met with the leaders on Saturday. That was incorrect. We met with the President, and the only meeting that took place with the leaders was at ten o'clock this morning at the office of the Vice-President.

Q. What was that in connection with?

A. With this Chinese loan. Mr. Early asked me whether I wouldn't speak to you gentlemen, and make that correction on his behalf.

Q. I wonder if we could ask you this --

A. It was in the story that we met Saturday. There was no meeting Saturday, except Mr. Jones and I met with the President.

Q. Were the Congressional leaders there?

A. The Congressional leaders at the office of

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the Vice-President this morning at ten o'clock. Saturday Mr. Jones and I met with the President.

- Q. What is the reason for this loan? China is a recipient of the Lease-Lend for one thing. You have helped them from a currency standpoint. Could you throw some light on the reason for the loan?
- A. I think you had better wait, and I imagine Mr. Bloom will make a formal statement. It is only a day off, I suppose.
- Q. Well, is this a good guess? Could you tell us whether this was a good guess, that so far the three power Stabilization Agreement over in China has not achieved its objective, and that inflation is still on over there?
- A. No. I haven't got the thing, but if you could look up the agreement of - what I think they call the agreement of January 2, where it said members of the United Nations would help each other wherever possible - you can get them a copy if they haven't got one.
- Q. Is that that Twenty-six Power statement?

- A. Yes, that we would give aid to each other and so on, and that is part of the same idea, of the January 2 statement, of the United Nations statement.
- Q. I was just trying to determine whether it is a currency move or whether it is a move to provide them with funds to buy goods.
- A. Well, it is just an over-all loan. This is not - this is just to help you men write this story. It is a loan as part of the United Nations thing - I haven't got it here, but if you look in the January 2nd thing where they said that the signers of this agreement would help each other against the Axis, that this is part of the January 2 program. Now, does that give you a little guidance?
- Q. Yes.
- It must be for morale purposes also, isn't it? Will the money be spent here, Mr. Secretary?
- A. Let's go a little easy. We are doing this thing to be helpful.
- Q. Certainly.

- A. And the whole idea is in this thing which was signed by the twenty-six nations, was it, that they would help each other in every way, and you have seen a statement come out of England, and they are doing something, and we are doing something to help a member of the United Nations.
- Q. Tell us this, Mr. Secretary. Is the --
- A. This is all for what you call background.
- Q. Is the Chinese yuan - has it depreciated recently again?
- A. Not particularly.
- Q. So China has a stable currency?
- A. I wouldn't say that, no. But it isn't just the currency. It is to help them generally, I mean, in the fight that they are making against the Axis. They have asked for help, and now England and ourselves are going to give it.
- Q. Could you say --
- A. This is all for background.
- Q. Would this be a gold loan or a dollar loan?
- A. It might be both. Again, only for background.
- I don't want to be quoted on this, on any of this.

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- Q. Mr. Secretary, would this have anything to do with the fact that in particular instances China has found it very unsatisfactory to get what it needs through Lend-Lease because they might get something a little different than they ask, and they like to do their own buying?
- A. No.
- Q. Well, they do not need this loan to buy things that they could get under Lend-Lease, do they?
- A. No.
- Q. Do they need it to buy things in Russia?
- A. No. Who used the word "morale"?
- Q. I did.
- A. That is as good a word as any.
- Q. Could they buy things in Russia? I was thinking of your statement before the committee. It makes the Japs sit up and take notice.
- Q. You have got it.
- Q. But guns are better morale builders than dollars or gold, Mr. Secretary.
- There is a psychological point there.
- A. Don't crowd me too much. I am supposed to

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come up there tomorrow. But all I can say to you people is that whatever way you write it, the whole purpose is that it should taste good to General Chiang Kai-shek when he gets it and when he reads about it, you see. Now, I am very fearful to say anything so as to in any way sour that taste, you see. The idea is that the loan is being made; England is making a loan and we are making a loan. We want it - when he reads about it, and the Germans and the Italians and Japanese hear about it over the air, we would like it to be as bitter for them and as sweet for Chiang Kai-shek as possible. If you can write it that way, it will help in the general effort. I am being very frank. In one way we wanted a bitter pill, and in the other way we wanted it just as sweet as possible.

Q. In other words, you wanted to let both parties know we haven't forgotten about the Chinese.

A. Very much so, including the Chinese.

- Q. To get it all straight, this is all for background?
- A. All for background. You are in the writing profession and I am not, but I want to go over it again. You have asked me to help you. When you write it, as I say, we would like it to sound sweet to Chiang Kai-shek particularly, and to the rest of the United Nations, and just as bitter as possible to our enemies.
- Q. Mr. Secretary, now that the experts have asked their questions, I would like to ask about the auto tax (laughter).
That is a much more difficult question than the Stabilization.
- A. As I told John L. Sullivan, the trouble is that some of the people seem to run out of spit and can't make the thing stick (laughter).
I don't happen to be responsible for that one. Anything on that, I refer you to the Honorable John L. That is his baby.
- Q. Do you have any idea --
You kind of slurred that.

A. Slurred or slipped? Anyway, I haven't handled it from the beginning.

Q. Well, seriously, Mr. Secretary --
(Off the record.)

A. They did a bad job, I mean. The stickum was on the wrong side (laughter). They didn't put enough of it on, and they didn't know whether to put it on the front side or the back side, and it is a mess.

Q. Are you going to put anybody in jail about it?

A. I don't think we should put any automobile person in jail. If anybody, we should look around our home town. It is a mess, any way you look at it.

Q. I will bet you could write it all off as war-time fun.

Is this off the record or on the record, or what?

MR. SCHWARZ: Do you want that off the record?

H.M.JR: Chick says off the record.

Q. That is all in fun.

(Resume discussion on the record.)

- Q. I am seriously asking the question whether it is the policy of the Treasury to put anybody in jail for failure to buy automobile use stamps?
- A. I can't answer you that. You will have to ask Sullivan that and get an answer. I don't know what the answer is.
- Q. Couldn't you get us an answer, Chick?
- MR. SCHWARZ: Yes.
- H.M.JR: I am certainly not going to defend this stamp.
- Q. Mr. Secretary, will this five hundred million dollars come out of the Stabilization Fund?
- A. No, definitely not. It will be a Congressional act appropriating this money for this specific purpose.
- Q. One question on domestic issues.
- A. What do you call the sticker?
- Q. This is better than that.
- A. Isn't that domestic?
- Q. Can you tell us now when the tax hearings are going to begin before the House Ways and Means Committee?

- A. I haven't heard a word, not a word.
- Q. Mr. Secretary, at the Capitol a lot of people are talking about sales taxes these days, some under the guise of the war, and some said they have always been talking about it, and in some circles it is said that the Treasury would support, or at least would not oppose a sales tax proposal.
- A. Well, I can only again say that the only thing I have made up my mind, is that what I said at Cleveland, and beyond that everything is wide open.
- Q. You didn't touch on the question of sales taxes there, did you?
- A. No.
- Q. Mr. Sullivan did that the same day.
- A. What did he say?
- Q. He had a long speech blasting the sales tax on Saturday. I assumed that was the Treasury's policy.
- A. What he said, I will endorse. Whatever

he said, I will endorse, including whatever he says on the auto stamps.

Q. Mr. Secretary, when do you contemplate new money financing? Have you scheduled a meeting this week with the Open Market?

A. Not this week.

Q. Back to China for one minute, what is the status of the Stabilization advances that have been made or offered to them, sir?

A. Well, I don't know what - I have got nothing - did we announce the original one?

MR. SCHWARZ: Yes, we did.

H.M. JR: Did we tell them how much?

MR. SCHWARZ: We told them how much.

Q. Fifty million.

A. There has been nothing since then.

Q. There were just two, the fifty million and the forty-eight million?

A. Well, the last one was the fifty million one, and there has been nothing since then.

Q. Previous to that, just one?

A. There was another one against gold. That was

an advance against gold.

Q. The forty-eight million?

A. I forget exactly.

MR. SCHWARZ: Fifty.

Q. Could we assume this, that the Export-Import Bank credits, under which the Chinese were to ship us strategic metals, have not materialized to the point where they have gotten a sufficient number of dollars that they needed, and this five hundred million dollar loan is to make all these funds available to them?

A. No, Mr. Jones has made several loans, of which they have been prompt in repaying on time. We made them a Stabilization loan, and Lend-Lease has made them certain very handsome commitments. Now, the answer is that it isn't enough.

Q. It is not enough?

A. It isn't enough.

Q. Can we make that for the record?

A. What is that?

Q. Your statement in connection with this, that it

is not enough?

A. That is right. Hence, the letter to the President asking Congress to appropriate five hundred million.

Q. Mr. Secretary, have you received a communication from - I don't know what the name of the organization is, but it is an association of coin vending machines and the like, who protest against any alloy or any change in the content of coins because their protective devices won't throw them out.

MISS CHAUNCEY: They haven't come in here.

H.M.JR: Not to my office, but that doesn't mean it hasn't come to Treasury.

Q. Mr. Secretary, two tax questions. Is there any possibility that the Treasury's goal in taxes may change prior to the enactment of the final tax bill, either that we will have to pay out more or we will find more coming in?

A. I don't know how to answer it. It is a good

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question, but I can't answer it.

Q. The second one is, is there any way of saying when you think ultimately there will be a tax bill? Will it be before fall, do you think?

A. Well, if I say that, you will begin to come back on me the fourth of July.

Q. No, I won't say anything else.

A. No, the other fellows will. I think I had better duck it.

Q. May I get the Pacific data on these Stabilization loans later from here?

A. Definitely.

Q. Thank you, Mr. Secretary.

Treasury Department • Defense Savings Staff



NEWS MATERIAL

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Release No. 137

February 3, 1942

FOR IMMEDIATE RELEASE

WASHINGTON, D. C. — Sales of Defense Savings Bonds for January amounted to \$1,060,547,000, it was announced today by Secretary Morgenthau. The January figure, which established a new high monthly sales record, brings the total of Defense Savings Bonds purchased by the American people since the Treasury's Savings Program was launched on May 1, 1941, to \$3,597,756,000. The previous record for monthly sales was set in December when sales totaled \$528,599,000.

January sales were divided as follows: Series E Bonds - \$667,411,000; Series F - \$77,559,000; and Series G - \$315,577,000.

Total cash deposits at the Treasury for all three series of Bonds by months: May, \$349,818,000; June, \$314,527,000; July, \$342,132,000; August, \$265,606,000; September, \$232,327,000; October, \$270,713,000; November, \$233,487,000; December, \$528,599,000; January, \$1,060,547,000. Total May 1, 1941 through January 31, 1942 -- \$3,597,756,000.

All figures are rounded to nearest thousands, and will not necessarily add to totals.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, FEBRUARY 9, 1942

- Q. Anything on financing, Mr. Secretary?
- H.M.JR: No, we just had a meeting with the Federal Reserve - what do they call it, open market? You know what I mean. I always get mixed up on their title.
- Q. Perlmeter has it.
- The Executive Committee of the Open Market Committee of the Board of Governors of the Federal Reserve System.
- Ordinarily called the Federal Open Market Committee.
- A. He goes to the head of his class on that.
- Well, we met and I think that we will have something for you most likely late Wednesday.
- Q. For Thursday morning?
- A. For Thursday morning's papers. But the financing will be on--
- Q. Friday, isn't it?
- A. Friday. We give them an extra day.

- Q. What is the dope, Mr. Secretary, on raising the limit of the national debt?
- A. Well, in the not too distant future I will have to go up to Congress and ask for it.
- Q. What is the level in mind?
- A. I am not prepared to say.
- Q. Senator George said a hundred million dollars.
- A. Well, I am not prepared today. It will be less than that.
- Q. At least a hundred million?
- A hundred billion.
- Q. Might you not ask, in fact, that they remove the limit altogether?
- A. We might do that, but there is nothing - nothing has been set yet. I want you to understand that. How are you going to write it? At least a hundred billion?
- Q. At least a hundred billion and perhaps take it off altogether.
- A. That is right.
- Q. Are you censoring our copy?

The budget calls for a debt of a hundred and ten.

A. Well, then you had better put it - is that what they say?

Q. Oh, yes.

That is by 1944.

That is provided you raise the extra taxes.

A. What is the use of saying "at least"? If it is a hundred and ten, I might as well say a hundred and ten.

Q. Is anybody worried about the debt limit any more?

A. Oh, I am sure they are.

MR. SCHWARZ: A hundred and ten, Mr. Secretary, is the figure estimated for June of '43.

Q. That is right.

H.M. JR: Yes, but let me - I had those figures this morning when I appeared before that--

Q. In the meanwhile may we discuss your friend, Donald Duck?

A. Sure. I hear they are voting on him right this minute.

- Q. They beat you on it.
They beat you.
- A. No, they are having a - what do you call it?
Roll call.
- Q. Will you comment, sir?
- A. There are two variations of the teller votes.
I still think it is one of the best investments
the Treasury has made. If I had to do it all
over again, I would repeat it. I don't know
any better way to bring to the seven million
new taxpayers the pleasant announcement that
they have to pay their taxes. Donald Duck
has done it and is doing it every day in a
much better way.
- Q. Now that the picture is made, Mr. Secretary,
what would you do in case that Congress re-
fuses to appropriate the money?
- A. Well, let's cross that bridge when we come to
it.
- Q. The money has already been paid, has it not,
eighty thousand dollars?
- A. I don't know, but we will cross the bridge

when we come to it because we have got a chance in the Senate.

Q. Mr. Secretary--

A. I haven't - excuse me.

Q. Pardon me.

A. The vote hasn't been counted yet. The estimate of the public debt at the end of the fiscal year of 1943 is a hundred and ten billion, so if we go up we would ask for a hundred and ten.

Q. Instead of that hundred billion, it would be at least a hundred and ten?

A. Yes.

Q. Mr. Secretary, as a matter of principle, has the Treasury reimbursed any other medium for advertising or promoting Defense Savings or any other Treasury--

A. Oh, we are doing it all the time. I mean, with this exception. We haven't taken any paid advertising in any newspapers or magazines, but, I mean, we prepare ads and we have - you have seen these series of ads that appeared

in the Washington papers, but we haven't paid a dollar for radio or newspaper or magazine advertising.

Q. Well, the question is, Mr. Secretary, whether it is fair to reimburse Mr. Disney for his costs and not reimburse the newspapers or radio stations for their costs, not buy time or buy space to reimburse them for their costs as presumably you did Mr. Disney?

A. We paid him or propose to pay him for his out of pocket expense.

Q. Wasn't that money appropriated in the twenty million dollar appropriation for the whole Defense Division here, that eighty thousand would have come out of that? I think the President requested twenty millions of dollars or some sum like that.

A. Twenty-six million. The twenty-six million - no, they voted on that this morning, and they passed the twenty-six million. The twenty-six million is for Defense Bonds. Then there

are several other Treasury items, one to increase Roy Blough's staff, one to help on this so-called overlapping taxes, and the third is the Donald Duck picture. All three of those they have lumped together, I believe. I think they are all lumped together.

Q. Mr. Secretary, I would like to have your opinion on this question, whether it is fair to reimburse one medium of education for its cost and not others?

A. I don't think it is a question of fairness. We approached the Disney organization and asked them whether they would make a picture for us and they agreed to do it if we would agree to reimburse them for their out-of-pocket expense. Now, you go to a newspaper and we prepare a series of full page ads and the last one I saw, the Potomac Electric Company paid for it, and the newspaper - I don't know what the Star gets for a full page. How much does it get, five hundred dollars?

Q. You are thinking of another thing. Just let

me finish a minute.

Q. Pardon me.

A. And let's say the Star gets five hundred dollars a page. Well, they receive five hundred dollars for a full page of advertising. Now, let's say that this was a department store. They get just as much for this page as they do from a department store, and they don't ask the department store to pay for the white paper and the ink and so forth and so on. I don't see how you can compare the two.

Q. We are thinking of those smaller cuts and in some instances larger cuts where it isn't paid advertising to the newspaper at all. It is just a cut that the newspaper gratuitously puts in the paper.

A. I don't know whether you are bringing it up on your own or whether you have been asked to bring it up, but up to now no newspaper publisher has raised the question with me with one exception.

Q. Can you give us the name, sir?

A. The only newspaper publisher that ever raised

the question was Colonel McCormick of the Chicago Tribune.

Q. What question specifically did he raise, sir?

A. It was a question of these ads, and if you want to see his answer - I mean, I had his answer for a long time.

Q. Well, the Editor and Publisher has for some time been raising the same question, sir.

A. I know, and we had I don't know how many hundreds and hundreds of trade journals and the only one out of the hundreds of trade journals was the Editor and Publisher, but with the exception of the Chicago Tribune, Mr. McCormick, there isn't a single publisher. There must be a thousand newspapers now running this campaigning with the newsboys, and then they run these little - I don't know what you call them. Some of them are on the front and some are inside. The newspapers have been perfectly swell and the radio stations and everybody else, and I say, with the exception of Colonel McCormick, nobody has ever raised

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the question.

- Q. Do the brokers in the New York Stock Exchange, who are members of the IBA, get a cut on those?
- A. No.
- Q. They are doing it gratuitously also?
- A. They are.
- Q. They are on the same basis as the banks?
- A. Just the same.
- Q. That brings us right down to the nub of the thing. Banks, the newspapers, and what-not pay their out-of-pocket expenses to carry the Treasury - well, for lack of a better word, propaganda. That isn't the word, but why does the Treasury make an exception in the case of Walt Disney?
- A. I think it is very obvious. You have the thing here and for the newspaper to put up in their own little insignificant way - what is the out-of-pocket expense to them?
- Q. How about radio programs.

A. But to go to Mr. Disney and ask him--
the picture actually cost him forty thousand
dollars and it is going to cost--he is going
to lose at least fifty thousand in billings
because this picture is taking the place of
other pictures of his. As I say, at least
he hasn't charged anything for his overhead
or anything else but the actual cost and I
don't see how you can compare it with the
newspaper that sticks a thing like this--
a little defense thing up in the corner.

Q. Well, because sir, by the same token when you
point out that Disney is going to lose fifty
thousand billings, the newspapers throughout
the country lose a lot of advertising revenue
when the advertising is taken up by the do-
nation of space.

A. Well, I'll make you a bet that if you go to
any of your publishers that the net gain that
they have got from advertising, page after
page, that they haven't asked you to raise
this question, have they? Has any publisher
asked you to raise this question?

Q. No.

- A. On the net amount they are way way ahead. They have gotten I don't know how many pages of full page advertising through defense bonds where the merchants have paid it.
- Q. Did anybody ever have the idea in the first place--
- A. I am sure the publishers haven't. They are way ahead on this thing and they haven't got it down on a dollar or cents basis and I hope I am not going to get them down on a dollar and cents basis because I would regret it very much.
- Q. Did anybody have the idea that Disney might be able to sell this thing to his regular booking agencies?
- A. No, we approached him on this thing, and as I say, we have approached him on this thing and he stopped his whole work. No, I don't go to a newspaper and say stop your presses and everything else and give me this thing. I mean it is thrown into a little place in the corner. He stopped everyting,

his whole production in order to get this thing out on February 1st., and now his own pictures are being shoved out of many theaters in order to make room-- and some of these theaters that pay him a thousand dollars a week, he has been shoved out of these to make room for this thing and he likes it because he thinks he is making a contribution. He likes it. Now, with the exception of Col. McCormick, there isn't a a single newspaper publisher in the United States, and I don't consider the Editor and Publisher a newspaper, that I haven't had the pleasantest relations with. Why start something? If any publisher isn't satisfied, I will be more than pleased to sit down with him.

Q. Well, just for the record, Mr. Secretary, it is Congress that started something, not us.

A. I know, that is all right, but that is their privilege. But as I say, if there is any newspaper publisher who is dissatisfied, I would

his whole production in order to get this thing out on February 1st., and now his own pictures are being shoved out of many theaters in order to make room-- and some of these theaters that pay him a thousand dollars a week, he has been shoved out of these to make room for this thing and he likes it because he thinks he is making a contribution. He likes it. Now, with the exception of Col. McCormick, there isn't a a single newspaper publisher in the United States, and I don't consider the Editor and Publisher a newspaper, that I haven't had the pleasantest relations with. Why start something? If any publisher isn't satisfied, I will be more than pleased to sit down with him.

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like to sit down and talk it over with him.

Q. Just to wind this thing up, sir, regardless of what Congress finally does on this question of the Disney short, is the short going to be displayed in the theaters as planned originally?

A. It is being displayed in practically every theater in the country. We have got eleven hundred reels that we are going to go ahead with.

Q. Has it been shown at the White House, Mr. Secretary, do you know?

A. You will have to ask Mr. Early that question.

Q. Well, sir, was the administration advised in advance of the Disney project?

A. I take full responsibility for this. It is purely a Treasury project.

Q. To insert a little humor, Nick is going to be down for his physical examination Friday.

- A. I hope everything we do in the Treasury is as good as this particular picture. I hope everything is as good.
- Q. Anything new on taxes, Mr. Secretary? (laughter)
Any date indicated yet, sir, as to when hearings will begin?
- A. No.
- Q. Someone wrote not until after March 15. How does that sound to you?
- A. I don't hear very well.
- Q. Have you any other comment on this sharp rise in money circulation, Mr. Secretary?
- A. No.
- Q. Any more reports of hoarding in any parts of the country?
- A. No.
- Q. I see there are fifty-two million dollars in ten-thousand dollar bills outstanding.
- A. Well, we just met here with fifteen or twenty people that have to do with banking, and no one raised the question. It was this open market committee. No one raised it.
- Q. Mr. Secretary, have you gone any further about the meeting of the Finance Minister of the American

Republics?

- A. No, I have been more than busy on this loan to China. I have testified three times now.
- Q. When will we get the details of the provisions of that loan, sir, how it will be handled and what it is for, and what not?
- A. You will have to wait a little bit, now I have got a financing on of our own. I haven't had time to - I have just concentrated on loans to China and now I am going to concentrate on our own billion and a half loan, and we will try to do one thing--
- Q. That loan will be available to them almost immediately though, won't it?
- A. As soon as Congress passes it. It passed the House. Now it goes to the Senate.
- Q. The China loan is in? It has been signed? Will you have to go up to the Senate?
- A. I don't know.
- Q. The loan has been signed by the President. That was the appropriation thing.
- A. Oh, that is right. I appeared this morning before the Appropriations, and they had a hearing and voted it out and passed the House, and

now it has to go to the Senate

Q. Mr. Secretary, will that loan be charged against the general fund in the Treasury, or will it come out of the stabilization?

A. Now, gentlemen, I don't know.

Q. Do you go up to the Senate?

A. I haven't asked yet. Sometimes they ask you, and sometimes they don't.

Q. Can you tell us anything of your meeting with Dr. Souza Costa?

A. It was purely a courtesy visit.

Q. Will you see him again?

A. Oh, surely.

Q. That indicates a series of talks that will go on for ten days or several weeks, do you know?

A. I don't know.

Q. Is he here to borrow money?

A. I haven't heard.

Q. Do you expect to see him again?

A. Oh, yes.

Q. He said not?

A. He said not. Well, he hasn't asked me yet.

- Q. Yet? (laughter)
- A. No, I don't think that is what he is here for.
- Q. Will you be disappointed if he doesn't, sir?
- A. No, they are in good shape. They have got a favorable balance of trade. They are in good shape. I may ask him for some money.
(Facetiously) (Laughter)
- Q. Subscriptions for the new offerings?
- A. Something. I might ask him to pay for Donald Duck.
- Q. He is more interested in exchange of goods, isn't he, strategic commodities like rubber?
- A. He just came in and said: "How do you do," and he renewed his acquaintanceship of three or four years ago, and we didn't talk any business.
- Q. On China, Mr. Secretary? Have you seen Mr. Fox since he got back?
- A. Yes, and he will be glad to talk with you gentlemen tomorrow morning if you care to see him. He has got a good story.
- Q. Here in the Treasury?
- A. Yes.
- Q. Will Chick advise us of the time?

A.

Yes.

Q.

Can we make it in the afternoon, sir? Oh, no, excuse me, the White House press conference is in the afternoon. Thank you Mr. Secretary.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, FEBRUARY 19, 1942

- H.M.JR: What is new?
- Q. Vice versa.
- A. Well, that is a good way to start.
- Q. Mr. Secretary, you probably remember Representative Gore when you were up before the House Banking and Currency Committee. He made a report before bankers in which he went farther than the War Powers Bill and urged that the issues be not over subscribed, that the Reserve banks take the whole issue and then redistribute it, Treasury issues. He spoke in a way that indicated that he might have had a little support.
- A. Never heard of it until you mentioned it now. He didn't have any support here. I never heard of it.
- Q. Were Mr. Eccles and his gang over here yesterday?
- A. Now, wait a minute. Are you hooking it up with

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this story?

Q.

No.

A.

Is that a nice way to talk about the Federal Reserve? (Laughter)

Q.

He didn't call them parasites.
Gangsters.

A.

Well, members of the Federal Reserve Board were over here.

Q.

Can you tell us what you discussed, sir?

A.

Oh, mutual problems.

Q.

What is that, sir?

A.

Mutual problems.

Q.

Did it have to do with financing?

A.

Well, we have got a lot of problems. They will be over, I think more frequently as problems become--

Q.

More acute?

Excuse me, did they express their opinions regarding the tax programs, Mr. Secretary?

A.

Oh, we talked, I say, about a lot of mutual things. We covered the war front.

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- Q. Will you reduce reserve requirements? I understand the decision is imminent.
- A. Well, that is something - that power rests with the Federal Reserve.
- Q. Are you in favor of any such step as that?
- A. I am not prepared to answer your question.
- Q. Why, Mr. Secretary?
- A. Because I am just not ready.
- Q. You did discuss the question of reserves?
- A. No, I am not saying what we discussed. We discussed a lot of things.
- Q. Would you deny it then?
- A. No. Frankly, it isn't up to me to say what the Federal Reserve Board is or isn't going to do. It is their action. I am not going to say.
- Q. Mr. Secretary, could you--
- A. They are accessible, aren't they?
- Q. No. (Laughter)
- And that is correct, Mr. Secretary.
- A. Well, I can't help that. I mean, I don't want

to be quoted directly or indirectly as talking about their responsibilities.

- Q. Well, speaking of something that is your responsibility, Mr. Secretary, can you tell us what these tax proposals are that your group is taking up on the Hill today?
- A. Well, I read that, and I don't know of any such meeting.
- Q. There is, sir.
- A. Well, it is news to me.
- Q. Aren't you going to meet with Senator George and Mr. Doughton?
- A. No. Nothing has been cleared with me.
- Q. Well, as I understand it, Mr. Sullivan and Mr. Paul and some of the others were going up there.
- A. Well, talking for myself only, I can only tell you what I know. The tax program has not yet been cleared with me.
- Q. Has not yet been what?
- A. Has not yet been cleared with me.

- Q. Does that mean that as of this minute the Treasury as such has no tax program?
- A. No, it means that this thing which has been written in the morning is incorrect. I mean--
- Q. Isn't it true, Mr. Secretary, that you are about ready to confer with Messrs. Doughton and George, that the preliminary discussions between the experts have just been concluded?
(Discussion off the record.)
- A. Off the record. I think the next time we do a tax bill, we will do it the way we always do. We will go up there and do our fighting in the public instead of doing it this way. I don't like this stuff. I don't know how you men like it, but I don't like it.
- Q. We don't like it.
- A. That makes it unanimous. I mean, we don't talk, and this thing goes up to the Hill and bounces back on us all the time, and it has made lots of trouble.
- Q. We are caught in the middle.
- A. No, I want that position. (Laughter) I insist on that position.

(Resume discussion on the record.)

Q. Well, what can you say on the record?

A. On the taxes? Nothing.

Q. Well, Mr. Secretary, on the record could you say that this five weeks of preliminary conferences on the tax question has brought any definite conclusion as to the amount of revenue to be raised?

A. What I can say on the record, I do think that these talks which have been going on between the tax staff of the Congress and ours has been helpful and has saved time. As I understand, this meeting that is taking place - I didn't know it was all announced, but if there is a meeting, it is to be a continuation of these discussions, but these - there have been a lot of points where they have talked, and they have come to an agreement so that there will be time saved once the bill is introduced.

Q. You say they have come--

- A. Or once the hearing starts. There have been a lot of points where they have come to an agreement. There have been a lot. I was told that they have actually discussed sixty different subjects.
- Q. You mean types of taxes?
- A. Yes.
- Q. Can you say how many of those sixty they agreed on?
- A. Well, they have agreed on most of them.
- Q. That is not sixty different types of taxes, is it?
- A. No, but there are questions--
- Q. Taxation questions?
- A. Taxation questions.
- Q. Well, the impression has been given that the agreements have been on minor issues and that on the vital issues there has been no agreement. Is that correct?
- A. Well, I wouldn't go - there are still some very important points that have to be agreed upon.

Q. Well, could it be possible, Mr. Secretary, that you were to have had a conference with Mr. Doughton and Mr. George, but the plans have been changed?

(Discussion off the record.)

A. No. I understood - as I say, I don't know - again, this meeting which I thought was to have taken place last night has, I think, been postponed three times. That is just for your - that is off the record. So when I read about it this morning, I was told it was going to take place last night. It was to have taken place last week. I think this is the third postponement of this meeting.

Q. The meeting that we are asking about has again been postponed?

A. I don't know. I understood they were to have met informally, off the record, with them last night, and I heard on the radio this morning and saw in the papers it was to be today, so that is - I didn't know that it had been canceled last night, but I do know - I think it is

due to Senator George's illness. I don't think he has been well. I think it has been postponed three times due to, I think, illness on his part.

(Resume discussion on the record.)

Q. Well, wouldn't a meeting like that be of more significance than just the ones that have been held to date because, after all, if the thing is brought up to Senator George and Congressman Doughton--

A. Yes, it might be, but again, as I understand, the meeting was their seeking, not ours.

Q. And you were not in on it, but Mr. Sullivan was?

A. Yes, and Paul. They are not ready for me yet.

Q. Is there any end in sight, Mr. Secretary?

A. I hope so.

Q. When? Could you put a time limit on it?

A. No, I can't. I hope so.

Q. How do you feel, Mr. Secretary--

Do you hope it will be soon, sir?

... about waiting until the March 15 returns

are to see what the amount is?

A. I hope it won't be that long.

Q. Is it a matter of weeks or months?

A. I think weeks.

Q. How many, sir?

A. I can't say. He is trying to get me down as to a matter of time. He says, "Is it a matter of weeks or months?" I would say weeks.

Q. In a few weeks?

Before the bill was drafted or passed or what?

A. Before I come up and start the hearing with testimony. I didn't say that. He said, "Is it a matter of months or weeks?" and I answered, "Weeks." He might have asked me differently and I might have answered differently.

Q. Do you think it would be hours or days or years?
(Laughter)

A. Well, I hope it is days.

Q. Mr. Secretary, would it be possible for you to tell us which is the greatest point of con-

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troversty on this tax matter?

- A. No, I can't, much as I would like to.
- Q. Carry it out into the open a little bit?
- A. No, as I say, we tried this system once.
- Q. Could you say, Mr. Secretary, whether you will continue these conferences until you have an agreement before the hearings commence?
- A. No, I think what we have got to do, we have got to continue these conferences up to the point where we agree, we have gone as far as we can, and then we have got to go up on the Hill and tell our story. I am sure that Senator George and Mr. Doughton are just as anxious as I am to get this thing started.
- Q. As a taxpayer, I wait with bated breath (facetiously).
- A. Well, in my dual capacity, I am in the same condition as you are.
- Q. Could you give us any intimation as to when you are going to ask for increase in the debt limit?
- A. Well, that also is - we will have to - it is imminent.
- Q. It is pretty imminent?
- A. Imminent.
- Q. Would you say next week you will probably do something about it?

- A. Imminent.
- Q. Then your debt limit--
- In effect, you have been asking for it for weeks or months, haven't you?
- A. No, we haven't yet asked for it.
- Q. You will formally ask Congress for action, won't you?
- A. Yes, imminent.
- Q. Did you discuss that with the Federal Reserve "gang" yesterday.
- A. On two counts, I refuse to answer that.
- Q. Will you say that you will ask Congress to raise or eliminate the limit? That is what you said before.
- A. Last time I said - how did I put it?
- Q. At least a hundred and ten and possibly altogether.
- A. Yes. How did I put it?
- MR. SCHWARZ: Either.
- H.M.JR: Either one or the other.
- Q. You will ask them that?
- A. Pardon?
- Q. You will ask them to do one or the other?

- Q. Mr. Secretary, can you tell us anything about the conference with Mr. Stettinius yesterday?
- A. He was over on the question of our purchase of Lend-Lease goods for Russia and wanted to make sure that everything was going along all right and that we were getting everything, particularly steel.
- Q. Is that an action of expediting deliveries to Russia?
- A. Yes.
- Q. And what sort of answers did you give him?
- A. I told him that as far as I knew we were going to be able to get it and if we couldn't, we would ask Mr. Nelson's help. I don't know whether we will have to ask him or not, but I told him certainly, if we couldn't be sure that we would get the stuff in time, that we would ask for whatever priorities are necessary so that we could get it. I felt confident we could get it. We buy an awful lot under Lend-Lease for Russia.

