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Good afternoon.

H.M.Jr.: Good afternoon. I just suggested we make this very snappy so you could all go to the CED press conference. That should be more productive than mine.

Q We have already.

Q We prefer to confer with you.

A I'll make it as short and snappy as you want it.

Q Wouldn't you like to have air conditioning in this building so you wouldn't have to go around in your shirt sleeves?

A I like going around in my shirt sleeves.

Q You look comfortable.

A The CED has a report out, Mr. Secretary. Do you want to comment on it?

A You ladies and men of the press have the advantage over me. I have honestly not seen it.
Q Haven't you seen it?
A No.
Q Generally speaking they want to take the Fund—have just one organization.
A Which do they want?
Q They want the bank, but they would like—we are not even supposed to discuss this thing, are we? Really?
Q I don't see why not. It is four o'clock.
Q They want to have the Bank run the whole works. They are afraid of the Fund.
A Well, I can't discuss it because I haven't seen it.
Q They do say, however, they take the whole plan and make the changes after it is accepted.
A That is quite different. They have the plan and then change it.
Q That's right.
A That sounds as if there are some businessmen who are forward-looking in that organization.
Q Three bankers, Mr. Secretary.
A Maybe those bankers that--
Q ...are more progressive.
A I have heard the group of businessmen in the
CED very highly spoken of, and I expect a good
report out of them. (Laughter)
Q It is too late to anticipate that.
Q It was a committee report, but it didn't go
to the membership. There are two thousand,
two hundred members.
A I file an objection to that remark. (Laughter)
Q Anything on maturities?
A What?
Q Anything on maturities, Mr. Secretary?
A I am having great trouble with Dan Bell. I
can't get him to make up his mind.
Q There must be some secret signals going by here.
A Everybody is happy except the sharpshooters.
Q That's right.
A And Mr. Gamble said I don't have to hurry. The
War Bond organization is going along, so I am
to take all the time I can.
Q You haven't any--wasn't it previously indicated that we might have something over the week end?

A I have done that several week ends. (Laughter) As long as Mr. Gamble doesn't rush me and he said he is getting along fine preparing for the Seventh War Loan, I am going to take all the time I can.

Q There is no indication what time you will be prepared to announce them?

A No. I am just resting.

Q Has the Treasury received any information--Mr. Currie, I understand, is back.

A I haven't seen Mr. Currie. No, I haven't seen him.

Q Has China asked for any loans for post war industrialization?

A I refer you to Mr. Dean Acheson's testimony this morning before Banking and Currency. He cleared that situation pretty well.

Q Well, thank you very much, Mr. Secretary.

A You go over to CED and see what they have. I hope they give you cocktails.
Q  Good morning, Mr. Secretary.

H.M. JR: How is everything?

Q  We are unhappy today, Mr. Secretary.

A  So am I.

Q  Can we make a complaint?

A  Sure.

Q  It has to do with Lowell Thomas. He used a story we knew about around here and sat on very quietly and didn't do anything about it.

A  Well, that is just one of those unfortunate things that happen. In talking with these people yesterday I told the story. They pressed me very hard—could they use it? And I said yes, but I had no way of knowing that you people knew about it.

Q  Most of us had known about it around here and couldn't use it for security reasons. Of course, we haven't brought it up recently, but it was quite an old story.

A  You never brought it up with me.

Q  No.

A  As far as my release with you is concerned, I never said you couldn't use it. Is that right?

Q  No.
So I think my record is all right, but it is just one of these things that happen, and three hundred and sixty-five days out of the year, you have got to give me one day off. I try awfully hard. But you men and women know I write no stories and nobody else writes my stories, and all the news we have we try to give you here, and once in a while something like that happens and you just have to be good sports about it and look back at the other three hundred and sixty-four days, that's all.

Including Sundays?

Including Sundays. But we try terribly hard to give the Treasury press room everything. When a group like that starts pressing you, I am like the girl in Oklahoma—I just couldn't say, what was it, no? (Laughter)

Well, I wouldn't say that the relations between us are strained any, Mr. Secretary.

They will probably bring it up as a matter of record.

That's all right, I don't blame you, but I can't remember the last time you brought up one. It must have been a long time ago. When was the last time?
Q: Well, it hasn't been for the last year.
A: That's pretty good, isn't it?
Q: Oh, yes. (Laughter)
A: Oh, well--
Q: Is there anything on maturities?
A: No. I did some checking while I was up in the Big City, and the State War Bond Headquarters kind of like it that we are not announcing the maturities. They say there is less switching and the market is kind of dried up.
Q: We can use this?
A: Yes. And the market contracted.
Q: The market retracted?
A: Contracted.
Q: Contracted as a result of--
A: Yes, the fact that we haven't announced the maturities there is less buying and selling of Government bonds, less switching, and they feel that in advance of a drive, that is good. Now, I didn't do it for that purpose, but here is the State of New York, I talked with them there yesterday at the War Bond Headquarters.
They have forty percent of the money they have to raise.

**MR. BELL:** Between thirty and forty percent.

**H.M. JR.:** Total?

**MR. BELL:** They have to raise at least a third of the total amount, and as far as Fred Gehle is concerned, who is our State Chairman, he would be perfectly satisfied for me to wait considerable more time.

**Q:** You have to wait quite a time if you wait.

**A:** Yes. I talked with the Federal Reserve yesterday in New York and they are perfectly happy about it. I didn't realize that the market would contract you see, and the thing that we don't want in advance of these is a lot of switching, people selling out their bonds, taking their profits and getting in the money to buy additional bonds. Now, the extreme—for instance, to show you what has happened, Mr. Gehle told me he went to a delicatessen store and the delicatessen storekeeper said to him, "Can I borrow some money in order to buy some of the next bonds?"
Well, if it is getting down to a delicatessen store fellow, not E Bonds, but speculating, you see, well, that's all wrong. Mr. Gehle said, "We don't know," and so forth, and explained it to him. He asked him whether he was a good delicatessen storekeeper and he said yes. But when it gets to the point where a delicatessen storekeeper is taking a free ride in Government Bonds, it's all wrong, and that is the kind of thing we are trying to stop, and I got nothing else out of the trip yesterday. I feel after being there that the longer I postpone announcing the maturities, the less free riding there will be, and the less switching there will be. That's the kind of thing we don't want because what we want are the people who have surplus funds to invest in Government securities. We want those surplus funds and we don't want them speculating.

Now, I don't know whether Mr. Bell has made available the circular which we are sending
around to the banks over my signature or not.

Mr. BELL: No, we have not, but we can do that.

H.M.JR: It is a very constructive circular. I can say that because it was prepared by my assistants, and forwarded to every bank in the United States. I think you ought to make that available.

I learned yesterday that the insurance companies have sent out a circular among their own members, all looking toward the discouragement of this speculation in Government Bonds. I think that should be made available.

Mr. BELL: The savings banks are doing the same thing.

H.M.JR: Yes. In other words, we are making a great effort to discourage speculation in Government Bonds, and are concentrating all of our efforts to bring the people's attention to the opportunity to invest their surplus funds with the Government, and help them pay to run the war. That's where the concentration should be and off speculation.
Q: How much speculative money do you think there was in the last Drive?
A: Too much.
Q: Nine billion dollars?
A: No, not all that, but there was too much. When it gets so that a delicatessen storekeeper wants to take a free ride in Government Bonds, it's time to call a halt.
Q: Could you give us some rough figure on how much was in it—a rough one—an idea of what you are trying to break up? I heard the figure nine billion dollars.
A: That's the figure, but the banks' portfolio was increased by nine or ten billion dollars, but that wouldn't necessarily mean it was all speculative.

MR. FELL: Part of that was switching.
Q: That's what you want to avoid, too, isn't it? Would you say in the last bond drive there was nine billion dollars in switching and speculative money?

H.M. JR: If you get the circular—they can make it available this morning, can't they?
MR. BELL: Yes.

H.M.JR: It goes into great care explaining to banks what we want them to do and what we don’t want them to do, and it can be made available right away.

I think certainly several billion dollars were speculative.

MR. BELL: We don’t touch on that figure in that letter, but it is estimated about nine billion dollars in the last Drive was money we got from the banking system indirectly.

H.M.JR: It was not all speculative?

MR. BELL: No, speculative and switchning.

H.M.JR: I wouldn’t use that figure.

Q: It has been used before.

A: It isn’t correct because you can’t justly say if somebody sells out earlier a two and one-half and buys another one, it is necessarily—he may do what a lot of them did. They sold their taxable bonds—tax-free bonds—taxable—which was it?

MR. BELL: Tax-exempt bonds.
H.M. JR: ...that they sold and bought the other. Now, that necessarily isn't speculative, you see, but they are adjusting the thing to their tax situation. So I think you are on safe and correct ground if you say several billion dollars.

MR. BELL: I think that's right.

H.M. JR: Whatever it was, it was too much.

Q: Could we consider this, then, a new policy for future bond drives, withholding for thirty days?

A: No, it is not a new policy, except we learn by experience.

Q: You have learned something you can apply to future cases?

A: We try to do it. I don't want to name a district, but we have--and you can correct me if I'm wrong--going back as far as two years ago, whether by word of mouth or--

(Discussion off record)

Off the record, it was Atlanta. In Atlanta we sent them through the Federal Reserve, our fiscal agent, and said, "Now stop this business down in Atlanta of lending money to Department Stores and everybody buying Government Bonds." Well, I think there were five principal banks down there. They said, "As long as Tom is doing it, I'm going to do it," and we knew, but it was the worst place. You can't use it.
We can use the illustration?

And they did. Now, the last time this same district went to the other extreme. They put the screws on so you could hear them howl all the way up here in Washington. So, it is nothing new. I had personally sent for the head of a bank in a nearby city--I'll give you the name--Baltimore, and this fellow just was doing this. This must have been three years ago.

MR. BELL: About that, yes.

H.M.JR: And we told him, "Now, look, you don't like this." He said, "No--it doesn't do me any good." I said, "It is my job," and he said, "Okay, I'll stop."

(Discussion resumed on the record.)

I had the presidents of the seven largest insurance companies down here myself and talked to them just on this subject here two weeks ago, and when I explained it to them they said, "Oh, you don't want this." "No." "All right, we'll
stop it."

That is, insurance funds being loaned out for that purpose?

No speculating.

They sold others and then bought.

(Discussion off the record)

They were very innocent. They didn't know that nobody wanted them to. (Laughter) Don't use that, but they are crafty.

(Discussion resumed on the record)

Now, what I tried to get over is Mr. Bell and I and the Federal Reserve Board and the twelve Federal Reserve Banks have tried and tried and tried, and I think we have made a little headway each time, but it is a very tempting thing to do, to go out and borrow this money.

Yes, but the uncertainty in the maturity has a tendency to help you in that particular drive.

The uncertainty—that is what I want to stress. Is that instrument of creating uncertainty going to be used in the future drives to accomplish the same purpose?

Let me ask you—I didn't know until yesterday what I was doing had, so to speak, dried up the government bond market and I learned that it's
a good technique and I will follow that and postpone it to the last minute, see?
That's right.
And I am going to even ask Mr. Gamble whether he can't print this list and print the thing with the interest rates and maybe let these men write it in in ink at the last minute.
Now, if we do that, give it to them the last minute, nobody is going to do any smart thing, and you don't--see, if they have got this thing and have slips printed and everything else, when they start out in the morning they can write the thing in in ink. It is only going to take a few minutes, but it has contracted the market and dried it up, and the people are sitting back. I was kidding the other day with Bell and told him it was my responsibility and not Bell's, but Mr. Bell has been trying to push me to do the thing.
I was just kidding. It is my responsibility, but I think that we are on the right track and it is going to be helpful.

Q: We can use that about your talking with the insurance companies on the dangers of speculation?

A: Sure.

MR. BELL: The insurance company letter has gone out, and attached to the letter was a list of the representatives of the insurance companies that attended this conference. You can get a copy of the letter. We haven't got it, but you can get it from the insurance companies. That will give you a list of the people who were here.
It is very difficult. Again I was in Cincinnati a year and a half ago alone. We had a fellow there, the President of one of the banks, and he said, "Mr. Morgenthau, if I want to lend a fellow two thousand dollars to buy bonds, I am going to do it. And what are you going to do about it?" Just like that. Well, we worked on him, and we have now gotten him to understand that he is adding to the inflation problem, making the Government bonds go up. He is making it difficult to price them, and that is not the purpose of these war loans.