- Q. Can you say whether this particular day it, for instance, whether you are on the schedule in your purchases?
- A. I think we are all right.
- Q. How about deliveries?
- A. As far as I know we are all right.
- Q. All right on deliveries too.
- A. As far as I know we are all right.
- Q. That is on non-military items which Procurement buys.
- A. As far as I know we are all right, but he just wanted to make sure, and I told him I was very glad to have him come over and check up on us.
- Q. Mr. Secretary, on this question of the new Russian loans, does that indicate, sir, that the original one billion dollar loan has been completely committed?
- A. I can't augment the President's statement.
- Q. The President said as much?
- A. Well, whatever he said will have to stand. I can't help out.

- A. Yes.
- Q. And, Mr. Secretary, could you also tell us why the Secretary of the Treasury has a Catholic Bishop on his staff? That was a little bit puzzling, Bishop Sheil.
- A. I can't address him as Mister, but I invited him because I think he is one of America's outstanding citizens and he sent a mutual friend, Judge Campbell of Chicago - he stated that the Bishop would like to be helpful in the war effort, was there anyway he could help the Treasury in the way effort, and I told Judge Campbell that if the Bishop would care to help, to advise us in our defense bonds, that I would be delighted to have him come down as one of America's outstanding citizens.
- Q. It is just for Defense Bonds?
- A. It is just for Defense Bonds.
- Q. Mr. Secretary, is there anything--
- A. I am very glad that he is coming because I am sure that his advice will be very useful. We have a number of advisers and he will be one

of them.

Q. The rest are all--

A. True, but he is coming in his capacity as an American citizen and one who is very anxious to help win the war. I am very glad to have him.

Q. Anything on the Brazilian Mission, Mr. Secretary?

A. No, they - as I told Souza Costa the other day, the way things were going down there I would come down and ask him to lend me a little money. His mission up here really has nothing to do with us. They are flush.

Q. Where will the billion dollars have--

A. They are flush so he may be lending me a little money.

Q. Pardon me, Mr. Secretary, where would the billion dollars of additional credits to Russia come? Will that be out of the Lend-Lease Act or will it be as a direct Treasury contribution.

A. Well, you will have to just take it the way the President gave it to you.

Q. Anything on alien property. Mr. Secretary.

A. Nothing else, unless you want to know something.

Q. Well, the papers say that you will appoint a three man committee to administer it.

A. Yes. I don't know where they got that story from.

Q. Is it correct, sir?

A. Well, there has been a three man committee handling this thing for months and months and months.

Q. On that very basis?

A. No, there has been a member of the Department of Justice, one of State and one of Treasury, that have been handling these matters for - I don't know, ever since the question came up.

Q. Well, Mr. Secretary--

A. And I don't know of any other committee other than this.

MR. SCHWARZ: The new regulations, Mr. Secretary, say you will designate a three man committee on the investing.

H.M. JR: Did it? On the investing?

MR. SCHWARZ: Yes.

- H.M.JR: Well, it is the same committee.
- MR. SCHWARZ: It is the same.
- H.M.JR: Same committee. There is nothing new.
- Q. Is there any news on the appointment of--
- A. I mean, Mr. Acheson has been representing State and Mr. Crowley has been representing Justice, and I have nothing else in mind.
- Q. Who is the Treasury representative?
- A. Mr. Foley.
- Q. Leo Crowley?
- A. Yes.
- Q. But why did the President issue these regulations on February 17, Mr. Secretary, amendment to the Trading with the Enemy Act which was published in the Federal Register?
- A. I am not familiar with what you mean.
- Q. Well, if this committee existed, why did the President issue additional regulations which you signed and which were published in the Federal Register creating a specifically Vested Property Committee for one thing,

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and then designating under six sub-heads what you can do and what you can't do. You say these things had existed before and I am just curious.

A. I am not familiar--

Q. My understanding of that was that it was a technical order in which you divested yourself of certain authority which you had under the act and perhaps gave it to this committee. Is that right?

A. The committee was an informal committee which came up and had been operating on an informal basis very successfully handling this between these three departments. Now, I am not familiar with what you want. If there is something legal and you want to know something in addition--

Q. No, I have read all of it.

Well, Mr. Secretary, what all these legalities boil down to is the question of whether you are going to be the Alien Property Custodian or Leo Crowley. That is

what they are trying to find out. (Laughter)

A. Well, it is very simple. The President has given us this authority over his signature to carry this out and Mr. Crowley is - I have asked him whether he will on an informal basis continue to advise us and assist us. He said he will, so what the President did, he did on the advice of Mr. Crowley and myself, and that was signed by both of us. So Mr. Crowley is perfectly happy and I am satisfied and the President--

Q. Well, there is this further question, Mr. Secretary, whether it was the President's intention to vest those powers now temporarily or permanently.

A. Well, I have been around Washington long enough that I never expect anything to be permanent, but we have got it for the moment and I suppose it is like everything else; if we do it satisfactorily we will stay here and if we don't do it satisfactorily the President will give it to somebody else. That is his privilege.

- Q. Thank you, Mr. Secretary, I wrote that you became the Alien Property Custodian.
- A. Well, now, I would like to take a minute and just explain. We here don't envisage any Alien Property Custodian. After all, we have got seven billion dollars worth of assets, frozen assets. During the last world war the entire Alien Property Custodian amounted to about five hundred million; and the way it is set up now, we will do it as part of the whole frozen funds. We don't expect any Alien Property Custodian, and furthermore, our present policy is that we don't expect to sell any of these businesses for two reasons. If there is no honey, there will be no fly. May I finish? I would like to get this over to you. Furthermore, keeping these businesses intact and ridding them of Axis influence, Americanizing them and keeping them intact up to the time when the President sits around at the peace table and then they are there for him to dispose of at that time. I would like to get that over, because it is an entirely different conception than we had before.

- Q. You say he will dispose of them? That means the properties or what?
- A. The properties, and settle them at the peace table. I mean, here these properties are, and I think the time to dispose of them or settle them it as a part of whatever settlement is made then they negotiate the peace.
- Q. And until that time you expect to keep them intact as far as possible, sir?
- A. Expect to keep them intact.
- Q. Put in American operators?
- A. Put in American operators, Americanize the companies, rid them of any enemy influence.
- Q. Mr. Secretary, are there very many of them that you can convert over to specific war purposes?
- A. Well, those we are working on so far are all those which the Army and Navy are particularly interested in. All of them have very important contracts for the Army and the Navy.
- Q. Mr. Secretary, is not this committee to select its own chairman, this committee of three?

A. As far as I know it is.

Q. Who is on the committee--?

A story this morning said so.

Not only that, Mr. Secretary, but the final decision under the regulation which the President delegated to you gives you the final say so on any appeal on any decision.

The three-man committee acts and accepts claims and can call a hearing to test or to discover which is a rightful claim to a property, but then the final decision is up to you so you have the final say so and under the circumstances, under the - the Treasury has that power, hasn't it?

A. The way the matter stands now, the President has given us the power to take care of alien properties, and we are going to do it as part of the regular Treasury business with the advice and help from State and Justice, and we hope to run this thing in a very business-like manner, conserve the assets of the companies, see that the companies produce the maximum they

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can for the war effort, give them additional war contracts if they can handle them, and in the case, as I say, of the Aniline and Dye particularly, I think they supply ninety percent of all the dyes for the uniforms for the armed forces. It is just that one factor alone. They have certain secret processes on photography that are enormously important to the Air Corps and, as I say, the Army and Navy are so interested that they have sent me a twenty page document on just this one company.

Q. Have you purged them of all the Germans?

A. Not yet.

Q. I understand that someone told me there were more Germans in General Aniline and Film than there were on the eastern front. (Laughter)

A. Well, I would say it was a slight exaggeration.

Q. Just a slight exaggeration?

A. Yes.

Q. Mr. Secretary, can you say whether this order gives you all of the power over Alien Property that were created under the first War Powers Act?

- A. I believe so, but you had better check that with Foley. I believe that is correct. I think they have all been transferred to us, but I hope you got the significance when I said that if there is no honey, there will be no flies.
- Q. Yes. Did you say, Mr. Secretary, that in the last war there were only five hundred million --?
- A. In the entire Alien Property Custodianship.
- Q. The President said at a press conference there would be one Alien Property Custodian. I got the idea that ultimately this inter-departmental arrangement was going to be abolished.
- A. Evidently, for the time being he has changed his mind.
- Q. That is the thing that is in ^{some} of our minds, Mr. Secretary, whether this is for the time being only? ✓
- A. Well, I don't know
- Q. The reason I say that is, my information was that this was only a very temporary arrangement.
- A. I think that is incorrect.

- Q. Mr. Crowley, not being attached to the Justice Department, would seem to have special significance in this picture.
- (Discussion off the record.)
- A. All I can say, the reason I say everything is temporary, I consider everything is temporary and after all, you are appointed. I am not an elected officer, so my attitude is, everything is temporary, but when this thing was given to us here within the past week, at the time - this is for your guidance, not on the record-- There was no indication it was not permanent.
- Q. I am not disputing you, Mr. Secretary, all I am saying is that I was given information.
- A. The only reason I am saying this is because for the last month some people have been telling the Aniline people, "The Treasury will be out of this thing by the first of the month, so you don't have to pay any attention to what they are doing," so when this order came along, I was quite surprised. It didn't help it any.

(Resume discussion on the record.)

Q. Mr. Secretary, is there any reason why we couldn't have known this on Monday when Treasury regulations were issued? I, among others, inquired whether these regulations meant that they now seemed to mean. I was informed they didn't mean anything, but were purely temporary.

A. I don't know who you spoke to.

Q. Well, I am not going to mention any names, but I spoke to the person I am supposed to speak to.

MR. SCHWARTZ: He talked with our office.

Q. I also made an inquiry and was told that the order on General Aniline taking over the stock of the company was done under regulations of the foreign funds control section and did not originate from the White House.

H.M.JR: No, we couldn't do this, and I wouldn't do it without the full authority which we now have, and which he has given us.

Q. Well, isn't it true that before this executive order was issued the Treasury did not have the authority to take over stock control by any company?

A. That is my understanding. We have that authority. Under the first war powers act, as I understand it, a thing called 5 (b) was included and was taken away from us and now that has been returned to us.

Q. That is the Trading With The Enemy Act?

A. Yes, that has now been returned to us. We have all the authority to act and will now proceed as long as we give satisfactory service, and we will try to give satisfaction, and I am not worrying about it.

Q. Well, sir, there are fellows in the room who took the pains to check the story and didn't get it because of the fact they were given a bum steer, and frankly I can't see any reason why you should get a bum steer on this particular thing.

A. Well, I wasn't here, and I don't know who gave you the bum steer; and if they gave you one, I am sorry, but when I can talk on a subject I

either tell you the whole story, or none. You know that by now.

- Q. Yes.
- A. I don't hint. I either tell you the whole story, or none. I have tried to tell you the whole story.
- Q. You have.
- A. Well, I have tried to.
- Q. Thank you, sir.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, FEBRUARY 23, 1942

- H.M.JR: It is a nice day.
- Q. There is five dollars there.
- A. Does it look as though somebody paid me?
- Q. Have you seen that machine that cuts them down to little ones?
- A. No.
- Q. They have one at the Mexican Penitentiary there. They can just cut them right down the middle lengthwise.
- A. Well, what is the news?
- Q. I understand you are to testify in about a week.
- A. March the third is the day.
- Q. Before the House Ways and Means on taxation?
- A. Correct, on the invitation of Chairman Robert Doughton of North Carolina.
- Q. Can you give us a preview?
- A. Yes.
- Q. Now?
- A. No.
- Q. Before?

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- A. No.
- Q. That is the ninth anniversary of the New Deal, isn't it?
- A. March 3, yes.
- Q. They started big.
- You will outline the Treasury program at that time?
- A. That is right.
- Q. Mr. Secretary, I understand that you are--
- A. I hope it will be the Administration's program.
- Q. That is what I mean, yes.
- A. There is a difference.
- Q. Is there?
- A. Sometimes.
- Q. This time?
- A. No.
- Q. Will it be a program to which the Congressional Committees have agreed in advance?
- A. Well, we will see.
- Q. I understand that your staff is studying a suggestion whereby banks which now deduct from

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their investment income expenses incurred in the buying and selling of tax-exempt securities and partially exempt would be changed so there would not be that deduction in effect. That would be a roundabout way of removing tax exemptions.

A. Didn't Gregory do a piece on that in Sunday's Tribune?

Q. Well, your staff confirmed it and said you hadn't approved it yet. I wondered if you had approved it.

A. Well, that would get into talking about the tax bill, wouldn't it?

Q. Well, just one phase of it, Mr. Secretary.
(Laughter)

A. Well, this leaves it so that on March 4 Gregory and I can talk it over.

Q. All right.

A. I think we will have to leave it that way. What else?

Q. Did you reach this meeting of minds with the

leaders of the Committees that you were - indicated to us once that you were searching for?

A. We are on the last lap. Lots of things can happen in the last lap.

Q. You will have another meeting before the hearing?

A. Yes, definitely.

Q. With Mr. Doughton and Mr. George?

A. I hope so. I am going to seek it.

Q. Has there been any change in the estimate of new taxes from the seven billion figure?

A. No. It is still the same thing.

Q. Is it intended, Mr. Secretary, to take up the Social Security taxes along with the other taxes?

A. You will have to ask that of Congressman Doughton.

Q. Without getting into the taxes, can you state whether it is still intended to raise the same amount, seven billion?

A. Well, that is what - yes, there has been no change as far as I know. I don't know of any change. Of course, the Congress may raise me, up it. You never know what might happen.

Q. Is that seven billion dollars--

A. This fellow comes first.

Q. Have the two Committees agreed on the revenue goal?

A. As far as I know. I haven't heard any discussion. They just seemed to take it for granted.

Q. Mr. Secretary, when you speak of the seven billion, do you speak of a yield of seven billion or collections of seven billion in the fiscal year?

A. Collections.

Q. Mr. Secretary, have you taken into consideration the effect on the whole tax program--

A. Now let me get this thing right.

Q. ... in the coming fiscal year?

A. No, yield. There is quite a difference.

Q. Well, that is why I asked, sir.

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- A. Yes, yield.
- Q. The Army authorities are talking about an Army of eight million men and that, of course, would reduce the number of tax - potential tax payers, by what number, I don't know, but there is no doubt there will be a considerable loss in revenue on the basis of your earlier estimates. Will that be made up by the new tax bill, or has that been discounted completely, that you are going to lose this revenue?
- A. No, I think - I take it that the men are including that in the estimates, and it will be the privilege of those who stay behind to make up the difference.
- Q. Mr. Secretary, is the Administration still opposed to a general sales tax of two percent?
- A. Yes.
- Q. Could we have that last statement? It would be the privilege of what?
- A. Of those who stay behind to make up the difference. In other words, the non-combatants will have to make up the difference.
- Q. Does that mean in addition to the - Nick is

talking about in addition to the new revenue bill, isn't he?

A. No, I take it what he is talking about is seven billion dollars. We have got to raise seven billion dollars. Well, if there are less people to pay it the burden will have to fall a little bit more on each person who stays behind.

Q. Nick is considering war service, Mr. Secretary.

A. Well, maybe this will be an inducement. (Laughter) All right, everybody?

Q. Any new developments on Donald Duck? Let's see, is that in the Senate now?

A. No, that is all finished, signed, sealed, delivered, and paid for.

Q. Did you finally get the eighty thousand dollars or not?

A. I had it (Laughter), and I told the committee so when I testified, and they understand it perfectly and evidently were satisfied. I explained it to them, where I would get it and so forth and so on. Nobody raised it on the floor, so everybody, I take it, is satisfied. At least, I have heard nothing more other than

continued praise for the picture

- Q. Do you expect to see--
- A. I have yet to get one letter of criticism of the picture. I have yet to get my first letter.
- Q. Mr. Secretary, do you expect to see the Brazilian Finance Minister again?
- A. I imagine he will come in before he goes.
- Q. Are there any negotiations that you are carrying on with him?
- A. There is nothing between the Brazilian Finance Minister and myself other than I suggested that he might lend me a little money, seeing how flush they are down in Brazil, but this mission up here has not to do with the Treasury, but I did suggest to him, seeing what a nice trade balance they had, they might lend me a little money. He said he would be glad to.
- Q. How much are you getting, sir?
- A. Well, it is a question of how much has he got.

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- Q. You have gotten some gold from them, haven't you?
- A. Yes, but they have got a very favorable trade balance.
- Q. What is the necessity then of a so-called hemispheric dollar, in view of the fact that all of these Latin American Countries for the first time in many, many years are enjoying a favorable trade balance, and they have got all the dollar exchange, practically, that they need.
- A. Well, I can give you two very good examples they gave me, Mr. Souza Costa. One, they send students up here and I think he told me they give them a little over a hundred and ten dollars, which is, I think, he said, eight or ten times as much - let's say several

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times as much as they would get in their country. Now, our people go down there, you see, some of our more skilled mechanics, and they go into a place like Para - he mentioned that particularly - and with the wages they get and the benefit of the exchange, he says they can have parlor, bedroom and bath and live like kings on the difference of exchange and they find it quite difficult. I mean, to send the number of students they want up here on account of the difference in the exchange.

Q. Isn't that a difference in price levels rather than exchange?

A. Well, the exchange is based on the difference in the price levels and economic conditions. Then he also mentioned the case of the country

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where a neighboring, friendly country had certain things to sell and they couldn't sell it again on account of the difference of exchange as between two South American countries. I mean, the difference between what Brazilian money will buy here and what we can buy is, I gather, very, very great; and, then, between two South American countries, so there is a need, I think, for a bank for North and South America, and I think there also is a need for some kind of an exchange because the differences are so great. Right now it is running in their favor because we are such heavy buyers on balance.

- Q. You say exchange, meaning some kind of hemispheric dollar or currency?
- A. Yes, there is.
- Q. Well, would you bring the Brazilian peso up to parity with the dollar? At what price level would you stabilize it?
- A. We haven't worked it out.

Q. Mr. Secretary, is there anything in connection with the meeting of the finance ministers that is to be held?

A. Well, it would be a very excellent thing to bring up at that time. Well, like all of these things we try to catch our breath and try to catch up with what we are doing and I am not just looking for anything new just now outside of my own Treasury work, but we will take it up, but it is just like one of those things that--

Q. Do you think they will meet in Washington?

A. I really don't know.

Q. How about silver, Mr. Secretary?

A. Well, they got within two votes, didn't they, in the house? There is nothing just now. Congress knows how I feel so I think the move is up to them.

Q. Is the loan to Russia jelling, Mr. Secretary?

A. Jelling?

Q. I mean, is it being made?

A. Well, my answer is the same as last time. It is a White House story and I think we

will have to leave it there.

Q.

Thank you, Mr. Secretary.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, MARCH 2, 1942.

- H.M.JR: We have got the figures on the Defense Bonds for February.
- Q. Do you have any comment on the drop of three hundred thousand from - three hundred million, I mean, from January?
- A. No. Mr. Bell in his cash estimate estimated seven hundred million. He thinks that is pretty good.
- Q. When did he make that estimate?
- A. What?
- Q. When was that estimate?
- A. Oh, he must have made that, I suppose, at the end of January; but the reason that they are off, first, it was a short month and, second, there was a lot of limit buying. People bought their limit in January, and the thing is going as we have estimated.
- Q. Callahan said it would be seven hundred fifty million.
- A. Did he?

- Q. , Yes, I wrote a story about it, and I called him up, and he said, "Well, we expect to get seven hundred fifty million."
- A. Well, I just asked Mr. Bell two minutes ago, and he said he estimated seven hundred.
- Q. Would you say that the imminence of taxes would have anything to do with this drop?
- A. No, I think it is the - I would have liked to have seen it more, but the men have been watching it; and, as I say, they seem to think it is running about as they figured it. Compared to last year where we - of course it runs differently, but the people bought their limit in January, and then the thing fell off in February and it began to go up again in April.
- Q. There are no prospects of your taking off these limits that you established.
- A. Not considerably, no.
- Q. Isn't this what you mean, Mr. Secretary, that

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in view of the seasonal factors that this is a good figure for February?

A. I would say it is a pretty good figure.

Q. Have you got a scheme--

A. I would have liked to have seen it a little bit better.

Q. Naturally.

A. But from what the men estimated and the experience we have had in the United States Savings Bonds and based on January's sales, this is about what to expect. It might have been seven fifty, as I say. Maybe Callahan - if Callahan said seven fifty, I wouldn't argue with him.

Q. Has anyone suggested that you sell Defense Savings Bonds by banks on the instalment plan?

A. Not to me.

Q. Would you oppose anything like that?

A. Well, rather than that, why not let them buy what they can afford? I mean, I can't imagine

selling less than eighteen seventy-five, and they can start with a ten-cent stamp and work their way up.

Q. Mr. Secretary, can you tell us what the plans of you and your Department are in making available to us the tax program?

A. The plans are these. At five o'clock somewhere, I don't know where, there will be--

MR. SCHWARZ: In Paul's office.

H.M.JR: In Paul's office, he will read to you from my statement and his, but he will have to read it, because the thing is not yet mimeographed, I am sorry to say, and then he will answer questions, but the thing is being mimeographed, and just as soon as it is mimeographed, it will be released.

Q. Mr. Secretary, could you fix a time at which we would get those? Several of us are canceling dinner and evening engagements and so forth to stay down and work on this thing, and if we could get some time, whether it is six, seven,

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- or eight o'clock, or if we could know when.
- A. Well, that is up to Schwarz.
- MR. SCHWARZ: We will have it within an hour after the final copy. We will try by eight o'clock.
- H.M.JR: Try by eight? You can't get it until eight?
- MR. SCHWARZ: We don't have the final version yet.
- H.M.JR: Well, mine has been released.
- MR. SCHWARZ: Then we will have it before then.
- H.M.JR: What was it, four-fifteen I released mine?
- MR. SCHWARZ: Paul was still making some changes.
- H.M.JR: Not on mine. No, mine is finished.
- MR. SCHWARZ: Then we will have it by six-thirty to seven.
- H.M.JR: It was three-fifteen or three-thirty at the latest that mine was supposed to have gone to the--
- MR. SCHWARZ: There are some tables that go with it.
- Q. Well, will we get both your statement and Mr. Paul's statement tonight?
- H.M.JR: I don't know. I mean, I am - what about it, Chick?
- MR. SCHWARZ: We will have the Secretary's first at any rate

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and the other will follow just as soon as it is ready.

Q. You will give us the one without waiting for the other?

MR. SCHWARZ: That is right.

H.M.JR: We have never done this before, you know. We are doing this as a convenience to you gentlemen, to give it to you the night before.

Q. Well, we appreciate that.

A. And I only thought of that after lunch, so the schedule they are working on, everything would have been ready at nine tomorrow morning. That is why it isn't cut. So I said, "Well, why not let's give it to them tonight and let them work on it, and then let the men be there, the tax experts, to answer questions to help you in writing it?"

Q. Well, we would like to do a thorough and careful job for the benefit of the public.

A. Yes.

Q. If your boys can produce the stuff tonight.

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- A. Well, I think when Chick goes out he can - evidently he has got something in mind that I don't know about, but as far as my own statement, it left here sometime between three-fifteen and three-thirty, but I only got this idea after lunch to release it tonight.
- Q. The public is the one that will benefit from having it handled carefully.
- A. That is why we are doing it, and that is why Paul and his men are ready to answer questions.
- Q. Mr. Secretary--
- A. It is a complicated thing.
- Q. In relation to this, does your statement say or can you say now whether or not - how much pre-agreement there was with Congressional leaders on this?
- A. Oh, I think you had better direct all your questions to Paul and his boys. I mean, with the exception of these two meetings I have had - and they were on general stuff. I think you had better--

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- Q. Mr. Secretary, last week you signed a Stabilization Agreement with Ecuador. Can you tell us what, if any, others are being made?
- A. That is the only one. That wasn't a Stabilization, that was a Chinese. There isn't anything else. We have nothing else in the shop.
- Q. Is Treasury interested in these two Agreements, Mr. Secretary, that Welles is going to sign tomorrow with Brazil?
- A. Only - how should I say, as a member of the public or as a member of the Administration.
- Q. Well, was the Treasury mixed up in them?
- A. Not at all. We had no part in them.
- Q. One time they announced over there, stabilization.
- A. I have had no business other than social with Souza Costa.
- Q. Have you ever touched him for that loan yet?
- A. No, but I still have hopes. But we had nothing to do with that thing. It is other Departments.
- Q. What has China gotten so far on that five hundred million dollar loan, anything?

A. Nothing, because - well, you can't write this down.
(Discussion off the record.)

A. We prepared a suggestion which they have sent over to the Generalissimo, and I don't know whether he is back in Chungking or not, and I think that is what is holding it up. But that is just for your information. We are waiting on him, from Chungking. It has been cabled over.

Q. As far as the daily Treasury statement will show, will the loan be disbursed in a lump or be spent?

A. Well, as I understand it, it will be set up as a credit on the books of the Treasury and then as they want it, it will be transferred to the Federal Reserve Bank. but you will see on the general statement five hundred million dollars, and then as they want to draw on it - but please don't write any of this, because this is the way we have suggested, and I am quite sure it is agreeable. If they want "X" millions of dollars, we will transfer it to the Federal Reserve to their credit. Does

that answer you?

(Resume discussion on the record.)

Q. How about the Russian loan, Mr. Secretary?

I haven't heard about that.

A. There is nothing new.

Q. Mr. Secretary, there is still some talk in the Republic of Colombia that they advanced you a stabilization loan. They are trying to make the United States a stabilization loan, in other words-- (Laughter.)

A. Wonderful.

Q. Look at him perk up.

They have been talking it over and they have written long pamphlets to prove that that would do more to stabilize their curren^yce than if they got the money from you.

Well, that is the custom now, Lend-Lease in reverse. (Laughter.)

A. Harry White's shop may know about it, but it hasn't come to me yet, but it would be very pleasant.

Q. I know it sounds a little startling, but it has been seriously suggested.

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- A. Anything is possible these days, (Laughter.)
but it hasn't come to me yet, and I don't know
whether it has gotten to White yet or not.
Do you want to know?
- Q. Sure.
- A. You (Schwarz) can ask him. What other good
news?
- Q. That is all for today. Anything on alien
property, Mr. Secretary?
- A. No.
- Q. How about the British balance of payment, Mr.
Secretary? There was talk some time ago of
there having to be adjustment about the removal
of tin and rubber from the bookkeeping balance.
- A. Nothing to report. All right? I hope it goes
all well tonight, because we are trying to do
something new. Wish me luck for tomorrow.
(Laughter.)
- Q. Do you go up there at nine?
- A. Ten.
- Q. Well, will this be for automatic release at ten?
- A. Yes.

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- Q. Maybe, Mr. Secretary, after you get through you ought to wish us luck.
- A. Wait until you see it.
- Q. Are you and Mr. Paul the only witnesses?
- A. And the usual Treasury experts. The whole Treasury will be there from Mr. Bell down. We will be up there, because they always ask us everything, you know, gold, silver, debt, and everything.

Treasury Department • Defense Savings Staff



NEWS MATERIAL



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Release No. 145

March 3, 1942

FOR IMMEDIATE RELEASE

WASHINGTON, D. C. -- Sales of Defense Savings Bonds for February amounted to \$703,200,000, the Treasury Department announced today. The February figure was a decrease of 33.7 per cent from the record high of \$1,060,546,000 established in January.

The drop in sales was expected, the Treasury Department disclosed, and should not be interpreted as due necessarily to lack of interest in the Defense Savings Program. Each year in January, Treasury officials explained, thousands of Americans invest in government securities up to the limit permitted by law. Purchase of Defense Savings Bonds is limited to \$50,000 in Series F and G Bonds by both individual and corporate investors, and to \$5,000 in Series E Bonds by individuals in any one calendar year. Many investors, having bought the legal limit, are prohibited from making further purchases in the same year.

February sales bring the total of Defense Savings Bonds bought by the American people since they were placed on sale last May 1 to \$4,300,956,000.

February sales were divided as follows: Series E Bonds - \$397,989,000; Series F - \$51,020,000; and Series G - \$253,391,000.

(more)

Total cash deposits at the Treasury for all three series of Bonds by months: May, \$349,818,000; June, \$314,527,000; July, \$342,132,000; August, \$265,606,000; September, \$232,327,000; October, \$270,713,000; November, \$233,487,000; December, \$528,599,000; January, \$1,060,546,000; February, \$703,200,000. Total May 1, 1941 through February 28, 1942 -- \$4,300,956,000.

All figures are rounded to nearest thousands, and will not necessarily add to totals.

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Statement of Secretary Morgenthau before the
Ways and Means Committee of the
House of Representatives

March 3, 1942

I am here to offer my suggestions as to our first Revenue Act of the war. I hardly need to emphasize the seriousness of the occasion. The task before us is to decide how this desperately serious war is to be financed and how its gigantic cost is to be distributed. Economic and social conditions during and after the war will depend to a large degree upon the courage and wisdom with which we attack these problems now.

To defeat the strongest combination of enemies in our history, we shall have to spend on a scale for which there is no precedent. If we are to equip and transport fighting men in sufficient numbers to turn the tide, if we are to furnish the weapons to the men who are doing the fighting, we shall have to use every ounce of our national energy and mobilize every possible dollar of our income. The President has announced a program involving expenditures of \$59,000,000,000 in the fiscal year 1943. We shall have to tax in accordance with the magnitude of that program and in accordance with the seriousness of the position in which we stand.

The President's Budget Message in January called for the raising of \$7,000,000,000 in new revenue from taxes, together with an additional \$2,000,000,000 to be obtained from the social security program. The

unprecedented sum of \$39,800,000,000 will have to be borrowed in the coming fiscal year, even if the new Revenue Act fulfills the President's hopes to the last dollar. I should like to urge, therefore, the adoption and attainment of the goal the President has set, not as the maximum but as the very least that the American people can afford to provide at this critical time.

Our task is more than the raising of a huge amount of new revenue. It is to make the tax program an instrument of victory. It is to frame the new Revenue Act so wisely and so soundly that it will facilitate the maximum production of war materials, hasten the mobilization of our resources, strengthen the unity of our people for the waging of total war, and prepare us for the new economic and social problems that will face us when the war is won.

This means, first, that the new Revenue Act must help to check inflation, for nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice. It undermines morale and impedes war production. It strikes at random without consideration of equity or ability to bear the hardships which it imposes. Once it has acquired momentum, inflation is extremely difficult to control, and leaves a heritage of post-war stresses and strains that will haunt us for decades.

Today we are confronted with a grave threat of inflation. Prices of food today are following precisely the trend of the first World War; prices of all commodities are rising at a somewhat slower but nevertheless disturbing rate. (A chart showing these trends is attached as Chart 1.) Unless effective preventive measures are taken by all the means at our command, we shall have a rapid general increase in prices, with a resultant rise in the cost of our war effort far beyond the figures now contemplated.

The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires, first of all, the continuous and willing cooperation of every man and woman. It also requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Price control, rationing, and the regulation of consumer credit are other parts of such an integrated program.

It is important for us to remember that all these controls are interrelated. The devices of price control, allocation and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price and commodity controls are used.

We should, therefore, tax so as to withdraw the greatest possible volume of purchasing power at this time, when money incomes are high and the quantity of goods for civilian use is shrinking day by day because of the demands of our war effort.

A second obligation, second pressing duty, is the need for severe economy in the operations of Federal, State, and local governments. The anti-inflationary purposes of our taxing and savings program will be defeated if, at the same time, Federal, State or local governments indulge in unnecessary expenditure.

As you know, I recommended a few months ago the saving of at least \$1,000,000,000 in Federal expenditures which compete with war production and add unnecessarily to the volume of purchasing power in the hands of the people. I recommended especially the immediate reduction of expenditures on highway construction, rivers and harbors, non-defense vocational training and Federal subsidies to keep up the prices of agricultural products.

Since then some economies have been made, but a large field for economy remains, not only here in Washington but in the operations of State and local governments. I should like to urge once more that real and substantial economies be made as a corollary to the new tax program.

I do not mean that we should economize on the health and strength of our underprivileged, for that is no economy at all; but I do mean that we should save in subsidies to those who no longer need Government assistance, and in non-defense construction projects which can be postponed until the war is over.

I have spoken of the need of checking inflation and the need of cutting non-essential expenditures in financing the war effort; I come now to a third and most insistent need that should govern our wartime fiscal program. That is the need of holding fast to the basic principle of our tax system, namely, that taxes should be fair and non-discriminatory and imposed in accordance with ability to pay. The cost of this war will have to be borne by everyone. It will be borne willingly and cheerfully if the principle of ability to pay is followed.

In terms of the new tax program, this principle means that special privileges in our tax laws should be removed. It means that taxes which cannot be adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided. It means that undue profits should be recaptured wherever they occur. Unreasonable profits are not necessary in order to obtain maximum production with economical business management. The country will not tolerate the retention of undue profits at a time like this, when millions are pledging their very lives to save and perpetuate our freedom.

All will be expected to bear their fair share, in the higher and lower income levels alike. The recommendations which I shall now outline to the Committee will involve progressively increased taxes throughout the whole range of individual and corporate income now covered by our tax laws.

1. Individual Income Tax

The individual income tax is the best available type of tax based upon ability to pay. Its rates and exemptions can be adjusted to the size of personal income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

I recommend that the individual income tax be changed to yield approximately \$3,000,000,000, or about sixty percent more revenue than will be yielded under the present law.

In recommending this amount I have had in mind the fact that the great bulk of tax increases under the social security changes will also fall on individual incomes. In accordance with the President's views, I feel that the social security program should be expanded both as to coverage and as to protection, and that taxes for this purpose should be increased by approximately \$2,000,000,000 a year. I am not making any recommendations with regard to social security taxation or benefits in connection with this bill, but changes of the magnitude indicated should be kept in mind in planning the tax program.

As for the individual income taxes themselves, I am suggesting a substantial increase in the income surtax rates throughout the scale. I should like to give you a few examples to show the effect of these increases on typical incomes.

A single person with no dependents, with a net income of \$3,000, pays \$221 tax under the present law; he would pay \$470 under the suggested schedule. A married person with two dependents, and with a net income of \$3,000, pays \$58 under the present law; he would pay \$118 under the suggested schedule.

A single person with no dependents and with a net income of \$10,000 pays \$1,493 under the present law; the suggested schedule would call for payment of \$2,720. A married person with two dependents and with net income of \$10,000 pays \$1,117 under the present law and would pay \$2,143 under the proposed schedule.

The accompanying chart and tables, which I shall now submit to the Committee, will show the rate scale and comparative effective rates of tax under the present law and under the suggested program. (Chart 2 and Tables 1,2,3,4.)

You will notice that these proposed schedules involve no further lowering of the personal exemptions, which now begin at an income of \$750 a year for a single person and \$1,500 for a married person, with a credit of \$400 for each dependent. The exemptions were lowered in the 1940 Revenue Act; they were lowered again in the 1941 Act, and their value has been reduced still further this year by the rise in the cost of living. Although single persons with less than \$15 a week and married persons with less than \$30 a week do not pay any direct taxes, they already pay a disproportionate part of their little incomes in indirect taxes of all kinds.

Moreover, a further lowering of the exemptions would yield a relatively insignificant amount of revenue from the earners of very low incomes. If I felt that the expenditures of this group added

materially to the danger of inflation, I should not hesitate to recommend the lowering of the exemptions in spite of the small amount of revenue that would be produced. Our studies at the Treasury indicate, however, that the very lowest income earners have all they can do to feed and clothe themselves and their families. Their buying habits are governed strictly by the need of maintaining nutrition and health, and I cannot recommend a direct tax upon them until we have exhausted every possible source of revenue from those who enjoy higher incomes.

Because of the threat of inflation and because of large increases suggested throughout the existing rate scale, it becomes essential to afford a more convenient method for the payment of income taxes. The best available expedient for this purpose is a provision for collecting at the source for those incomes that are paid periodically, including wages, salaries, bond interest, and dividends.

To start such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary substantial speeding up of tax collection, we cannot afford to postpone collection at the source.

Since it is not known how soon it may become necessary to speed up tax collection to check inflationary price rises, the Secretary of the Treasury should be authorized to begin the collection of income taxes at the source, at any time and at rates within his discretion up to 10 percent of wages and salaries, with an allowance for personal exemption and credit for dependents, and up to 10 percent of the full amount of dividends and interest. This would not be a supplementary tax; it would simply be a means of collection. It would furnish needed flexibility in relating tax collections to future economic conditions.

2. Corporation Taxes

It is recommended that additional taxes be raised from corporations in the amount of \$3,000,000,000, an increase of about forty percent.

A substantial share of the increased corporation tax should fall on excess profits. Taxes paid from such profits have less disrupting effects on business than taxes which are generally applicable to all corporate earnings irrespective of the rate of return. A tax which absorbs excess profits still leaves the corporate taxpayer with a sufficient margin of income for dividends and safety.

On the other hand, a tax which dips too deeply into the incomes of low earning corporations may seriously affect their debt-paying capacity, if not their very existence.

It is suggested that the maximum rate of the excess profits tax be increased from sixty percent to seventy-five percent with corresponding increases in the lower rate brackets.

The proposed increases in the excess profits taxes have the additional virtue of recapturing undue profits on war contracts. This method is far better than imposing profit limits specifically on war contracts. The difficulties of segregating profits on war contracts are very great and involve personnel, expense, uncertainty and litigation which we can ill afford at this time. Moreover, it is almost impossible to determine what rates of profit on cost or sales would be equitable under the widely varying special circumstances confronting different industries and contractors.

With rates of this magnitude it is increasingly important to have a fair basis from which to measure the profits subject to the excess profits tax. In addition to the many provisions in existing law to adjust earnings of the base period to take account of unusual circumstances, it is suggested that further relief be afforded where the earnings of the base period were abnormally depressed.

Other changes in the excess profits tax law should also be made, some to eliminate defects which have been brought to light in the operation of the law, and others to eliminate unnecessary hardships. These changes are of a more technical character and will be presented later, at the Committee's convenience.

There should be no further increase in the corporate normal rate because any such increase would result in an undesirable windfall to the holders of partially tax-exempt Federal securities.

It is suggested that the balance of the \$3,000,000,000 in additional corporate taxes be provided by a special war surtax which would absorb the present corporate surtax and would be imposed at the rate of thirty-one percent on corporations with incomes of more than \$25,000. This tax would differ from the present surtax in that a special tax credit would be allowed when the surtax net income for the current year has dropped in comparison to the income for the pre-war period. In a further statement, the Treasury will give the Committee a detailed explanation of this proposed

war surtax and the reasons which have led the Treasury to recommend it.

There can be no fair quarrel with the imposition upon corporations of a substantial proportion of the increased load of taxation required by our national peril. We are fighting for the maintenance of the very system of free enterprise which makes corporate profits possible. At a time like this, I am confident that incorporated business will willingly pay additional taxes which will, after all, leave it in the aggregate about the same amount of income after taxes as during the years before 1940.

In the critical months ahead our patriotism will be put to the acid test. It must rise above the profit motive. National war production may be tragically inadequate if it depends upon that motive alone. This is a time when we must forget profits and concentrate upon a supreme productive effort which alone will win the war.

However, it is recognized that very high top, or so-called "marginal rates," may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond perhaps eighty cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.

The uncertainties of this period also make it important to reduce to the minimum the necessity for prophesying. The capital stock tax and the associated declared value excess profits tax are determined largely by the accuracy of guesses about future profits. It is

suggested that the revenue produced by these taxes can be more fairly and less harmfully produced by the other taxes on corporations and that accordingly the capital stock and declared value excess profits taxes be repealed.

3. Estate and Gift Taxes

The estate and gift taxes are imposed at the time of the transfer of wealth from one person to another. Many of the fortunes which are being transferred, and will be transferred in the future, were built up during a period when income tax rates were far lower than they are today. It is much more difficult now to build up large holdings of property. For this reason substantial increases in the estate and gift taxes should be imposed as a method of equalizing tax burdens. The suggested increases are indicated in attached tables. (Chart 3 and Tables 5 and 6.)

In conjunction with the rate increases, it is suggested that the existing insurance exclusion of \$40,000 be merged with the existing exemption of \$40,000, and that a single exemption of \$60,000 be allowed. This will increase the present exemption in some cases and decrease it in others, and will remove a discrimination between persons who are insured and those who are not.

It is likewise suggested that the exemption for the gift tax be reduced to \$30,000 and that the annual exclusion of gifts be made a total of \$5,000 for each donor regardless of the number of donees to whom property is given.

These changes in rates and exemptions, together with certain changes designed to prevent avoidance of the tax, should increase the annual revenue from estate and gift taxes by \$300,000,000.

4. Excise Taxes

New and increased special excise taxes on distilled spirits, gasoline, cigarettes, soft drinks, candy, and chewing gum, and other items listed in the attached

table, are suggested to raise approximately \$1.3 billion of additional revenue. (Table 7).

Although these excise taxes are in the nature of sales taxes, their effects are substantially different from the effects of general sales taxes. Some of them are imposed on commodities of which there is or will increasingly be a scarcity. Such taxes not only yield revenue but help to conserve materials needed for the war. Those excise taxes not relating to scarce commodities have been chosen so as to fall on goods which are widely used and are of a luxury or semi-luxury character. The increase in consumer incomes will keep up the demand for those commodities despite the higher taxes. Needed revenue will thus be obtained, consumer purchasing power will be tapped, the producers will not be injured, and the consumers will not be taxed on necessities of life.

These special excise taxes have the further advantage of not requiring any substantial expansion of administrative machinery.

No general sales tax is recommended, and indeed, I strongly urge that no such tax be made a part of this revenue bill. The general sales tax falls on scarce and plentiful commodities alike. It strikes at necessities and luxuries alike. As compared with the taxes proposed in this program, it bears disproportionately on the low income groups whose incomes are almost wholly spent on consumer goods. It is, therefore, regressive and encroaches harmfully upon the standard of living. It increases prices and makes price control more difficult. It stimulates demands for higher wages and adds to the parity prices of agricultural products. It is not, as many suppose, easily collected; on the contrary, its collection would require much additional administrative machinery at a time when manpower is limited.

5. Removal of Special Privileges

There are in our tax system certain provisions which grant to relatively few of our people special advantages and privileges at the expense of the great

mass who must pay what is thereby lost. I am reluctant to recommend that the great mass of the taxpayers of the United States should pay billions of dollars of additional revenues until these defects have been removed from the tax laws. They are bad enough in time of peace -- they are intolerable in time of war.

(a) Tax Exempt Securities. An important example of such a privilege is presented by tax exempt securities. Every element in our population should bear its fair share of the burdens which war imposes. Through tax exempt securities, however, persons with large tax-paying ability find themselves in a sheltered position. For the most part they did not buy these securities at prices reflecting to any significant extent the great favor of escape from wartime burdens, and surely the States did not offer the securities on any such basis. The holders of tax exempt securities are obtaining what are essentially windfall profits in a time of national sacrifice.

For a long time Presidents, Secretaries of the Treasury, and Congressional Committees have recommended the elimination of the tax exemption of interest on future Government securities. Last year the Congress, at my recommendation, removed the exemption on interest from future issues of Federal securities. No action has been taken with respect to the interest on future or outstanding State and local securities.

In times of peace, when the strain on other elements in the population was not so heavy, there was much to be said for the gradual elimination of tax exemption through taxing future issues only. The national emergency of war makes this gradual approach unacceptable. I therefore recommend the repeal of the present exemption applicable to outstanding issues of State and local securities.

Unfortunately, tax exemption clauses appear in many of the outstanding issues of Federal securities and these promises must not be violated. In the case of State and local securities, however, there has never

been any contract or moral commitment between the Federal Government and the security holders or the State and local governmental authorities regarding Federal taxation. Since the Supreme Court decision in the case of Graves v. O'Keefe in 1939 fair-minded experts in constitutional law have had no doubt of the Federal power and moral right to tax the income from State and municipal securities.

A tax system cannot be defended which in a time of grave national emergency calls upon the great mass of our taxpayers to shoulder the heavy burden of additional taxes and yet permits persons with large tax-paying ability to pay virtually nothing in taxes. The sacrifices necessary to win a war for the benefit of all of us should be shared by all of us--including the holders of tax exempt securities. The President said in his Budget Message, "When so many Americans are contributing all their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes."

Taxing the interest of future and outstanding issues of State and municipal securities would yield \$200,000,000 a year.

(b) Percentage Depletion. A second example of special privilege is the allowance for depletion. At the present time the owners of mines and oil wells are allowed to deduct so-called percentage depletion or cost depletion, whichever is higher. Percentage depletion consists of a certain percentage of gross income (27-1/2 percent in the case of persons having an economic interest in oil and gas properties), the deduction being limited to fifty percent of the net income from the property. Under this arrangement percentage depletion goes on even after one hundred percent of the cost is recovered and may substantially exceed depletion based on cost.

In 1937 the President and the Treasury recommended the elimination of percentage depletion, but no action

was then taken. The war has intensified the necessity for eliminating any such special favor to one group of taxpayers. The removal of this special privilege would yield \$80,000,000 a year.

One of the reasons asserted in behalf of percentage depletion for oil and gas properties is that it stimulates exploration for such properties. If this is a proper objective, it would be better achieved by a special depletion allowance to those who do explore without indiscriminate extension of the same favor to all owners. At the convenience of the Committee, we shall place before it a plan directed to this purpose.

So far as minerals other than oil and gas are concerned, it is believed that an adequate stimulus for exploration would remain if the percentages allowable for depletion purposes were substantially reduced or percentage depletion were eliminated.

(c) Separate Returns by Married Persons. A third example of special favoritism in the tax laws is the option allowed married couples to file separate income tax returns. This permission has little or no significance for most taxpayers since at the present time married couples with incomes of up to \$3,500 (the amount is higher in the case of married couples with dependents) pay the same total tax whether they file joint returns or separate returns. It may make a great deal of difference in tax, however, in the case of married couples with large incomes, especially if the income is more or less evenly divided between husband and wife.

This difference in tax is unwarranted since in actual operation the family is the economic unit. Two families with the same total income will usually manage and dispose of that income in a similar fashion, regardless of whether the income is received by only one spouse or is received by both spouses.

The adoption of mandatory joint returns would remove this tax differential and would also eliminate two specific kinds of tax avoidance which are present under existing law. The first is the treatment of community income in the so-called community-property States. In

the non-community-property States the income is taxable to the spouse who earns it. In the community-property States, however, the husband who earns the income may for tax purposes attribute half the earnings to his wife, although he retains the management and control of all the earnings. The result is that married couples with high incomes in community-property States receive a very substantial tax advantage over those living in other States. This advantage would be removed if joint returns were made mandatory.

A second source of tax avoidance which would be eliminated by mandatory joint returns is the possibility of manipulating incomes between husband and wife. For example, if the husband receives a large amount of income from securities, he may reduce the family income tax substantially (and also reduce the amount of estate tax in case he predeceases his wife) by giving a portion of his fortune to his wife. This, and other methods of reducing taxes by married couples, would be eliminated through provision for mandatory joint returns.

Accordingly, it is suggested that the filing of joint tax returns by married couples be made mandatory, with a special allowance for the earned income of the wife or the husband.

At the present rates of individual income tax, it is estimated that the revenue from requiring the filing of joint income tax returns would be approximately \$300,000,000.

(d) Other Special Privileges. There are other examples of special privilege in our tax laws which need to be removed. They are to be found in the provisions of our present laws affecting capital gains, insurance company taxes, and pension trusts, and will be discussed in detail later in these hearings. The removal of these additional methods of avoidance would yield about \$100,000,000 a year in additional revenue.

(e) Hardships on Taxpayers. The inequities of our tax laws work in two directions. As I have said,

some of them extend undue privileges to a favored few. Still others result in unfair burdens upon certain taxpayers. Let me give you a few examples of such inequities which need correction.

If you rent your house to tenants but are not in the real estate business, you are taxed on the rent you received but you may be denied the right to deduct your expenses in producing that income. If, as an individual, you expand your plant to produce war materials, you are denied the benefits of the amortization provision which applies to corporations. If you collect a debt which you previously charged off as worthless, the amount collected becomes part of your taxable income even though you received no tax relief when you charged it off. With rates at wartime levels it becomes urgent to correct all such defects. I, therefore, propose that we make every effort in this session of Congress to eliminate all hardships of this character so that our tax laws will cast their burden equitably upon all taxpayers.

Conclusion

The recommendations I have outlined to the Committee this morning would, if added together, produce over \$8,000,000,000 in additional revenue. Since the effects of any series of tax proposals are inter-related to some extent, we should deduct about \$1,000,000,000 from this total. That would give us the \$7,000,000,000 in new revenue which, as I said at the outset of my statement, should be regarded as the very least that we can call for at this time.

We are at war. An adequate tax program is vital to the successful prosecution of the war. The new taxes will be severe, and their impact will be felt in every American home. War is never cheap; but, as I have said before, it is a million times cheaper to win than to lose.

Chart 1

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PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1918

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

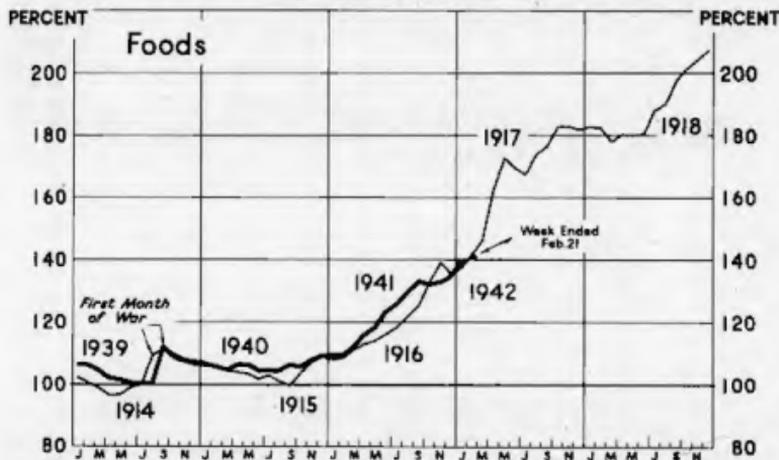
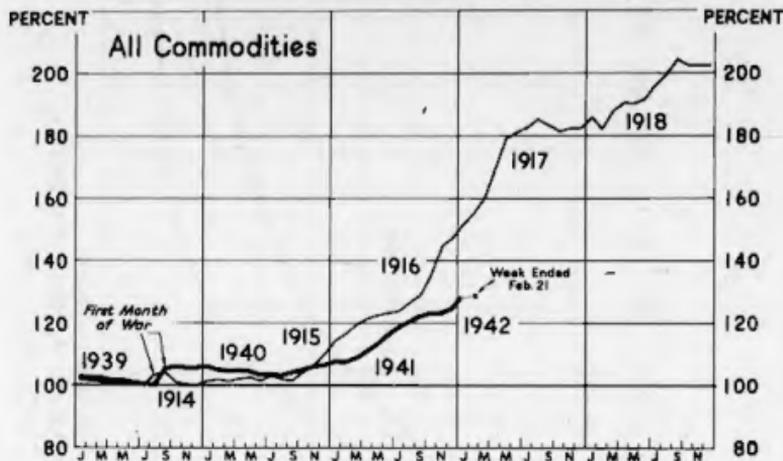


Chart 2
INDIVIDUAL INCOME TAX
 Effective Rates for Married Person without Dependents
 Under Present Law and Proposal

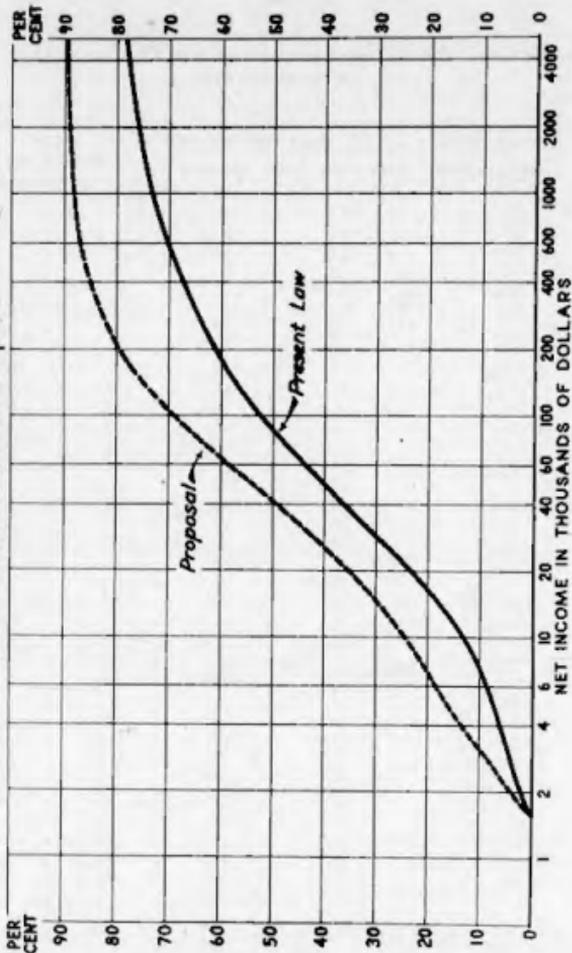


TABLE 1.

Comparison of individual surtax rate schedule under present law and proposal

Surtax net income (\$000)	Bracket rate		Total surtax, cumulative	
	Present law	Proposal	Present law	Proposal
\$ - 0	.5	6%	\$ 30	\$ 60
.5 - 1	1	6	60	135
1 - 1.5	1.5	6	90	225
1.5 - 2	2	6	120	325
2 - 3	3	9	210	545
3 - 4	4	9	300	785
4 - 6	6	13	560	1,325
6 - 8	8	17	900	1,925
8 - 10	10	21	1,320	2,605
10 - 12	12	25	1,820	3,365
12 - 14	14	29	2,400	4,205
14 - 16	16	32	3,040	5,105
16 - 18	18	35	3,740	6,065
18 - 20	20	38	4,500	7,085
20 - 22	22	41	5,320	8,165
22 - 26	26	44	7,080	10,445
26 - 32	32	47	9,900	14,045
32 - 38	38	50	12,900	17,885
38 - 44	44	53	16,080	21,965
44 - 50	50	55	19,380	26,285
50 - 60	60	57	25,080	33,885
60 - 70	70	59	30,980	41,685
70 - 80	80	61	37,080	49,685
80 - 90	90	63	43,380	57,885
90 - 100	100	64	49,780	66,285
100 - 150	150	65	82,280	109,285
150 - 200	200	66	115,280	152,285
200 - 250	250	67	148,780	195,285
250 - 300	300	69	183,280	238,285
300 - 400	400	71	254,280	324,285
400 - 500	500	72	326,280	410,285
500 - 750	750	73	508,780	625,285
750 - 1,000	1,000	74	693,780	840,285
1,000 - 2,000	2,000	75	1,443,780	1,700,285
2,000 - 5,000	5,000	76	3,723,780	4,280,285
5,000 and over		77	-	-

Table 2.

Amount of individual income taxes and effective rates
under present law and proposal

Single person - no dependents
Personal exemption \$750

Net income: before personal exemption :	Amount of tax			Effective rates		
	Present law :	Proposal :	Increase in tax :	Present law :	Proposal :	Increase in effective rates
\$ 800	\$ 3	\$ 8	\$ 5	.4%	1.0%	.6%
900	11	24	13	1.2	2.7	1.5
1,000	21	40	19	2.1	4.0	1.9
1,100	31	56	25	2.8	5.1	2.3
1,200	40	72	32	3.3	6.0	2.7
1,500	69	128	59	4.6	8.5	3.9
1,600	79	147	68	4.9	9.2	4.3
2,000	117	230	113	5.9	11.5	5.6
2,500	165	345	180	6.6	13.8	7.2
3,000	221	470	249	7.4	15.7	8.3
4,000	347	735	388	8.7	18.4	9.7
5,000	483	1,023	540	9.7	20.5	10.8
6,000	649	1,333	684	10.8	22.2	11.4
8,000	1,031	1,990	959	12.9	24.9	12.0
10,000	1,493	2,720	1,227	14.9	27.2	12.3
12,500	2,178	3,740	1,562	17.4	29.9	12.5
15,000	2,994	4,888	1,894	20.0	32.6	12.6
20,000	4,929	7,473	2,544	24.6	37.4	12.8
25,000	7,224	10,418	3,194	28.9	41.7	12.8
50,000	20,882	27,715	6,833	41.8	55.4	13.6
75,000	36,487	48,055	11,568	48.6	64.1	15.5
100,000	53,214	69,625	16,411	53.2	69.6	16.4
500,000	345,654	429,610	83,956	69.1	85.9	16.8
1,000,000	733,139	879,610	146,471	73.3	88.0	14.7
5,000,000	3,923,124	4,479,610	556,486	78.5	89.6	11.1

Table 3

Amount of individual income taxes and effective rates
under present law and proposal

Married - no dependents
Personal exemption \$1,500

Net income before personal exemption	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 1,500	-	-	-	-	-	-
1,600	\$ 6	\$ 16	\$ 10	.4%	1.0%	.6%
1,700	13	32	19	.8	1.9	1.1
1,800	23	48	25	1.3	2.7	1.4
1,900	32	64	32	1.7	3.4	1.7
2,000	42	80	38	2.1	4.0	1.9
2,100	52	99	47	2.5	4.7	2.2
2,200	61	118	57	2.8	5.4	2.6
2,300	71	137	66	3.1	6.0	2.9
2,400	80	156	76	3.3	6.5	3.2
2,500	90	175	85	3.6	7.0	3.4
3,000	138	285	147	4.6	9.5	4.9
4,000	249	535	286	6.2	13.4	7.2
5,000	375	805	430	7.5	16.1	8.6
6,000	521	1,100	579	8.7	18.3	9.6
8,000	873	1,735	862	10.9	21.7	10.8
10,000	1,305	2,435	1,130	13.1	24.4	11.3
12,500	1,960	3,425	1,465	15.7	27.4	11.7
15,000	2,739	4,535	1,796	18.3	30.2	11.9
20,000	4,614	7,060	2,446	23.1	35.3	12.2
25,000	6,864	9,960	3,096	27.5	39.8	12.3
50,000	20,439	27,145	6,706	40.9	54.3	13.4
75,000	35,999	47,425	11,426	48.0	63.2	15.2
100,000	52,704	68,965	16,261	52.7	69.0	16.3
500,000	345,084	428,935	83,851	69.0	85.8	16.8
1,000,000	732,554	878,935	146,381	73.3	87.9	14.6
5,000,000	3,922,524	4,478,935	556,411	78.5	89.6	11.1

TABLE 4.

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Amount of individual income taxes and effective rates
under present law and proposalMarried person — Two dependents
Personal exemption \$1,500, dependent credit \$400

Net income before personal exemption and dependent credit	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 2,300	-	-	10	-	-	-
2,400	\$ 6	\$ 16	\$ 10	.3%	0.7%	.4%
2,500	12	32	20	.5	1.3	.8
2,700	29	64	35	1.1	2.4	1.3
3,000	58	118	60	1.9	3.9	2.0
4,000	154	333	179	3.9	8.3	4.4
5,000	271	587	316	5.4	11.7	6.3
6,000	397	861	464	6.6	14.4	7.8
8,000	717	1,472	755	9.0	18.4	9.4
10,000	1,117	2,143	1,026	11.2	21.4	10.2
12,500	1,728	3,089	1,361	13.8	24.7	10.9
15,000	2,475	4,167	1,692	16.5	27.3	11.3
20,000	4,287	6,629	2,342	21.4	33.1	11.7
25,000	6,480	9,472	2,992	25.9	37.9	12.0
50,000	19,967	26,537	6,570	39.9	53.1	13.2
75,000	35,479	46,753	11,274	47.3	62.3	15.0
100,000	52,160	68,261	16,101	52.2	68.3	16.1
500,000	344,476	428,215	83,739	68.9	85.6	16.7
1,000,000	731,930	878,215	146,285	73.2	87.8	14.6
5,000,000	3,921,884	4,478,215	556,331	78.4	89.6	11.2

Chart 3
EFFECTIVE ESTATE TAX RATES
 Before Credit for State Death Taxes

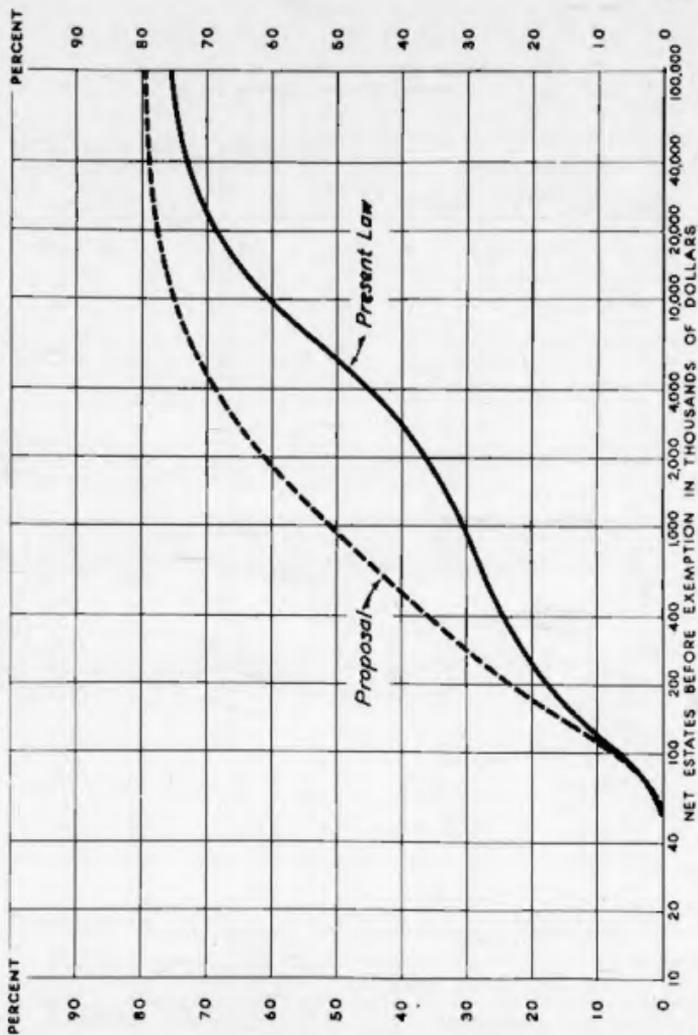


Table 5

Comparison of estate tax rate schedule
under present law and proposal

Net estate after:		Bracket rate		Total estate tax	
specific exemp- tion 1/ (\$000)		Present	Proposal	cumulative	
		law	Proposal	Present law	Proposal
Under \$5		3%	8%	\$ 150	\$ 400
5 - 10		7	12	500	1,000
10 - 15		11	15	1,050	1,750
15 - 20		11	18	1,600	2,650
20 - 30		14	22	3,000	4,850
30 - 40		18	26	4,800	7,450
40 - 50		22	30	7,000	10,450
50 - 60		25	33	9,500	13,750
60 - 70		28	36	12,300	17,350
70 - 100		28	40	20,700	29,350
100 - 150		30	44	35,700	51,350
150 - 200		30	46	50,700	74,350
200 - 250		30	48	65,700	98,350
250 - 300		32	50	81,700	123,350
300 - 350		32	52	97,700	149,350
350 - 400		32	54	113,700	176,350
400 - 450		32	56	129,700	204,350
450 - 500		32	58	145,700	233,350
500 - 600		35	60	180,700	293,350
600 - 700		35	62	215,700	355,350
700 - 800		35-37	64	251,700	419,350
800 - 900		37	66	288,700	485,350
900 - 1,000		37	68	325,700	553,350
1,000 - 1,500		39-42	70	528,200	903,350
1,500 - 2,000		45	72	753,200	1,263,350
2,000 - 2,500		49	75	998,200	1,638,350
2,500 - 3,000		53	76	1,263,200	2,018,350
3,000 - 4,000		56-59	78	1,838,200	2,798,350
4,000 - 5,000		63	79	2,468,200	3,588,350
5,000 - 6,000		67	80	3,138,200	4,388,350
6,000 - 7,000		70	80	3,838,200	5,188,350
7,000 - 8,000		73	80	4,568,200	5,988,350
8,000 - 9,000		76	80	5,328,200	6,788,350
9,000 - 10,000		76	80	6,088,200	7,588,350
10,000 and over		77	80	-	-

1/ A specific exemption of \$40,000 and a life insurance exclusion of \$40,000 are allowed by the present law. The proposal would allow a single specific exemption of \$60,000 but no life insurance exclusion.