If we want that kind of business, we can do business directly with the banks and wouldn't have to have any war loans. It is a constant question of education, patriotism against greed. And I think that patriotism has gradually been winning, but that is the thing. It takes constant education. So I am a great deal more interested in the sale of one E bond than in the sale of a million dollars' worth of bonds. It is much more important. Now, do you want to add or subtract anything to what I have said?
MR. BELL: I was just thinking that as long as they are—you have told them what you have done, to emphasize the objective, they might bring in at the same time the change in the type of securities in the basket.

H.M. JR: You point that out, will you, please?

MR. BELL: We have made only the short intermediate bond, the one and one-half percent bond available to individuals, and the other groups, the insurance companies and others, get the two and one-quarter and two and one-half and seven-eighths, so there isn't much room for this switching and speculating on the securities in the basket as there has been in the past because the banks know that they can't have that. There is nothing they can get through the corporations other than the seven-eighths.

H.M. JR: You have got to explain it a little more.

MR. BELL: The one and one-half's are for the individuals.

H.M. JR: Explain how it worked last time.

MR. BELL: Last time we had this two percent bond in the basket, which banks do buy in the market, and corporations and others went into the two percent bond during the drive, and after the drive sold them into the banks.
Q That is where your switching and speculative money was, in the two percent?

A That is right. There is not as much leeway in this basket as in previous baskets.

Q Mr. Bell, why can’t banks buy the one and one-half, the two and one-quarter, and the two and one-half?

A They can’t buy the two and one-quarters and two and one-half’s for several years, but the one and one-half’s are available only to individuals. The individuals can subscribe to them in the drive, and then sell them to the banks afterwards, but that means a lot of individuals have got to buy them for that purpose, and there hasn’t been too much speculation in the individual basket, about eight hundred million is as much as we have ever found both in speculation and switching.

H.M.JR: The people, in other words, who did the speculating were insurance companies and corporations, and they bought the two percents.

Mr. BELL: That is where the speculation was, and not with the individuals.

Q In other words, you expect there will be less speculation this time for these various reasons?
And less switching.

H.M.Jr.: There are two things we have concentrated on:
We are trying to make it as difficult as possible for people to speculate in Government bonds; that is one thing, discouraging it and making—on the other hand, we are trying to make it as attractive as possible for people, individuals who have surplus funds, to invest in Government securities.

Q In other words, through education of the bankers and insurance companies, plus the—

A And corporations.

Q Postponing maturities is going to bring out less speculation and switching.

A And don't forget corporations.

Q Yes, insurance companies and corporations.

Mr. Bell: And asking their cooperation in helping us out in meeting our objective.

H.M.Jr.: That is right.

Q Is there any way of measuring, Mr. Secretary, or approximating what the effect of this speculation has been on the over-all bond picture?

A Well, the only thing it has done is, it has distorted it. I mean, it puts prices up.
How much for example?

Oh, several points, which is a lot in the bond market.

Do you mind giving a very brief definition of switching? Let's get a clear idea of it.

What happens is that insurance companies and corporations own a certain maturity. Well now, let's say that they knew what I was going to do two months from now on the 14th of May. Well, they would begin to sell these securities which they bought in the Sixth War Loan, and they would make a profit. And they hold the money against the day we brought out those bonds at par, buying them again and hoping that what they buy during the Seventh War Loan would go up, and they can repeat that operation.

That is different from speculation; speculation is buying something with a specific purpose, and switching is getting rid of something you can get rid of now in order to make a higher profit on it.

I don't know whether it is switching or speculating. It is--instead of the X insurance company or X corporation saying, "Well, we own a million dollars'
worth of two percent bonds which we bought in the Sixth War Loan. "Well, we would like them to keep them. We are not anxious that they sell those and hold that money and then reinvest it again in the Seventh War Loan. You can call it speculation, swapping, or switching from one maturity to another, but what we have impressed on these people is, "You have got these securities; now hold them." And what has happened when they sell them is, the ultimate buyer has been the banks.

Q

Mr. Secretary, there is one corner of that. I suppose it is a matter of plain economics. Would you explain to me why the banks would buy those bonds at a premium for investment in their portfolio?

A

The reason they have been buying them at a premium is because they couldn't buy them at par. They have been excluded from these drives, and those are the only ones they could buy.

Q

And they need them to build earning capacity, I suppose?

A

That has been their gripe, they have had to pay this premium and haven't been able to buy them at par. They have these additional deposits on
hand, and they are lying there idle. They are willing to pay additional premium on them, figuring that the income that they get will in the long run prove to be profitable, but they have not had access for the last two or three drives; the banks have been excluded.

What do you mean by a free ride?

Well, a free ride is this, that if you go to your bank and say, "Look, I want to buy a million dollars' worth of bonds." And if he likes you, he will lend you the money, and you don't necessarily have to have a cent. He will lend you the money. You will buy the million dollars' worth of bonds, hold them two or three months, and then sell them, but the fact that you have no money and are getting this on the bank makes it free.

You sell them to the bank at a premium?

Or you sell them in the open market, but the fact that you haven't got the money, the bank lends you the money and charges you interest, and you are getting a free ride from the standpoint that you haven't got the capital. There is nothing personal, but--
Q

That is right. You are exactly right. (Laughter)

A

I said a million. I thought--

Q

I am used to it, sir. (Laughter)

A

As long as you asked me—if you want to make it five million dollars--

Q

Yes, anything. I was going to say, if you recommend a bank to me, I will get a little of that easy money.

A

That is what the delicatessen store found.

Q

Get them educated so they won't do it.

A

They are coming along fine, and we are making real headway, just like income taxes. Somebody finds a way to beat them, and it is our job to be alert and try to be just a little bit ahead of them.

Q

The indication is then that in this drive there will be less speculation and free-riding than in any other bond drive.

Q

You hope so, don't you?

A

And consequently the whole subscription should be smaller. I don't expect so much over-subscription.

Q

Mr. Secretary, you just mentioned income taxes, which reminds me of a question I would like to ask. Do you have any estimate of how much income tax evasion there is?
H.M.JR: No, but I am very much interested in it, and I can tell you that I am spending--
Q You couldn't make an estimate?
A No, but I may have something for you, and I promise to give it to you first if and when--I am spending quite a little time.
Q Is that on the currency problem, too?
A On the whole business. I am very much interested, but it is too early.
Q That is not that annual statement filed by the taxpayers, is it?
A No, this is something quite new, also a result of my trip up to New York. I was very busy.
Q You say we can use that, you are interested in the tax evasion problem?
A Yes.
Q And you will have something soon.
A When I say soon, don't press me, but not too far off--I think we will have something.
Q That means you formulated--
A No, I am just looking into it.
Q Very seriously, though.
A Very seriously.
Mr. Secretary, is there any way that you could corral the money that is being made in tips, say, by waiters, taxicab drivers, and so forth? I understand some of the hotel waiters make about fifteen dollars a day and declare about a buck of it. Well, I would like to go after some of the little bit bigger guys.

Just as an example.

In the old bootlegging days we spent most of the time going after fellows with five-gallon stills and the other fellows—we let them get away with it. I am interested in the fellow with the suite of big rooms and the lush boys—get after them first and let the little boys—I will have you write a story and have eggs thrown in my face. (Laughter)

Mr. Secretary, did you see Mike's story in the Wall Street Journal this morning about taxes?

No.

He had a big tax plan coming out of the Treasury.

I will wait until tonight. Do you mind?

No.

All right, I will read it tonight.
Good morning. It's good to see you back again.

Did you have a nice vacation?

I am glad to be back.

I am glad to hear that Mrs. Morgenthau is better.

I had a very bad vacation. Mrs. Morgenthau was taken sick after we had been gone a week, but she was well enough so I could leave her for a few days and go back.

She is definitely on the mend?

Yes.

Still in Florida?

Yes. She will be there several weeks, I guess. She is well enough so the doctor said I could come up for a few days and go back.

You are going back down there, I suppose.

I will in a few days. I will be here for about a week.

Was there some pressing matter that brought you back to Washington, Mr. Secretary?

Yes.
SECRETARY MORGENTHAU'S PRESS & RADIO CONFERENCE
10:30 a.m., April 12, 1945

Q  Good morning. It's good to see you back again.
Did you have a nice vacation?

H.M.JR:  I am glad to be back.

Q  I am glad to hear that Mrs. Morgenthau is better.

A  I had a very bad vacation. Mrs. Morgenthau was taken sick after we had been gone a week, but she was well enough so I could leave her for a few days and go back.

Q  She is definitely on the mend?

A  Yes.

Q  Still in Florida?

A  Yes. She will be there several weeks, I guess. She is well enough so the doctor said I could come up for a few days and go back.

Q  You are going back down there, I suppose.

A  I will in a few days. I will be here for about a week.

Q  Was there some pressing matter that brought you back to Washington, Mr. Secretary?

A  Yes.
Q: Can you tell us about it?

A: Sure, the war.

Q: In addition to that, could you go into detail?

(Discussion off the record.)

A: Off the record, going down in the elevator there the woman said to me, "What do you think I could pray for tomorrow?"

I said, "Why not pray for peace?" Well, I think it is all right.

(Discussion resumed on the record.)

Q: The obvious, huh?

A: No, we have got a lot of things here, and I haven't had time--I only got in this morning--but the most interesting thing is--two of our War Finance men are over here. Mr. Gamble is up in New York, and Mr. Engelsman, who is in charge of Pay Roll Deduction that started this week, and Tom Lane--I think you know him--are here. What they have been telling me briefly--and I think it is very interesting--is that places like some of the aircraft and shipbuilding companies are going right ahead with their plans for pay roll deduction
in the Drive, and the fact that we are having
success in Europe doesn't seem to take them right
off their work or the Seventh War Loan, which I
think is very encouraging. If you want any more
details, Mr. Engelsman could give them to you, but
that is—is that the gist of it, Engelsman?

Mr. ENGELSMAN: That is right.

Q: What is the amount to come from pay rolls?

Mr. ENGELSMAN: Two and one half billion of the four billion E
bonds, and they are selling—taking subscriptions
for extra deductions to last until the end of the
Drive now in order that the workers can reach
this goal, which is, you see, the amount expected
from workers alone this time—it is as much as
the total goal last time.

Q: That is for a two-months drive?

A: No, they are giving for April—three months.

Q: Three months! And what would their normal deductions
be in that period, anyway?

A: About a billion and a half. It means that is an
extra billion from these very same people who are
doing most of the buying in other periods.

Q: I see what you mean. Normally it would be one
billion and a half, and you are seeking an
additional billion in the three months.

A
Yes, from the same people. In other words, they
will have about ten extra deductions they are
subscribing to, which, when you figure everything
else, means that about forty percent of their
income will be out during this time, so it is
really a tremendous subscription they are making.

Q
In other words, each one is going to give up on
the average of forty percent of his income?

A
That is for the three-months period.

Q
Is it May, June, and July, or April, May, and June?

A
April, May, and June. That will take in everything.
These same people are now setting aside around ten
percent— it varies from ten, five to one, six—
say, ten percent of their income, in addition to
which we are asking them to do two-thirds as much
again. Then they have social security, and so forth,
so actually this period will mean a sacrifice for
these people to do this.

Q
War bonds, insurance, and—
...social security, taxes, so actually I think these people will make a sacrifice. Labor has come all out for it.

H.M. JR: Talk louder, Mr. Engelsman.

MR. ENGELSMAN: Mr. Murray and Mr. Green have gone all out for this. For the first time railroads are putting on a great campaign, both labor and management together in the railroads, and we probably will have the most comprehensive person-to-person canvass in history. We will probably reach between twenty-five and thirty million people. They will ask Bill or Mary, "how about it? Here is your card."

And here is something for the women: You see, they divide them into teams, and one person is assigned ten or fifteen names, and sixty percent of those people who are the salesmen are women.

Q Young, good-looking women?

A We try to select the best looking ones to add a little sex appeal.

Q Who does the selecting, by the way?

A The man or woman in charge. Usually a man is in charge; they seem to have an eye for beauty.
H. M. JR: It is the union in most cases.

MR. ENGELSMAN: It is pretty well divided. There is a labor-management committee in pretty nearly all of these places. As a matter of fact, we have four times as many labor-management committees as the War Production Board for the sale of bonds. We have between twenty and twenty-five thousand labor-management committees working jointly on war bonds. There will be a twenty-percent deduction each week for war bonds now, approximately?

Q: That will vary. We have assigned a quota for each plant based on the wage scale. We have asked them to voluntarily accept them, and nearly every big firm in the country has accepted.

H. M. JR: This is the first time that has happened?

MR. ENGELSMAN: Yes. It is based on the wage scale, so a cotton mill in the South can show up as well as General Motors, for instance, whereas before it was difficult.