Amount of estate taxes and effective rates
under present law and proposal

Net estate before specific exemption 1/ (\$000)	Amount of tax			Effective rate		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in ef- fective rates
\$ 60	\$ 500	-	\$ -500	.8%	-	-.8%
70	1,600	1,000	-600	2.3	1.4%	-.9
90	4,800	4,850	50	5.3	5.4	.1
100	7,000	7,450	450	7.0	7.5	.5
150	20,700	25,350	4,650	13.8	16.9	3.1
200	35,700	46,950	11,250	17.9	23.5	5.6
400	97,700	144,150	46,450	24.4	36.0	11.6
600	163,200	257,350	94,150	27.2	42.9	15.7
800	233,200	380,950	147,750	29.2	47.6	18.4
1,000	307,200	512,550	205,350	30.7	51.3	20.6
2,000	730,700	1,220,150	489,450	36.5	61.0	24.5
4,000	1,808,700	2,751,550	942,850	45.2	68.8	23.6
6,000	3,104,700	4,340,350	1,235,650	51.7	72.3	20.6
10,000	6,050,200	7,540,350	1,490,150	60.5	75.4	14.9
20,000	13,749,700	15,540,350	1,790,650	68.7	77.7	9.0
40,000	29,149,700	31,540,350	2,390,650	72.9	78.9	6.0

1/ The amounts shown as the size of the "net estate before specific exemption" include \$10,000 of life insurance. It is assumed that none of this insurance would have been taxable under present law, which allows a \$40,000 insurance exclusion, in addition to a specific exemption of \$40,000. The proposal would eliminate the insurance exclusion and provide a single specific exemption of \$60,000. In recent years the amount of excluded insurance has averaged about \$6,000 per taxable estate.

Table 7.
Excise Tax Proposals

Article	Present tax	Recommended tax rate and base	Estimated increases in revenues (in millions)
1. Photographic apparatus	10% manufacturers' sales price	25% manufacturers' sales price	\$ 11.2
2. Transportation by pipe line	4 1/2% of amount paid	10% of amount paid	18.7
3. Communications:			
a. Telephone toll service	24-50¢ tax 5¢ additional 5¢ tax on each 50¢	25¢ to 39¢ 5¢ tax 40¢ to 64¢ 10¢ " 65¢ to 99¢ 15¢ " 5¢ additional tax for each 25¢ or fraction thereof	24.5
b. Telegraph, cable	10% of charge	15% of charge	
c. Leased wires, etc.	10% of charge	15% of charge	
d. Local telephone bill	6¢ of bill	10% of bill	46.6
e. Coin-operated telephone under 25¢	Exempt	10% of service charge	6.7
4. Gasoline	1 1/2¢ per gal.	3¢ per gal.	242.2
5. Lubricating oil	4 1/2¢ per gal.	10¢ per gal.	49.9
6. Beer	\$6 per bbl.	\$8 per bbl.	117.1

1/ Estimated full year effect of indicated excises at estimated fiscal year 1943 levels of business after allowing for the initial impact of the imposition of the suggested rates.

7. Wines:					
Still wines -					
Not more than 14% alcohol	8¢ per gal.		15¢ per gal.)	
14-21% alcohol	30¢ per gal.		50¢ per gal.)	
More than 21%	55¢ per gal.		100¢ per gal.)	25.0
Sparkling wines	7¢ per half-pint		10¢ per half-pint)	
Artificial carbonated wines	3¢ per half-pint		5¢ per half-pint)	
Liqueurs, cordials, etc.	3¢ per half-pint		5¢ per half-pint)	
8. Distilled spirits	\$4 per gal.		\$6 per gal.		279.7
9. Transportation of persons	5% of amount paid		15% on transportation;		94.8
			20% on seats and berths		
10. Carbonated soft drinks	None		a. Schedule for bottled drinks		146.9
			based on 1¢ per bottle re-		
			tailing at not more than 10¢;		
			b. 80¢ per lb. of carbonic acid		
			gas used in unbottled drinks		
11. Candy and chewing gum	None		15% manufacturers' sales price		45.3
12. Cigars	Rate schedule		New schedule 1/		13.1
13. Smoking tobacco	18¢ per lb.		36¢ per lb.		26.8
14. Cigarettes	\$3.25 per M.		\$3.50 per M - 10-cent brands;		186.6
			\$4.00 per M - 15-cent brands		
15. Cigarette papers and tubes	Schedule		No exemption; tax all papers and		7.8
			tubes 1/2¢ per 25 papers or tubes		
	Total				<u>\$1,344.9</u>

1/ Class A, retail price 2-5¢, tax \$2.50 M; B, 5¢, tax \$5.00 M; C, 5.1-8¢, tax \$7.50 M; D, 8.1-10¢, tax \$10.00 M; E, 10.1-15¢, tax \$15.00 M; F, 15.1-20¢, tax \$20.00 M; G, 20.1-30¢, tax \$25.00 M; H, 30.1 and over, tax \$40.00 M.

Table 6

Corporation tax plan under present law
and under the proposal

	: Present : law	: Proposal
1. Excess profits credit		
a. Invested capital method:		
First \$5,000,000 of invested capital	8%	8%
Over \$5,000,000 of invested capital	7	7
b. Income method:		
Portion of average earnings in base period, 1936-1939	95%	95%
c. Specific exemption	\$5,000	\$5,000
2. Excess profits tax rates		
Adjusted excess profits net income:		
First \$20,000	35	50
\$ 20,000 - 50,000	40	55
50,000 - 100,000	45	60
100,000 - 250,000	50	65
250,000 - 500,000	55	70
Over 500,000	60	75
3. Income tax		
a. Normal tax		
(1) Corporations with net income of not more than \$25,000:		
First \$5,000	15	15
\$ 5,000 - 20,000	17	17
20,000 - 25,000	19	19
(2) Corporations with net income over \$25,000:		
Flat rate	24	24
b. Surtax		
(1) Corporations with net income of not more than \$25,000:		
First \$25,000	6	16
(2) Corporations with net income over \$25,000:		
First \$25,000	6	31
Over \$25,000	7	31
(a) Relief provision: Corporations with current year surtax net income less than the average surtax net income for the base period years, 1936-1939, are allowed a tax credit of 10% of the difference, but not to exceed 20% of surtax net income. This provision applies only to corporations with net income over \$25,000.		

Table 9

Estimated revenue increase from
proposed tax program

		Increase over yield of present law ^{1/} <hr/> (In millions of dollars)
Individual income tax		\$ 3,200
Corporation taxes		3,060
Estate and gift taxes		330
Excise taxes		1,340
Removal of special privileges, approximately		680
Eliminate exemption from income and profits taxes with respect to interest from all State and local governmental obligations	\$ 200	
Percentage depletion	80	
Mandatory joint returns	300	
Other, approximately	100	
		<hr/>
Grand total		\$ 8,610
Less allowance for interrelated effects, approximately		<hr/> 1,000
Approximate increase in revenue from proposed tax program		\$ 7,610

^{1/} For a full year of operation.

Statement of Randolph Paul,
Tax Adviser to the Secretary of the Treasury,
Before The Ways and Means Committee
of the House of Representatives

March 3, 1942.

My purpose in appearing before you at this time is to discuss in greater detail some of the matters mentioned by the Secretary in his statement, and also to present some additional matters of a more technical nature. While it is not possible to mention all the technical suggestions we would like to present to this Committee, I believe that a description of the more important matters will help to acquaint taxpayers with our views. I will follow as far as possible the order of treatment contained in the Secretary's statement.

1. Individual Income Tax

(a) Earned Income Credit. In the field of the individual income tax the Secretary has indicated the suggested rates of surtax. As the tables he presented indicate, no lowering of the present exemptions of \$750 for individuals and \$1500 for married persons, or of the \$400 allowance for each dependent, is suggested. The tables do indicate a change from the present law with respect to the earned income credit, which we suggest should be eliminated. The value of the present credit -- only \$12 of tax for a taxpayer having \$3,000 of income, with a maximum of \$56 for a taxpayer having \$14,000 of earned income -- is out of all proportion to the complexities which the credit produces in the computation of the tax. The elimination of the credit permits fixing of the surtax rates at a slightly lower level in the lower brackets than would be the case if the credit were retained.

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(b) Withholding at the Source. The Secretary has stated the essential need for a system of withholding at the source. He suggested withholding at the source as a means of collecting part of the income tax -- not as a method of imposing additional taxes. He pointed out that such withholding should be flexible both as to the time when it should be started and the rates at which the tax should be withheld, up to 10 percent.

The suggested method may be briefly described as follows: Tax would be withheld at the source upon wages, salaries, corporation dividends and corporation bond interest. With respect to wages and salaries, the withholding would be on a net basis. The tax would be withheld only upon the excess of wages and salaries over the taxpayer's personal exemption, credit for dependents, and a fixed percentage of such exemption and credit representing an average allowance for deductions. The amounts thus relieved of the withholding requirement would be broken down by payroll periods, so that the employer would know how much to deduct if the employee is paid by the week, by the month, or by any other period. The employee would be required to file with his employer an exemption certificate supplying information on his family status. Thus, there would be exempt from the withholding tax about \$16 a week for a single person, \$32 a week for a married person, and \$40.50 for a married person with one dependent. The great majority of domestic employees and part-time hourly employees earning small sums with respect to which it is impracticable to apply a withholding system would thus be removed from the scope of the proposed system.

The employer would remit quarterly to the Treasury the amount withheld. He would also at the end of the year, or upon termination of employment, give the employee a receipt for the amount of tax withheld.

At the end of the year the employee would compute his tax liability and file his return in the usual manner. He would include in his income the full amount of the wages payable to him and not merely the balance after withholding. However, he would receive a credit against the tax due for the amounts withheld at the source. In the rare case when the amounts withheld at the source exceeded his entire tax liability, the employee would be entitled to a refund. A system would be instituted whereby these refunds could be made promptly.

With respect to dividends and bond interest, the withholding would be on a gross basis, but at the same rate as for wages and salaries. Withholding on a net basis is impracticable because an individual may hold stocks and bonds in many corporations. Of course, any amount withheld in excess of tax liability would be refunded to the taxpayer.

Recipients of wages and salaries, dividends, and bond interest would thus, to the extent of the amounts withheld, have effected a prepayment of their tax liabilities. In order to achieve a speeding up of payments by recipients of other types of income upon which it is impracticable to collect tax at the source, it is suggested that all taxpayers be required to pay one-half of their 1942 tax liabilities on March 15, 1943 and the remaining one-half in installments thereafter. Those taxpayers whose incomes are not subject to withholding would be obliged to save in 1942 sums sufficient to meet the increased March 15, 1943 payment. These taxpayers would thus be placed in a somewhat equivalent position to the recipients of income subject to withholding, who would be able to use their receipts for the amount withheld to meet their March 15 payment.

2. Corporate Taxes

(a) Excess Profits Tax. The Secretary has made two recommendations with respect to the excess profits tax: (1) An increase of 15 percentage points in each bracket, providing a range of rates extending from 50 percent to 75 percent, and (2) An expansion of the relief provisions. Our growing experience with the excess profits tax indicates that our present relief provisions require amplification. While normal earnings can ordinarily be ascertained by reference to the base period years used in the statute, 1936-1939, those years may not always have been representative years for the corporation. The wide range of causes which may make the base period unrepresentative indicates the need for expansion of the present relief provisions which extend to only a few of those causes. At the same time, this variety of causes also gives rise to administrative problems of serious proportions. Some of these problems can be met in the manner indicated in the present law -- the applicant for relief must show that the hardship complained of is a severe one and that the relief requested will make a substantial difference in tax liability. These tests are helpful, although they should be made more stringent in view of the general increase in the tax burden. Other problems can be met by placing the administration of the relief provision in the hands of a special board, whose members and staff would be technically competent to deal with the economic and industrial problems that will arise. In this connection it will of course be necessary to reexamine the relief provisions in the present law, including those that might be described as mechanical, such as the growth formula and the deficit rule. It will also be necessary to reconsider the relief provisions dealing with the ascertainment of the current year's income to see if they are adequate.

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The remaining changes in the excess profits tax largely relate to the improvement of its technical operation. For example, Supplement A, which deals with the computation of the base period credit in the case of consolidations and other exchanges, is defective in a number of respects and should be revamped. There are a number of other provisions which experience has indicated are in need of modification, and we shall be prepared to present these technical changes to the Committee at a later date.

(b) Corporation Normal and Surtaxes. For corporations with net incomes over \$25,000, the war surtax would be 31 percent; for corporations with net incomes under \$25,000, the war surtax would be 16 percent.

An integral portion of the proposed treatment of corporations having incomes over \$25,000 is the special credit to be allowed against the war surtax. A corporation whose current year's surtax net income is less than the average surtax net income of the years 1936 to 1939 inclusive would be allowed a credit of 10 percent of that difference. Such credit, however, would be limited to a maximum of 20 percent of the surtax net income. For example, if a corporation had an average surtax net income for the years 1936-1939 of \$150,000, and a 1942 surtax net income of \$50,000, its gross war surtax would be 31 percent of \$50,000 or \$15,500, but it would be allowed as a credit against that sum 10 percent of the difference between \$150,000 and \$50,000, or \$10,000, so that its war surtax would be reduced to \$5,500. Its normal tax would remain 24 percent. If the average surtax net income for the years 1936-1939 had been \$200,000, 10 percent of the difference would come to \$15,000. However, such \$15,000 is in excess of 20 percent of the surtax net income for 1942; the credit therefore would not exceed such 20 percent figure, or \$10,000.

As suggested by the Secretary, it is believed desirable that such portion of the tax on any dollar of corporate income as exceeds 80 percent should be set aside by the

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Government for the account of the corporation. After the war the amounts so set aside would then be repaid to the corporation for the reemployment of labor, either directly or in the construction of capital needed in shifting operations from wartime production to peacetime production. This does not mean that a corporation must have an average effective rate of tax of more than 80 percent before any amount would be set aside under this provision. Whenever the receipt of an additional dollar of income would give rise to a combined excess profits tax, war surtax and normal tax of more than 80 cents, the amount above 80 cents would be recorded in the name of the corporation for the purpose mentioned. If the corporation were subject to excess profits tax of 60 percent or more it would have some income subject to more than the 80 percent rate and accordingly would have part of its tax set aside.

3. Estate and Gift Taxes

The Secretary has mentioned the changes in the rates and exemptions which we are suggesting for the estate and gift taxes. Other changes suggested by the Treasury with respect to these taxes will be discussed at a later point in my statement.

4. Excise Taxes

With respect to the increases in the excise taxes discussed by the Secretary, it is suggested that in the legislation imposing such increases the Congress state the policy that the increases are not to be considered a justification for increasing wages and are not to enter into the computations of parity prices for agricultural products. One additional matter may be mentioned. A few of the new excise taxes which were imposed under the Revenue Act of 1941 have not proved to be productive of any appreciable revenue. These few taxes are all imposed upon articles the manufacture of which has been or may be expected to be drastically curtailed. In addition, certain of these taxes

have imposed an administrative burden upon the Bureau of Internal Revenue far out of proportion to their revenue yield. Accordingly, it is suggested that the excise taxes on the manufacture of rubber articles, electric signs, optical equipment, and commercial washing machines be repealed.

5. Removal of Special Privileges

In the portion of his statement dealing with the elimination of special privileges the Secretary stressed three items: Tax-exempt securities, percentage depletion, and separate returns by married persons, and mentioned a number of others. The first of these requires no additional discussion to make our recommendation clear.

(a) Percentage Depletion. With respect to percentage depletion, we suggest that the avoidance of tax now permitted be eliminated by discontinuing the allowance for percentage depletion. Taxpayers would hereafter be permitted to obtain depletion only on a cost basis. If the Committee desires to continue some allowance for those taxpayers who have developed properties in the belief that percentage depletion would be obtainable, we suggest that this might be accomplished as follows: For oil and gas properties which became productive prior to January 1, 1942, percentage depletion should be permitted at a rate of 15 percent of the gross income from the property in the case of those taxpayers who elected to charge intangible drilling and development costs to capital account in prior taxable years. Taxpayers who elected to charge such costs to expense in prior years should be limited to a percentage depletion allowance of 5 percent, the 10 percent difference being approximately the advantage obtained by this group of taxpayers through expensing such costs. For metal mines, and non-metal mines or deposits including coal mines, which became productive prior to January 1, 1942, percentage depletion should be permitted at a rate of 10 percent in the case of metal mines and 5 percent in the case of other mines for taxpayers who capitalized intangible development expense, and at 5 percent and 2-1/2 percent, respectively, if such items were expensed.

If the Committee desires to offer a tax advantage as an inducement to new discoveries, we suggest that this might be accomplished as follows: A taxpayer who in the future discovers a new pool of oil or gas would obtain percentage depletion with respect to all production from his entire acreage within such pool at the rate determined upon, but not to exceed 27-1/2 percent. In the determination of a new pool, each new zone or horizon would be considered a new pool. Such allowance of percentage depletion would be limited, however, to those taxpayers who contribute substantially toward the cost of the exploratory well. Contributions would be deemed substantial if equivalent to 25 cents or more per foot of hole drilled for wells less than 6000 feet in depth, and 50 cents for wells in excess of such depth. As to metal mines, and non-metal mines or deposits including coal mines, hereafter developed, the allowance would be 10 percent and 5 percent, respectively, for taxpayers who bear the burden of the cost of exploration, development and operation of the property.

Finally, the existing option to capitalize or expense intangible drilling and development costs should be eliminated for both oil and gas wells and mines, and hereafter such costs should be charged to capital account.

(b) Joint Returns. The third item mentioned by the Secretary, separate returns by married taxpayers, was considered by this Committee last year. A provision was inserted in the bill as reported by the Committee requiring a husband and wife living together to file a joint return. Under this provision the tax liability would be computed upon the basis of the combined incomes of husband and wife. However, if either spouse so desired the actual tax burden would be allocated between them, so that neither would be forced to pay the tax due from the other. Our suggestion this year is substantially the same as the provision adopted by this Committee, with one modification. The adjustment for earned income mentioned by the Secretary would be computed as follows: A tax would be computed separately on the

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husband's earnings up to a maximum amount, and on the wife's earnings up to the same maximum. There would then be computed the tax on the total of such earnings. The difference between the tax on the combined earnings and the sum of the taxes on the separate earnings would be allowed as a credit against the tax based upon the entire joint income. If both husband and wife earn less than the specified amount of earnings and receive no other income, the liability under a joint return would be no greater than the sum of the liabilities under separate returns.

(c) Capital Gains and Losses. The Secretary has stated that our treatment of capital gains and losses is another example of a special privilege in our tax laws. On the one hand, the present maximum tax rates applicable to gains from capital assets held 18 months or more are unusually low. They have been left at their 1938 levels, while the rates on other incomes have been substantially increased. On the other hand, the present privilege of deducting capital losses from ordinary income has under recent rate increases encouraged an unusually large amount of capital loss realization. This practice was particularly noticeable during the last few weeks of 1941.

We have two major suggestions to meet these defects. As to long-term capital gains, one holding period of over 18 months would be substituted for the present complicated double holding period of 18 months and 24 months. Such long-term capital gains would be included in income at 50 percent of the amount of the gain, which is the present percentage for assets held over two years. At the same time the maximum effective rate on long-term capital gains would be increased from the present 15 percent and 20 percent to a single rate of 30 percent. These changes will bring the tax on long-term capital gains into closer harmony with the suggested increased rates on other incomes.

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As to long-term capital losses, it is suggested that such losses would not be permitted as a deduction against ordinary income, but only against long or short term capital gains. Short-term capital losses can be applied under present law only against short-term capital gains. It is suggested that they be permitted as a deduction from long-term gains as well. To prevent hardship in the case of a taxpayer having small income and sporadic losses, it is suggested that \$1,000 of capital losses, whether long-term or short-term, be allowed against ordinary income. Moreover, a five-year carryover would be allowed for the excess of capital losses over capital gains.

(d) Life Insurance Companies. Another example of special privilege pointed out by the Secretary is the present treatment of certain insurance companies. The life insurance companies of the United States have assets of 30 billion dollars. During the year 1939 these assets earned investment income of over 1 billion dollars. Yet the life insurance companies in the United States paid a total income tax of only \$459,000.

There are two major reasons why life insurance companies pay practically no tax. First, they are allowed to deduct from their investment income an amount equal to 3-3/4 percent of the mean of the reserves required by law, although the average rate actually earned is less than 3-1/2 percent. Second, while tax exempt interest is excluded in computing investment income, that portion of the tax exempt interest which is attributable to the reserves is excluded a second time through the deduction of 3-3/4 of the mean of the reserves.

It is suggested that this double exclusion of tax-exempt interest be eliminated by reducing the reserve earnings deduction by the percentage that tax-exempt interest bears to total investment income.

Further, the deduction of 3-3/4 percent of the mean of the reserves should be reexamined in the light of present day realities. It is suggested that this deduction be reduced to an average of 3-1/4 percent and the actual rate of interest assumed by the company in computing its reserves. In ascertaining this average, a weight of 65 percent should be given to the 3-1/4 percent and a weight of 35 percent to the actual interest assumption rate. Such a formula avoids the unfairness of using either a fixed rate, which discriminates against those companies using a higher actual rate and thus possessing smaller reserves, or the actual rate alone, which discriminates to an even greater degree against companies using a low rate and which injects into the determination of the rate to be used. Today, most insurance is written on a 3-1/2 percent or 3 percent basis. As the suggested formula when applied to the reserves under such rates produces an approximate equality in the allowable reserve earnings deduction, discrimination is thereby avoided.

Finally, the restriction of the tax base for life insurance to investment income would be confined to the actual life insurance business of a company. A life insurance company also doing a health and accident business on a cancellable basis would be taxed as are casualty insurance companies on that portion of its business.

(c) Mutual Insurance Companies Other Than Life. Many of the mutual casualty insurance companies, large as well as small, are given an outright exemption from taxation under Section 101 (11), although that section was originally designed to exempt only small and local mutual companies. Other mutual companies, while nominally subject to tax, ordinarily pay no tax under the present method of computing their income. This has resulted in a serious disparity in tax treatment between such mutual companies and the stock casualty companies.

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It is suggested that the exemption in section 101 (11) be confined to those mutual casualty companies whose net taxable income does not exceed \$25,000 and which do not write insurance on any property having a value of more than \$50,000, regardless of whether reinsured. It is further suggested that the remaining mutual companies be taxed on the sum of their investment income and the additions to their surplus which are free from claims of policyholders.*

(f) Pension Trusts. The tax avoidance potentialities of pension trusts are well known. The use of these trusts as a tax saving device for key officers and employees has been stimulated by increasing rates of tax. To prevent such tax avoidance we suggest that a trust should be required to meet the following standards in order to be tax exempt: (1) The right of the employee to his portion of the employer's contribution to the trust, and to its earnings, as well as to his own contribution, should be fully vested; (2) The trust should cover either (a) 70 percent or more of all employees, excluding employees who have been employed for less than a minimum period not exceeding five years,

* The suggested basis for the taxation of these companies is as follows: They would be taxed on the sum of their net investment income and net premiums received, less a deduction for the portion of the losses, underwriting expenses, dividends paid to policyholders and additions to policyholders' claimable reserves paid out of premium income, and a deduction for any net loss of the prior year. The portion of losses, expenses, dividends and additions to reserves paid out of premium income would be determined by deducting from such amounts the net investment income remaining after allowance for the tax to be paid on such income.

and casual, part-time and seasonal employees, or (1) such employees as qualify under a classification set up by the employer and found by the Commissioner not to be based upon any favoritism for employees who are officers, shareholders, supervising employees, or highly compensated employees; (3) The system of contributions and benefits under the trust should not discriminate in favor of officers, shareholders, supervising employees or highly compensated employees; and (4) If the pension benefits of an employee in such a tax exempt trust exceed, let us say, \$7,500 a year, such employee should include in income currently his pro rata share of the employer's contribution to the trust and of the earnings of the trust.

G. Hardships and Inequities.

The Secretary has pointed out that war time rates make it imperative to eliminate as far as possible existing inequities which distort the tax burden of certain taxpayers. I should like to discuss the inequities which the Secretary mentioned as well as a few additional hardships.

(a) Investment Expenses. Under existing law taxpayers are allowed to deduct expenses incurred in connection with a trade or business. Non-trade or non-business income, however, is also subject to tax. It would therefore be equitable to provide for the deduction of expenses incurred in the production of such non-trade or non-business income. If the Committee approves this suggestion, the change should be made applicable to all prior years, subject, of course, to the statute of limitations and like restrictions.

(b) Amortization Option. The five year amortization option with respect to emergency facilities contained in section 124 is allowed at present only to corporations. With increasing expansion of our war production, many individuals and partnerships manufacturing war materials will find it necessary to

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obtain new facilities. It is therefore suggested that the amortization option be extended to individuals and partnerships.

(c) Recoveries of Bad Debts and Taxes. If a taxpayer who has taken a bad debt deduction later receives payment of such debt, such payment must be included in his income even though he obtained no tax benefit from the deduction in the prior year. While this result is theoretically proper under our annual system of taxation, it may produce severe hardships in certain cases through a distortion of the taxpayer's real income. At the same time, any departure from our annual system of taxation always produces administrative difficulties which serve to impede the collection of taxes. It is believed that the hardships can be removed and the administrative difficulties kept to a minimum by excluding from income amounts received in payment of the debt to the extent that the deduction on account of the debt in the prior year did not produce a tax benefit. The troublesome question whether a benefit resulted should be determined pursuant to regulations prescribed by the Commissioner with the approval of the Secretary. It is also suggested that this treatment be extended to refunds of taxes previously deducted.

(d) Consolidated Returns. At the present time corporations subject to the excess profits tax are permitted to file consolidated returns for the purposes of that tax if they meet certain standards of consolidation, and if they consent to regulations prescribing the method of computing the tax on a consolidated basis. Except for railroads and certain corporations in foreign trade, these corporations, however, are not permitted to file consolidated returns for the purposes of the corporation income tax. This divergence in treatment makes for considerable complexity in the application of the two taxes, a complexity which burdens taxpayers and the Bureau of Internal Revenue alike. Moreover, an accurate measure of the income of a group of affiliated corporations

can only be obtained through the use of consolidated returns. Under the rates of tax now suggested for the corporation income tax, the inaccuracies that occur through separate returns may work a severe hardship. It is therefore suggested that affiliated corporations be given the privilege of filing consolidated returns for the purposes of the corporation income tax as well as the excess profits tax. Any group of corporations electing such privilege should be required to do so for both taxes. The Committee may wish to consider the desirability of having a differential in tax for corporations electing to file consolidated returns.

(e) Income Accrued at Date of Decedent's Death.
Under present provisions income accrued to the date of a decedent's death must be included in the return for his last income tax period. The "bunching up" of income that may occur under this provision can work a severe hardship, as the income of the decedent may in effect be artificially raised to a much higher surtax bracket. The Supreme Court has indicated that under this provision a lawyer's share of the fees from cases pending at his death is includible in the income tax return for the year in which his death occurs even though such fees may not be collectible until years later. The same result may follow with respect to the commissions of insurance agents, executors and trustees, and the fees of doctors and other professional men. To avoid this hardship, it is suggested that the present method of treating such income be eliminated in favor of a method that taxes the income to the persons who actually receive it. Thus, the income would be made taxable to the estate or to the heir or legatee as the case may be. It is also suggested that this change be made retroactive to all open years under proper safeguards insuring payment of the tax by the recipients of income in such years.

7. Additional Examples of Special Privileges

A. Income Taxes

(a) Tax Exempt Corporations Engaged in Business.

Our revenue laws have been generous in exempting certain corporations from the income tax. Thus charitable or educational corporations are not subject to the corporate income tax. Many exempt corporations, however, have so far departed from the purpose of the exemption as to engage in trades and business completely unrelated to their exempt activities, and yet the income of such business activities remains exempt from tax. If a college operates a hotel, the earnings of the hotel are exempt; if an orphan's home operates a water works and an electric power and gas company, the earnings of these utilities are exempt; if a charitable organization operates a bathing beach, the earnings of the beach are exempt. In this way sources of considerable tax revenue are withdrawn from the scope of the tax. At the same time privately owned businesses are forced to compete with other businesses not subject to an income tax.

It is believed that the exemptions accorded to such organizations should not be so distorted. It is therefore suggested that such corporations be taxed on the income derived from a trade or business not necessarily incident to their exempt activities. Thus, it is not intended to tax an institute for the welfare of the blind on the proceeds from the sale of articles made by those aided by the institute. It might also be desirable to allow a flat exemption of \$5,000 regardless of the nature of the business activity.

(b) Basis of Property Acquired from Decedent.

Under present provisions the basis for determining gain on an asset acquired from a decedent is the market value of such asset at the date of death. Appreciation in value in the hands of a decedent thus becomes frozen in the basis accorded to the heir or legatee. A large part of the capital gains inherent in the in-

creased value of property thus escapes income tax as the assets are handed down from one generation to the other. To remove this special privilege, it is suggested that the basis of property to the recipient for the computation of capital gains and losses be the same as it was in the hands of the decedent.

(c) Annuity Trusts. A beneficiary of a trust is taxable on the portion of the trust income currently distributable to him. If, however, the beneficiary's share is made a charge upon the trust corpus, the courts have ruled that the trust, and not the beneficiary, is taxable. This is so even if the amounts received by the beneficiary are paid out of the income of the trust and in no way diminish the trust corpus, and even if the relationship between the yearly amount to be paid to the beneficiary and the trust income makes it inconceivable that the corpus will ever have to be resorted to. This situation offers a ready method of tax avoidance to trust grantors, since without any real inconvenience they can shift the tax from beneficiary to trust so as to avoid the higher surtax brackets. It is suggested that this special privilege be eliminated by taxing to the beneficiary the amounts paid to him to the extent that they are paid out of the trust income.

(d) Amortization of Bond Premium. Holders of a tax exempt security purchased at a premium are today in the unique position of being relieved of tax on the interest paid on the security and of receiving a deductible loss upon redemption or other disposition of the security to the extent of the premium. As the premium at which a bond is obtained represents to the holder merely an effective yield lower than the actual interest rate, the holder is entitled merely to tax exemption solely with respect to such effective yield. The difference between the yield and the actual interest rate is simply a return of capital and should be treated as such rather than as a capital loss. On the other hand, the holder of a taxable security pur-

chased at a premium is in the unfortunate position of being taxed upon the interest at high rates and of receiving a capital loss upon redemption whose deductibility is subject to the restrictions placed upon capital losses. Since the yield rather than the actual interest rate reflects the true income to the taxpayer, only that income should be subject to tax and the capital loss should disappear.

Proper tax treatment in both situations may be obtained through amortization of the premium. It is suggested that such amortization be mandatory for wholly tax exempt securities, and for partially tax exempt securities held by a corporation. For all other securities, the amortization should be at the taxpayer's election.

(e) Non-business Bad Debts. At present taxpayers are permitted to reduce their taxable income by deductions for bad debts even though the loans giving rise to the deduction have no connection with any business activity of the taxpayer. Moreover, such a bad debt deduction (other than losses on corporate securities) is not subject to the restrictions on capital losses. To insure a fairer reflection of taxable income it is suggested that only the first \$500 of a non-business bad debt be deductible in full, and that the balance be treated as a capital loss.

(f) March 1, 1913 Earnings and Increase in Value. A stockholder is normally taxable on the earnings of a corporation distributed to him as a dividend. If, however, the distribution is traceable to earnings of the corporation accumulated prior to March 1, 1913 or to an increase in the value of property which occurred prior to that date but was realized by a sale thereafter, the distribution is not taxable to the stockholder. There is no valid policy ground for according such a privilege to a few favored shareholders. Nor is there any Constitutional requirement for this exemption, for the Supreme Court long ago ruled that

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a distribution of this nature could be taxed if Congress chose to do so. Moreover, the perpetuation of this exemption is responsible for much of the complexity attendant upon the provisions dealing with corporate distributions. It is therefore urged that the exemption be eliminated.

3. Estate and Gift Taxes

(a) Powers of Appointment. Since 1918 the estate tax has expressly included in the decedent's estate property which passes under a general power exercised by the decedent. Experience with this provision has disclosed a number of serious defects. The language of the statute provides a generous loophole for the avoidance of tax if the decedent simply refrains from exercising his power. Even if the power is exercised, principles developed by the Supreme Court and the lower courts bar the imposition of an estate tax where the recipients appointed by the decedent are the persons who would take the property in the absence of exercise. Finally, the existing provision reaches only general powers, thereby granting immunity to powers of disposition which are in effect as broad as general powers although technically they do not qualify as such under rules of property law unrelated to taxation.

In order to overcome the foregoing defects the following changes are proposed: (1) The estate tax should reach all property subject to a power of appointment, whether exercised or not, other than powers expressly excluded by statute; (2) The powers excluded from the reach of the estate tax should be limited to (a) powers to appoint among the decedent's spouse, his descendants, and spouses of such descendants, (b) fiduciary powers, and (c) powers to appoint for charitable purposes; (3) The executor should be authorized to obtain reimbursement from the appointive property for that portion of the tax which is attributable to such property; (4) The gift tax statute should include the exercise or surrender of all powers subject to the estate tax.

(b) Life Insurance. The life insurance provision of the statute should be amended to state explicitly the criteria of taxability with respect to life insurance. It is suggested that insurance proceeds should be taxed as part of the decedent's estate if he has either paid the premiums on the policy or possessed at death incidents of ownership in the policy.

(c) Contemplation of Death. The existing rebuttable presumption that a gift is in contemplation of death if made within two years of death has been productive of litigation but not of revenue. It is therefore proposed that the provision be amended to provide that all transfers made by a donor over the age of 65, to the extent that such transfers to any one beneficiary exceed, in the aggregate, a specified sum, shall be subject to the estate tax.

(d) Limitation Upon Deductions for Contributions to Charity. Amounts bequeathed or transferred for specified charitable purposes are deductible in computing the estate subject to tax. The statute contains no limitation upon the amount of the deduction for such gifts to charity and thereby affords to wealthy individuals an opportunity virtually to escape all liability under the tax. The provision also enables decedents to perpetuate, through charitable trusts and corporations, family control over their wealth without paying the estate tax. The policy underlying the deduction for gifts to charity does not justify such results and it is suggested that the deduction be limited to a specified percentage of the decedent's estate.

8. Additional Examples of Hardships and Inequities.

A. Income Taxes

(1) Alimony. Generally speaking, alimony payments are not subject to tax in the hands of a divorced wife. Even where irrevocable trusts have been established, and the husband has no further interest in the trust

property, the income of the alimony trust is nevertheless taxable to him because it is used to pay an alimony obligation. Rising tax rates have in some cases absorbed the entire income of the husband required to pay the tax on his income and that of his divorced wife. At the same time, divorced wives receiving tax free alimony possess a privileged status under our tax laws which relieves them of any share of the tax burden.

The fair solution is that recommended by the Senate last year, namely to tax alimony payments to the divorced wife. We suggest that this solution be adopted.

(b) Personal Holding Companies. While, generally speaking, the special high tax placed on a personal holding company is not applicable if it distributes all its income, in some cases this tax will be applicable even though such a complete distribution of income is made. This results from the fact that the net income upon which the company is taxable and the earnings and profits upon which its credit for distribution turns may be computed differently. For example, a capital loss reduces earnings and profits but does not reduce net income. If the earnings and profits are lower than the net income a distribution of the entire income may produce a credit equal only to the earnings and profits, leaving the company still subject to tax on the balance. As there is no justification for this result, caused entirely by technical defects in the present tax, it is suggested that relief be accorded to such companies. The relief, which should be made retroactive to 1937, would make the tax inapplicable if the shareholders agree to include in their income any actual distribution made (or consent to taxation under the consent dividends credits as if a distribution had been made), to the extent of the discrepancy between income and earnings and profits.

Another inequity under the present operation of this tax is its coverage of industrial loan and investment companies. Such companies, organized and regulated under State laws, are operating companies whose purposes

and activities are not of the type intended to be reached by this tax. It should be noted that licensed personal finance companies have been specifically exempted from the tax and these companies fall in the same general category. It is, therefore, suggested that industrial loan and investment companies be relieved from the tax under appropriate safeguards.

(c) Statute of Limitations on Bad Debts and Worthless Stock Losses. The difficulties surrounding the deduction for bad debts and worthless stock losses have long been familiar sources of irritation to taxpayers and the Commissioner alike. It is far from easy to ascertain when a debt is bad or when a share of stock becomes worthless. At the same time, the taxpayer must select the proper year before the statute of limitations has run with respect to that year. Much litigation is occasioned by the artificial barrier thus thrown up by the statute of limitations, as a taxpayer who chose one year only to be met with the claim that an earlier but barred year was the correct year must battle to defend his choice or lose the deduction entirely. It is believed that this useless litigation and many of the difficulties in this field can be avoided by, first, eliminating the ascertainment of worthlessness and the charge-off requirement in the case of bad debts (including securities producing capital losses); and, second, allowing a seven year statute of limitations with respect to refund claims relating to a deduction on account of these items. Interest should not be allowed for the interval between the expiration of the normal statute of limitations and six months after the claim was filed.

(d) Mutual Investment Companies. The Revenue Act of 1938 provided that mutual investment companies meeting certain standards prescribed in that act were to be taxed only on the income which they did not distribute to their shareholders. This provision in substantially the same form is now contained in the Internal Revenue Code. Since the passage of the Revenue Act of 1936, the Securities and Exchange Com-

mission has given intensive study to the question of investment trusts, and its work has resulted in the Investment Company Act of 1940. This Act provides for the classification and regulation of investment companies by the Securities and Exchange Commission. In the Excess Profits Tax Act of 1940 recognition was given to these developments through a provision which exempted from the excess profits tax not only those investment companies which met the special standards set forth in the Internal Revenue Code, but also those companies which were registered as diversified companies under the Investment Company Act.

It is believed that the different classifications in the income tax and the excess profits tax should be harmonized with the Investment Company Act as far as is feasible. It is therefore suggested that the special treatment under the income tax and the exemption from the excess profits tax be allowed to those mutual investment companies which: (1) Qualify under the Investment Company Act as diversified companies; (2) Derive at least 90 percent of their gross income from dividends, interest and gains from the sale or other disposition of stock or securities; (3) Do not derive 30 percent or more of their gross income from the sale or other disposition of stock or securities held for less than 3 months; and (4) As respects the income tax, but not the excess profits tax, distribute to shareholders as taxable dividends not less than 90 percent of their net income, exclusive of short-and long-term capital gains.

(e) Interim Reports Under Last-In First-Out Inventory Method. The provisions permitting a taxpayer to use the last-in first-out inventory method at present require that for the year of change, as well as any year thereafter, the taxpayer shall not use any other method of inventoring to ascertain profit or loss for the purpose of reports to shareholders or creditors. This requirement applies alike to annual reports and interim reports. Taxpayers who were using the first-in first-out method in 1941 may in some cases

have found it desirable as a protection against price rises and inflated inventories to change to the last-in first-out method for that year. If such taxpayers, however, had issued interim reports in 1941 on the first-in first-out method, they would be prevented from making the change until 1942, at which time the protection afforded by the change might be greatly diminished. As the interim report requirement serves no real purpose and operates to discriminate unfairly between taxpayers who follow the practice of issuing interim reports and those who do not, it is suggested that the requirement be eliminated, and that the elimination be made retroactive to 1941.

(f) Compensation for Services Rendered Over a Period of Five Years or More. Taxpayers receiving compensation for services rendered over a period of five years or more are permitted to treat the compensation as having been received over the years of service if not less than 95 percent of the compensation is paid upon completion of the services. This provision has been construed to require that the services extend over at least five calendar years, so that services rendered over a period as long as 70 months but not covering five calendar years would not be within the provision. A more sensible result would obtain if the period were changed to 60 calendar months and the allocation made on a monthly basis. At the same time consideration might be given to reducing the percentage requirement. It is suggested that if these changes be adopted they be made retroactive to 1941.

B. Estate Taxes

(a) Pledges to Charity. Under present law pledges to charity which are enforceable against a decedent's estate are not deductible unless they are supported by a commensurate monetary consideration. Thus pledges are not deductible even though there are expenditures and commitments by the charitable organization in reliance upon the decedent's pledge. This produces an inequitable result, since the executor must satisfy

the pledge but the amount so paid does not serve to reduce the estate subject to tax. The statute should therefore be amended to allow a deduction for payments of pledges or subscriptions made by the decedent and enforceable against his estate.

(b) Credit for State Death Taxes. Existing law allows a credit for state death taxes against the basic estate tax. If the decedent has made gifts during his lifetime which are subject to the estate tax, a credit against the estate tax is allowed for the gift tax paid with respect to such gifts. This allowance of gift tax credit may have the effect, however, of diminishing the allowance of the state death tax credit. This results from the fact that the state death tax credit is computed after the allowance of gift tax credit. It is recommended that the order of credits be reversed, so that the credit for local death taxes would be allowed prior to the credit for gift taxes.

(c) Federal Apportionment Statute. At the present time there is no provision apportioning the estate tax liability among the beneficiaries of the estate other than a provision relating to life insurance. There is no sound basis for having an express provision apportioning liability in regard to life insurance without similar provisions covering other transfers subject to the estate tax. It is therefore suggested that there be incorporated in the estate tax an apportionment provision which would apportion the liability for tax in those cases in which the decedent did not himself prescribe a method of apportionment.

3. Procedural Provisions

At this point I should like to mention two important procedural changes which we are suggesting.

(c) Suits Against Collectors of Internal Revenue. At the present time the legal avenues available to a taxpayer desiring to sue for a tax refund present alternatives which serve only to create confusion and unnecessary litigation. A taxpayer may in some instances

either sue the United States in a District Court or the Court of Claims, or sue a Collector of Internal Revenue in a District Court. The action against the Collector has been fittingly described by the Supreme Court as an "anomalous relic of bygone modes of thought." This antiquated procedure has no present justification, for the alternative procedures afford adequate remedies. The right to sue the Collector tends to prolong tax controversies, since a taxpayer may first sue the Collector and then if he is defeated sue the United States all over again on what is in effect the same cause of action. It is suggested that this situation be remedied by the elimination of suits against the Collector.

(b) Refund Jurisdiction on Board of Tax Appeals.
The jurisdiction of the Board of Tax Appeals is limited to proceedings arising under a deficiency letter issued by the Commissioner. While the Board has authority to find an overpayment in certain cases, it does not possess any general authority to hear refund claims. The Board is a tribunal specially skilled in tax matters and there is no sound reason for denying to taxpayers the opportunity to present their refund claims to such a forum. As the great bulk of tax cases are at present tried before the Board of Tax Appeals, the addition of refund jurisdiction will not unduly burden the Board. It is therefore suggested that an appropriate procedure be devised under which the Board may hear refund cases if the taxpayer desires to utilize that forum instead of the District Courts or the Court of Claims.

The matters which I have discussed do not exhaust all of the changes which we believe should be presented to the Committee. There are a number of minor technical matters which do not merit enumeration at this time. In addition there are other matters which we are still studying and with respect to which we may be able to present our views to the Committee at a later date.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, MARCH 9, 1942

- Q. I hear there is a tax bill.
- H.M.JR: That is right. Is everybody happy? What is on your minds?
- Q. What do you hear about taxes from up on the Hill, Mr. Secretary? Do you think your program is going through?
- A. Well, time will tell. We will see.
- Q. How much time do you think it will take to tell, sir?
- A. I don't know.
- Q. The tax expert, Mr. Seideman, testified today suggesting the removal of all exemptions. Do you agree with his statement?
- A. No.
- Q. You don't agree with that.
- A. No, no. When I testified - we got some very interesting figures. I think we gave them out. If we didn't, I would be glad to give them to you now. Well, a single person earning seven hundred

fifty dollars a year pays a total of a hundred and thirty dollars in Federal, state, and local taxes of all kinds.

Q. Is that now or under your proposal, sir?

A. This is existing.

Q. Those are, in many cases, indirect taxes aren't they?

A. Yes.

Q. How can you compile that, Mr. Secretary?

A. Well, Mr. Blough compiled these for me. This works out to seventeen and three tenths percent of his income. He has to work eight weeks now to pay his taxes. Now, a married person with no dependents earning fifteen hundred dollars a year pays a total of two hundred fifty dollars a year in Federal, state, and local taxes. This works out sixteen and seven tenths percent. He would have to work about eight weeks to pay the existing tax bills. There is a little footnote here that says these estimates are based on Federal

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taxes for the fiscal year '42 and state and local taxes '41. Did I go too fast?

Q. No, sir.

A. Now, there is another way to approach this.

Q. Just one question. That includes secret taxes and everything like that?

A. That is right.

Q. All taxes?

A. Yes. This was prepared and, as far as I know, these figures have never appeared in the press. No one has ever published these figures. The single man, seven hundred fifty dollars, he pays a hundred and thirty dollars in Federal, state, and local taxes, and for the married man of fifteen hundred dollars, he pays two hundred fifty dollars a year. Now, these figures were prepared for me when I was trying to make up my mind, should we or shouldn't we recommend to lower the present exemptions, and after seeing this plus some additional figures I am going to give you, I came to the decision that we shouldn't. As I say, these figures have

never appeared in the papers up to now. Let me give you some more figures. This approaches it a little bit differently. This is based on the so-called typical American family. In this thing it shows, for instance, that the family with an income of - under five hundred dollars, that they go in the hole each year four hundred ten dollars. I mean, they have to get contributions, say, from hospitals and one thing and another from the community. I mean, they actually go in the hole four hundred ten dollars a year.

Q. How large a family is that, sir?

A. I think they call - is it three and a half?

MR. SCHWARZ: I believe it is.

H.M.JR: You can ask Blough. I think it is. It is called the typical - they don't say how many, but we will find out.

MR. SCHWARZ: It is an average.

H.M.JR: You can find out. These figures are furnished

me by this Research Division of OPA. That is where I got them from. Now, if you take a family from seven hundred fifty up to a thousand dollars, they run in the hole a hundred and seventy-six dollars.

- Q. Seven fifty to a thousand?
- A. Yes.
- Q. And a hundred and seventy-six dollars?
- A. Yes. From a thousand to twelve hundred fifty, they go in the hole a hundred and four dollars, and from twelve hundred, and fifty to fifteen hundred dollars, they save forty-six dollars.
- Q. You mean they are in the--
- A. They don't get on the plus side until they have passed twelve hundred fifty dollars.
- Q. And they make forty-six dollars a year?
- A. And from twelve hundred fifty to fifteen hundred dollars a year they save forty-six dollars. Now, this is on the income level of 1941.
- Q. Is that at 1941 prices?
- A. Yes. If you want anything more, Blough can give

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it to you. But based on these figures, which to me were very surprising and to a lot of other people in Washington, until the typical family gets above a twelve hundred fifty dollar income, they don't save anything, then from twelve hundred fifty to fifteen hundred dollars, they only save forty-six dollars. Now, with that situation plus the other situation about the taxes they pay now, I think that they are making their fair contribution at this time for Government, and that is why we here in the Treasury are opposed to lowering the exemptions.

Q. Mr. Secretary, how can your experts tell what a man of seven hundred fifty dollars income spends in taxes? What is that basis of computation.

A. Well, if you want the break-down, as I say, Mr. Blough can give it to you, but they have gone into the whole question of what his budget is and what he has got left at the end of the year, net, and this is a study which has been made and which has been furnished to me, and it is the only figures which are available in Washington.

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There are no other figures. Now, I have been all over this. I have asked every Department in Washington what they had, or any other agency, as of 1941, and these are the most up-to-date and the only existing figures there are in Washington. Now, as I understand it, they are now making spot checks against these in a thousand families and with five hundred single men to correct any errors.

- Q. Who is they, OPA?
- A. It is the Research Division in OPA.
- Q. Can you give us the figures on the number of families in these various income groups?
- A. No, that they haven't got.
- Q. Well, that brings up - that shows how serious the Treasury dilemma is, Mr. Secretary. For example, you have, then, to sell much more bonds to the banks on the one hand. Secondly, you can bring a new class of taxpayers in, and, thirdly, it shows, perhaps, that the whole tax system is wrong and perhaps the people

on top aren't paying enough. If you eliminate - and I understand a twenty-five hundred income level for a family is a darned good level in this family, on the basis of the TNEC statistics they submitted two or three years ago.

A. I wouldn't say it is a darned good level. I would say it is the level of the large majority.

Q. I mean statistically speaking.

A. Many people are in that group. We will agree to that?

Q. That is right.

A. A large majority of the people are in that group, but you don't think that is a good level, do you.

Q. Oh, no, I meant statistically speaking as to the number in that group.

A. Yes. But these are the figures and these are the figures I had available to me when I made up my mind that we would tax the people above this income level rather than to go below this income level. Now, I have tried - I mentioned these once before. I think I mentioned them

before, but I didn't get them over, so I was glad that you asked me the question so I could get it over to you, because I think that the average fair-minded person, when he sees these figures and sees what they mean, is going to think twice before he says that until we have - until we have exhausted all other avenues of revenue, until we have closed all the loopholes, we don't add any burden on this group, and I feel that way very strongly.

Q. This same argument, I presume, applies to your sales tax, your opposition to the sales tax, wouldn't it?

A. Yes. I mean, these figures, gentlemen, are the only figures that I have been able to find in Washington that are up to date, and that I have any confidence in. I have exhausted every Department, and I have confidence in these figures, and based on those, no sales tax and no lowering of income exemption until we close all the loopholes and exhaust all other avenues

of taxes.

Q. Mr. Secretary--

Could you find out for us what the size of that average family is?

MR. SCHWARZ: I will get that.

H.M.JR: They can get it. Shaeffer, call up Blough on the phone outside. He may know. If not, he can get it for you.

Q. Mr. Secretary, then how can you justify the increases in special excises that you suggested such as on cigarettes and soft drinks? You would certainly hit these people.

A. You can justify it on the grounds that you might call them semi-luxuries, and that it is in those groups which we have picked to increase that - either because they are semi-luxuries or because we feel that that is a source - if a person can afford to buy these cigarettes and buy - what was the other thing you mentioned?

Q. Soft drinks.

Candy.

A. I would call them semi-luxuries, and if they

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can afford to buy those, they can afford to pay a tax. That wouldn't hold true on milk or eggs or meat or clothing. Isn't that fair, a semi-luxury? Wouldn't you call them a semi-luxury in war times?

Q. Some people consider cigarettes a necessity.

I do, Mr. Secretary. Candy, also.

Q. Mr. Secretary, could you tell us--

And liquor especially.

Oh, yes, liquor always.

Could you indicate the basis--

But don't you think it is serious that - where are you going to sell these Savings Bonds,

Mr. Secretary?

A. Well, who we are going to sell them to, we are going to sell them to the people who are getting regular pay or increased pay, largely in defense plants, largely in plants that are working on war work, and the answer is those people are buying them and buying them in increasing numbers, so I mean, this doesn't

frighten me. This is - it is just the fact that I pressed awfully hard to get the information because I knew what the fight would be on the sales tax and lowering of the exemptions. Naturally, the people who think that they can get it from a lower level and take a little off themselves, they are going to try to take it off the underdog. I mean, that is where they are going to go, and I was trying to show and kept digging around until I got those figures. I mean, if they can take a little off themselves and put it on the underdog, of course they are going to do it. But this group can't stand it, and I think these figures prove they can't stand it.

- Q. Could you indicate the basis of those figures, Mr. Secretary?
- A. Three and a half to four members of the family.
- Q. There are no census statistics covering such

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matters by families of income or single persons of income? Could you tell us how that figure was arrived at?

- A. Well, you will have to, as I say - Blough will have to get it or send you to the source or get the source over here.
- Q. It is astounding to me, sir, that there are such figures. I have delved into that for years, and I have never found a basis for making them.
- A. Well, I got them thirty-six hours before I went on the Hill. That was when I got them, and I have been digging and digging, you and I both, and--
- Q. I can hardly conceive of a basis for an intelligent estimate of that sort, but that is only my personal opinion. The date just aren't. The date, so far as I have been

able to discover, just aren't.

A. Well, it wasn't, but it is here, and they hadn't released it, and I asked whether I could use it, and they told me I could and that is why I am using it. It is the best I could get anywhere in Washington or from any private source.

Q. I don't doubt that, sir. I just doubt their accuracy very strongly.

A. No, what is bothering you is that you never heard about it before.

Q. Well, I have gone over it pretty carefully and tried to uncover it, and haven't found anything that would justify such computations as that. I am delighted that they are here. I want to look into it.

- A. Well, I am too, and I would be glad to have you check them.
- Q. Yes. Well, your statement, Mr. Secretary--
- A. As I say, after all, I think the person's name is Hildegard Kneeland, who is on loan from the Home Economics Department of Agriculture to the Division of Research at OPA.
- Q. Mr. Secretary--
- A. Have you ever heard of here?
- Q. No, sir.
- A. You are just bewildered. We will--
- Q. No, sir, I just think it is a guess.
- A. Well, that is all right. I made it perfectly clear that the only figures that I could get hold of were these; and until I am proven wrong - I have never met Miss Kneeland.

Q. My astonishment comes from the fact that I have been working on the same line for years and have never been able to uncover anything of that sort.

A. I think I testified Tuesday, didn't I?

Q. Yes, sir.

A. I got them Monday.

Q. Mr. Secretary, you said - made the statement that--

A. I think it was Monday. It might have been Friday, but I got them one or two days before.

Q. They are extremely interesting. I didn't know they were available.

I believe you make the inferences from the statement that you made that these people who were trying to push these taxes to the under-dog - I attended that session at which you testified, and I noticed specifically that Representative Robertson of Virginia was particularly anxious for a sales tax, and Disney of Oklahoma, and Knutson of Minnesota, and Reed of New York. Would you - would it be correct to say that they are trying to do this?

A. No, you know that.

- Q. Well, of course, there are some with special interests. In Oklahoma, they have the oil wells. I can see that.
- A. I think the misconception is this. These gentlemen are honestly motivated in thinking that if you lower the brackets, that you will reach the large spending groups, and they go back to some survey that was made in '35 or '36 on this thing by the National Resources Committee, and from that date to this - maybe you - if you have followed this, maybe you can correct me. I think it was '35 or '36. From that day to this there has been nothing, and they have always been told that this lower third, that is where the mass buying exists, and I wasn't satisfied, so I did a little spot checking on my own up around where I live, and I wasn't satisfied that that is where the mass buying was. What they are interested in is stopping inflation the way I am. I pressed and pressed and pressed to find out whether this group had enough purchasing power to cause any inflation, and I am satisfied that that is the last group to go to.

- Q. You mean you are satisfied that they don't have the purchasing power to cause inflation?
- A. I am satisfied, yes.
- Q. Well, where will the inflation come from, Mr. Secretary?
- A. The group above that.
- Q. You think there would be fewer people in that group, Mr. Secretary, as a result of increased defense expenditures?
- A. Fewer people?
- Q. Fewer people in that low income group.
- A. Well, a lot of these people from the lower income group will get into the higher income group.
- Q. That is what I mean.
- A. Oh, yes, a lot of them will rise above that. I am a believer, and always have been, that the more taxpayers you can get, the better. The more people you can get - the original idea that I had for United States Savings Bonds was to get - I hoped to get five million people owning - stockholders in the United States Government, who would have an interest in the Government, and would have an interest

in the spending of the Government, and I started this idea back five or six years ago with that idea, to try to get a middle-class group in this country who would be stockholders in their own Government, and who would take an interest in expenditures. Now, if, through the war, in this very, very low income group, the people go above that, fine.

Q. Then, they can pay taxes?

A. Then, they can pay taxes. They are paying. The point I am pointing out to you today is that they already are paying two hundred fifty dollars in the married family of fifteen hundred dollars, and the single fellow is paying a hundred and thirty dollars in taxes already. So this story that they are running that they don't pay any taxes is erroneous through lack of information. Gregory gave me the opportunity, and I wasn't rehearsed beforehand, of giving this.

Q. Mr. Secretary, back on that mass purchasing power to stop inflation, when you said those above it, do you mean by that to stop that group that you are trying yet harder at ten thousand dollars? You think that is where you can stop your inflation, by tapping that group heavy?

- A. All the way along the line. I mean, you start with these figures which I gave you, with a family of one hundred and fifty dollars or over saving forty-six dollars, and then at fifteen hundred or over you jump to a hundred and fifty-five dollars, and from then on you go very fast, and as they begin to get more savings, we get it either in the form of taxes or selling them Defense Bonds.
- Q. Would you do that voluntarily, or have enforced savings?
- A. You know where I stand on that.
- Q. I thought you might have changed your mind.
- A. No, no.
- Q. Mr. Secretary, to round out this thing, where would your stand on that jibe with the administration's program for increasing the social taxes?
- A. Well, the Social Security Taxes, after all, are a savings bank for the working man. He puts his money aside, and it is there for the various things, unemployment, sickness, and old age, and accidents, and so forth and so on. It is a savings bank for him. It is there, and it is in your Government, set aside

set aside for you when you need it.

Q. The only thing I can foresee out of this program is that you will have to sell increasingly large amounts of these bonds to banks rather than to individuals, Mr. Secretary.

A. Well, not necessarily. The amount we have to sell to the banks isn't frightening. If everybody would do his part, and so far everybody has.

Q. Would that be ten billion, twelve billion, or fifteen billion a year, sir?

A. Well, the statement I made on the Hill was that we hoped to hit a billion a month.

Q. Twelve billion a year? What is that?
Do you think that would be everybody doing their part, sir?

A. I think if we reached a billion a month, that I would be very much pleased.

Q. You said you did say that on the Hill, sir?

A. They asked me how long did I want to test out the volunteer plan as to success, and I said I ought to know by the first of July whether it would be a success or not, but again I mean, I am not - I

haven't got any particular Congressman in mind, but just from what I read in the papers, all of these groups that are all for lowering the exemptions and I think that if they see these figures and have confidence in these figures the way I have, possibly they will change their minds. If they don't, then I think that they are being selfish.

Q. In this spot check, Mr. Secretary, how are you going about checking these one thousand families?

A. We are not doing that. That is being done by the OPA.

Q. It looks like that would be very difficult, to go back to all the hidden taxes and everything. Isn't it rather tedious, or do you know anything about it?

A. Well, various large life insurance companies have already conducted a study. I know Northwestern Mutual Life has made compilations per family of hidden - so-called hidden local and state taxes. O. K. gentlemen?

Q. Any news on financing, Mr. Secretary?

A. No.

Q. Thank you, sir.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, MARCH 12, 1942.

H.M.JR: One of the things that you may be interested in and that we here in the Treasury are interested in is what happened to the various things which we in the Treasury have started under powers delegated to us, and Mr. Crowley suggested he come over here today, and I thought it was an excellent suggestion. Now, the first thing is the West Coast where we have delegated certain of our powers to the Federal Reserve Bank of San Francisco to cooperate with General DeWitt. There will be no interruption on that assistance and that program because Mr. Crowley has assured me that during the day he will work it out so that there will be no interruption.

MR. CROWLEY: That is correct.

H.M.JR: And then on other work which we have started, particularly with General Aniline and Dye, that

that will continue the same, and Mr. Crowley has asked us to continue what we have started and see it through.

Q. As a matter of fact, he was consulted, was he not, before you took the steps?

H.M.JR: Not only was Mr. Crowley consulted, but all of these steps which I have taken were first cleared with the President, and the recommendations which we made for the past month were joint recommendations by Mr. Crowley and myself because I knew that the President had this under consideration.

Q. Does that mean the Treasury will continue in control of General Aniline and the operation of it?

H.M.JR: No, I wouldn't say so. We have got a program started. Mr. Crowley has asked us to continue on what we have started.

Q. Who will have the stock, Mr. Secretary, Mr. Crowley or yourself?

H.M.JR: I don't know.

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MR. CROWLEY: Well, I think what the Secretary means is that the Secretary has worked out the management and a board of directors for General Aniline and has made certain commitments to the new management, and he was kind enough to talk with me about it before he made those commitments, and whatever commitments he has for that, I want him to follow through and clean up that job. He has selected the management, and I have O.K.'d it, and I feel that before I take over anything that he ought to first carry out the commitment that he has to the new management of General Aniline. Isn't that it, Mr. Secretary?

H.M.JR: That is right. In other words, believe it or not, Mr. Crowley and I feel we are both working for the same man and not for different people, and in these war times the important thing is to have unity at home, and in this case we have had it, and we have consulted with Mr. Crowley

now for many weeks, so he has been entirely familiar with it and there will be no interruption and the President's wish will be carried out by either Mr. Crowley or myself.

Q. What happens to the Foreign Funds Control? Does Mr. Crowley assume authority over that?

H.M.JR: I really don't know.

MR. CROWLEY: Well, the President read me only the record, but I think the Foreign Funds all stay with the Treasury. I think as far as I am concerned - I don't know what the order says, but that would be my intention, that that would stay with the Treasury.

Q. Mr. Secretary, Mr. Crowley - the order specifically states that everything stays exactly where it is until such time as Mr. Crowley specifically asks that certain things be turned over to him, and, apparently, practically everything that can be turned over - have you (Crowley) asked for any specific things to be turned over yet?

MR. CROWLEY: Oh, no. What I intend to do is to work with

the Secretary in cooperation on this thing here, that such things as we take over, that he will keep until we are set up to take it over and then any personnel that he could give us to carry on those things, that he would let go with whatever we take over, if that is agreeable to him.

Q. May I ask, what happens to that three-man committee under the Executive Order of February 12 where the State Department, Justice, and yourself (Secretary) were in on it? Is Mr. Crowley going to have the committee?

H.M. JR: You will have to ask him that.

MR. CROWLEY: Well, there is no provision for the committee, but there is certainly a necessity for working with the Treasury and working with Justice on their various problems so that we will work together on the thing. The Treasury is going to have a large part of this thing here that from a selfish standpoint I would want them to carry on.

Q. May I assume then that this will be a gradual process of shifting?

MR. CROWLEY: That is right.

Q. Could you tell us what will happen to the individual accounts such as a national of a country whose funds have been frozen here and he has a bank account and a brokerage account? Will those come under your jurisdiction, Mr. Crowley, or will they continue to--

MR. CROWLEY: Let me say this to you. This man (Foley) knows so much more about the operation, but just thinking this thing over overnight, the Treasury have now all of these funds frozen, and my thought was if the Treasury would be kind enough to keep those things and as we take over a property, that they would release the funds to us for the operation of that property, but the other funds like your foreign country bank accounts and gold and things like that, that that would stay with the Treasury. I see no reason for setting up duplicate machinery to

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handle that.

H.M.JR: And that I think was the President's intention when he discussed it with me at different times and at Cabinet. I mean, that is what he had in mind. In other words, the gold of the Bank of France and so forth and so on and these various big foreign accounts would stay here.

MR. CROWLEY: That is right.

H.M.JR: But if you took over a particular factory or something, you would want what went with it.

MR. CROWLEY: That is right.

H.M.JR: You would want what would go with it.

MR. CROWLEY: That is my understanding of it.

Q. May I ask Mr. Crowley a question?

H.M.JR: If you please.

Q. Couldn't it be summarized this way, that you wanted to devote yourself primarily to business enterprises that are involved in freezing?

MR. CROWLEY: I think that is a fair statement. Don't you

you think so?

H.M.JR: That is my understanding of the thing, and I should think that that is the way it would work out, and it simply relieves us of a lot of detail. I mean, Mr. Foley and his staff and myself and Mr. Crowley. I mean, it has taken a tremendous amount of time to work out Americanizations for General Aniline. It is a great responsibility and the days aren't long enough now, and Mr. Crowley is young and ambitious--

MR. CROWLEY: Not as young as he is, you understand.

H.M.JR: ... and I am glad to see him take it on. I like to see these young fellows come up.

Q. He is fifty-two. How old are you? (Laughter)

H.M.JR: Well, it is the spirit, you see.

Q. Mr. Crowley, how are you going to keep up with all these jobs, may I ask?

MR. CROWLEY: Now, Nick, let's not go into that this morning. (Laughter)

H.M.JR: Well, these Wisconsin boys, you know, are full of pep.

MR. CROWLEY: It is the cold weather.

Q. Mr. Secretary, could you or Mr. Crowley or Mr. Foley tell us what happens specifically to the existing licenses and the special and general licenses that have already been issued? Do they remain in continuous effect?

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H.M.JR: Well, I take it from what Mr. Crowley has said, using the West Coast as an example, and he can correct me, that he wants to leave everything as it is until, certainly, he can get his breath.

MR. CROWLEY: That is right.

H.M.JR: And that any move Mr. Crowley has told me that he wants to make, he wants to first sit down and work it out with us so that it is to the best interests of the United States Government, and now on that basis we are going to approach the problem, and I think everything is going to be all right.

Q. Well, my question was not primarily in relation to the division of powers, but what a holder of a license has to consider at the present time. If Joe Abrams up in New York City has his funds frozen but he has been given a special license to do certain things, can he still continue to do those things under the license without waiting for Mr. Crowley to do something about it?

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MR. CROWLEY: Oh, I think he - the Treasury would just carry on unless there is some agreement worked out where I request a transfer of that, I mean, of those funds, to me for some reason or other.

Q. But I mean, there will be no suspension of licenses or anything like that?

MR. CROWLEY: Oh, no. The idea that I had in my mind was that the Treasury would continue right straight along; and as we could release certain functions to the Alien Property Custodian, that the Treasury would release them to us and maybe let go with that some of the personnel that was doing that particular thing if they would, if they could cooperate to that extent, and on these freezing and on these licensing, and things like that, that they would continue, because there is no need of setting up - duplicating work on that thing. It would cause more confusion.

Q. It would be correct to say then that the licenses that have already been issued are still in force until otherwise ordered?

MR. CROWLEY: That is right.

Q. Mr. Secretary, didn't the order say so specifically?

H.M.JR: I haven't read the order. I haven't had time to read it. I don't know. I have not read the order.

Q. The order did say that--

H.M.JR: I haven't even got a copy of the order.

MR. CROWLEY: I think the order is perfectly plain enough, that it gives the Treasury and the Alien Property--

H.M.JR: I mean, Mr. Foley has been studying it.

Q. He has O.K.'d my statement.

MR. CROWLEY: There is plenty of room to cooperate together on this thing. I think there is plenty of language there, Ed, so that there is latitude to cooperate on the thing, don't you?

MR. FOLEY: Oh, yes.

H.M.JR: And if we find out as you said last night that there is something we ordered that isn't workable, we can go back and get it changed.

MR. CROWLEY: That is right.