Q: What you meant before was it would be twenty percent for three months taken out for bonds, but forty percent, when you count other things?

A: Actually this means a sacrifice when you figure that during this period, taking everything into
consideration, they really will take home about sixty percent of their pay during this period. These people are sort of the unsung heroes of bond sales. They don't subscribe at theaters, and so forth; they are buying every month, and they are making a sacrifice in many instances.

Q

How many people have you contacted, twenty-five to thirty million?

A

We have about thirty million we could contact, because we are going to try to take--say we will contact about twenty-seven million.

H.M.JR:

On the anti-inflation front this is one of the real contributions the people are going to make, because just at this time when there is such an acute shortage of merchandise, to have this Drive running for three months certainly will bring to everybody's attention the fact that we have a war, it is expensive, the Government needs the money, and if they come through the way we expect them to come through--and I am sure they will--it isn't going to leave them very much to go out and spend for foolishness.

Q

In other words, this is anti-inflationary.
H.M. JR: Definitely.

MR. ENGELSMAN: This is most anti-inflationary money, because it never gets into their hands; it goes directly into bonds through deduction, so they can't have it in their pockets for ten minutes. They subscribe to the bonds and don't go out to buy them.

Q: What is it, twenty-five to thirty million people in the plants?

A: Just in plants, just industrial employees.

H.M. JR: I think there is a little confusion. This Drive started Monday in the plants, and it will run from Monday until the Seventh of July.

MR. ENGELSMAN: Correct, sir.

H.M. JR: During which time we hope to raise from plants alone two and one half billion dollars. The other billion and a half E bonds will be raised outside of the plants.

MR. ENGELSMAN: That is right.

H.M. JR: Mr. Engelsman pointed out that we are counting on getting as much from plants this time as we got from the whole country before, and the fact that with all the good war news, two or three divisions of General Motors--
MR. ENGELSMAN: ...are already over. We have a number of telegrams already from firms.

H.M. JR: You told me Bell Aircraft--

MR. ENGELSMAN: We had a very good report from Atlanta, Georgia.

H.M. JR: The shipping people?

MR. ENGELSMAN: Several shipyards in the Middle West have already gone over.

H.M. JR: In the midst of this favorable war news the workers are coming through, not only in production, but with their money. When they say so, I think it is a good point to stress at this time.

Are you fearful, Mr. Secretary, that the good news in Europe might jeopardize the success of this War Loan?

(Discussion off the record.)

A Let me go off the record for a minute. I am not fearful, but everybody I have talked to is naturally worried. If Germany collapsed tomorrow or a month from today, with this big war on our hands in the Pacific, and this is the first concrete evidence that I think anybody in the Government can offer to the public, that in the middle of this good news the people at the bench--production--
are going to come through—I think that is news. That is the best way I can answer that. (Discussion resumed on the record.)

MR. ENGELSMAN: Mr. Secretary, I have one example which I think would be interesting. I was at a shipyard in New England last week where they actually have orders for cutbacks already, but they are going after this Drive more excitedly than ever because they realize that while they have the jobs they have got to save that money more than ever before, and they have accepted the quota we sent them just the same.

H.M. JR: That is concrete evidence from the field. Everybody has asked me, your people in Wall Street and the rest of them. Everybody wants to know what is going to happen. Here is some evidence.

Q. Mr. Secretary, I wonder if we could have the figures on General Motors and some of the shipyards as to how much they have been going over and what their goals are?

MR. ENGELSMAN: One of the reports went out on the Walter Butler shipyards, the only one we have figures on. We just have word from General Motors that two of
their plants have gone ahead. They usually send us a great many at a time. This only started Monday. But we can give you the figures on these two shipyards in Minnesota that went over the first day. They had a twenty-four hour meeting and solicited everybody in the place, the Walter Butler shipyards in Duluth and Superior, Wisconsin, and we can give you figures on that. They were about one hundred thousand dollars over their quota and their quota for the two plants was several million dollars.

H.M.Jr: Lane, do you want to add anything?

Mr. LANE: I don't think so, sir.

Q Mr. Secretary, he mentioned Green and Murray, and we carried statements by those two leaders the other day. What is the attitude of John L. Lewis towards the bond drive? Has he issued any statements?

H.M.Jr: I haven't the faintest idea.

Q When you referred to the railroads, did you mean the railroad brotherhoods?
MR. ENGELSMA: The brotherhoods and management. Mr. Clement, President of the Pennsylvania Railroad had a meeting with his labor people and everybody and spent two and one-half hours with them on this Drive personally two weeks ago.

Q: Maybe Mr. Lewis has been too busy issuing other statements.

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

Q: Mr. Secretary, on another matter, can you comment in any way on the Federal Reserve Board's motion on the bank holding bill? In other words, it is a freeze bill, and the Treasury wants a kill bill.

H.M. JR: I refer you to my expert on that.

Q: Who is that?

A: Daniel Washington Bell.

MR. PELL: What is it? I wasn't listening.

Q: As you know, the Federal Reserve has written a bill which has been presented on bank holding companies, a freeze bill, and formerly the Treasury supported a kill bank holding company bill. I would like to know the Treasury's position on it.
MR. BELL: I don't think we can give you that yet. We have a copy of the bill and are studying it. You were consulted before the bill ever went to the Hill, weren't you?

Q: We talked it over a good many times.

A: What was your position at that time?

Q: We didn't take a position on it. They have a right to send the bill up. We said we would study it later and submit our report to the Committee.

Q: You were neither for nor against.

A: That's right. It is their bill and we will report on it when we are questioned by the Committee.

Q: You haven't sent your report up yet?

A: No, we have not.

Q: Anything else?

Q: Have you, Mr. Secretary, been informed since you returned about the progress made by the Joint Committee on taxation?

H.M.JR: No.

Q: There is talk that they are going to put out a report in the next few days, and I wondered if there is anything on that.
MR. BROUGH: 

Mr. Blough, do you want to enlighten them?

I can say this much; the Combined Staffs have submitted reports to the Joint Committee indicating suggested steps that might be taken for the interim period between the end of the German war and the end of the Japanese war, and as far as I know, the Joint Committee has not yet acted either to issue the Staffs' reports or to issue a report of its own.

As I understand it, they do not deal with rates at all, but other matters like bond redemptions and things of that kind, just interim steps.

Well, I don't know how far to go in discussing them, naturally.

There was quite a lot written about it.

Yes, quite a lot written. The Secretary's report you will recall a month or two ago indicated the desirability of holding up rates throughout the war, and we haven't changed our point of view in regard to that. As you know, there has been a lot of talk about a number of measures which might relieve especially the working capital
position in business. Those and certain other things have been gone into in these reports. We are not finished with making suggestions to the Joint Committee, of course, and those studies are continuing.

Q
This is designed to provide cash for reconversion purposes mostly.

A
A good deal of it is devoted to the problem of getting back to the taxpayers money which the Government owes them or will owe them, at an early enough date to do them some good in reconverting to private industry after these war contracts are completed.

Q
Are the two Staffs in agreement on these recommendations?

A
Yes.

Q
Thank you very much.

H.M.Jr.
You're welcome.

Q
Thank you a lot.

A
I have nothing to do.

Q
There was some other letter coming out of Washington saying that the Treasury is going to ask banks to make reports on the large bills turned in. Is there anything new on that?
(Discussion off the record)

No. You people know we have a drive on. I am off the record. Bell was telling me this morning that they have people coming in and offering up to four hundred dollars to a fellow to cash a ten thousand dollar bill, and a thousand dollar bill is selling at a discount; and it is turning out that these big bills are fine; they are hot and the boys are trying to get rid of them and they don’t know how they will get rid of them. Right now they are the best detectives we have working for us. I don’t want to scare any more people. Leave it as it is. A lot of crooks have these big denomination bills up to ten thousand dollar bills and don’t know what they are doing. Sooner or later we are going to catch up with them. That’s the way it is. Leave it alone; it is working fine.

Q

There is no change?

A

If we called them in, we would lose all the evidence. Everything is going alone fine. I don’t want to say anything because we might scare some more people, but right now
they are trying to get rid of one thousand-dollar bills at any price, and we have friends watching.

So I understand.

Sure. The banks are watching and reporting, and these fellows are scared to turn them in. What are they going to do? So, right now it is very nice. The bigger the bill, the bigger the fall!

Mr. Secretary, has the investigation or the free spending spread to New York or Chicago?

It is all over, and not too far off we will have something for you.

It is gone all over the country already?

Pretty much.

Does that include Palm Springs, too?

(Laughter) I hadn't thought of Palm Springs. Do you recommend Palm Springs?

I don't know, it's quite a spending center.

I don't know, but we will put it on our list.

A fellow has to be pretty careful now because some of the resorts have been taken over by the Government and they are convalescent centers.
Almost any resort is a free spending center. The boys who are convalescing haven't been spending the money down there. There are twenty-five hundred of them at the hospital and they go out and spend a dollar and that's a lot of money. What can they do with fifty or seventy-five dollars a month? I don't know about Palm Springs, but I would say--would you say, Herbert, that maybe in a week we will have something for these men?

MR. GASTON: It's quite possible, yes.

Q Mr. Secretary, was what you said off the record?

H.M.JR: Very much, yes. The thing has spread too much. I was sorry we got that big play. I just made a remark, and you boys built it up, and ladies!

Q Mr. Eccles said something about it too, on the Hill.

A I am talking about this investigation. Normally, we would like to make the investigation, catch the fellow, and then talk about it.

Q In other words, what you have said about the investigation is off the record, as well as
the thousand and ten thousand dollar bills?

A Yes, all of it. The next thing we'll have to say on the record is we'll give you some nice names.

Q You mean indictments?

A We hope so.

Q Really big names? Will any of them be as big as Capone, or Nucky Johnson, and Moe Annenberg, or anybody else?

A They will be new suckers.

Q Fresh crop.

A It's a new crop. Is that right, Herbert?

MR. GASTON: We have some people who have been, from the money standpoint, bigger operators than Capone or Nucky Johnson.

H.M. Jr: How do you like that?

MR. BELL: There is a new Social Register coming up.

Q They wrote their own.

H.M. Jr: They are not known as crooks. They have been getting away with it, but we'll break it up here.

Q Strictly war-rich people.

A I would say so, the kind I said I thought we would never have. The blood money fellows!
Q Are there any Democrats in that bunch?

Q Did you ever see a Democrat with any money?

(Laughter)

A They are blood money fellows. That's what I call them.

MR. BLOUGH: May I amend my remarks to this extent--

H.M.JR: So far, this is all off the record. We will have something for you, or else something will happen around the Treasury. (Laughter)

(Discussion continued on the record.)

MR. BLOUGH: In the interest of our best relations with the Committee what I said should be used without attribution to the Treasury rather than with attribution to the Treasury.

H.M.JR: All you can say is that a small man with wavy hair who specializes in taxes, otherwise, don't attribute it to Mr. Blough, or Stam will cut his throat.

Q Stam is a bigger man than he is.

A Only in size.

Q That's good.

Q Can we quote you? (Laughter)

A All right.

Q Thank you very much, Mr. Secretary.
Q: Hello, Mr. Secretary.

H.M.Jr.: Did I hear you were nominating Sewell Avery Secretary of the Treasury?

Q: No, Labor.

Q: Did you recognize my voice saying anything like that?

A: I heard a loud voice.

Q: Oh, excuse me. Mine is effective, but not loud, Mr. Secretary.

A: I haven't got very much today. The War Finance people gave me some figures to give on E, F, and G bonds for August, September, and October, '44, which were one billion nine hundred and eighty-nine million. That was the period between the Fifth and Sixth War Loans, and during January, February, and March, which is three months between the Sixth and Seventh, we sold two billion eight hundred and eleven million, or an increase of forty-one percent. And before somebody else pointed out—I realize that January is not a month in which they buy their limit, but during
every month there has been an increase, and I thought it might—I have a few copies for you people. Then the War Finance people very modestly brought to my attention their own record for this month.

Q: What is it?

MR. ENGELSMAN: They have already subscribed the Seventh War Loan quota assigned to them on an average of approximately two hundred dollars per employee in the Washington Division.

H.M. JR.: How much did they do a month?

MR. ENGELSMAN: Well, they normally do ten thousand dollars a month.

H.M. JR.: And they are doing thirty thousand?

MR. ENGELSMAN: No, there will be altogether over and above in the three months seventy-eight thousand that has already been subscribed for instead of thirty thousand.

H.M. JR.: Make it simple. What are you so proud of?

MR. LANE: Twenty-two percent of the total pay roll for those three months will go into war bonds.

H.M. JR.: That is the War Finance Section of the Treasury; they have a right to be proud.
Q: That is for the Washington Division?

MR. ENGELSMAN: Yes, just the Division in Washington.

H.M.JR: I am glad I am working over here. And that is about all we have been able to dig up. You people ought to have some questions.

Q: You act as though you anticipate some, Mr. Secretary.

H.M.JR: Well, I suppose intelligent reporters like you are able to think of something.

Q: Well, there is a lot of talk about some changes being made around town.

A: So I hear.

Q: Is there anything that you can tell us about your status?

A: No, except that I am doing the best I can.

Q: Do you submit your resignation along with the others as is usual if there is a change made in Presidents?

A: The simplest way is to go off the record if you want me to answer. If you don't, I won't. You can make up your mind.

Q: In other words, if you don't go off the record, you won't say anything?

A: That is right.
Q. Does off the record mean background, Mr. Secretary?
MR. GASTON: No, it doesn't.
Q. We can use it without quoting you?
H.M.JR: No, it is not to be used. On the--
Q. On the record it is generally accepted when there is a change in the Administration the Cabinet resigns.
A. That is a figment of the imagination.
Q. What was that?
Q. Figment of the imagination.
A. I have seen it, and the papers always work it up. You can write this to your editor, and--
Q. Have you got a job for me?
A. Yes. What paper are you with?
Q. New York Herald-Tribune.
A. Yes. (Laughter)
Q. I should have said something else.
A. That is all right. You did very good, straight reporting. They did a good job on that; I have no complaint.
Q. Mr. Secretary, that statement was not off the record that it is a figment of the imagination?
A. No, I would just as lief have the editorial writers--
Q  Some editorial writers---
A  Now, if you want me to go off the record, I can go off the record.
Q  Supposing we ask you some questions first, and then you go off the record?
A  How many questions?
Q  I have one. I don't know who else has any. Could I put it this way: Do you intend, if President Truman asks you to remain in office, to continue in office for the balance of this term?
A  Well, I am not going to answer that.
Q  You are not going to answer that?
Q  If my generalization was inaccurate, could we ask whether you personally have submitted your resignation?
A  You see, you are asking about the President. I am perfectly willing to say what I have done if I can go off the record and tell you in confidence; but if not, I am not going to say anything.
Q  The only thing I was--
A  Make up your minds.
Q  I think stories will be written tonight, Mr. Secretary, and by going off the record, even those who know
of some pending changes will be tied up, so I don't think it would be fair to the people. That is the only point I want to make.

A

I will not--

Q

Could you give it to us for background, Mr. Secretary, so we could--

A

No, it isn't up to me to say what Mr. Truman is going to do about his Cabinet.

Q

This is you, personally.

A

I know, I know, I have been through this many times. (Laughter)

Q

How about telling us about yourself but not in any way binding us on any other matters we can find out? What you tell us off the record will not tie our hands in connection with any other Cabinet member, or if we assumed you were leaving and found out from some other source, that would be a reasonable thing.

A

Like Sewell Avery?

Q

That was a figment of my own imagination.

A

You are telling me!

Q

Maybe Nick Gregory.
A: Well, they could do worse.
I think that is a fair proposition, don't you, Herbert?

MR. GASTON: Well, yes, except that I don't see any point to discussing it on or off the record.

M.M. JR.: Well, if you don't mind, I differ. I feel I had better tell them the facts and then they know them, and--
That is right.
We could write an awful lot more intelligently.

Q: Well, fellows, personally I think it is better to have it off the record than not at all.
I would rather not have it off the record.
Those that don't want to hear it can get out, then.
Suppose you come back later and let us finish this press conference.

Q: I think that would be more in line.

Q: I think that for background purposes only and for guidance in writing straight stories—-I don't see why you couldn't tell us your own personal reaction.
It is his business, see, and I don't want to get to talking about the President's business. They have rumored about my resigning before.

You know, somebody starts a rumor every three months, and I haven't heard Joe Kennedy mentioned yet.

But he will be coming up pretty quick.

Well, this is all off the record. It is like Lew Douglas or somebody else on Johnny Hanes.

I mean, I am used to it.

Sure.
A  I have a job to do and I am not worrying about it.
Q  Sure.
Q  May I put the question this way?
A  I am not worrying about the job.
Q  If you are thinking of resigning, Mr. Secretary, surely you will stay until the end of the Seventh War Loan Drive.
A  I am not going to get into it. I am willing to tell you just where I stand if I can go off. If I can't talk to you, I am not going to say anything.
Q  I would like to hear it.
A  Make up your minds.
Q  It doesn't make any difference to me if we are going to get the story anyway.
Q  I would like to hear it.
Q  May I step out if you are going to say it off the record, because I am writing a story tonight and I don't want to be bothered.
Q  Did you get that, Nick?
Q  That gives them a terrific advantage over us now.
Because in our conversations they are going to hear it. When this many of us know it, they are going to hear it.

They won't hear it at all--

We won't discuss it.

I'll do anything you people want.

Give it to us for background.

You are being very fair about it. I can't see anything unfair about it at all.

Off the record.

OWI?

Yes.

Do you see anything more fair than that?

I think it is very fair.

Do you have any suggestions?

We are judicious, as far as we are concerned.

I am not worried. What have you decided?

I think we better have it.

(Discussion off the record)

Well, it's very simply, I saw President Truman on Saturday, and I made it very plain to him his hands were free, and he could do whatever he wanted.
He said he would like to have me stay, and I told him that this is a position that people like to shoot at, and I could only stay if I would have the same backing from him that I had from Mr. Roosevelt. He said he would give me the same backing, so, that's that.

Q
And he didn't put a time limit, that it was temporary or it was indefinite?
A
No. In fact, I didn't raise it during the whole conversation. That's all there was to it.

Q
Then, you have no intention of resigning after the Seventh War Loan?
A
No.

Q
You will stay on indefinitely?
A
No, all the conversation was about the war. I don't know when the war is going to end. There is a peace to be won, and if Truman has confidence in me and wants me to stay and I can do a job, why, I am ready to do it. I am not thinking in terms of days, weeks, or months.
He has evidenced that confidence by asking you to stay.

I said to him that I could only stay because I am a sharpshooter. I haven't been around here for twelve years for nothing. It is a very vulnerable position, and I have remarked to him that we have moved the financial center of the world from London and Wall Street to this desk, and it is a very vulnerable position, and I could stay here in the financial center only as long as I had his backing. He said, "That's where I want it to stay, here."

That's the whole thing, but I know that all of this stuff, and the reason I am saying this to you, and we have the Seventh War Loan, is that we have a whole volunteer organization. We are working here day and night under terrific pressure, and I haven't got time to be answering rumors or to be worrying about them.

It will be a stabilizing factor for the country, Mr. Secretary, if we could by indirection indicate that fact rather than have the country go off half-cocked, and it would effect markets.
If there was some way we could indicate in our stories it is believed or understood without attributing it to you, rather than have everybody alarmed--

Q

It does put a different picture on it.

Q

May we do that?

A

I am just thinking about it.

Q

Presumably, there would be some interest in the fate of the Bretton Woods business if you and your subordinates were to step out.

A

You fellows know my connection with the President and the remark he made. So, I explained my interest in the war and how deeply I felt this whole war and my personal interest, meaning my sons, and that's what he wants. Now, I am not one of these people--I have no other interest in life, as I told him, than winning the war and peace, and his answer was, "Those are my only two interests." So, it seems that he and I look at this thing the same way.
We reporters may have a professionally selfish interest in this but we, too, want to win the war, and the question arises seriously whether such a statement might not help stabilize conditions?

A
It would be much better coming from him, but I suppose--

Q
Would you have any objections, Mr. Secretary?

Q
We can't address him; he is President of the United States.

A
There may be some others he does want to stay, and if he says he wants me, it puts him on the spot.

Q
Supposing we let it out as an indication--just understood that each of us promises to be as circumspect as humanly possible?

Q
To clarify this, could we say it as our own responsibility that there is no indication that there will be any change in the Treasury, without quoting you?

A
What do you think, Herbert?
MR. GASTON: I think that would be a proper thing to do. There is plenty of speculation the other way. Most of the speculation has gone the other way. If they want to use this to indicate on their own responsibility that it is their belief that there is not likely to be any immediate change, I think it is all right.

H.M.JK: If you write it, this is your own opinion.

Q That's right.

Q We ought to tell the other fellows about this now.

Q It would be a good idea not to tell them.

Q Say we would assume you will continue with the same team and in the same general direction. We can assume a continuation of war loans, Bretton Woods, and so forth.

A I think it is important for now. Some of the war bond people are worried, and they said If I go, they go, and the whole team would break down here.

Q Naturally they are going to.
And the whole thing has been built up—I don't like to say it but my whole fight for the volunteers—this whole thing—we have had a lot of wonderful people working for us for a year, and I don't think they would continue for somebody else. I don't want to take that—certainly I want to think it has to be a success just as Bretton Woods does.

Then, Mr. Secretary—

It has to be a success.

(Discussion resumed on the record)

Mr. Secretary, do you intend to go out to the Security Conference?

I never intended to go.

You never did intend to go?

No, the Secretary of State asked me to designate an Assistant Secretary, and the logical person was Mr. White, and I designated Mr. White.

That can be on the record?

That already was.

Just so we understand. You people, I take it, are going to write this story? This is something that you know.

We know. We are.
Could we ask you another question, again off the record, but again for our guidance, and this doesn't concern you directly, but you probably know the answer?

(Discussion off the record)

There has been a lot of talk up to now in various circles that the election of Truman is going to mean a retrenchment in New Deal policies, cutting away of many of the measures which caused antagonism among some Democrats, and so forth. Your retention—for our guidance—is that indicative of the fact that Truman is likely to retain and go forward along those lines?

I can only say the thing I talked about—-you people are representing financial papers, but I can only answer you this way. I don't think anything is more indicative than that he is willing to back me for what I have stood, I may say representing the public against private interests.

The New Deal goes on.
A If he is willing to back me on that, I don't see what more you want, because I don't know any more acid test than if he wants the same thing to continue that I did under Mr. Roosevelt's guidance on the financial front. Well, then, I would say I don't look for much change, because that's about as acid a test as there could be. I realize perfectly the target that I have always been and will continue to be as long as I stand for what I do.

Q You wouldn't want to remain under any revision of those policies?

A No.

Q To the right, I mean?

A Don't use right, except--

Q Say right of the center instead of left of center.

A If you use it, r-i-g-h-t, use it in the sense that what I think is right, r-i-g-h-t, and I know, because, as you all know, I was an out and out Roosevelt man, personally.

Q Sure.
But, on the other hand, we are in the middle of the war, and peace is coming along. If I can continue to lead the Treasury toward the kind of things we stand for, and that goes for everything, including their attitude toward Germany—Sure.

And if I can continue to do that kind of thing, then I don't know where I can serve the country better than sitting here.

Did you discuss your—

I don't see what else you want.

MR. GASTON: May I say a word on this off the record, on the record business? The Secretary has to trust the discretion of each of you to handle the story in such a way as not to tip off plainly to the public that you just came out of a conference with the Secretary of the Treasury and learned so and so. That can be done by certain devices of words, and we are relying on you that you are not going to do that.

It won't be that way in my paper.

H.M. JR: This is the kind of confidence I have in you men,
instead of tipping off some columnist, which is the normal way.

Q
I don't think you have ever suffered from it, Mr. Secretary, have you?

A
No. The easy way would be to let some columnist know, but as Mr. Gaston says not to write it as if you came out of a press conference.

Q
Mr. Secretary, you referred to your attitude toward Germany, to your post war German plan from that study you are working on. Did you discuss that with Mr. Truman, too?

A
I mentioned it--

A
...without going into so much detail. I wouldn't want to go that far; but he knows where I stand on Germany. I am sure he has weighed the whole thing.

Q
Yes.

A
He knows just the way you people know. It is no secret where I stand.

Q
I should say not. We could take a few quotes on it right now.
When he favors me, he has taken on something.
(Laughter.) He has taken on something.

Q
Was there anybody else in the conference?

A
No witnesses.

Q
You mean we can't confirm your story? (Laughter.)

A
I am serious. The normal way around Washington
would be to tell some favorite columnist this
story.

Q
We have never done that either. You have taken
us into your confidence in numerous cases.

A
That would be the normal way for some other
people to do it—government by leaks and rumors.

Q
Now, what else? Did Nick come back?

A
No—not until we tell him.

Q
I'd like to see his story tomorrow morning.

Q
Has anything been decided as to whom the German
gold belongs to?