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Q. Has the Federal Reserve of San Francisco had full power out there to do anything they wanted to with those properties, I mean, to act on their own discretion?

H.M.JR: How about that, Ed?

MR. FOLEY: Well, the Secretary has delegated full power to the Federal Reserve Bank of San Francisco.

Q. You will let that continue for the present?

MR. CROWLEY: That is right.

Q. Any news on financing, Mr. Secretary?

H.M.JR No.

Q. Mr. Secretary, what happened to John Mack? Wasn't he the president of General Aniline?

H.M.JR: Well, the release of the Treasury which was out, I think, as of yesterday--

Q. Very late yesterday?
It was very quiet on that subject though.
No, day before yesterday.

MR. FOLEY: Yes, Tuesday night.

H.M.JR: I It simply said, as I remember it, and Mr. Foley can correct me, that the Board of Directors would be asked to resign on Monday, next, which was the first day that we had word to get them

together - well, we had hoped to get them together Monday or Tuesday of this week, but Mr. Mack was in court, and other members were somewhere else, so that was the first day.

Q. Mr. Secretary, even in the hey-day of Wall Street, managements never changed as quickly as that one did.

H.M.JR: Well, we in Washington think we might even improve on Wall Street, believe it or not. (Laughter.) Does that take care of you?

Q. I think so. In other words, John Mack is gone.

H.M.JR: I think that is the intention. I can take this off the record after I say it. Mr. Crowley said he would be glad to go up Monday and see that the thing is carried out. Is that right? Is that all right on the record?

MR. CROWLEY: Sure. What I told the Secretary was that I knew what his program was before he released it, and if it was necessary, I would be very happy to meet with the Board of Directors

Monday of General Aniline to carry out the program.

H.M.JR: Well, to be specific, we asked you to initial the release before we gave it out.

MR. CROWLEY: That is right.

H.M.JR: On this Board of Directors thing, we have been very cooperative here.

Q. Mr. Secretary--
The meeting is in New York?

MR. CROWLEY: No, I don't know. Where is it, Ed, some little town up near Buffalo, isn't it?

MR. FOLEY: No, it is in New York. Two thirty Park, at ten thirty on Monday morning.

Q. McConnell is to be chairman?

MR. FOLEY: Robert McConnell.

Q. I take it the other board was a stopgap.

H.M.JR: We had nothing to do with the other board, with the officers or any - we in the Treasury had absolutely nothing to do with the other board, because the other board was created prior to our taking over the stock, so we had nothing to do with it.

Q. Mr. Secretary, could you tell us if there is any--

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H.M.JR: Do you doubt that?

Q. No, except that I was under the impression that you had asked John E. Mack to come into the picture.

H.M.JR: Oh, no.

Q. It was generally stated that the White House had asked him to come into it.

H.M.JR: Well, I don't know about the White House. They are pretty well able to speak for themselves, but we here in the Treasury had absolutely nothing to do with the management as it is or the Board of Directors or anything - or any of the people that are connected with it at present.

Q. I was just assuming that - it looked like John E. Mack, being a pretty good friend of - but that is not right.

H.M.JR: Well, as Secretary of the Treasury, I have no friends.

Q. Oh.

Well, at least this new board knows something about chemicals.

H.M.JR: You bet they do.

Q. Have you counted your enemies, Mr. Secretary?

H.M.JR: I am proud to be known by my enemies, and I think as Henry Morgenthau Jr. I have a few very good friends.

Q. Mr. Secretary, can you tell us who will vote the stock at the meeting next Monday? Will that be voted in your name?

H.M.JR: I don't know but whatever Mr. - I will work it out with Mr. Crowley, and whichever way is the best for the Government, we will do it. The deciding factor in this as between Mr. Crowley and me, is what is best for the Government. Whatever is best for the Government. That is the way it will be done.

MR. CROWLEY: I don't think it makes any difference who votes the stock as long as we agree on what we are

trying to do.

H.M.JR: And this thing was all carefully worked out, even as to the release. It was submitted to Mr. Crowley in advance.

Q. How about Schering Corporation? Is that stock control to be taken over?

H.M.JR: Well, there were three companies that we have talked particularly to the President about, Schering, General Aniline, and American Bosch. In connection with those three, what Mr. Crowley has said, whatever we have started, he would like to have us finish.

MR. CROWLEY: That is right.

Q. What is that company, sir, Schering?

H.M.JR: Shering, I think it is S C H E R I N G.

Q. What is the full name of Bosch?

MR. FOLEY: American Bosch Magneto.

Q. What have you started in the case of Bosch and Schering outside of ousting their officers?

H.M.JR: Ed?

MR. FOLEY: What have we started?

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you have already vested the stock.

MR. FOLEY: We haven't vested the stock of Schering. We have had an investigation under way of the records and the personnel for sometime.

Q. You have ousted the old officers?

MR. FOLEY: And some of the officers have been suspended.

Q. Isn't Schering controlled by General Aniline?

MR. FOLEY: There is no connection.

Q. Or is it Sterling Products?

MR. FOLEY: You mean between Sterling and Schering?

Q. Yes.

MR. FOLEY: There is no connection there either.

Q. how about Bosch?

MR. FOLEY: Well, about seventy percent of the shares of Bosch are in a voting trust for which George Murnane is the trustee.

Q. What happens to the Dutch shares of the General Aniline? Does the Dutch Government vote them or does the American Government?

MR. FOLEY: All the foreign held shares have been taken over by the Secretary of the Treasury, and that represents about ninety seven and a half percent

of the outstanding stock.

Q. That is General Aniline?

MR. FOLEY: General Aniline Film Corporation.

H.M.JR: And they will be unquestionably voted eventually by the APC.

Q. Alien Properties Custodian.

Boy! That alphabetical lingo.

H.M.JR: I learned it quickly before I said it. Do you want to add anything, Leo?

MR. CROWLEY: No, I think just along the line of what Mr. Foley has said that on Schering they have released certain management personnel and my understanding is that they have been strengthening that management, and that whatever commitments to the new management to get them to come in to strengthen it, that is what we intend to go along with. In other words, you can't - for instance, here is a man like McConnell that is going in to General Aniline . He wouldn't go in if he felt that the Treasury and ourselves didn't have an understanding that we were going to

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carry along with the promise that was made to him before he agreed to go in. The same thing goes for whatever management the Treasury has agreed to put in to Schering. It is our intention to go along with that management and when it is all said and done, the Alien Property Custodian and the Treasury can't run these properties. They have got to put in men that they have explicit confidence in, and let them run the properties.

H.M.JR:

O.K. gents.

Q.

Anything new on taxes?

H.M.JR:

Just remember the date, the fifteenth of March.

Q.

The sixteenth?

H.M.JR:

The sixteenth.

Q.

Thank you.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, MARCH 16, 1942.

- Q. Mr. Secretary, in the Senate Finance Committee today, they reported on that bill to raise the statutory debt limit. There is that provision in it that has to do with your acceptance of bonds for tax purposes. Is that going to include the use of Defense Bonds that could be turned in for meeting taxes?
- H.M.JR: Well, it is only really for Defense Bonds. It is only for - well, the way the thing was written, it only applies to demand bonds, so that means that it only would be Defense Bonds.
- Q. Does that mean that you will do away with the Tax Anticipation Notes?
- A. No. A man has a hundred dollar Defense Bond, and he wants to pay his taxes now. He has got to go to the Federal Reserve some place and go through a lot of rigmarole to get his money, and we want to make it so he can go in to the tax collector and say, "Here is my hundred dollar bond." It would be just on the Defense Bond. They can do it now I believe

with a bill and a note but nothing else. On a tax date a bill or a note. Now they can do it on Defense Bonds.

- Q. You don't anticipate that will make any difference in the sales or turning them in, perhaps, where they wouldn't do it otherwise?
- A. On the one hand it might increase the sales a little bit and make them a little bit more attractive, and on the other hand they may use them a little more to pay their taxes. It is a convenience. We like to make it just as easy as possible to pay your taxes.
- Q. You might lighten them up a little bit, Mr. Secretary.
- A. No, we are going the other way.
- Q. Have you any preliminary figures on how the returns are coming in today?
- A. No, they say they are going to have them tomorrow, don't they?
- MR. SHAEFFER: We will have them around noon tomorrow.
- Q. How did the bond sales stand up this month?

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Have you heard anything on that?

A. Doesn't it show in the statement every day?

Q. Yes.

A. Pretty good. Could be better.

Q. Any news on financing, Mr. Secretary?

A. No, nothing now.

Q. Did you read that article by Gustaf Stolper in the New York Times yesterday?

A. I read Ted Goldsmith's letter to see what I was going to do. (Laughter)

Q. No, this discusses the whole tax question, Mr. Secretary. I was wondering whether you saw it.

A. Yes.

Q. What did you think of it?

A. Well, if you want to have it discussed, Mr. Paul and Mr. Blough are prepared. They can see you after this press conference, if you care to have the answers.

Q. I was particularly interested in those TNEC figures.

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- A. They have got the answers on all of it. I mean, they are prepared to give the Tribune the answers.
- Q. Well, I think the New York Times would like them also.
- A. Well, we are one for all and all for one on news. If you want to see Mr. Paul afterward, he is prepared on that subject.
- Q. Mr. Secretary, on the Treasury program--
- A. Excuse me. Also on their editorial on the Stolper article.
- Q. I didn't read the editorial.
- You mean to tell us the basis of these sales tax estimates that have been made, just what they include?
- A. Well, there is a lot of stuff back there.
- Q. I would ask if they include real estate sales.
- A. Well, Paul and Blough are available.
- Q. I see. Mr. Secretary, this five billion dollar limitation that the conferees have agreed to, Title 4 of the Second War Powers Act, will that

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handicap the Treasury in selling its securities direct to Reserve banks?

A. No, in testifying I said, "As long as they make it a revolving fund, it will be all right."

Q. That is what they have done.

A. Have they done that?

Q. Yes.

A. As long as it is a revolving fund, it is all right. I think I have convinced them, I don't know, that I haven't got any deep plot on the thing.

Q. The Treasury's program had an estimate when they went up of seven billion six, that it would raise in the full year after it was applicable. Are there any estimates on what that would raise in the next fiscal year?

- A. Well, again I will have to refer you to the Treasury boys, or you (Shaeffer) can get that. I don't know what the answer is. I don't know whether they have one, or if they have, whether they will give it to you.
- Q. It would be all right to get it from them, wouldn't it?
- A. Well, you can ask them.
- Q. I mean as far as you are concerned.
- A. No, they will have to use their own judgment.
- Q. Anything new on Alien Property, Mr. Secretary?
- A. Well, there is a meeting taking place at four o'clock up in New York today of General Aniline and Dye.
- Q. Yes.
- A. We will hear what happened and they can let you know.

- Q. I thought you were going to vote that stock, Mr. Secretary.
- A. That is what I think. That is what we expect. At four o'clock we hadn't heard anything to the contrary.
- Q. Will there be a formal statement on that?
- A. Mr. O'Connell will make a statement.
- MRS. KLOTZ: McConnell, it is.
- H.M.JR: McConnell. If it goes the way we think it will go he will make a statement.
- Q. I just simply said O'Connell is the man who is running it now and you have O'Connell as president.
- A. No, the man I am thinking of is McConnell.
- Q. But Joe O'Connell of your staff is also up there, isn't he?
- A. Yes, Joe O'Connell.
- Q. That is right.
- A. And McConnell.
- Q. Which one is Foley's man?
- MRS. KLOTZ: O'Connell. The other is Bob McConnell.
- H.M.JR: That is right.
- Q. That statement will be made in New York and

we will get a copy of it here or will it be released here?

A. I think it will be released from New York, but the minute it is released we can have a copy. We have a copy now. That is on the assumption the meeting goes the way we think it will. If it doesn't, we have got some other stuff.

Q. There is no question of the way the meeting will go?

It is kind of hard to out-vote ninety-seven percent.

Well, there is a slight minority of three per- cent.

A. There is always a question.

Q. Mr. Secretary, are you going again before--

A. There might not be a quorum up there.

Q. You are the most cautious majority stockholder I have ever met.

(Discussion off the record.)

A. If you had been up against what I have, you would be cautious, too.

(Resume discussion on the record.)

Q. Do you expect to go again before the Ways and Means Committee to testify on the sales tax idea?

A. Well, isn't that kind of a stop-beating-your-wife question?

Q. I didn't intend it that way at all. It is very much in the public mind. Have you changed your attitude toward it?

A. Toward what?

Q. The sales tax.

A. Oh, no. I think I am righter than I ever was. No, I am satisfied.

Q. I don't see how that question was on the stop-beating-your-wife order.

A. Maybe what I understood you to say--

Q. I asked if you were going again before the Committee.

- A. Did you say sales tax or just again?
- Q. What I intended to say was to ask you if you would appear again before the Committee at any time soon.
- A. Oh, well, I imagine that I will be up there again soon, sure.
- Q. Any date been set for it?
- A. Oh, no, I don't think I am going again on this tax bill.
- Q. Oh.
- A. What I got - I mean, I am not trying to - I thought you meant, will I go again for another tax bill.
- Q. No trick in the question at all. Are you contemplating going up on another tax bill? (Laughter.)
- A. Well, Mr. Roosevelt will be here for another three years.
- Q. Oh, I thought - well, he said soon, and you said soon, and I--
- A. That is what I was afraid of. I have no

plans to go up before the Ways and Means Committee. How is that?

Q. That is fine. I asked the question, Mr. Secretary, because there is apparently a general sentiment in favor of a sales tax, and I wonder if in view of that sentiment you would be asked to appear once again before the Committee?

A. That, I don't know, but I have no immediate plans to appear before the Ways and Means Committee.

Q. Is the Treasury contemplating a supplementary tax proposal to this one?

A. I have no plans to appear before the Ways and Means Committee. (Laughter.)

Q. I thought we had gotten rid of these taxes for a while when we shoved them up on the Hill. What is the status with regard to tax exempts?

A. You see what you started, and what I was afraid of.

Q. I am awfully sorry, Mr. Secretary.

- A. That is what I was afraid of. Now, we will put it all at rest. I misunderstood, and I am not thinking of going up, and I have got nothing in mind. It is a complete blank.
- Q. Still against the sales tax?
- A. And still against the sales tax.
- Q. How about tax exempts, outstanding and future issues?
- A. It is just the same. We haven't changed.
- Q. What I meant, has any legislation been prepared by the Treasury?
- A. Oh, I am sure there has.
- Q. There has not?
- There has.
- A. I am sure that whatever we have done in preparing legislation for this bill--
- Q. Well, you simply asked if I recall your statement correctly, that that privilege should be removed, and nothing has been done in the way of anyone introducing legislation. You made no statement as to whether you have legislation ready.

- A. Well, I don't know what the status is, but I am sure if they ask us we could get something up in a hurry.
- Q. I doubt if they will ask you.
- A. Well, it is up to the Hill to draw the legislation.
- Q. You are not going to propose it?
- A. On removing tax exemptions for state and municipals?
- Q. That is right, outstanding or future issues.
- A. Well, I recommended it in my formal statement and I recommended it in Cleveland in January.
- Q. Yes, I know that, but no legislation has been prepared by the Treasury Department.
- A. Well, I don't know how much we have done in preparing legislation on the whole tax bill. I don't think we have done anything other than just my statement and Mr. Paul's. Are we talking about the same thing?
- Q. Well, there is a question of whether you need a constitutional amendment or simply an amendment of the revenue act.

A. Well, that is up to the Committee.

Q. I see.

A. I mean, we haven't changed down here. All right.

Q. Thank you, Mr. Secretary.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, MARCH 19, 1942.

- H.M.JR: How are you all?
- Q. Very good.
- I see that you question my integrity from your eyes.
- A. Some of the boys take it for granted that is their privilege. I don't mean you particularly.
- Q. What, examining the mail on your desk? I missed part of this.
- No, I was just going to make a remark.
- Anybody with real newspaper experience can read upside down.
- You can't read it that way, though, turned upside down. At least I am not that proficient.
- Mr. Secretary, Senator Brown said that you were examining and letting your staff look into the idea of Defense Bonds for overtime.
- A. That is right. I said that at the hearing.
- Q. He was down here to see you on it, was he?
- A. Amongst other things, yes.

Q. Have you anything else to say on the idea?

A. No, I am not ready to talk about it.

Q. As I get it, as a matter of principle it seems like a good idea, but you haven't worked out the details, is that it?

A. No, I wouldn't go that far. I would simply say the staff is studying it. I wouldn't go that far.

Q. Is it too near the enforced savings idea?

A. Well, that is one of the things. After all, if all of the overtime pay went into some kind of a Treasury security, it would pretty well kill the voluntary plan, so I mean when we cross that bridge, we have to pretty well throw up the voluntary plan, and when I appeared at some other hearing when Congress asked me how long did I want before I would say it was a success or failure, I said until the first of July. But you take all of a man's overtime and put it into a Federal security, he isn't going to buy any Defense Bonds.

- Q. With the rest of it, that is true.
Not with present prices.
- A. That is the decision, so you can see that I am not very apt to make up my mind before the first of July.
- Q. Mr. Secretary, is there anything you can say about your conversation with the Cuban Finance Minister?
- A. No, I would call that a courtesy call.
- Q. Is there anything you can give us on the objectives of the survey made by a monetary Commission in Cuba and - in regard to, as I understand, the reorganization of their monetary system?
- A. You (Shaeffer) ask White if there is anything that he can say, will you?
- MR. SHAEFFER: Yes, sir.
- H.M.JR: Whether there is anything that he can say.
- MR. SHAEFFER: Yes, sir.
- Q. Has there actually been a loan made to Cuba recently? There has been some talk about that.

H.M.JR:

I wouldn't want to guess. I don't know.

Q.

I thought maybe that was what this was about.

A.

Well, White has been handling it for me, and you had better check with him and see if there is anything he would care to announce for the Treasury. You have got to divide it up around here.

Q.

I understood there either was a loan in process or else there were credits to be set out against a loan.

There is a loan at the Export-Import Bank.

A.

Well, I frankly don't know. I don't know whether Harry has talked about it or not.

Q.

Do you want to say anything about your presence in New York yesterday, Mr. Secretary?

A.

Well, me and how many other millions?

Q.

Well, yours caused a little more interest.

A.

Did it? I thought I got away with it. Who saw me? Want to trade?

Q.

Somebody saw you.

A.

So I gather. Oh, I just went up for a look-see.

- Q. Did it have anything to do with financing?
- A. Oh, I don't want to get into it. I was just up on a - we will call it just a look-see. At least I didn't have my picture taken anyway. Anything else?
- Q. Any news on financing in general?
- A. No.
- Q. The bill will probably be signed very soon on the war powers - I mean both the war powers and the debt?
- A. We got over, I gather, the income tax date without any disturbance in the money market, which is good. Bell did a good job on that, with the help of the Federal Reserve of New York.
- Q. The Chinese loan hasn't been signed yet, has it, Mr. Secretary?
- A. No.
- Q. Any reason for holding it up?
- (Discussion off the record.)
- A. Well, off the record. There are two reasons. One is, it is kind of hard to get communications

back and forth, and the other reason, Mr. Soong has been sick, I believe, and we have been a little slow at this end, so all along the line there has been a little delay here and with the State Department and Mr. Soong. The Generalissimo travels around a bit. But I don't think anybody is disturbed.

Q. Not yet, but soon.

A. That is right. Well, they know they can get the money. They have had the publicity.

(Resume discussion on the record.)

Q. Mr. Secretary, has the Treasury taken any action yet on the inter-American meeting of finance ministers which was to consider the international stabilization plan?

A. No. That is for the reminder. All right?

Q. Thank you, Mr. Secretary.

A. Thank you.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, MARCH 30, 1942.

- Q. Did you have a pleasant vacation?
- H.M.JR: Very, a good rest.
- Q. Did you come back ahead of the snow storm?
- A. I got in this morning after it. I remember the first year when I was in Farm Credit we were flying back from Salt Lake and some people wanted to take my picture, and I was never so sick in my life. We got there and the boy said, "I think we will wait a little bit." He said, "I think he is a little yellow. I think he is beginning to get a little pinker now. In another five minutes he will be all right." I had to wait twenty minutes until he was satisfied with the color of my skin.
- Q. Did you bring back any news?
- A. No, I came back to get it.
- Q. Did you talk to the public about taxes?

- A. Out there?
- Q. Yes.
- A. I wouldn't talk.
- Q. Were you feeling the pulse?
- A. Oh, no, this was a strict rest. No, I came back to get the news.
- Q. Mr. Secretary, there seems to be considerable talk in some circles about the use of some of this West Point silver the Treasury has up there for purposes of critical war materials, in place of tin and so forth.
- A. Well, I understand that the Legal Division are studying it, but they haven't given any answer. I don't know whether they are ready, but they have got it under study.
- Q. Is that any different, sir, than your statement sometime ago that you were in favor of selling it and at the proper time you would recommend legislation to make it possible?
- A. No, I have gone much further than that. I mean, I recommended twice now on the Hill this year that all the silver legislation be

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struck off the books.

- Q. Well, I remember that, but I meant on this specific problem.
- A. Well, this, as I understand, would be a question of have we the legal right, so to speak, to lend the silver?
- Q. Without legislation?
- A. Without legislation. That is what they are studying.
- Q. To lend it, you say?
- A. Yes. What they want it for, I understand, would be for purposes of replacing other metals with silver and the silver could be returned. That is the way I understand the proposal. This is secondhand from me, so you had better not take it.
- Q. In other words, they would take this silver, and you would be reimbursed with newly mined silver perhaps, or something else?
- A. Or the same silver, but you had better not take it from me because, as I say, I have only got it secondhand.

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- Q. Whom could we get it from?
- A. I think you will have to wait a day or two.
- Q. Wait a bit?
- A. Until I get an opinion from the Legal Section.
- Q. Can we say that the Legal Section is studying it?
- A. Yes, you can.
- Q. How much silver is involved, sir?
- A. I don't know that.
- Q. Could you give us some idea of what type of industrial use? If it is to be returned, it certainly couldn't be for plating cans.
- H.M.JR: Do you know what it is?
- MR. SCHWARZ: It has to do with the use of an electrical conductor in the processing of aluminum.
- Q. Do you know how much is involved?
- MR. SCHWARZ: No.
- Q. In the processing of aluminum.
- H.M.JR: Yes.
- Q. Could you state that a little more simply, Mr. Schwarz?

- MR. SCHWARZ: They use what they call bus bars in making aluminum. The silver is a conductor in place of copper.
- H.M.JR: Certainly by Tuesday or Wednesday the Legal Division will have an answer as to whether this is--
- Q. This comes from WPB?
- MR. SCHWARZ: Their suggestion.
- H.M.JR: Their suggestion
- Q. Isn't there enough silver, Mr. Secretary, outside of the hands of the Treasury to serve for industrial uses?
- H.M.JR: As I understand it, the use of silver now has increased so that it takes all of the newly mined silver of this hemisphere. It has increased so rapidly that all the newly mined silver outside of the United States is now being used, and newly mined silver in the United States we can not sell.
- Q. Isn't it true that the Treasury is practically buying no foreign silver at this time?
- A. As far as I know. You can check that Schwarz, but all the Mexican, Canadian, and South

American silver is going into American industry.

Q. That is, they pay a slight premium over your foreign requirements.

A. That is right.

Q. That is thirty-five and seventy-one, isn't it?

A. Thirty-five and a quarter, I think.

Q. Is that your price or the industrial price? I thought it was the thirty-five even.

Plus a quarter of a percent fee or handling charge?

Is that your price or the industrial price?

A. Our price.

Q. Thirty-five and a quarter?

A. And I don't know what Handy and Harmon's price is, but it is usually a little higher.

Q. Is that domestic seventy-one plus?

A. Yes, but that is not - that is what we pay for the newly mined.

Q. Mr. Secretary, there is a lot more gold in stock than there is silver. Can that be turned to any war use too?

A. Not that I have heard of.

Q. Has the war in general affected our gold holdings in any particular way?

A. Well, only that as the war continues I think the gold mining industry, under present priorities, will have difficulty in mining. They have got to get dynamite and steel and so forth and so on, and as I understand it, they have got a very low priority, so that they will have to, as long as the priorities are as they are--

Q. It doesn't effect the monetary policy particularly though, does it?

A. Not at all.

Q. Haven't we ample gold reserves?

A. Ample.

Q. Is it over a hundred percent?

A. Oh, yes, ample.

Q. Will that effect the - our purchase of foreign gold in the routine way?

A. No. Always remembering that the Treasury stays

on a twenty-four hour basis.

Q. But this domestic situation wouldn't in itself affect the foreign situation?

A. No, it would not.

Q. Is Mexico selling any silver under the agreement signed several months ago with the Treasury?

A. Schwarz will find out and let you know within the hour. I don't think so, but you find out, Schwarz.

MR. SCHWARTZ: I believe it is all going into the market but we will check.

H.M. JR: I don't think we have been buying any foreign silver. It all goes for industrial use in the United States.

Q. As I recall it, Mexico hailed that with great joy. I think the amount was up to six million ounces a month.

A. Well, this increase in industrial use for silver you might say has almost been overnight.

Q. I see.

The agreement gives Mexico a back-stop any way, doesn't it, if the industrial uses should decline?

A. They would fall back on us, yes.

Q. It puts a floor on it.

A. That is right.

Q. Mr. Secretary, I didn't quite get your point about the priorities on gold mining. I assume that means that other metals are more important to mine, chroma and so forth.

A. Again, my information is from the newspapers, and I take it for granted it is correct. I have seen that gold mining machinery and so forth has no priorities or a very low one and copper and zinc and other metals have got a high one.

Q. It sounds logical.

A. I think so. All right?

Q. Do you have any news about financing?

A. No, we have been working this afternoon, and we will be working in the next day or two and

we will have something at the end of the week.

Q. Thank you, Mr. Secretary.

A. Thank you.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, APRIL 6, 1942

- Q. I saw Mr. Foley here. I thought perhaps you had a legal opinion on your silver question.
- A. You will have to be a little patient yet. Our financing was very well received. The various security dealers did an exceptionally good job of contacting businesses. They seemed to enjoy doing it. That is about all I have got to volunteer.
- Q. Would that indicate that you are going to have - experiment on some other offerings, any other types of offerings, tap issues and so forth?
- A. It is within the realm of possibility. It is perfectly possible.
- Q. Perfectly possible what, sir?
- A. That we might try some other kind of issues. Where is Nick?
- Q. What other kinds are there?
- A. Where is Nick?
- Q. Having a couple of days off, Mr. Secretary. He is up in New York.

- A. He talked as though he was in the Army or under the ground, one or the other.
- Q. He is getting awfully close to it.
- A. Did I miss a question?
- Q. Is there anything new on taxes, Mr. Secretary?
- A. Only what I read in the papers.
- Q. How do you feel, sir, about these limitations ideas? Would you rather throw them in the wastebasket?
- A. Oh, I wouldn't say that, but I think that the Treasury's position is clear in the tax bill. That is the one that the Ways and Means is now conducting hearings on.
- Q. You don't think this limitation bill is necessary, then?
- A. Well, I think one good tax bill is about all we need. I think it will take care of excess profits if they pass it the way the Treasury recommended it.
- Q. The Secretary of the Treasury of Costa Rica

is in town, I believe. Has he come to see you yet?

A. Not yet.

Q. Also the Peruvian, I believe, is coming here this week sometime. Do you have an engagement with him yet?

A. No.

Q. Do you know of any particular problems coming up with either of those two people?

A. Not as far as we are concerned.

Q. You will see them if they want to come here, I suppose.

A. I will be very glad to.

Q. Is there anything doing recently in the field of international dollar in this hemisphere that has been talked about from time to time?

A. No, not since the censor killed my story.

Q. What have you done to him in the meantime?

A. Nothing.

- Q. You have our permission to do anything you want.
- A. No, I have got nothing very exciting to talk about.
- Q. He finally let that story go through though, didn't he?
- MR. SCHWARTZ: A little bit later.
- H.M.JR: All right?
- Q. Thank you, sir.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, APRIL 9, 1942.

Q. There are some stories, Mr. Secretary, that the Administration is considering a substantial increase in the tax program. Can you comment on it?

H.M.JR: Well, what's-his-name, Shaeffer, tipped me off. The only story I know, and I take it you are referring to the story in the New York Times--

Q. Among others.

A. Pardon?

Q. I like the New York Times, but I can't single them out.

A. It is the only one I can see. This says Henderson is discussing it with Secretary Morgenthau and Marriner Eccles.

Q. Is that true, sir?

A. Is he discussing it?

Q. With you?

A. What?

Q. An increase in the tax program.

A. I am not going to comment.

- Q. Well, aside from the story or any other story, will you comment, Mr. Secretary, on whether or not the Administration is considering a substantial increase in the tax program?
- A. No.
- Q. That means no comment or no consideration?
- A. No comment.
- Q. Has the Treasury got an anti-inflationary plan that is better than any of the other plans being put forward, Mr. Secretary?
- A. Again, no comment.
- Q. Does that mean that you are sticking with your present program that you have before Congress, regardless? That is, that is still the only program?
- A. No, I mean I am not - on the record, after all, until - the amount to be raised was set in the President's budget, and until there is a public announcement by the President that the amount of money to be raised is changed, I am not going to make any comment on it. We haven't

received any instructions in the Treasury that the amount should be changed.

Q. You mean--

A. From the President.

Q. Has the President asked the Treasury, however, to study supplemental anti-inflationary measures?

A. I am not going beyond that statement. That is all I can help you on this morning.

Q. You wouldn't like to say for background, Mr. Secretary, that you favor an over-all price increase where Mr. Henderson would rather pass the buck and have more taxes?

A. No, I am not going to say anything on the record or off the record or behind the record.

Q. Can you state of your own opinion, Mr. Secretary, whether you think that the tax bill is adequate to meet the inflationary problem?

A. No, I am not going to say that. You see, it happens to be my responsibility and if I say something, then I only say it officially. Other officials can make comments on it without any

responsibility. This happens to be the responsibility that the President has charged me with, so having said the statement that the amount to be raised was in his budget message, and I have received no other instructions to the contrary, as of today those are the facts.

- Q. Are other people outside of the Treasury also working on that problem?
- A. Well, you know that better than I do.
- Q. Would you like to say anything about inflation, whether it is proceeding or checked?
- A. I refer you, if you are not too bored, to my Boston speech of September 10 which is still good. If you haven't got a copy of it, we will be glad to furnish you with one.
- Q. Of what, sir?
- A. My speech in Boston on September 1. If you haven't got a copy of it, I will be very glad to furnish the press room with a copy of it. It still makes good reading.

- Q. Was it prophetic?
- A. Read it. It is very interesting. I read it yesterday.
- Q. For the first time, Mr. Secretary? (Laughter)
- A. For the first time in several months. Seeing all the discussion which is going on, I wondered if I had overlooked the question of inflation and I found that I hadn't.
- Q. Mr. Secretary, Mr. Crowley made a strong talk in Wisconsin about--
- A. You (Shaeffer) might send one down. I don't suppose they will look at it, but we will go through the motions.
- Q. Mr. Crowley talked about bank reserves and particularly bank reserve building due to the heavy deposits. Was that a policy also of the Treasury or did you get together on that or anything of that nature?
- A. Well, he might have got together on it with the Comptroller or Mr. Bell. He didn't with me, but it is good doctrine. I am for it. But he

perfectly well might have discussed it with either the Comptroller or Mr. Bell.

Q. Mr. Secretary, there is a two-man Cuban economic mission in town who have had quite some doings with Warren Lee Pierson, and I wonder if they are coming over to see you before they go home?

A. Would you enlarge on "some doings"?

Q. Well, twenty-five million. That ain't hay, as they say. (Laughter)

A. No, we only - we are in the borrowing business and not in the lending business.

Q. Well, you are also in the agreement business, Mr. Secretary.

A. Well, the Treasury has a representative on the Export-Import Bank. We try to keep up that way with what they are doing.

Q. But have you seen or are you going to see either of these gentlemen?

A. Oh, they came to see me a couple of weeks ago.

Q. They haven't been back since?

A. No, but they have been in touch with Dr. White right along. They have been in touch with him.

He looks after those things for me, and they did call on me, three of them, as a matter of fact. There were three that called on me.

Q. Maybe I missed one.

A. You must have.

Q. Apropos of borrowing and lending, Mr. Secretary, how about England's balance of payments? Since the loss of Malaya that has been affected, and I think you admitted once before that--

A. Well, we are watching it, and they are all right. They have got ample dollars with which to do business at the present time. We won't let them run out of dollars in any way that would interfere with the war effort.

(Discussion off the record.)

They will like that statement on the other side.

(Resume discussion on the record.)

That is off the record. The last remark is off the record, including Time. What else?