A
That, young lady, we are not going to say
anything about. Again, I am sorry I have to
go off so much, but it is just oot—

Q
How about American dollars?
A

As I understand it, there is going to be a blackout on that, and we are just going to sit on it for the time being, so, I don't know. There is not going to be any more about it. At least we are sitting on it and guarding it very cautiously. But there are indications that there are going to be a lot of people putting in claims, and we have got it, and there ought to be a blackout.

Q

Thank you.

A

So everybody gets a chance to catch his breath.

Q

On this other matter, can we just say it was learned from—

A

Listen!

Q

On our own story? I mean we've got to hang it someplace, don't we?

Q

Reliable sources?

Q

What is this, on the gold?

Q

No, the other.

A

You've got to write your own opinion.

Q

O.K.
Q Before, what you said seemed pretty good, "There was no indication." That was a good phrase.

Q Everybody can't use the same phrase.

A You've got to do it. You've got to say this is what you think. That's fair enough, isn't it?

Q Thank you, Mr. Secretary.
Q Good morning sir. How is Mrs. Morgenthau?
H.M. JR: We have been getting pretty good reports, but it will be several weeks before--
(Discussion off the record.)

Q Do you expect to go down there soon, Mr. Secretary?
A I don't particularly care to have it in the papers, but everything is all right. I will slip off tomorrow afternoon and go down there and spend a couple days like I did last week.
(Discussion resumed on the record.)

Q Mr. Secretary, we can say she is better, can't we?
A Definitely.
(Discussion off the record.)

A But every time I go down there people think she has taken a turn for the worse. She is definitely better.
(Discussion resumed on the record.)

Q But it will be at least several weeks before she will be moved?
A Yes.

Q Mr. Secretary, in view of the publication of all of these atrocity stories in Germany, don't you think it
would be an opportune time to make the Morgenthau Plan for post-war Germany available to the public?

A No.

Q It seems it would tie in perfectly now, and it would stiffen up the State Department, too.

A I am not going to comment on it.

Q In view of the conference in San Francisco and things like that--

A I am not going to slip.

Q Don't you agree that it would be a pretty good time?

A It is a good question, but I am not going to help you out. I have kept quiet all this time.

Q I believe you said you would probably tell us in a week or so about the investigation on free spending, the way it has worked out, and so forth.

A Well, the investigations are going along well, but we still--you see, you have to prove a fellow is guilty, and it takes some time. I mean, once we find what we think are irregularities we can't just go around and talk about it. A man is innocent unless he is proven guilty.

Q Are you uncovering evidence?

A Plenty.

Q Tax evasion and black markets?
A Many of these people who make this excessive money in the black markets seem to have a faulty memory when it comes to making out their income tax returns.

Q I understand that the whole thing is based on black market operations, isn't it?

A No, it is income taxes.

Q Yes, but it is their failure to declare their income from the black market operations. Isn't that the basis of the whole thing?

A Our job is to enforce the income tax law. We find the black market operations a fertile field. We are finding people who are evading the income tax, but my job is to see that people pay their income taxes. Now, when you go into the big operator in the black market—as I say, they are a little careless when it comes to filing their returns. The Government has to be careful, and we have to be sure of our facts. We are getting plenty of reports.

Q Mr. Secretary, could you give us an idea of how many places these investigations are taking place?

A It practically covers the whole country, doesn't it, Joe?

MR. O'CONNELL: That is right. Every district office that we
have is concentrating on that job.

Q
Are you getting evidence in every section, sir?

MR. O'CONNELL: Yes. What the Secretary said, I think, is applicable
to the country in general.

H.M.JR.: Mr. Nunnan made a swing around the country visiting
at the various Internal Revenue Offices and making
sure that they get busy on this. You have enough
on that, that the thing works.

Q
Just one more question. Generally speaking, in
these investigations do you catch groups or just
individuals, I mean, a whole black market operation
involving a lot of people?

H.M.JR.: Both, individuals and groups.

Q
Did most of your leads come from people who were
spending their millions on the beach at Miami and
spending time at night clubs?

A
No.

Q
Wasn't that a good start?

A
That was a start, but just one.

Q
It wasn't the major source of information?

A
Oh, no.

(Discussion off the record.)

A
Very much off the record, the best leads are
coming right from the banks.
Q: They have been cooperating well?
A: Wonderfully.
Q: Any objection to saying the banks are cooperating with the Treasury?
A: How about that, Joe? It tips our hand, doesn't it?
MR. O'CONNELL: I think the least said about this, the better.
H.M. JR: At the appropriate time we will give the banks all the credit coming to them, but now it will look like the banks are stool pigeons for us.
Q: We appreciate your warning us individually, though.
Q: I am going to withdraw my money from the safety deposit box. I have several thousand-dollar bills and don't know what to do with them.
(Discussion resumed on the record.)
Q: Mr. Secretary, Senator Taft said he doubted that the tax would be lowered before the end of the war with Japan. Would you like to make any statement on that?
A: There is something coming up on that, I believe, in due time, and I believe there will be something from the Joint Committee on Taxation. This is just a tip. There will be something coming, won't there, Charlie?
MR. SHAFFER: Yes, shortly.
H.M. JR: The Joint Committee on Taxation will have something
to say, and I will have something to say, but that is just for your guidance.

Mr. Secretary, is there any truth to the rumor going around that the Joint Committee on Monday morning will announce a drastic change in the excess profits tax setup, in other words, announce that corporations will be able to get rebates almost immediately to start reconversion, and so forth, rather than waiting for three years after the war, as the law is now set up?

Wait until later. They will have a statement later.

That is Monday morning, isn’t it?

Do you know, Charlie?

I will find out.

With inflation quite bad in Germany, are we going to make any effort to stabilize or fix a rate of exchange when we go in there?

I don’t want to get started on that.

(Discussion off the record.)

There is plenty being done, and off the record, I just excused myself from a meeting with State, War, and Navy across the hall right now on this whole question of a directive to General Eisenhower.
I saw Mr. Crowley in the hall.

It is State, Treasury, FEA, War and Navy. This is the directive called 1067, which is an interim directive—this is revised 1067 that is being worked on by these agencies, which takes in the whole problem, financial, and political. That is very much off the record. I can't tell you why I can't answer you, but we are working very hard.

Would that have anything to do with your reparations policy?

No, this is separate, but the same group is working on reparations. This is separate, but they are working on both.

I take it this will be the directive on reparations.

This is very much off the record, just to let you know that we are working on it. I don't want to get started on just that one, but give you the whole broad field, the demilitarization, economics, and the whole business.

Is it FEA, War, Navy, and State?

And Treasury.

Is there any reason why you don't want to mention your first plan for Germany?
In part I think so.

How are you doing at these committee meetings on that?

Damn good, amazingly good. This is all in the family here. The atrocity stories will help it, too. The thing is going extremely well. I am satisfied.

Listen, Lady, this is off.

I know, I am not going to use it.

I think you would like to know what I am doing. Gregory isn't here today, so we are all right. Did Gregory write a story after he left?

He headed up this story that Vinson was the ideal man.

Gregory walked out?

That was Nick Gregory, by the way, not me.

That was Nick.

(Discussion resumed on the record.)

Well, I have been wondering if maybe you would take us into your confidence on your Morgenthau Plan and possibly let us have copies of it so we would be able to study it. Then when you do let
it loose we would be able to do a better job on it.
It is very easy to understand that you would get
a lot better play on it if we had more time to
work on it.
You are a good reporter.
I mean, a week before you are ready to release
it, really give us a chance to absorb the thing
or let it absorb us, or something.
You are doing all right through official channels.
Who represents the different agencies on this
committee?
I don't think I ought to go into this thing.
Just for future reference--
I don't think I had better go into it.
Now, can we give you war bonds? Come on, Mr.
Gamble, stand up.
MR. GABLE: It overwhelms me a little, but I think they ought
to see this.
H.M. JR: You spell it out.
MR. GABLE: We have already over a hundred and fifty thousand
plants that have their pay roll drives under way
this month. I think you will be interested to
see a couple pieces of material that some of these
plants have gotten up for their own use. These two are for the Chrysler Company for their drive, which is in operation.

Q

What is the third word, "Keep Pouring It On--"?

MR. GAMBLE:

"Hot."

This is another of the Chrysler posters. They have a series of six big posters that they supplemented our material with that they are using for that drive.

This is a Chrysler bond envelope with sales material in it, and here is something from a small company in Alabama that shows what some of these different plants are doing with quota material.

Here is one from United States Steel Fabrications, some of the ingenious ideas you get. Here is a chart of the various departments representing the money--

Q

That is a good idea; you get competition that way.

Q

They are pretty even, aren't they?

MR. GAMBLE:

This is for about the first ten days of the drive in the plant.

Q

All pay roll deductions?

A

All pay roll deductions, yes.
H.M. JR: I think they would like to take some of this down to the press room with them.

Q: That would be fine.

MR. GAMBLE: This is the Rochester division of pay roll savings. They are one of the fifty big plants that have gone over the top. And here is one for the Chrysler Corporation at Evansville, Indiana. They sold six hundred and forty-one thousand and their quota was six hundred and sixteen thousand. And here is a barometer with that information. It shows they went over the top.

This is the Studebaker Company, and this is one from the Bath Iron Works. This is just to give you an idea of what these firms have done.

Q: They really go to town on this, don't they?

MR. GAMBLE: This is General Motors. They have one hundred and fifteen plants employing four hundred and thirty-five thousand people, and this is their master plan which went into effect the first week in April.

One hundred and fifty plants are a lot of plants, and thirty million people are a lot of people that we are trying to reach on this. One hundred and fifty thousand plants have the plan in operation.
Fifty of the largest plants in the country have already gone over the top.

Q  They employ thirty million people?
A  They would employ about twenty-five million people. The other five million would be made up in smaller plants.

H.M.JR:  With V-E Day just around the corner the men and women in the plants are going right ahead and are buying their war bonds.

Q  It sort of justifies your faith in this plan, doesn't it, Mr. Secretary?
A  Very much so, and in the American people.

MR. GAMBLE:  This is a sample of the magazine coverage. There will be twenty-three hundred national magazines coming out this month with a letter signed by five-star admirals and generals. Every publication will give this letter some kind of treatment. The Saturday Evening Post is using it superimposed over a background of the Declaration of Independence.

Q  Twenty-three hundred magazines?
A  Every magazine in the country will be using this. They will be using the letter in one form or another, not necessarily the Suribachi flag-raising scene, though.
Q: I think that would be the most important part of it. The circulation involved in this is two hundred million publications.

A: How many will use the Suribachi picture?

Q: Probably a dozen, and when you get down to the smaller house organ type, there will be more of it. They felt that painting had been used so widely, and they wanted something more original.

H.M.JR.: I will leave you with these people. Would that be all right now that you know the Morgenthau Plan is all right?

Q: Surely. But I think my idea of you giving us that a week ahead of time was all right.

MR. GAMBLE: I just wanted to take you up to date on the War Bond Drive. In the newspapers we had over twenty-seven million lines of editorials. Seven million of that was front page support. There is evidence already that the Allied Newspaper Council--

Q: That was editorials?

A: News stories--twenty-seven million lines of news stories and editorials in support of the Drive. Seven million was front page news support of the Drive. Those evidences have already been reported to us by a group of newspaper people that handle...
that for us, that we are going to have a greater measure of support.

Q

That was for the Sixth?

A

Yes, that was one of the highlights of the Sixth War Loan Drive, because that was by all odds the best support we have had from the nation's press up to that date.

Q

Hasn't it been getting better every drive?

A

Yes, and it looks very good for this drive ahead.

Q

Mr. Gamble, has this been printed yet? Can we use it for our story?

A

Yes, you may.

Q

Do you have several other copies? Otherwise we will all try to copy that at one time.

Q

What is the magazine coverage?

A

Twenty-three hundred and six now.

Q

Did you say this will be on the cover?

A

Yes, on the covers of all these magazines, the Saturday Evening Post, Colliers, Ladies Home Journal, and every leading publication.

Q

How about the Readers Digest?

A

The only publication we know we are not going to have is Time Magazine.
Time will do it in some other way. They will probably change the text of the letter and use the signatures in another way.

I can’t make out the signatures.

Marshall, Leahy, Douglas MacArthur, Ernest King, Dwight Eisenhower, Nimitz, and Arnold.

I think this is a good thing for the papers. This is a cross section, New Orleans, Salt Lake City, Portland—the retailers have been working on this as their prime objective, support for the Seventh War Loan. There is evidence that the retailers will be using the greatest volume of advertising lineage in support of the Seventh—greater than in any of the drives to date. In fact, I don’t want to use the exact percentage, and you may not want to use it, but they have set thirty-five percent of their total advertising appropriation for that period as a minimum in support of the Seventh War Loan.