Q. Thank you, Mr. Secretary.

SECRETARY MORGENTHAU'S
PRESS CONFERENCE

April 16, 1942

- Q. What can you tell us about taxes?
- A. Nothing.
- Q. What can you tell us about forced savings?
- A. I am not interested.
- Q. Still not interested?
- You are not interested?
- A. No.
- Q. Are you still waiting for that July 1 date to come up to see how the bonds go?
- A. Well, we are going this morning, for about ten minutes before the Ways and Means Committee to give a demonstration of what Government and labor and industry can do together in the way of volunteer savings. The representatives of the union and General Motors are to be there to explain it to the committee.
- Q. Is that part of the explanation on your desk there?

- A. Which?
- Q. This chart and picture here.
- A. No, that is the price of Government bonds.
- Q. Mr. Secretary, the reports from the Hill indicate, at least allege, that you have informed various people up there that this or that or some other part of the so-called inflation program will or will not be adopted. Can you let us in?
- A. That is what the President calls a double "If" question.
- Q. I realize that.
- A. I want to let you know I realize it too. No, I have set certain rules for myself which, as you know, in the past I have lived up to. I certainly haven't talked to any members of the press.
- Q. Well, that is why I inquired.
- A. You haven't heard that I have been talking to the press?
- Q. No, not to the press. That is why I am asking that you do talk to the press.

- A. No, I have got nothing to say on that question.
- Q. Will that involve President Roosevelt's message, or the expected message?
- A. You had better ask Mr. Stephen Early that.
- Q. They won't let me in over there.
- A. They won't?
- Q. Mr. Secretary, before the House Banking Committee you were on record as favoring that particular price control bill and it is general common knowledge that we are going to have an all-over freezing order of some type or other. Have you changed your own opinion as to freezing wages and all the various things that go into the price situation?
- A. I haven't changed since my testimony on the - I think it was the House, wasn't it?
- Q. Yes, that is right.
- A. No, I haven't changed since then.
- Q. Not since March 3?
- A. What happened March 3?
- Q. You testified up there.

That was the tax bill.

A. No, it was last fall, wasn't it?

Q. Yes, last fall.

Is there any possibility that the Administration changed while you weren't looking?

A. Well, I will put it the other way. It might perfectly well have changed while I was looking.

(Laughter)

MRS. KLOTZ: That is very good.

H.M.JR: I hope I am like the kitten. I have got my eyes open anyway.

Q. Mr. Secretary, have you had--

A. I will say this much: I have been doing a lot of looking the last ten days.

Q. The reason I asked all these questions, Mr. Secretary, is frankly, the common report around town is that you are holding out against virtually the rest of the Cabinet on some of these propositions, so it becomes a question of while this or that person may have some

viewpoint, what is the Administration viewpoint?

I have heard the same report, Mr. Secretary.

A. Is that so?

(Laughter)

Well, one thing, talking for myself, that I never forget, is that after all, I am just a hired man and there is no question of holding out.

Q. So are the others, Mr. Secretary.

A. Some of them forget it.

Q. Do you have a comment on the Nicaragua finance ministry here in town?

A. Excuse me. Just one minute. There is no use trying to spar. I am not clever enough or anything else. I mean, this is something that the President of the United States himself is going to decide when he is good and ready. Now, I suppose - this is off the record.

(Discussion off the record.)

I don't know how many people's advice he has asked. I am one of them. Now, while the President has got this thing under consideration, I for one, am not willing to talk about what either I told him or about what I think he is going to do, and all I can tell you is that as far as the Treasury is concerned, we will have to just be guided by what we do. Certainly I wouldn't be going up on the Hill putting on a demonstration for volunteer savings if I didn't think that it is what the President wants. There is no question of my holding out because, after all, the President says at Cabinet meetings, "What do you think, Henry?" And I say so, and then it is up to him to decide. Just the way I am the head of the Treasury and I can ask my nine-thirty group, "Gentlemen, what do you think?" And then it is up to me to decide the question. Mr. Bell, or Mr. Foley, or Mr. White can't hold out on me any more than I can on the President.

(Resume discussion on the record.)

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Q. Well, it is a little different than that. Undoubtedly the President is the chief executive and can give orders to the Members of his Cabinet as well as to other officials, but he may choose to try to reconcile whatever differences might exist in order to avoid issuing orders.

A. Well, this is something - there is enough in the papers from his own press conferences to show that he is studying the matter. He said so.

Q. Yes.

A. And when he is ready, he will talk about it.

Q. Why the sudden concern, Mr. Secretary, about inflation? From July to January, 1942, they were holding hearings up on the Hill on the price control bill. There were compromises; for one thing on ceilings on all prices; secondly, they had labor with no control over wages, and everybody seemed to be going along very happily, and the President in January issued his Budget Message, and it all seemed very rosy; and here

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it is early in April and everybody in the Administration suddenly gets concerned about inflation.

A. Well, this thing is in the President's lap, and when he is good and ready, he will tell you and the rest of the hundred and thirty-five million people about it. In the meantime, as far as I am concerned, I can't help you.

Q. Mr. Secretary, you did make one rather positive statement I would like to be sure of. You said that you wouldn't be going up on the Hill to give this demonstration of the merits of voluntary saving if you didn't believe the President favored that method.

A. I didn't say that.

Q. Was that on the record?

That is the way I understood it.

A. I didn't say that. I said I wouldn't be going up and giving this demonstration of the volunteer method of savings unless I felt--

Q. The thought was, wasn't it, sir, that you still believed as you had--

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- A. No.
- Q. Let him tell it.
- A. Let me get this thing. Well, I will put it this way. I wouldn't go up today and put on this demonstration for volunteer savings unless I thought I was in tune with the President on this.
- Q. Unless what, sir?
- A. I was in tune with the President on this. Now, I will take your question.
- Q. My question was, is there any comment on Doctor Sanchez' Nicaraguan financial mission here in town? Have you had any negotiations with them?
- A. No, but I will have them ask Doctor White for you. Whatever it is, it hasn't got to me; but if there is some news in it, we will get it for you.
- Q. Mr. Secretary, the Russians have demonstrated how you can hurdle the opposition to a lottery, and at the same time please everybody. They issued a new type of security. Half of the issue would go at two percent for twenty year maturity. The

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other half, instead of coupons you get chances on a national lottery every year.

A. I will come back to you in a minute. I showed this thing that I am doing on the Hill today - I showed it to the President yesterday, and he liked it.

Q. That is on the record?

A. This thing that we are going to do up here.

Q. As I understand, Mr. Secretary, you have some General Motors people to explain how the deduction plans work in there.

A. And representatives of the union. It is a joint Government-labor-management proposal on volunteer with a capital "V" pay-roll deduction plan.

Q. That is UAW, isn't it?

A. Yes, that is the bulk of it. Mr. Walter Reuther will be there representing the two hundred thousand employees in General Motors and somebody else. Now, Mr. Gregory.

Q. I just thought I would point that out to you.

A. That is all right. (Laughter)

Q. Will you consider that among your new financial plans?

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- A. I have got to sit down and talk it over with Nick first. (Laughter) I will say this, it certainly has - well, I won't. (Laughter)

SECRETARY MORGENTHAU'S
PRESS CONFERENCE

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April 20, 1942

- Q. Before we get down to business, Mr. Secretary, I wonder if you would do something, see if your War Savings Division would let the press room in on secrets? I don't know, we don't seem to get their more important releases. Some of the releases--
- It is an absurd and silly thing. Would you look into it please?
- A. Sure.
- Q. They come in two or three days late, sometimes. Yes, they are marked for release on April 8, and they come in on the 12th.
- A. Well, there are two men over there.
- Q. This very important announcement you made yesterday still hasn't appeared in the press room. What they did, they sent it to our offices but it creates a little confusion there in that our offices will ask us about it then

and we don't know anything about it, and that is what they do.

From your standpoint that is a very unsatisfactory method because in a large office a release like that is very apt to be overlooked. They get thousands of them.

A. I will have somebody come down this afternoon and see you fellows, either Callahan or Gilchrist.

MR. SCHWARZ: McCarty is on the press. Gilchrist is radio.

H.M.JR: McCarty? One or the other.

Q. Well, we ought to have some diplomatic relations.

A. We will have more than that. We will have them come down. Will you boys be there for another hour?

Q. Some of us will.

A. I will have them come down. Thank you for telling me about it. You have rendered me a service. We will fix it up this afternoon. I thank you.

Q. Mr. Secretary, I hear that you are going to be on the air next Thursday on some quota stuff.

A. That is right. All I can talk is - just off the

record....

(Discussion off the record.)

We are getting ready to launch the quotas Thursday night. I only sent out telegrams to people that I wanted to join me Saturday and I haven't had a chance to hear from them yet, but just as soon as the thing is jelled we will let the Treasury press room in first, but we are launching it then for the press and for Friday morning release all over the country. The various state quotas by May. If you will wait, now, until we have something a little bit more definite, but we will give it to you some time Thursday for Friday morning. (Resume discussion on the record.)

Q.

Mr. Secretary, in connection with that request for the early figures, last Friday, I asked the office over there for figures on the number of employees who were participating in the voluntary plan, and they gave me those figures as of January 28, and I understand that

there are later figures than that.

A. Well, in my testimony Thursday--

Q. Well, I wasn't up on the Hill, and I asked them and they gave me those figures.

A. But I testified Thursday on the Hill and my testimony was that there were fifty-four thousand concerns employing twenty million people. It was just under twenty million. Most of the papers carried that Friday morning.

Q. Well, I didn't see it, but that is another little bit of not being brought up to date from over there. I called up Friday and asked them and they gave me this big sheet of the January 28 issue of eleven million employees, I believe, participating in nine thousand plants, or something like that.

That is where you got those figures.

That is right. I got it from the official circular which they put out.

- A. Well, most of the up-to-date papers carried it on Friday. (Laughter)
- Q. I see, Mr. Secretary.
- A. I am sorry it didn't get around to you by Sunday.
- Q. Well, as a matter of fact, it isn't my fault. I think it is the fault of the Defense Savings Division.
- A. Really?
- Q. I think so, yes, sir. We won't argue about it. I meant the War Savings Division.
- A. I don't know what paper you read, but most of the good papers had it Friday morning.
- Q. Well, I read the New York Daily news. (Laughter) Mr. Secretary, just for information--
- A. Maybe that is the trouble.
- Q. Mr. Secretary, just for--
It has the largest circulation, sir.
Just for information, Mr. Secretary, about those quotas, last year when this thing started didn't

you say that there would be no quotas?

A. That is right. We weren't at war. We are at war now. I do a lot of things different. If I could kind of jog along as I like - I said it is like taking a trotting horse going around the track just exercising, but now we have got to clock him.

Q. But you are still going to call them Defense Bonds?

A. Oh, no, they are War Bonds.

Q. I have been away for two or three conferences and am probably behind on that. Is there an official announcement?

Mr. Secretary, when was the official announcement made that they were changed to War Bonds?

About two weeks ago?

There never was an announcement.

A. Chick?

MR. SCHWARZ: We told the boys it was changed about two weeks ago. You weren't here. It was in all the good papers.

H.M.JR: What else?

Got any more complaints? I like them.

Q. Yes, I have got another one.

A. Good, let's have it.

Q. I remember your telling me that there wasn't going to be any national quota on these things and now you are going to have state quotas. Won't they sum up to a national quota?

A. We are not only going to have state quotas, we are going to have county quotas.

Q. All the more emphasis.

A. That is right, we are.

Q. And there will be a national quota?

A. Oh, yes, by month.

Q. Ten percent of payrolls?

A. That is right.

Q. Payrolls are estimated this year at about eighty billion dollars.

A. Not only payrolls, all income.

Q. All income is estimated at about one hundred seventeen billion.

A. Well--

Q. Then the national quota will be ten percent of that?

A. Ten percent of what people receive in earnings. About a billion dollars a month. Does that add up about right?

Q. Yes sir. I just wanted to get it officially.

A. We will have the quotas by states.

Q. You say a billion dollars a month?

A. That is what we - am I shooting ahead now? What did they say?

MR. SCHWARZ: A billion dollars a month.

H.M. JR: We hope to average a billion dollars a month beginning with July.

Q. Adjusted for seasonal variations, as the economists say? In other words, it will be more than a billion some months and less in others?

A. Well, what we are aiming to do is begin with the new fiscal year, starting July 1, to average for the succeeding twelve months a

billion dollars a month.

Q. Mr. Secretary, some of the people who favor the compulsory system, are objecting to this proposed campaign on the grounds that it might involve serious coercion. Will you comment on that?

A. Well, I will just repeat what I said on the Hill, there will be no coercion from here because I believe in the volunteer system with a big "V", and I read in some column, I don't know where, they said the only good arguments in favor of it was that it was both American and Democratic. Well, from my standpoint those are the best arguments that I know.

Q. Well, of course, Mr. Secretary, you have no control of the committee members.

A. That is right.

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Q. As I recall, one of the principal objections that you raised a year ago was, say a fellow has a German or Italian name living in the neighborhood, and the committee man says, "Look, this fellow here, he is of Italian birth, and look at this fellow here who hasn't got an Italian or German sounding name. He hasn't come up to his quota." That is what you wanted to avoid a year ago, and I think you will get into the same troubles again.

A.

Now, let me go on for background, see. Let me take a couple of minutes to explain what is in my mind. I can say here that I wouldn't be starting this thing Thursday night and everything else if it wasn't what the President wanted. As you know - I will come to your question in a minute. There are millions of people, your friends, your wives, your sisters and brothers, who say, "What can we do to help?" I don't know how many times that question has been asked. Right no^w, other than going in the Army and Navy or working in a munitions plant, there isn't anything to do. You can roll bandages or learn how to do first aid, take your twenty lessons and then you are through. What do you do? You become an air raid warden and so forth. There are literally millions of people in this country who want to do something. They are burning up to do something. We have got the job in this country,

if it takes a year or a year and a half, of carefully training to teach the soldiers to go in and kill somebody on the - you have got to go ahead and teach this civilian population that they want to go out and win. There is no vehicle. OCD has no vehicle. They have got all these millions of people and they have got no vehicle. Now, we have the only vehicle at present that the Federal Government has got and that is to give these people a chance to go out both to buy and to sell and to get them excited about this thing. This man wrote this letter, wrote that he is sick and tired of hearing about the blue birds over the white cliffs of Dover. He said, "To hell with that." What he wants to hear about is the vultures over Pearl Harbor. It is this thing that we are trying to do to get this country mad enough so that we will go out and win. Now, there is no other vehicle. Now, we have got it and the President wants us to do it, and sixty percent

of the reason that I want to do this thing is to get over something to the public through the press and the radio and to give the people an opportunity to do something, let them feel that they are doing something. Now, in this thing there will be excesses. As far as I hear them I will go at them myself, if there are excesses, to stop them, but let's say that there is one one-hundredth of a percent excesses in some places, but, on the other hand, let's say that this campaign in the next two or three months of getting this country mad about this war is successful. Well then, the few excesses we are very sorry about but we can't help it if somebody gets overenthusiastic. Now, you can't do this thing. There isn't any other vehicle in this town. MacLeish can have the most magnificent ideas but he has got nobody to carry them out, and Lowell Mellett may want to get this across or somebody else may want to, but how are you going to get this thing across. How are you

going to get the people to feel that they are actually contributing something? We think we have got it. Now, just to tell the people - we have got two-thirds of all the people that earn money in the United States now in the class that have the pay-roll deduction. It won't be very long before we have a hundred percent. But we have never told them how much. Now, we are telling them. And particularly the unions. The unions have been perfectly swell about this thing. It is the unions who want the volunteer plan as against the forced savings, and they are very proud of what they have done. They have done a perfect - I mean, going back to when I sat in the back row of the CIO Union in Pontiac and listened to these people for two hours discuss amongst themselves, these shop stewards, why they should deduct so much from their pay, from that day on I have been convinced that this was the way to do it. Now, I am willing to risk - take the risk that we get it, and if

we get it in the next two or three months, with the help of you people and an intelligent press, we can get this story over and get the people excited about this war, I think we are going to go some place, and again maybe I shouldn't say this, but the President said to me, "Henry, you and I are the only people that understand this thing." We have tried to explain it over and over again to the people in town, and I know them and they are friends of mine, but they don't think this is the way to do it. Well, the President does, and I do, and as long as he thinks it is the way to do it, I am going to go to town on it. As I say, if you could see the - how proud these workers are - and you go through the plants, any of the plants. They have got all their own signs up. In other words, you can't win this war unless the people who do the work at the lathe want to do it. You can have all the laws and all the edicts in the United States telling you to do this and do this and you can do the way they do the workers in Germany where they take

away a half dozen different things out of your pay and they won't get the production unless the people really want to put their muscles and minds into this thing. Now, as to inflation, when we tapped the thing at the pay roll and get the people to put this money in, that is going to take care of this thing as far as the actual money, but I can't take care of the thing unless Henderson moves at the same time and puts a price limit on, unless Agriculture puts on a price limit, and unless Donald Nelson says, "Well, you can't produce any more ice boxes and radios and automobiles and tires," and so forth and so on. Now, once he stops it, the same thing will happen that has happened in England. The people have got the money. They can't buy any goods because they are controlled - what happens? They have no trouble. They can go out and borrow two billion dollars as they did last week. There is no other place for the money to go. But they are doing it - their forced savings are practically nothing. The bulk of their

money they get on the volunteer basis. If I am lucky enough through doing this thing the hard way and doing what I call the - I am serious now - the American way and the democratic way and get this thing across, I think I will be rendering a real service to my country and that is all I am here for. I have got only one interest in life. I want to win this war. Now, anything that I can do to make the people who have got to work, the working man and woman, to make them feel that this is the way they would like to do it - now you gentlemen, this lady here, you go home tonight and you decide, talking around the table, "Well, I am going to deduct so much," and you have a heated argument, and you say, "Can I or can't I? I have got to buy one less suit" or, "I have got to go to the movies once less often, I will have to save on telephone calls," or "I won't take this trip because I want to buy this bond," and you do it and you come to your own decision, that very

thing that you are deciding tonight is terribly important as compared to - I can go to Congress tomorrow and say, "I am going to take some of it from you." Just apply it to yourself. Now, that is the thing, gentlemen, and I say, I wouldn't dream of doing this thing if the President wasn't behind me. Now, he has weighed the thing carefully, he has asked me to start Thursday night, this is what he wants. As far as we can, tapping the money at the source where the people get it, we are going to do it, and if the other agencies in town will do their bit, we will be able to get a ceiling on prices, but we can't do it alone any more than Henderson can do it alone or any more than Mr. Nelson can do it or Mr. Wickard. They have all got to move. If they will each do their part, then we can get a ceiling on prices. Now that is my story.

Q.

It is a good story.

A. Well, that is my story. And look, the easiest thing in the world is to give in to this crowd and say, "O.K., gents, have it your way."

Q. Mr. Secretary, wouldn't compulsory savings defeat its own purpose?

A. Well, that is what the President and I have been trying to tell these people, if you have compulsory savings, the volunteer thing falls, because certainly if we take ten percent off your pay check, you will say, "Well, that is what the Government says is enough. I am not going to give them any more. They said, ten percent, and if they want more, let them make it fifteen or twenty; but if Congress says it is ten, or Morgenthau says ten," excuse me for a minute, you will say, "Well, to hell with him. He ought to know what his business is. Why doesn't he tell us? I am not going to give him any more." It is just the difference. Now, we are moving fast enough toward the thing, you have got to do this and this and this by edict. Now, I don't think that is what the

American public wants.

Q. I was thinking of public resentment against such a move. It is pretty strong.

A. Well, I think there would be, and certainly everything that has come across my desk so far with the exception of a half a dozen brain trusters in this town, everybody that I have talked to is for this thing, everybody; and as I say, I have yet to find a working man or woman who doesn't want it this way rather than to have them say, when you go at the end of the week that the Congress has ordered that ten percent be taken from your check.

Q. Well, Mr. Secretary, they tell me that Detroit is a wide open town and money is flowing, and people are spending it like drunken sailors. Now, it doesn't look as if they are putting enough money aside over there. Those who have gotten jobs and are working in defense plants. I understand that some of the workers there have gone so far as to go to the banks to borrow money to pay their taxes, despite the fact that

they are enjoying the greatest prosperity since 1929. That may be an isolated case, but there is a point there.

- A. Well, Nick, I greatly question the statement. If you said to me, "Mr. Morgenthau, I saw them with my own eyes," I would believe you; but what I called in the last World War the twenty-five-dollar-silk-shirt era, I have yet to find any community that has it, where the men are buying twenty-five dollar silk shirts the way they did during the last World War, and I keep asking and asking and asking, and they tell me it isn't so. Now, if you have got somebody that you rely on--

- Q. I talked with newspaper men who had been out in Detroit and who had been through these war plants.

- A. Well, I keep asking - we keep asking both Agriculture and Henderson's outfit if there is any extravagant spending, and they tell me not. Now, there may be isolated cases, but - let's say that you are right. I still would do it my way, because a great deal of our copy is going to be directed toward, "It is smart to

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save." A great deal of our copy is going to be directed that way. We will try to get the people to see the light. You may be right, but I have asked again and again if that is so, and I have been told not, but I will ask again.

Q. Did you see those SEC figures on the amount of money spent on automobiles and consumer goods, two and a half--

Q. But, how old were those figures?

For the last quarter of '41?

A. And since then you can't buy an automobile. I mean, when did they stop it? They must have stopped it around the first of January. It was after January, wasn't it?

Q. Around the first of February.

A. Yes. Those figures could very well be so at that time.

Q. Do you think, Mr. Secretary, that among those things the other agencies should do - would be a certain amount of rationing? I notice Mr. William Green of the AF of L favors it.

A. Well, of course, I don't want to be accused of doing what other people - telling other people

how to do their business, but they don't hesitate to tell me how to do mine. I personally think that - I have said so publicly - that the quicker we go to over-all rationing the better; and then rich and poor get an even break.

Q. Mr. Secretary, before we have--

A. But this is all background. I am still on background, but I did want a chance to tell my side of the story, because I am not going off the deep end unless I have pretty firm convictions, and unless I was confident that the President and I saw eye to eye on this thing.

Q. You mean this is off the record, sir?

A. Up to now, background.

Q. By background you mean using it without attributing, is that the idea? What do you mean by background? It is important that we not misunderstand.

A. Well, I was telling you all this stuff to guide you if you wanted to write a story on it, but not to quote me on this thing.

Q. Well, we can say that is the Treasury position?

A. That is all right. That is on the record.

Q. In order to get a little clearer picture, Mr. Secretary, you say this will be state by state and county by county?

A. Yes.

Q. You will have a large number of people working as volunteers to sell these bonds. Have you any estimate as to the total?

A. There ought to be several million.

Q. Several million workers?

A. Yes, volunteer workers.

Q. There are about ten thousand counties, aren't there?

A. Thirty-two hundred.

Q. Well, will you have score boards and the usual displays and that sort of thing?

A. Yes. If you haven't seen this, you can take it down to the press room. This is unique in the history of Congress. They reprinted that whole display of the General Motors thing in the Committee Report.

Q. Was that on the record that you are going to set these quotas Thursday night?

A. It will be ready for Friday morning, yes.

Q. I mean, they are going to.

A. Yes.

Q. I didn't quite understand what you said about wage ceilings.

A. I didn't say anything about wage ceilings.

Q. Well, when you were talking about--

A. Nobody asked me that.

Q. In your discussion you were explaining how people bought these bonds under this program, and it would take care of a certain amount of the purchasing power, and then inflation could be licked if there was a price ceiling, and you said something about wages.

A. No, I didn't say wages. I said if everybody would do his job and if Henderson and Wickard and Nelson and myself all worked together, which we are trying to do on this thing, I said I think that we will be able to get a ceiling on prices.

Q. Oh, I thought you said wages.

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- A. No.
- Q. You said wages, Mr. Secretary.
Several of us heard it wages.
- A. Well, I am ninety percent sure I said prices.
I meant prices anyway.
- Q. Can you tell us what your attitude is toward
wage controls.
- A. Yes. It is just the same as my test on the
price bill. I was opposed to a ceiling on wages.
- Q. Mr. Secretary--
- A. I mean, I haven't changed since then.
- Q. Mr. Secretary, one other phase on Defense
or War Bonds, are you giving any consideration
to redemption after the war, a change in the
regulations so they could be redeemed after
the war rather than ninety days or if they have
to turn them in? There was some talk on the
Hill this morning, some of them said they thought
they had you convinced.
- A. No, I don't even know that anybody has brought
it up to me here at the Treasury. Are we all
together now?
- Q. Mr. Secretary, do you think--

A. Are we all together now?

Q. Yes.

Do you think that if the measures that you have been talking about work out, that wages will stabilize themselves?

A. I think if these things happen, that the cost of living can be stabilized; and I think if the cost of living is stabilized, wages will follow soon.

Q. You mean by themselves?

A. That is what I think.

Q. That is on the record, Mr. Secretary?

A. That is on the record.

Q. Now, there is one other question.

A. This isn't new, you know. I have said this before. It is only new because it is hot now and it wasn't so hot in November.

Q. In reference to your statement in favor of over-all rationing, it has been reported that the Treasury Department has proposed a rationing of expenditures instead of a rationing of goods.

- A. That is somebody else's responsibility, and I don't want to get into that on the record. I mean, that is up to Mr. Henderson. It is up to him to decide. He has got to make his own recommendations. What he and I argue about privately is one thing, and then what he recommends to the President or says publicly, that is his responsibility.
- Q. The only thing is that the OPA is accusing you of making such a suggestion as an alternative to rationing. I thought this was a good opportunity for you to throw that back if you wanted to.
- A. No, I have never done it, and I think if you go over there you will see their temperature has fallen quite a lot.
- Q. Mr. Secretary, you did say on the record that the quicker we go to over-all rationing, the better? I think that is what you said. You said just a few minutes ago--
- A. Yes, I still think that we will have to come to over-all rationing.

- Q. But you are talking of rationing--
- A. Of prices.
- Q. You are talking about rationing the available supplies of goods.
- A. Yes, sure.
- Q. Well, there is a proposal in the works about rationing of expenditures.
- A. Well, that is something else again.
- Q. And the Treasury is being credited with the suggestion by the OPA.
- A. Well, you go back to your source.
- Q. Just to be sure about this one thing, your statement on rationing is on the record? We can attribute that to you?
- A. No, that is part of the background.
- Q. Well, he just said that we could. I understood you to say, Mr. Secretary, that you had publicly stated that you were in favor of over-all rationing.
- A. No, as far as I remember - let's get - the stuff which is on the record to be attributed to me personally is - because I mean, I don't want to - we are going out for a billion dollars a

month on the average beginning with the first of July and for Friday morning papers we will have state quotas as for each state, and then shortly after that by counties, and all the rest of the stuff that I have said here is for background.

- Q. Including the fact that you will have several million workers? That is on the record?
- A. Well, you had better keep it off.
- Q. Thank you, Mr. Secretary.

SECRETARY MORGENTHAU'S
PRESS CONFERENCE
April 23, 1942

- Q. Mr. Secretary, in all this discussion about freezing prices, how about putting a low level on the stock market and keeping it at that?
- A. That is a good idea.
- Q. I have some securities in coffee and sugar, but nobody worries about securities.
- A. You mean put a floor under it?
- Q. That is right, don't let them go down any further.
- A. I will suggest that to the President. I think it will be very popular for the lower third.
- Q. Is that on the record?
- A. Yes. (Laughter)
- Q. Mr. Secretary, about a year ago--
- A. I won't mention his name, but this Congressman who voted against me on Donald Duck, somebody thought it was quite important, and asked

him. "Why did you vote against Donald Duck? You voted for him in the committee." He said, "Well, I was scared with the campaign this fall that I would get up and talk and somebody in the back of the room would get up and say, 'Quack, quack,' and how would I answer?"

Q. Mr. Secretary, about a year ago you proposed that--

MRS. KLOTZ: It is silly.

H.M.JR: Well, it is a true story. It is that kind of thing that lost us the vote.

Q. About a year ago you proposed a one hundred percent tax on excess profits over six percent. Do you still favor that?

A. Listen, gents, we are very rapidly approaching the time, according to the newspapers, that a man is going to make a speech. All I know is what I see in the papers.

Q. His office said that, very soon.

A. All right. Then to make life easier for me for

the next five minutes, I am not going to answer any leading questions which might possibly be discussed by the President.

Q. Well, you have the privilege, of course, of not answering, but it has been reported in the press that that proposal has been revived after it had apparently been dormant ever since you first mentioned it.

A. Well, Cecil Dickson did that story..

Q. Yes.

A. Well, I am serious now, I am not going to talk about taxes or anything now that might be a subject that he might discuss. In other words, my attitude today is like on the eve of a budget message. I talked plenty Monday.

Q. Monday?

A. Last Monday I talked.

Q. Oh, I thought you said you would talk plenty Monday.

A. No, I talked plenty Monday.

- Q. Can't you suggest some subjects of conversation on which you would be willing to talk?
- A. No, as a matter of fact, I even thought I should call it off this morning, but I thought it would be a pleasure to see all your bright young faces.
- Q. Mr. Secretary, we have received for release tomorrow morning after your radio address the quotas of the campaign. For our information, to use at such time as it is released, just how were the quotas derived from those average sales figures? Are they a percentage or something?
- A. They are based on the average sales since the first of May.
- Q. But are they some percentage of that?
- A. Well, I mean, they took what the average of the sales were from the first of May, and then simply mathematically applied that by states to what we needed.
- Q. The quota is the average for each state? The quota is the average sales for each month since

the first of May, sir?

A. No, it is based on the average.

Q. In what way?

A. Well, let's say if New York state produced twenty percent of all revenue since the first of last May, and we wanted six hundred million dollars, in this coming May they would take twenty percent, or New York state would produce a hundred and twenty million dollars.

Q. With some adjustments made in cases where some state was perhaps higher or lower than might be normal.

A. There might have been, but when they brought it to me the general rule applied that way.

Q. In other words, you took a quota and said that this state in the past has contributed such and such a percentage of the total, therefore, we want them to give that same percentage of the quota?

A. That is right. There may have been exceptions.

I don't know of any, but that is the way they arrived at it.

Q. Any new financing in sight, Mr. Secretary?

A. No. We will do a financing in May. In May we will definitely do a financing.

A. Can you give us any idea of how much you expect to borrow per month in the capital markets, that is, outside of Defense Bonds? There have been speculations of as high as three billion dollars a month.

A. Well, these figures, these estimates we get on production, they keep changing all the time, so really other than to figure between now and the first of July - that is about as far as we can go. I will give you a figure next week for the rest of this fiscal year, but they keep changing them on us all the time. There isn't much use of going more than two or three months ahead. We get the figures from Nelson's shop through Stacy May and the figures keep changing all the time.

- Q. When will your address be ready, Mr. Secretary?
- A. It ought to be ready shortly after lunch. Mine is finished. It is the rest of this stuff that I think is what you want.
- Q. Will you encourage them to try to make good on what they ought to do in the way of time? Will you encourage them to speed it up?
- A. Speed up what?
- Q. Furnishing us the copies.
- A. Oh, sure. When would you like to have them?
- Q. Now.
- Well, you said shortly after lunch. That would be very fine.
- A. Well, I don't see why you shouldn't have them by three o'clock.
- Q. Well, we often think the same thing and then maybe they come out at nine o'clock in the evening.
- A. Come out - no.
- Q. I don't mean this particular thing.

- A. Last time - I can't promise you definitely now, but I will say shortly after lunch.
- Q. Would you do something about Foreign Funds Control getting things out early instead of nine o'clock at night.
- A. Yes.
- Q. Because not only is it difficult for us, but the stories miss their significance.
- A. I know, and they miss their early editions.
- Q. They miss the late ones often and just don't get anything.
- You didn't get any play at all on that last Foreign Funds thing, because of the time it came out.
- I see New York ran it on the basis of the statements received at the Federal Reserve Bank of New York.
- A. I will send for them as soon as you boys go. Did Callahan's boys come over?
- Q. Yes, sir.

Mr. Secretary, do you know whether this release on your speech is going to contain at least the highlights of the remainder of the program?

A. I really don't know. I was highly pleased that mine was finished yesterday. I don't know about--

Q. Can you find out about that, Chick?
Silver ought to be an innocuous subject. Have you delivered that silver that the Aluminum people wanted?

A. No.

Q. Well, there was a story yesterday about giving a larger amount of silver to the New York State Power Authority to build this Massena power line. I think it was something like a hundred and twenty-six thousand pounds a week. What I would like to know, is that silver being sold to the State Authority and under what authority are you giving it to them.

A. Let me just check myself, but I think it is hung up. I think it is hung up with the

Government corporation that is financing them.

(The Secretary held a telephone conversation with Mr. Harry White.)

H.M.JR: It is hung up between Defense Plant and with WPB.

Q. I heard up on the Hill, Mr. Secretary, that you were--

A. That is where it is hung up.

Q. What do you mean by, "hung up"?

A. Well, they don't - I don't know, it is a question of approving it.

Q. In other words, you are ready to deliver it?

A. I thought the whole thing was settled. I thought the whole thing was settled, and then along comes Defense Plant and the question about the risk and who is going to indemnify them and all the rest of that stuff, and I thought it was all settled and all cleared.

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- Q. Jones again. (Laughter)
- A. But I thought the whole thing was settled, but it isn't, and his people are all there and everything else, and as far as I knew, it was all settled. I didn't break the story originally, but they broke it much too early; and then to my amazement, Defense Plant Corporation felt that they hadn't passed on it and so forth and so on, so I wrote them both a letter, Defense Plant and Mr. Nelson, and told them they had better fight it out.

Q. Could we have a copy of that letter?

A. No.

Q. They said down in WPE about ten days ago, Mr. Secretary, that as far as they were concerned it was all settled, and they had gone ahead and made contracts for the fabrication of silver.

A. Well, as far as we are concerned, on the basis of - my lawyers and everybody else gave it to me, and they went over it very carefully, and we made it over. Then along now comes Defense Plant and the question of what happens in case the silver is stolen; and as Nelson says, "How are you going to steal it with thirty million kilowatts going through one of those bars?" How are you going to steal it? Nelson said, "How are you going to steal it?" I don't know how they are going to steal it, but there it is hung up in the Defense Plant Corporation.

Q. To what agency, Mr. Secretary, is the Treasury looking for indemnification in case of loss? Or do you just assume they did lose it?

(Laughter)

- A. No, we are accountable for it. Well, I don't want to call again, but you (Schwarz) check that. Find out to whom do we look to be indemnified, will you? Ask Foley.
- Q. Is the Aluminum Company of America supposed to get all of this silver you are turning loose, sir?
- A. Again, ask Foley that, Chick. I think it was supposed to go into a plant. The plant is there, so to speak, waiting. It is either that or copper.
- Q. I was thinking of when the Aluminum Company was prosecuted as an anti-trust. If they get all this silver, they will be prosecuted for that.
- A. Well, on the other hand, there is a big hunk of copper that could be going into cartridges, and they sit around there arguing about it.
- Q. Couldn't you give us that letter, Mr. Secretary? I think it would be - it would make a good story.
- A. Well, off the record

(Discussion off the record.)

Everybody is jumping on Jones, and I don't want to be a party to it. I am perfectly willing to fight Jones when he is popular and on top of the heap, and I don't want to fight him now. I mean, when he is on top of the heap I enjoy having a fight with him if it is important, but not now. I mean, he has worked hard, and I don't want to join the pack.

(Resume discussion on the record.)

- Q. Mr. Secretary, some of the so-called silver Senators say that Mr. White or somebody in the Treasury is drawing up proposed legislation so that you can really sell the silver and get out from underneath any liability for it.
- A. We are working on some silver legislation.
- Q. Do you think that might be the "out" on whether it might get sold?
- A. Our attorneys are satisfied, and Mr. Nelson's attorneys and the Attorney General passed on it. I passed on the thing. We were under the

distinct impression that Defense Plant people - they had three of their people sit around, and they knew all about it, and we thought they were satisfied. Then when it got down to transferring it, they seemed to be dissatisfied.

Q. Is there about a billion ounces involved?

A. Somebody said - what was it--

Q. A hundred and twenty-six thousand - I think it is part of the West Point stocks.

A. Find out, Chick.

MR. SCHWARZ: It is a little under a billion.

Q. Mr. Secretary, what are some of the other points in this silver legislation which you are drafting?

H.M. JR.: Well, you will have to be a little patient. I haven't seen it myself.

Q. Mr. Secretary, isn't the legislation--

A. I haven't seen it myself.

Q. Oh, I see.

Isn't the legislation designed to make possible loaning the monetary silver as well as the free silver?

A. No, I mean, I think at the rate of the increase of silver for industrial uses, it ought to be

possible to sell American U.S.A. mined silver to industrial users, which we can't do, unless a man wants to pay seventy-one cents, and he is not going to do that as long as he can buy in Mexico for thirty-five cents. Now one of two things is going to happen. They will begin to compete for it and drive the price up, or they will get Canadian silver, and that isn't going to get them any more. It is just going to push it up on a scarcity market, or we ought to be able to let them buy domestic silver - I will go out on the end of a limb - they ought to be able to buy at the world market price.

- Q. Do you think thirty-five cents is a fair market price?
- A. You know how I feel.
- Q. In other words, repeal the domestic silver legislation?
- A. You know how I feel. I would strike it all.
- Q. WPB, for example, has barred the sale of machinery and explosives to silver mines, or they are

putting it on a very low priority so it is having the same effect, and they are trying to force silver as subsidiary metal to the mining of more strategic materials like copper, and so forth.

- A. This would be a good time to strike all the silver legislation off the books. It now has great industrial use. Let the people use it. We have it, and every ounce of silver we can use means there is one more ounce of copper to go into a cartridge.
- Q. Mr. Secretary, do you have any idea--
- A. We haven't yet gotten to silver bullets. I just wanted to get that over.
- Q. Mr. Secretary, do you have any idea of how much of the domestic silver is mined as a by-product of things like copper and zinc?
- A. No, but any of that stuff that you want, we have a beautiful library, and it is at your service.
- Q. It has been my impression that one of the arguments of the silver people has been that that is where a great deal of it came from anyway.

(Discussion off the record.)

A. Well, the arguments that they used to use in the good old days of Key Pittman, God rest his soul, I mean, a lot of those arguments - remember we started with the arguments--

Q. Chinese relief.

A. We started with Chinese coolie labor - this is all off the record - low-cost labor was entirely responsible for low-cost silver, and it turned the price down. It turned out that China never exported a pound of copper in its life. A lot of it is just gossip. And then when they said there were two hundred fifty thousand people employed in the silver mines, the best we could ever find was eight thousand.

Q. I would like to ask you a question on the record.

A. You will get me started on this thing.

(Resume discussion on the record)

Q. If the Treasury were to sell its silver at the world market price today, how much would the loss be?

A. Well, I wasn't recommending that. I was recommending that industrial users be permitted to

buy newly mined silver?

Q.- Yes, sir, but not Treasury stock?

A. No, I wasn't speaking of Treasury stock, of newly mined silver, see. I mean, that is there, and every pound that they can get is a substitute for copper.

Q. Mr. Secretary, are they prohibited now from buying it?

A. It is the same as prohibited, because they can't buy it unless they pay above seventy-one cents, and they are not going to do it when they can buy it at thirty-five cents. But if it keeps up at the rate of seventy-one cents, there will be a squeeze, and it will drive the price of silver; but so far Mexico and Canada have played ball with us, and there has been no squeeze

Q. Mr. Secretary, do you think that thirty-five cents is a fair world market price for silver?

A. The world market price is set by the world market.

Q. Now?

Oh no, Mr. Secretary, you set the world prices.

- A. Well, I am getting a little silver issue, too.
- Q. That is literally true, isn't it?
- A. Well, I am not going to answer this question, that-is all. O.K.?
- Q. Thank you Mr. Secretary.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, APRIL 27, 1942

- Q. Mr. Secretary, can you give us a definition of excess profits, according to the President's suggestion?
- H.M. JR: I haven't got his message. Didn't he ask Congress to do that?
- Q. Well, you usually help Congress on tax bills or try to.
- Now is your time to speak freely, Mr. Secretary. The message is out.
- Well, frankly, your definition at one time was anything over six percent. Does that still hold?
- A. My definition is up there with my written recommendation when I appeared.
- Q. You are not figuring on changing your recommendation?
- A. Well, my recommendation and whatever interpretation Mr. Paul gave to it. He went up there with a recommendation on excess profits and it still stands.
- Q. It is that March 3 recommendation?

- A. Yes.
- Q. As far as the definition is concerned, that left it where it was in last year's law and just changed the tax rates.
- Does that mean, sir, that the Treasury--
- Can you tell us how it changed them?
- A. Well, if you want it technically--
- Q. No, we don't want it technically. We want a common-sense explanation.
- A. Well, if you want to get in on this thing, I had better have Paul come in.
- Q. O.K.
- A. Do you want Paul to come in?
- Q. Yes.
- Before he comes in, how about the Morgenthau six-percent proposal?
- A. Well, that was superseded by my recommendations when I went up on the Hill.
- Q. In other words, as far as you know, that is not what the President was talking about?
- A. Well, the proposal that I made on the Hill on excess profits, I was very much disappointed.

They never asked me about my six percent, but the one we suggested produced considerable more revenue than my original six percent.

Q. Than the hundred percent on all over six percent invested capital?

A. The suggestion I made, whatever the day was that I went up on the Hill--

Q. March 3.

A. I think that I can check it with Paul, and it would have produced about five hundred million dollars more money than my original six-percent plan. It would produce about - I had it all ready, all written out, and I was terribly disappointed when they didn't ask me.

Q. Is that five hundred million?

A. As I remember it. I will check it.

Q. Wait a minute, sir, I wasn't here at the time, was that six percent - a hundred percent of all over six percent of invested capital, was that the proposal that has been superseded?

A. I will have to look it up. There have been so many interpretations on that. My printed testimony is available to you, and I don't want to

ad lib on it. He will furnish you with a copy of my printed testimony.

Q. Anything on silver, Mr. Secretary?

A. No.

Q. Mr. Secretary, do you expect to help Congress to establish the twenty-five thousand dollar salary or income limitation?

A. Oh, our motto is, "We aim to please."

(Mr. Randolph Paul entered the conference.)

Paul, they were asking me some questions, and they said they wanted a common sense explanation, so I sent for you.

MR. PAUL: O.K.

H.M.JR: One thing I said, they were asking me about my six percent, and I said, as I remembered it, the recommendation that we presented on the Hill on March 3 on excess profits would have produced about five hundred million dollars more than my original six-percent plan.

MR. PAUL: That is right. I am not sure of the exact five hundred million dollars, but it is a substantial number of million.

- Q. Is that right?
- MR. PAUL: That is right.
- H.M.JR: And then they asked me for a definition of my six percent, and I referred them to my testimony which I will make available to them in the printed copy. I said I couldn't ad lib it. So I just want you to know what I have said. We will give them the testimony. Now--
- Q. That is last fall's testimony you are referring to, sir?
- MR. PAUL: You mean before the Banking and Currency?
- H.M.JR: Yes.
- Q. Mr. Paul, the question is, what in simple language is the Treasury definition of excess profits?
- H.M.JR: May I just - I said our position was just the same as when we went up on the Hill before the Ways and Means. Now, you can explain that.
- MR. PAUL: And you want a simple definition of excess profits?
- Q. Yes.
- MR. PAUL: Well, under our proposal excess profits, in very simple terms, would be those profits made by a concern in addition to the income credit or the

invested capital credit. The income credit is ninety-five percent of the earnings of the corporation for the pre-war period, '36 to '39.

Q. Inclusive?

MR. PAUL: '36 to '39 inclusive. There are variations of that, but that is substantially the simple statement of it. The other is eight percent of the invested capital except where you have more than five million and there it is seven percent. Now, the corporation has its choice, and anything above two levels, naturally the higher of the levels will be chosen, is excess earnings.

Q. How does that definition differ from last year's.

MR. PAUL: It doesn't differ at all.

Q. The Secretary said it differed.

MR. PAUL: Not on the definition of excess profits.

H.M.JR: What is that?

Q. Definition of excess profits.

MR. PAUL: We don't differ from last year. We differ - we raise the rates, but we don't change the definition of excess profits.

- H.M.JR: The proposal of how we get the excess profits is different, isn't it?
- MR. PAUL: How we get them?
- H.M.JR: How we get them, yes, and we have changed the rates.
- MR. PAUL: How we get at them, yes. The Secretary is referring to what we do to them, but the definition of them is not different.
- H.M.JR: No, we are together.
- Q. In the light of Mr. Roosevelt's message, is the Treasury going to raise their rates on excess profits?
- MR. PAUL: Well, we have to study that message a little bit first.
- Q. Well, the message does mean a change in the original tax proposal submitted in March, doesn't it, as far as the Administration is concerned?
- MR. PAUL: Well, I wouldn't want to say necessarily that it did.
- H.M.JR: No.
- Q. You mean that he may be referring to your - the plan that you submitted on March 3 in his message.

MR. PAUL: I haven't got the message before me, but he is referring to--

Q. Well, when he suggests that the individual income tax be arranged so that a person can not retain more than twenty-five thousand dollars--

MR. PAUL: Well, that hasn't got anything to do with the excess profits tax.

Q. We are talking about the over-all tax program right now.

MR. PAUL: Oh! Well, the variation there is very minor, if any, because our proposal--

Q. Just a difference in rate?

MR. PAUL: Our proposals are substantially and practically the same. We have a rate of ninety percent at a hundred thousand which makes an effective rate so that a man has to make two hundred eighty or ninety thousand dollars before he gets fifty thousand clear after taxes.

Q. What were those figures again, sir?

MR. PAUL: Well, it is about two hundred and - you have to make about two hundred ninety thousand under

our schedules before you clear after taxes, as an individual now, I am saying, before you clear fifty thousand.

Q. The President doesn't want you to clear fifty thousand.

It is twenty-five thousand.

MR. PAUL: I just cited that as an example. You can easily get the figures for twenty-five thousand. But the variation, if any there, is merely a minor variation of rate.

Q. How can we get those figures on twenty-five thousand, sir?

MR. PAUL: Well, I only know them roughly. In order to get twenty-five thousand clear under our schedules, you have to earn somewhere around sixty-five. That is just a very approximate figure.

Q. Sixty-five thousand?

MR. PAUL: That is right.

Q. Then you would have your state and local taxes, school taxes, and water?

MR. PAUL: Well, that is right. That would vary from state to state.

Q. Well, does sixty-five thousand include that?

MR. PAUL: Yes, the sixty-five thousand is merely the Federal.

Q. You mean you would have to earn sixty-five plus twenty-five to get--

MR. PAUL: You would have to earn sixty-five to clear twenty-five so far as our Federal structure is concerned.

- Q. So that you pay thirty-five of the sixty-five in taxes, is that right?
- MR. PAUL: Well, sixty-five.
- Q. Sixty-five--
- MR. PAUL: Forty.
- Q. Is that under the present law, or under the proposed law.
- MR. PAUL: That is under the proposed, and that doesn't take any cognizance of state taxes, which is, of course, a different burden in each state.
- Q. Is it your understanding, Mr. Paul, that the President's proposal referred to after all taxes?
- MR. PAUL: Well, I don't know.
- Q. State and municipal?
- MR. PAUL: He isn't explicit on that.
- Q. I thought maybe you had some inside information.
- MR. PAUL: What does the message say?
- Q. It just says after taxes.
- He doesn't recommend it either. He just says that he doesn't believe that a man should have more than twenty-five thousand.
- MR. PAUL: That is right.
- H.M.JR: Well, he put it up to Congress.
- MR. PAUL: I should suppose he is just putting a general - hardly even definitely a recommendation, but a

- general expression of desire up to Congress, and leaving all those details to Congress
- Q. Here is what he said, if you want to hear it.
- H.M.JR: I would like to hear it.
- Q. He says, "I, therefore, believe that in time of this great national danger when all excess income should go to win the war, no American citizen ought to have a net income after he has paid his taxes of more than twenty-five thousand dollars a year." Then he goes on to the--
- MR. PAUL: Well, certainly if you adopted the ordinary rules of construction of that, that means all taxes.
- Q. Well, Mr. Paul, the man who has an income now of a million dollars a year could retain about a hundred and twenty-two thousand, couldn't he?
- MR. PAUL: I don't remember.
- Q. Under your schedule.
- MR. PAUL: I don't remember those figures. If you want to be sure about that, I will check them for you.
- Q. Well, that is approximately the amount.

- MR. PAUL: If you will look up the schedules, that will--
- Q. I wanted to cut that down to twenty-five thousand. Do you expect to submit further recommendations?
- There is no minor variation--
- H.M.JR: Could I just say this off the record?
(Discussion off the record.)
- A. The President was kind enough to let us see the message two or three times in the process of its formulation; and the last time we saw it, we told him that as far as the Treasury was concerned, there was nothing in that we could object to, and that, on the other hand, we went along with him a hundred percent. I just want to make it perfectly clear. As far as we are concerned, we go along with him, just so there is no possible misunderstanding
(Resume discussion on the record.)
- Q. I just wondered if there are any further recommendations to bring about this twenty-five thousand dollar salary limitation.
- MR. PAUL: Well, in your case there, what you would have to

do if the Committee wants to implement that suggestion literally, you would have to give them a schedule of rates. That is all you have to do.

Q. Well, he has a program which is so different from the one that you presented in March. Are you prepared to go up there to lay the recommendations down fulfilling--

H.M.JR: Sure.

Q. You have it all ready to go up?

A. Can't have it all ready. This thing jelled about noon yesterday. You can't pull one out of your hat.

Q. No.

A. But as far as we were concerned, I mean, the thing, as I say, jelled about noon yesterday.

Q. That is the twenty-five thousand limit?

A. The part that affected the Treasury, the whole thing. But we are ready - as long as I sit in this chair - I will put it another way. I only sit in this chair as long as I am ready to back up the President. When the time comes that I can't, you will see some other fellow

sitting in the chair. That is simple enough.

Q. No, the point I made--

A. No, I am serious about it.

Q. No, but the point was that he was to bring the message--

A. No, I am damn serious about it. And, as I say, as long as I am sitting here and meet the press, I am ready to back up the President. The day I can't back him up, somebody else will be sitting in it, or it will be vacant.

Q. I think we understand you, Mr. Secretary. We are just trying to find out whether you now contemplate going up there to back him up with definite suggestions, or whether, as Mr. Paul suggests, you will wait for an invitation of the Committee.

MR. PAUL: Well, the difference between those two points of view is academic.

H.M.JR: I will talk for both Mr. Paul and myself. When do you go up there again?

MR. PAUL: Tomorrow morning.

H.M.JR: One minute after he goes up there, they will ask him. Is that right?

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MR. PAUL: That is right. That is why I say it is an academic question.

Q. Mr. Secretary, could you or Mr. Paul give us an idea of the method of limiting incomes to twenty-five thousand? Would that be done by changing the rates, or would you have a confiscation above that amount?

H.M.JR: We are not ready to answer that.

Q. Confiscation would be easier, Mr. Secretary.

A. Yes, but--

MR. PAUL: Well, that has a lot of complications. We haven't given consideration to all of those. As the Secretary says, this is a new thing, and there are lots of--

H.M.JR: Having been out all of Saturday afternoon and all Sunday, we all adjourned for a half day of sunshine.

Q. Mr. Secretary, they say, "One of our difficulties is to write a law in which some clever people will not find loopholes, or in which some businesses will not be equitably included. I have suggested that the Chairman of the Committee on Ways and Means that some blanket clause

could well cover by a special tax all profits of any kind of business which exceed the express definition of the legal profit figure."

H.M. JR:

Well, you will have to be a little patient on that. I gave him Nick Gregory's suggestion as to a floor under stock exchange prices, but he didn't think that was so hot.

Q.

I thought you were kidding me at the time. I would have written it up. I thought it was a very good idea. (Laughter) We discussed it and thought you were kidding.

A.

I thought you were serious.

Q.

I was serious, but I thought you were kidding. I didn't understand you a minute ago. You said you were going up in the morning. Did you say in connection with this thing or that it would probably come up?

MR. PAUL:

No, hearings resume in regular course tomorrow morning at ten-thirty, and I go up there, and I don't think it will be many minutes, as the Secretary said, before I will get asked some questions, and I say it is very highly academic whether we go up with the suggestions or whether

we respond to an invitation. We are going to have an invitation immediately.

Q. Will you have the reply to those, Mr. Paul?

MR. PAUL: Not in all detail, no. No human being would have them in all detail.

Q. Is that a closed hearing?

MR. PAUL: Yes, it is. It is the regular Executive Session.

H.M.JR: With the usual leaks. (Laughter)

Q. Mr. Secretary, I see that the President compromised the Treasury's position with regard to taxing outstanding securities with non-taxable income.

MR. PAUL: He uses the words, "at least," I think.

Q. Well, but that is a compromise compared with the position that you people have taken, that you eliminate the tax-exempt angle on this whole situation.

MR. PAUL: Well, four percent, yes.

Q. As a matter of fact, somebody said it was full of compromises.

MR. PAUL: Well, if you call four percent out of ninety a compromise, all right.

H.M.JR:

I told you people last week that I will tell you this week how much we had to borrow, and we are going to borrow approximately two billion dollars in May, and approximately two billion dollars in June.

Q. That is all new money?

A. Yes.

Q. Does that include HOLC or any of those other things?

A. Well, I asked Bell for a memo, and he says, "Our most recent estimates of our cash position for the next two months indicate that we will have to borrow approximately two billion dollars in May and two billion dollars in June on major financing operations." Does anybody want it?

Q. Yes. That is the largest amount you have ever borrowed in any two month's period, isn't it?

A. Oh yes, since I have been here. Or in the history of the Treasury.

Q. Two billion dollars is the largest you have ever borrowad?

A. Yes.

Q. You say that is the largest--

A. Oh, it will be by far the largest amount that has ever been borrowed in the history of any government.

Q. This will be open market operations, Mr. Secretary? Wasn't the fifth Liberty Loan larger?

A. Did they do it all at once?

Q. No, over a period of two or three weeks. These are open market operations.

A. Let's say under President Roosevelt. We are safe on that.

Q. These will be entirely open market operations, Mr. Secretary, capital market, that is, flotations.

A. That is right.

Q. No borrowing from the Federal Reserve Banks?

A. Oh no, where have you been? Who have you been associating with? What else?

Q. Has anybody stolen those silver bars yet?

A. Ask them on that, Shaeffer. I think it was settled Saturday. Will you?

MR. SHAEFFER: Yes, sir.

H.M.JR: Ask the boys. I think it was settled Saturday.

Q. The story I heard was that the RFC didn't want

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to have to stand the cost of the shrinkage of the silver in remelting it for bus bars.

A. Well this is just off the record.

(Discussion off the record.)

Mr. Nelson wanted - I told him if he wanted it, he had better say so, and he did, and now he has it, as I understand it.

Q. He has the silver now?

A. I understand that. You had better check with Harry White, but I understand that he had cleared it. I mean, I told him if he wanted it he had better go to town on it, and he did, and I think he got it Saturday. All right.

(Resume discussion on the record.)

Q. Thank you, Mr. Secretary.

SECRETARY MORGENTHAU'S PRESS
CONFERENCE, APRIL 30, 1942.

H.M.JR:

I think the most interesting thing that I have got is this telegram which I will give you a copy of. It says here, "Sixteenth Naval District, Philippine Area, U. S. Navy Personnel, Manila Bay Area have purchased War Bonds totaling four hundred seven thousand dollars to date. The amount presently will exceed a half million dollars." Then there is the answer from the Commandant. I might point out that that is U. S. Navy personnel at Manila Bay today. I think that is pretty swell. Who wants this?

Q. You just have one copy of it?

A. That is all.

Q. I would like to see it.

Q. And then I have got a letter here which I will also give to you and you can return it. It is from General Motors, Mr. Anderson, showing how they are getting along on their drive and it

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shows by each plant. Out of the ninety plants, it looks as though over half of them are already a hundred percent. They stand at present at ninety-seven point eight of their employees who have asked that bonds be deducted from their checks.

Q. Ninety-seven percent of all their employees?

A. Of all their employees. Of all General Motors employees. I will give you the thing. It must be that fifty of their plants are a hundred percent and it gives them by name. Some of you men will be interested. Chevrolet in Atlanta, Chevrolet in Baltimore, Bloomfield, a hundred percent. It gives them by name. Fisher, Cleveland, a hundred percent; Fisher, Lansing, a hundred percent.

Q. Does it give the total amount which they are subscribing for, Mr. Secretary?

MR. CALLAHAN: That is not in there, Mr. Secretary.

Q. Does it run ten percent of their income?

MR. CALLAHAN: It exceeds five percent. Their original hope

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was in this initial drive that they would get five and step it up in a short time to ten. They report from a spotty check that it exceeds their anticipation, which was five, so it is apparently now six or seven.

(Discussion off the record.)

H.M.JR: I hadn't read the letter carefully. This last paragraph - I will give you the letter, but this reference to Jehovah's Witnesses, would you mind forgetting about it. (Laughter) I don't want to start anything. He says here, "In one case I understand Jehovah's Witnesses is buying a bond with Mr. Morgenthau as beneficiary and with the further qualification that the purchase price must be for a bomb to be dropped on the head of Hirohito." I don't want to get into that.

MR. SCHWARZ: Not on the record.

(Resume discussion on the record.)

H.M.JR: Who is the head of the Treasury correspondents?

Q. I am not the head of it, but I will be responsible.

A. You represent fifty percent of the women, is that right?

Q. That is right.

H.M.JR: A hundred percent.

Q. Mr. Secretary, the radio says last night that a dispatch from Chungking quoted to the effect that the Chinese had bought a hundred million dollars worth of War Bonds and Stamps. Do you know anything about that?

A. No. We are having troubles enough with the Chinese. I have got no comment. For your information, I never heard of it. Just quote me as saying, "No comment." I mean, it would be impossible.

Q. They are borrowing money, on the other hand.

H.M.JR: What else?

Q. Mr. Secretary, considerable opposition appears to have arisen on the Hill to the proposal to limit individual incomes to twenty-five thousand dollars after taxes. Can you tell us any more

about the proposal?

- A. No.
- Q. Can you give us any idea of the methods that have been or will be suggested by the Treasury to put that into effect?
- A. No, anything on that Mr. Paul, on my behalf, will announce to the Ways and Means. I believe it is in executive session. No, I can't help you out.
- Q. Mr. Secretary, several columnists have suggested that there is still left, despite the President's proposals, a gap of about ten billion dollars of inflationary money. Would you like to discuss that, the general terms of the situation?
- A. No, some of these columnists, if they would spend a little more time helping us put across the President's program rather than condemning it before we even get started, I think it would be helpful to the war effort.
- Q. Well, I am not a columnist--
- A. I know you are not.
- Q. Perhaps the reporters would be glad of a few facts, and you could help them by giving them out.

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- A. I know you are not.
- Q. Perhaps the reporters would be glad of a few facts, and you could help them by giving them out.

- A. Well, I mean these two columnists which I read, they have fixed ideas on this--
- Q. Is that Walter Lippmann and Ernest Lindley?
- A. You name them, I don't want to. The President after three weeks of consideration decided on this program and everybody that has anything to do actually with the program, that I have come in contact with, is working one hundred percent to put the program across. Now, I think that - mind you, I say the people that have part of the responsibility to put the program across.
- Q. Isn't the question whether the program is adequate, Mr. Secretary?
- That would be my feeling, Mr. Secretary. These people are all working to put the program across but having put the program across, is it going to be sufficient?
- A. Well, as I say, the President gave it three weeks of consideration, and after three weeks of consideration he decided it was.

- Q. Didn't he add, "for the time being"? I thought he specifically said that it was - the voluntary purchase of bonds and so forth would be for the time being.
- A. I don't remember his using those words.
- Q. He didn't use that expression. He said he would like to keep the voluntary system as long as possible.
- A. Well, I again say that if some of these men - I realize the columnists have to write something controversial or otherwise it isn't read, but I would like to read some of these columnists who get behind the program. I can refer you to one yesterday, Mark Sullivan. I will name him. He wrote, I thought, a very constructive article. It can be done. But answering your question, I think that the President's program, given a fair chance by a hundred and thirty-five million people, is going to succeed, but it is up to the people of the United States. They are going to decide it and I think, giving it a fair chance, they are going to succeed.

But it has got to - it hasn't even really been born yet. Given a chance, I think it will succeed.

Q. By succeed, you mean will check inflation?

A. Yes.

Q. And you mean without supplementary measures?

A. I think given the chance, with everybody putting his shoulder to the wheel, everybody helping - all the laws and all the edicts from Congress and the executive end of government won't keep people, whether they have got ten billion dollars or twenty-five billion dollars in their pockets from competing with each other for the shortage of goods. There has got to be the will to conserve one's money and not to compete for those goods which are short. Now, it gets down to the good will of the people and I, for one, have got enough confidence in them that the thing having been explained to them so completely by the President, I think the thing has a complete chance of succeeding, but if certain writers torpedo

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it before the ship is even launched, that kind of thing can help defeat it. It won't defeat it alone, because they haven't got enough influence.

Q. Mr. Secretary, anything new on financing?

A. It is just like our own particular end of the thing. We say we are going out to try to get this thing and I have asked until the first of July to demonstrate it. The minute I am convinced that we can't do it, I will be the first to say so, because as far as public officials are concerned, I think I was among the first to come out publicly and make a speech, which I did in Boston, on this whole question of inflation. Now, some of these people because we didn't happen to take their petty ideas try to put me in the position as though I wasn't interested in inflation which I think is both stupid and unfair.

Q. Did you say July 1 was the date?

A. I said in Congress, "We will know by the first of July whether this program - our end of it -

is going to be a success or not. Now, I haven't got any fault to find with the stories written by the working press out of Washington. I haven't - I have had a fair press and I haven't got a single complaint or criticism. On the other hand, I am more than pleased by the stories that you men have written. I mean, I am getting good straight news stories, all I am entitled to.

Q. I suppose, Mr. Secretary, another element of the success would be whether Congress puts into effect your tax program.

A. It is that also and again, we sitting here, knowing - you can't quote me on this - how hard we have been working to get the Treasury's program over and for people to write that it isn't severe enough, when up to now we have had no encouragement to think that we can get our program over, and then people write stories that the Treasury doesn't tax hard enough. Well, up to now - I mean, you can't quote me - we have had no reason to believe that the Congress will accept our program.

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- Q. Mr. Secretary--
- A. I mean, it is just one or two little pin pricks, but my skin is pretty thick, and I can take it.
- Q. The thought suggests itself to me, Mr. Secretary, that usually Congress grants about eighty percent of whatever you ask. If you should ask for about twice as much, you wouldn't probably get it all, but you would get eighty percent of it.
- A. If we asked for twice as much, we wouldn't leave any profit. We asked for eighty-seven and a half percent of excess profits, and if you asked twice as much, there wouldn't be anything left, and we here still believe in the profit system and want to see business make a reasonable profit. Now, if you go out and go much beyond what we recommended, then you just go out to wreck business, that is all. I never have, and never intend to do that. After all, it is a question of killing the goose. Now, if you want golden eggs, and you want some profits, you can't kill the goose. Certainly our recommendations were so far in advance of

anybody else that if they had accepted them, they would go a long way toward helping on this inflation problem.

Q. Several Congressional sources up there have reported the House Ways and Means Committee to favor reducing these corporate recommendations to where they would produce corporate taxes to two billion, compared with your three and a half billion recommendation.

A. With Mr. Paul up there every day, I can't get in on that. He is up there as my spokesman.

Q. Mr. Secretary--
Anything new on financing, anything additional?

A. I hope to have something tonight for you. I hope to have something tonight.

Q. Will that be late afternoon?

A. I will know if I am going to have anything for you by four, but you might not get it until five or six, but Schwarz - Chick will know certainly by four whether he is going to have something. But, we might not be able to give it to you by five or six; but by four o'clock

he will know.

Q. Mr. Secretary, did you discuss the silver situation yesterday?

A. I certainly did.

Q. Do you care to say anything about your discussion?

A. A good time was had by all. (Laughter) Everybody was happy.

Q. Did you present the Treasury bill that you have been working on?

A. No, I simply went up there and told them a little story, and then I told them that as far as I was concerned, I was for striking all the silver legislation off the books; but we had enough fights on our hands, and I wasn't going to start any fight, but that is the way I feel. I knew they didn't agree with me, and I couldn't convince them, and they couldn't convince me. So they asked me did I have enough influence with the Treasury to keep the Treasury from sending a bill up there, and I said I thought I did. (Laughter)

Q. So no bill is going up?

Is that the way it stands now, Mr. Secretary?

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- A. Somebody else will have to supply the yeast to make the cake. In other words, I can continue to say from the tops of the houses that I want silver legislation struck off the books, but I am not going to do anything about it.
- Q. In other words, there will be no overt move on your part, Mr. Secretary?
- A. Well, that is a little strong language, but it is all right with me. I am not going to start anything. I mean, I am going to continue to talk when anybody asks me, but I am not going to do anything except talk.
- Q. Well, does that - last time you indicated that some of the Administration or the Treasury might be drafting some legislation covering one point whereby it would make silver - is that off, too, now, sir?
- A. Being a free country, I can say how I feel about silver, and I will do that; and unless Congress wants to start something, we won't.
- Q. Would you call it an armed truce, Mr. Secretary?
- A. Let's call it a truce. We parked our guns before we went in. Incidentally, I have never

been to a meeting - have you ever been in the Indian Committee room? They convened it in the Indian Committee. It had quite a setting with tomahawks and everything.

Q. I understand there is a committee on the disposal of waste paper.

A. I think that would be very good.

Q. Mr. Secretary, on the inflation question, do you still favor over-all rationing of goods?

A. Oh, I think after the President's speech - you know where I stand. I think I will keep off the subject for a while. I don't want to get - fall into the same - into the evil of the criticizing columnists. Let's give the program a chance. All right?

Q. Thank you, Mr. Secretary.