If they buy a full-page ad and say “Buy War Bonds—“ You mean if they just use that as hitch-hiking? No, we have various ways of measuring. If the ad was to be carried with no merchandising or direct copy
and the only direct sales ad was "Buy War Bonds," it would be counted, but if it advertised merchandise, we wouldn't count it. The advertising we measure is exclusively war bond advertising. There is no way in the world you could measure these hitchhiking ads.

Q I have an idea on how you could get twice as much play. Why don't you go to the WPB and tell them to up the newsprint allowance for the next three months?

(Discussion off the record.)

A Off the record, there are only eighty situations in the United States that are affected by the newsprint shortage.

Q In the whole United States?

Q Eighty papers?

A For example, the Kansas City Times and Star would be one newspaper; they are jointly owned. There are eighty newspapers that are being affected by the newsprint situation.

Q In other words, the editors can get all they need?

A Their tonnage is not such that they are affected.
Q  Not to pick on you, but does that include the
   Hearst papers?
A  Sure.
Q  That jacks it up pretty high.
A  The Los Angeles paper would be measured as one
   unit.
Q  The Herald and Express, and the Examiner would be
   considered one?
MR. GAMBLE:  That is one.
Q  But the magazines--
A  Actually, the shortage is more imaginary. A pretty
   good job has been done.
Q  They use that and say, "We haven't got room, and
   can't get paper."
A  We get the same complaints from the same towns
   in every war loan drive from the same newspapers.
   They want the Treasury to go to the War Production
   Board and get the newspaper. One was brought to
   our attention, and we found that in the third
   quarter of 1944 this newspaper had used twice as
   much newsprint as they had used in any other quarter
   of the four previous quarters. They had used more
   newsprint in that quarter than they had ever
   used in any quarter in their history. That was
a very prominent newspaper in the West. I will not identify it, but--

Q

And they are the ones that are hollering that they can't get the paper.

A

They had two cases against them. I don't know what happened to the cases, but we did, as a matter of fact, ask the War Production Board, and they pulled out their file. They claimed that they were being restricted in their tonnage, but they were going over. It isn't a question of paper. They are getting all they need now. There are only eighty papers that use enough tonnage of newsprint to fall within this paper rationing program.

Q

In other words, little towns of thirty thousand will get all they want?

A

I don't say all they want, but all they will ever need.

Q

Those are the guys that are raising the devil, too.

A

For example, they would fall under the restriction of special editions or something like that. They couldn't ask for another five hundred tons or
two hundred tons to get out a special edition.

Even if they had put out those special editions before?

I think if they had put them out before as a regular practice before, they could. Now, I am not an authority, but we were told, as a matter of fact, when we went up to Congress when we were defending our position against the Bankhead Bill--we were told that the newspaper situation was tightening up, and even the weekly newspapers were using that in support of a bill so that the Treasury could take its place along with the other customers' advertising. And we found they weren't involved in it at all.

How long has the newsprint situation been limited to the great big users?

It is on a tonnage basis, and the others had so little as against the big papers. One of these big--take the Los Angeles Examiner, and the Herald and Express. They used more newsprint than all of the small newspapers in Southern California, and you could probably throw in San Diego. They would have to grow pretty fast. They haven't been affected.
You could get the story, but I suppose the newspapers wouldn't like to run it. They would be glad to tell you. I got my information from this fellow from Michigan and Mark Sullivan of the Gannett Newspapers. He was at the head of this paper committee at the War Production Board—what's his name, Charlie? He comes from Michigan—a newspaper man. Treanor.

Maybe these guys are just using this as a hammer over the people's heads to say they can't get the newsprint, and in that way they can cut down production costs.

This situation involving the eighty newspapers concerns the principal markets in the country, and you are talking of a problem of seventy-five million people, and it is serious from this point of view.

As far as the little independent boy with a circulation of eighteen thousand is concerned, he doesn't have to cut his paper down to twelve pages from twenty-four?

I know a case like that. It makes a good story,
and I know they would be glad to get it.

If you are interested, at the next press conference you have with the Secretary I will have prepared an outline of some of the special activities that will take place during the next drive, infantry shows, and so forth.

Q: Have a detailed report of the dates.

Q: And the cities involved.

Q: The dates and everything.

A: We have thirty-two big infantry shows that are going out simultaneously that will visit every city in the country. Most of them are overseas veterans that are involved in these overseas units. Then we have an air armada show going to visit practically every important city in the country with fifty or sixty planes, and I will be glad to give you all that information, the dates and towns if possible.

Q: If we could get all that information two or three days in advance, it would enable the press association to put it out in one full piece.

A: Fine. Why don't we make up a schedule and give it to you and let you handle it as you see fit?
Q  Mr. Gamble, if we had that information for Sunday release, the papers would give it a big play.
A  In support of the Sixth War Loan we had about twenty-five million dollars in time and space, and we hope that this time we will go well over thirty million from all of these groups, radio, newspapers, and periodicals.
Q  Going back to the situation of these eighty newspapers, how many do you estimate there are in the country the way you figured this---
A  You wouldn't find dual ownership that you get in your small papers, but it would be about sixteen hundred daily newspapers, between sixteen and seventeen.
Q  Well, Mr. Secretary, thanks an awful lot.
H.M.Jr.: How are you all?

Q: Fine, thank you.

A: Do you have any questions?

Q: I understand that the Joint Committee is going to wait for the return of Mr. George before making any recommendations on excess profits tax rates. Is that right, Mr. Secretary?

A: I don't think they would do anything with him out of town, would they, hoy?

MR. BLOUGH: No. I'm not sure of the point Mr. Gregory made in the last half of his remarks. He said something about excess profits taxes.

H.M.Jr.: That was just a clever way of saying it.

MR. BLOUGH: But with respect to the action of the Joint Committee on such measures as they think ought to be taken after V-E Day I think the gentleman is probably correct. They will wait until Senator George gets back.

H.M.Jr.: That is what happened to our thing today, Monday. That is why it wasn't on today.
MR. BLOUGH: Well, just when the Committee could have met, whether the end of last week or the first of this week, I don't know, but it is academic, because I understand Senator George is not yet back in the city. I would rather have that said without attribution to the Treasury.

H.M. J R.: He knows that. Thank you.

Q With regard to Germany, do you have any financial advisors with General Eisenhower--any people from Foreign Funds Control on the question of economic action against Germany?

A Are they where?

Q With General Eisenhower as your representatives? You had people in North Africa and in Italy, and I was wondering--

A I think the question should be referred to the War Department.

Q No Treasury representatives there.

A I am not answering. Whatever makes up General Eisenhower's staff is a thing for the War Department to answer.
(Discussion off the record.)

Q You were telling us last week that you had a meeting, or as a matter of fact you left the meeting for your press conference, and I wonder if you can tell us any more about that meeting.

A No. You saw us all march over to the White House the next day, didn't you?

Q Well, I didn't see you, but I heard about it.

A We made that much progress. (Laughter)

Q We crashed the White House.

A Where do we go from there? That is the point.

Q Well, they have press relations people over there--very good ones. It is over there, anyway.

Q That is the finished plan, Mr. Secretary?

A What I told these boys off the record was what we were doing. This is off the record. This was on Revised 1067 which is a directive to General Eisenhower dealing with the civilian population, and this committee gave it to the President for his consideration.
Q: What?

A: He has been around here long enough to know I am not trying to put any heat on, but that is where it is, and I told him just what I had been doing all week. "That is what I have been doing. There it is."

Q: The question in my mind was whether it was still being worked on, or whether it was cleaned up.

A: It was a completed document.

(Discussion continued on the record.)

Q: Is there going to be a Russian sphere of influence in the Allied partitioning of Germany? That is, I mean, are the Russians going to have their own reichsmark, and are we going to have our own military currency there, or have you agreed on one currency for Germany, Mr. Secretary? Have you printed reichsmarks?

A: I am not going to get into that. It is a very little piece of a very big problem.

Q: Mr. Secretary, is there anything to report on tax investigations?
A

Yes. I have learned my lesson. I tell you what I am going to do. I am going to read this very excellent document which Mr. Fussell has prepared for you people. It is for background. You can attribute it to the Treasury, and I'll give it to you. I have only one copy, but you can get some downstairs. How will that be? I'll read it out loud, because I haven't read it through yet. You can attribute it to the Treasury. Have you any more copies?

MR. FUSSELL: Yes.

H. M. JR.: Let me read it. I only started to read it before you people came in, and then we had a general argument about something you haven't asked me about yet.

Q

I'll be thinking of something.

A (Reading) "The present income tax investigation is the second phase of the drive against the black market which the Treasury launched late in 1943."
"As of March 1, 1945, indictments had been returned against 724 persons or corporations for black market violations in liquor operations, with 404 convictions to that date.

"The present drive against income tax violators includes a much broader field. Though the drive is still centered against black market operators, many types of operations other than liquor are being covered.

"'Leads' have been developed in some 2,500 cases which are being screened, with first attention being given to cases apparently involving large scale, flagrant violations.

"Analysis of a sample of 500 of these cases shows 173 involve liquor transactions, 69 involve large currency transactions which probably include dealings in liquor and other commodities, 47 involve produce sales, 26 jewelry, 23 clothing and textiles, 12 meat, and smaller numbers involve such miscellaneous businesses as machinery, restaurants, automobiles, petroleum products, scrap metal, tires and gambling."
"War contractors figure in several large cases being investigated.

"One by-product of the drive has been payments of as much as half-million dollars, in one instance, on supplemental tax returns filed after investigations had been undertaken.

"A midwestern manufacturing concern is alleged to have diverted proceeds of sales directly to officers to escape record on the company books, which will result in assessment of additional taxes and penalties of more than $2,000,000 covering the three-year period 1941-1943.

"During 1943 a midwestern wholesaler in wines, liquors and groceries appears to have made sales in excess of OPA ceilings totalling $172,000, but as a result of carrying this investigation into preceding years, taxes and penalties of more than $500,000 are now proposed against the firm and its officers.

"Surveys of fur and jewelry firms indicate evasion of excise taxes as well as income taxes."
"Large denomination bills figure in many cases. Recent transactions in large bills, traded through three banks in a single city, total nearly $11,000,000. Extra large bills, however, are not the only ones that are being used in an apparent effort to conceal income. A jewelry firm in a southern city is reported as having accumulated $250,000 in $20 bills, which apparently has not been reported for income taxes.

Transactions in checks, cashed outside of regular banking channels, with the apparent purpose of evading income taxes, also are being investigated. The Treasury is receiving active cooperation from government agencies, such as the Office of Price Administration and the Department of Justice, from financial circles and from the public.

New procedures are being developed by the Treasury and Justice Departments, designed to expedite handling of some types of cases.

The OPA has provided information in some 2,000 cases which are being investigated from the tax liability angle in Bureau of Internal Revenue field offices, and its district directors are under instructions to report any evidence of cash side payments or other income which may have been concealed."
Mr. Fussell, I compliment you. It's a good statement for the press.

MR. BELL: Mr. Secretary, could we have stricken out any reference to the banks or financial institutions? I think if we leave that in, we will probably not get any further cooperation, because that is exactly what we don't want.

H.M. JR: All right. You strike that out. Are there any questions? There are other copies. Is that helpful to you? I should think it would be.

Q Are you going to call in large denomination notes, or is it still under study?

A No, we are not. Those thousand dollar notes are the best indicators we get as to where to look. Just so long as the people who have them keep shooting them in, we will investigate those people. They are giving us some of our best leads. We don't want to say anything about it, and we would like to leave it as is.

Q Is there any intention to seek prison terms for a group of violators?
A: Oh, yes.
Q: It looks as though so far it is a very profitable investigation.
A: Very. The boys have more leads now than they can take care of, and we've got some six hundred men in the Treasury detailed exclusively to this work.
Q: Six hundred?
A: Six hundred of our best investigators.
(Discussion off the record.)
Q: Going back to Germany, the plan that has been completed, do Russia and Britain have to agree to it?
A: For your guidance, what happens once the President and the Joint Chiefs of Staff have accepted it, it then goes to General Eisenhower for his direction, and to the European Advisory Commission of which the American Ambassador, Mr. Winant, is the American representative, you see. He takes it up with the other countries through the European Advisory Commission, but in the
meantime, once it becomes a confirmed directive for the President and Combined Chiefs of Staff, they issue an order to General Eisenhower, and he begins to function immediately under that directive irrespective of whatever any of them have to say. But they will try to get the countries together through the European Advisory Commission. You know how that works. It would take me a year to find out. That's the way they tell me it works.

Q

When will we be able to get an outline of what is in there?

A

I don't know. We sent it over last week. I don't know.

(Discussion resumed on the record.)

Q

How is Mrs. Morgenthau?

A

I am getting good reports, thank you.

Now, Eddie Bartelt, Assistant Secretary, has a little story for you on Treasury activities
under the GI Bill of Rights which I thought might interest you people. Eddie?

MR. BARTELT: The GI Bill of Rights was approved last June, you may recall, and I'd like to report the progress of the Treasury under that Bill. During the week ending April 20, the Treasury made payments to thirty-two thousand, two hundred thirty-eight veterans.

Q What is that?

A Thirty-two thousand, two hundred thirty-eight veterans in the sum of six hundred sixty-five thousand dollars. You will recall that veterans are entitled to twenty dollars a week for each week of unemployment not to exceed fifty-two weeks. During that same week the Treasury also made payments to seventeen hundred and sixty-one self-employed veterans amounting to one hundred sixty-two thousand dollars. These veterans are entitled to the difference between what they earn and one hundred dollars a month.
The government makes up the difference between their earnings and one hundred dollars a month. From the beginning of the program we paid six hundred eleven thousand twenty-nine payments aggregating thirteen million, two hundred sixty thousand dollars.

H.M.JR: We will give you a copy of that. Do you have copies?
MR. BARTELT: Yes.
H.M.JR: Are there any questions on that?
Mr. Gamble, have you anything on war bonds?
MR. GAMBLE: No, I have nothing, Mr. Secretary.
H.M.JR: All right.
Q Thank you, Mr. Secretary.
SECRETARY MORGENTHAU’S PRESS AND RADIO CONFERENCES

10:30 a.m. May 10, 1945

Q: Good morning, Mr. Secretary.

H.M.Jr.: Good morning. What is new with you people?

Q: What do you think of the CED proposals that seem to be circulating on Bretton Woods up there on the Hill?

A: I have no comment.

Q: They claim the Treasury is favorably inclined towards them.

A: I don't want to get in on it.

Q: Mr. Secretary, I understand Wolcott has told some friends privately that he has drawn some amendments to the Bretton Woods legislation which are acceptable to the Treasury. I don’t know what the amendments are. Have you any comment on that?

A: No. The Treasury hasn’t accepted any amendments.

Q: How about an interpretation?

A: No, we haven’t any, and in the first place
it isn't up to us. The legislation is pending before Congress, and it is up to the Banking and Currency Committee to decide what they want to do. No amendments of any kind, or any agreements as to any amendments have been made by the Treasury with anybody.

Q

With anybody?

A

With anybody at all. We haven't agreed to a single amendment with anybody.

Q

Mr. White in San Francisco said--at least it was my understanding that he said the present bill was acceptable--an interpretation along CED lines.

A

He said it was all in there.

I don't know what Mr. White said, but all I can say to you people officially is that the Treasury Department has not agreed to any amendments of any kind with anybody on the Bretton Woods legislation that is pending before the
Mr. Secretary, can you tell us whether Mr. Wilcox's question was the sixty-four dollar question that you spoke of last week as the press conference broke up?

Well, I have really forgotten.

I don't think it was the sixty-four dollar question. It was only sixty-two-fifty.

Mr. Bell made some comment on this CED proposal. Do you want to talk on how that stands?

Mr. Bell is here and he can talk for himself.

On the CED proposal I said that it seemed like a sound suggestion and should be given serious consideration. That is all I said.

That still stands?

Yes. I think we should give serious consideration to it.

But that is not in conflict with what I said a minute ago.

That's right.

Mr. Secretary, Chairman George had a statement on taxes yesterday. I suppose you have seen that.
H. M. JR: Would you care to comment?

Well, what I would like to say is this, that the administration's position has not changed one iota with regard to the need of all the revenue that we can get while we are at war.

Q: The Senator put his taxes over the next year, though.

A: Well, I am just--

Q: They will remain as they are just during the war period.

Q: The President said he conferred or was conferring with you on taxes a week ago, and he said he might make a public statement. Have you concluded those talks with the President?

A: Somebody can read back what I said. That is all I would say.

Q: He said he would have a press conference to discuss that subject.

A: Well, you notice I used the word "administration."
That's right.

I read the other day that Dr. Schacht had been captured by the American Army. In view of the important part that he played in financing the war for Germany, would you consider him a criminal?

Oh, I don't know.

Can you tell us anything more about the plan that you once worked out for Germany?

No.

You adopted it, didn't you, Mr. Secretary?

Are you telling me or asking me?

Asking.

Well--

Mr. Secretary, provided that Germany was relegated to the position of being just an agricultural nation, what would you suggest be done with her coal and all these natural resources, hydroelectric, or iron ore, and all those things on which Europe depends so much for her livelihood?
Hasn't she always exported a lot of coal and iron ore and piped out electricity, and so forth, from her big hydroelectric plants? They don't exist now, but the possibilities are there. They could be rebuilt. What would you say ought to be done with that sort of thing?

A

Q

Nice question, though.

Q

Short answer. (Laughter)

A

All right.

Q

What would you like to say about the bond drive opening?

A

Well--

Q

What are the prospects?

A

We open here Sunday night, and I'll be in Buffalo Monday afternoon to assist the drive there.

Q

You will open it?

A

It will be opened from here Sunday night.

Q

Are you going to make a radio address?
A I don't know about a radio address. It is going to be about three minutes.

Q Are you going to have a copy for us by Friday or so?

A It is finished now. You can have it if you want it.

Q You don't think V-E Day is going to interfere with the success of the drive, do you, Mr. Secretary?

A No. I don't think that it will have anything to do with it.

Q Did you hear they had a quiz program on the air the other night and asked the question about how much the goal was in the bond drive, and the winner would have got two hundred ninety-two dollars, and nobody knew the answer.

A I can't see Gamble, but I am sure he is hanging his head.

MR. GAMBLE: As a matter of fact, I don't think that is unusual, Mr. Secretary. We might ask these
press people two or three questions about the drive. There were five contestants.

Mr. Secretary, I talked to Mr. Burgess the other day as he was going in to see the President and as he was leaving, and he told me when he left that he told the President about what the ABA is doing in promoting bond sales to farmers, about the number of meetings they had held and how much they had--one thousand or more--before the drive got under way.

Would you care to talk about that at all--pat the bankers on the back or anything like that? (Laughter)

Gregory is asking this question and not I.

He asked me if I would ask it. (Laughter)

They are standing next to each other.

I actually was the one that saw Mr. Burgess, though.

H.M.JR: Well, the American Bankers Association through their various state organizations are helping us in many ways, not only with the farmers,
but each state has a state chairman who is devoting all of his time to the war bond drive and is giving us a lot of help and a lot of assistance.

MR. GAMBLE: As is every organized group in America, Mr. Secretary. (Laughter)

Q We are talking about the ABA now.

A I think it is a mistake to separate one group and have it appear as though the Treasury was saying that that group is doing a better job than another group when, as a matter of fact, there are many industries throughout this country that are spending a lot more of their own funds.

H.M.JR: This was a question to see whether I had any row or anything, and I haven't, and I just--

MR. GAMBLE: I understand, sir.

H.M.JR I mean, you know, now Burgess has his answer.

Q Mr. Gamble, you said a lot of industries--

A Just this little remark is to let the boys know that I know, see? (Laughter)
Come up a minute, Ted, and tell them a little bit about the war loan, just so we don't get--

MR. GAMBLE: So they don't get the impression that the ABA is putting it on.

H.M. JR: That they are the dog and we are the tail.

(Laughter)

MR. GAMBLE: The ABA like other groups throughout the country, retailers, the motion picture industry, newspaper trades, allied advertising trades, the radio industry, have all organized.

H.M. JR: And labor unions.

MR. GAMBLE: And labor unions, periodical publishers' associations—virtually every useful force in the country is organized to do its best in the Seventh War Loan Drive, and not the least is the job the ABA has done. It is true they have extended their activities this time. They are better organized to do a job following suggestions and recommendations and appeals made to them through the Office of the Secretary. They are undertaking in this drive to do a better job than they have done.
heretofore in solicitation of their depositors.

H.M.JR: Thank you, Mr. Gamble.

Q We can assume that the forthcoming drives will be small again, Mr. Secretary, in view of the German collapse? This one is probably the last of the large ones?

H.M.JR: Not necessarily.

Q Not necessarily?

A No. No. I am right, am I not, that certainly there is no sign of our spending less money in the next six months, is there, Dan?

MR.D.W.BELL: There is no sign now that it is going off, but I would say certainly for the next four or five months there will be no letdown.

H.M.JR: In expenditure?

MR.D.W.BELL: That's right.
H.M.JR: That would take us into the next four or five months.

MR.D.W.BELL: We don't see any signs of reduction of expenditures. If these cutbacks they are talking about are effective, I should think it would take at least four months before we feel them in the Treasury and then they are slight.

H.M.JR: And on the other hand there will be a lot of money go out in settlement of these contracts.

MR.D.W.BELL: That's right.

H.M.JR: To offset that we figure there will be about three or four billion dollars, won't there?

MR.D.W.BELL: At least that much. I think it's a little higher than that over the entire period, but we won't spend the full amount in the next six months.
H.M. JR: Somewhere around four or five?

MR. D.W. BELL: I think the estimate was about five billion dollars which is a rather rough figure.

H.M. JR: That's a rough figure which will have to be paid out in settlement of the contracts which will have to be cancelled. That's usually lost sight of. When they cancel these contracts they will have to pay some one against the other. We can't see that the checks drawn on the Treasury will diminish very much. I'll stick to Bell's four or five months.

Q Say five billion just for the cancellations that are going to come in the reconversion period.

A Whenever the Army and Navy cancel contracts they are going to have to settle for the goods which are in the process of being manufactured.

Q You figure when all the contracts are cancelled there will be a payment of five billion that will have to be made up.

A That was a rough figure.

Q That was billion?

Q That's on all contracts?
H.M. JR:  Somewhere around four or five?

MR. D.W. BELL: I think the estimate was about five billion dollars which is a rather rough figure.

H.M. JR:  That's a rough figure which will have to be paid out in settlement of the contracts which will have to be cancelled. That's usually lost sight of. When they cancel these contracts they will have to pay someone against the other. We can't see that the checks drawn on the Treasury will diminish very much. I'll stick to Bell's four or five months.

Q:  Say five billion just for the cancellations that are going to come in the reconversion period.

A:  Whenever the Army and Navy cancel contracts they are going to have to settle for the goods which are in the process of being manufactured.

Q:  You figure when all the contracts are cancelled there will be a payment of five billion that will have to be made up.

A:  That was a rough figure.

Q:  That was billion?

Q:  That's on all contracts?
A: Yes.

MR. D. W. BELL: Yes.

Q: War contracts?

H. M. JR.: That's an estimate. That is as near as--after all, we have to figure here how much they are going to draw on us. The figure we have had now for years--it has gone up a little. The last I heard it was four billion, and now it is five billion.

Q: How has the end of the war changed the whole fiscal picture, Mr. Secretary? I think the people are probably anxious to know in view of the conflicting statement with regard to taxes, for example.

A: There is no conflict at this end of the Avenue.

Q: What I meant by that is that Senator George wants one thing and the Administration wants another. After all, he is Chairman of the Senate Finance Committee.

A: True, but there is also a Joint Committee on Taxation.

Q: The bill goes through the House first.

Q: Are you familiar with what the Joint Committee did last night?

A: Yes, sir.
Q. Could you tell us?

A. No.

Q. Did you say could, or would?

A. He did approve of the interim report they submitted.

Q. As I read it in the Wall Street Journal--

A. Yes. (Laughter)

Q. Well, let me--I think I would like to talk off the record now. Does it bother anybody?

A. It doesn't bother me.

Q. If we can take notes, it would be all right.

Q. For background?

A. No, I think you people--if you had this you could, but this is pretty important.

(Discussion off the record)

A. You most likely know there was this meeting last night which lasted very late of the Joint Committee on Taxation, and just before that Senator George gave out this statement. Now, the report of this Committee is still not out, and after all, what are there--how many members are there?

MR. O'CONNELL: Twelve.

H.M. JR: There are twelve members, of which he is one, so I
would kind of not go out on the end of the limb until you see what this Joint Committee of Internal Revenue Taxation for Post-War Taxation does. It is just a little--

Q
Is their report ready, Mr. Secretary?

A
No.

Q
It is not ready?

A
In view of last night and this statement, I just don't know what is going to happen.

Q
As I understand it, Doughton and George are sitting today on the thing alone to see what they can work out, and then go back in.

A
Yes, yes, but after all, there are some very important people on that Committee.

Q
For example, Carlson came out with something he introduced, a bill on his post-war--

A
So I would kind of--

Q
Well, the horizontal reduction has entered into the controversy. Isn't that the main thing?

A
No, this thing of George's last night was rather--I am talking off the record--was rather unusual in advance of a meeting. He has been away from the country two weeks.
Q     Is he running for Secretary of the Treasury?
A     The Wall Street Journal seems to be running him.
Q     I don't see any other paper--
A     We are just reporting, Mr. Secretary.
Q     I don't see any other paper--
A     PM hasn't picked it up.
Q     One newspaper can't pay.
A     Mr. Secretary, is this subject cleaned up?
Q     Yes, but this is all off the record so far.
A     (Discussion resumed on the record)
Q     I am not sure I understand your position or that of the Administration on Bretton Woods. I have talked with a number of people in the Administration and up on the Hill, including some Republicans, and I get the impression that there is a very large area of agreement centering around the CED proposal. Some Republicans, for example, have talked with people in the State Department and high authorities, and they feel that there is ground there for getting together. Now, you have said for the record that the Treasury has consented to no amendments. Is it your intention by that to throw cold water on the thought that you can get together?
A: I didn't say that. I simply said that the Treasury has not agreed to any amendments, and I haven't been asked to by the Chairman of the Committee.

Q: You mean this is no time to make such agreements, don't you, Mr. Secretary?

A: No, no, if the Chairman, Mr. Spence, wants any amendments, I suppose at the proper time he will consult with me, and to date I haven't been asked to agree to any amendments and I have not proposed any amendments. Now, it can't be any clearer than that.

Q: Does the CED plan necessarily require amendments?

A: Yes, I think so.

Q: To the legislation?

A: I think so.

Q: Wouldn't you say so?

MR. O'CONNELL: Well, out of the abundance of caution you might say the CED proposal might require a change in the legislation, but not in the Agreements--Bretton Woods Agreements.

H.M.JR: But in the legislation?

MR. O'CONNELL: That depends on how you see it.
H. M. JR: Some people think it could.

MR. O'CONNELL: Some people think out of an abundance of caution the legislation should adopt the interpretation.

H. M. JR: And others think it can be interpreted--

MR. O'CONNELL: The GED proposal might be done without any change.

H. M. JR: Have I answered you?

Q: I think so.

A: There have been a lot of rumors and gossip and a lot of talk, and as head of the Treasury, I am telling you what the facts are. We haven't made any suggestion. We haven't been asked to. That doesn't mean that when the proper time comes—we don't know what Chairman Spence will do, but that is the situation this morning.

Q: I asked the question because it would seem to me if you came out with a statement saying you agreed to no amendments, it might be interpreted in some quarters that you are adamant on all this talk going around.

A: That doesn't mean that. It means I haven't offered any suggestions to Chairman Spence and he hasn't asked me to give him any. I mean, there haven't been any amendments, to go back to the original statement made by the Treasury, either way.
I stand on that, and that doesn't mean that I am adamant. When Chairman Spence asks us to sit down, it doesn't mean that we won't—there can't be any amendments made provided they don't necessitate going back to any of the other countries, you see. Does that meet it?

Yes.

May we quote you as saying that the CED proposal might require changes in the legislation but would not require changes in the agreements themselves?

That is right.

Have you heard whether this CED proposal is acceptable to the other signatories?

We haven't contacted them. Is that all clear now?

May I add this one question? You and your staff here are cognizant of what has been going on in the sense of this getting together over interpretation.

I know what has been going on as far as this goes; as to the other things, I don't.

Thank you, Mr. Secretary.
Good morning.

H.M.Jr.: Good morning. I hear you are the fellow that asked the President the question at his press conference on taxes.

Q: Yes. The trouble was it kind of got me and I couldn't even write down the answer. I was glad I had some backing there.

A: Where did he try to get you?

Q: He talked too fast.

A: Thank you for asking the question.

Q: He sure boomed away. I never heard him give such a spontaneous answer. He did everything but slam his fist down on the desk. He was mad.

A: I was delighted. It was very helpful.

Q: Can you add anything more to it?

A: No. I would spoil it.

Q: Mr. Secretary, I noticed some of the papers interpreted Mr. Truman's statement as meaning he even opposed the interim program that the
Treasury and the Joint Committee agreed to.
If they did that, that was incorrect, because I showed the interim program to the President the day that the committee met, because I wanted to be--

Was that the day after?

No. I had a meeting with him that day. I think it was Thursday, I am not sure--whatever the day was that they were going to meet that evening. I wanted to be sure that when we went down to that meeting that evening that this interim program met with his approval.

It did, wholly.

It did, fully?

Yes, fully.

That was the day before you made the statement?

Pardon?

That was the day before you made the public statement?

We had a press conference before noon, and you went up on the Hill around noon and talked to Doughton and George, and that afternoon--
They met in the evening. Now, Roy Blough isn't here. I think it was on Wednesday evening, and I know I saw President Truman that day. Then Senator George made his statement that afternoon for the following morning's release.

Wednesday of last week.

That's right.

And I met with Senator George and Congressman Doughton.

What took place, Mr. Doughton--pardon me, Mr. Secretary.

That's all right. That's a compliment.

We just sat around for a couple of hours and out came the statement.

Did you do much talking in that time?

You shouldn't ask me that. I'll say this. I did very little talking.

(Discussion off the record.)

And off the record, George did plenty of listening.
He still seems to be a little defiant in spite of the listening he has done.

(Discussion resumed on the record.)

Well, as far as my public statements are concerned, I think I had a press conference with you people on that Thursday morning of last week, and I made a statement on where I stood on taxes. I took part in the press conference Thursday afternoon with Senator George and Congressman Doughton in which I joined them in endorsing this interim statement, and then in Buffalo Monday afternoon I had a press conference at which I made a statement on taxes. Then, President Truman made a statement yesterday. I made the statement, if you remember, when I met with the press last week that I was speaking for the Administration. I didn't think most of you fellows got that. Maybe you did--and ladies. As far as the Administration is concerned, it has been consistent. I knew just where I stood. I think it is perfectly clear.
I can't add anything to what President Truman said. From our standpoint, from the standpoint of the war or the standpoint of our Seventh War Loan, it was a magnificent statement. That is on the record. We were delighted. It was most helpful. It was most helpful on economy, and most helpful on the inflation front. It was a courageous and direct statement.

As I understand, Mr. Secretary--You are not going to get me in on that. You know him far better than I do.

May I ask a question?

Please do. But you are smart and you scare me.

No, no. I am not too smart and I don't want to scare you.

MRS. KLOTZ: You do not scare easily, either.

What I had in mind was, do you understand that Mr. George is proposing that you make the interim bill a rate reduction bill, or is he talking about a bill later this year?
H.M. JR: Well, that statement—I haven't got a copy of it—that was given out by Senator George and Congressman Doughton and myself endorsed this little four page leaflet which you have seen in print. That is what President Truman was talking about, and that is what I am talking about, and that is the result of six to eight months work on behalf of the committee, the technical staff, and the United States Treasury. Now, beyond that, work is still to be done. Is that clear?

Q: Yes, I understand you, but my thought was that George is talking, and I don't really know what he is talking about. I have heard some of his statement and I can't make up my mind as to whether he plans to make his rate reduction proposals when this bill comes over to the Senate or whether he plans to wait until later, and I thought maybe there had been some understanding about that.

H.M. JR: Well, I am going off the record.

(Discussion off the record.)
For very obvious reasons I avoided getting into a public controversy with Senator George because after all, well, I shouldn't. It is good sense not to. I thought after that afternoon conference which lasted for a couple of hours that Senator George was satisfied to go along with Congressman Doughton and this committee. Leave us out, see? And I think everybody was very surprised when they saw his interview in the Washington Herald.

What about the Saturday Evening Post story?

I can't go beyond that. I haven't read it yet. That was the thing that surprised me, because I had heard that there was an understanding of a meeting of minds on this other thing, and then I didn't know where it stood.

I don't know either, but I don't know that anybody can answer that but Senator George.

I have given you a history of what has happened the last week, and certainly as far as President Truman is concerned, Congressman Doughton, and
myself, and the rest of that committee, which is a very important committee made up of Senators and Congressmen, leading Senators and Congressmen in the Senate and House of both parties—they have endorsed this interim report. What Senator George did do, or will do, I don't know. All right?

Q

Yes.

A

You and I are in the same boat. I don't know either, but I am not worrying. But you knew where I stood before you went up there.

Q

Mr. Secretary, what did Congressman Doughton mean when he said the President told him and Senator George that he left taxes up to them?

A

You are smart, too. The President made a forthright, clean-cut statement yesterday, and that stands as far as I am concerned.

Q

Yes, I understand that, but--

A

And that certainly is the last word. I don't see why anybody wants to interpret beyond that. I don't, and I am not going to try to.
Q: Well, there has been—I'll drop it.
A: Thank you.
Q: Can you tell us what—
A: I mean, his statement—excuse me a minute—came after Doughton's statement, and if there was any doubt in anybody's mind, President Truman certainly must have cleared it up as far as anybody is concerned in this country, because the statement you refer to was after last week.
Q: That's right—when they came out from the White House after conferring with the President.
A: Do you know they went to see him on taxes?
Q: Well, I don't know what they were seeing him about.
A: They weren't seeing him on taxes, and in order to cover up they made a statement they were seeing him on taxes.
Q: I understood George had an off-the-record press conference on the Hill that day. I wasn't there. I heard about it.
A: Well, are we all together?
Q

Yes.

A

You know what is off the record and what is on the record.

Q

Yes, I do.

A

The only thing I know that is on the record were my comments on President Truman's statement yesterday. All the rest was off the record. I wanted to be helpful, but evidently you people were as confused as I was. I was trying to give you the history step by step as far as my participation was concerned.

Q

The part about you taking this up with President Truman before you went on the Hill is on the record.

A

No. That is all off the record.

(Discussion resumed on the record.)

Q

What became of the clause to set a definite time for later abolition of the excess profits tax? I understand that has been discussed up there a good deal?

Q

It is not in their report.
I know the answer, but I am sorry I can't
give it to you.

What is the total cut in the expenditures
through the reduction of lend-lease that they
are talking about, Mr. Secretary? That is
another saving that is coming on. They
knocked off close to five million off the
Maritime Commission, and some others.
Lend-lease will disappear substantially, and
on the basis of Mr. Crowley's statement made
late Saturday night, I gather that the savings
will be substantial. Have you any idea what
they will be?

No. I can't give you that.

But they will be substantial?

I don't want to answer that.

Mr. Secretary, there have been a lot of rumors
and speculation about a reorganization program.
Can you help us out in clarifying any information
on that?

No.

Any figures or--
Q
Yes I could but I am not able to.

Have you heard of this move to transfer the RFC to the Treasury through a new plan that all lending and banking--any agencies connected with lending operations would be under the supervision of the Treasury?

A
Well, I am just not in a position where I would be helpful.

Q
But you have heard of the plan?

A
I am just not going to be helpful. (Laughter)
I never knowingly encourage people in an untruth.
That's my record and I like to keep it.

Q
May I ask this one point? For information purposes are you sitting in on the reorganization plans program?

A
I am not going to be helpful.

Q
Would you favor a plan to merge them, because I know--

A
I am not going to answer.

Q
The question of absorbing the outstanding RFC securities through Treasury issues is one plan in that direction, Mr. Secretary.

A
I am not going to answer.
Q: That is happening gradually.
A: I know, I read this AP story last night, too. Somebody got some piece of it. I can wait until the UP gets the rest.
Q: I checked with the Byrd Committee, Mr. Secretary, and there are fifty-two agencies involved.
A: Where is INS?
Q: ...affecting thirty-three independent agencies which will be merged into old line departments like Treasury, Commerce, and so forth, and twenty-one war agencies which will be liquidated and their functions absorbed within the old line departments. There is such a plan. I wondered if you would--
A: No. I am not going to get in on it.
Q: Is it that controversial?
A: Oh, that isn't what bothers me.
Q: What?
A: That isn't what is governing me.
Q: Oh, I see.
Q: They seem to be having some interesting unofficial or semi-official meetings on Bretton Woods these days on the Hill behind locked
doors, and so forth. I suppose you are being kept informed.

A

Oh, yes.

Q

Can you tell us about it?

A

No, except I think Mr. Spence is doing a fine job.

Q

I understand there is a meeting of minds between the Republicans and Mr. Spence that they have agreed on suggestions for amending Bretton Woods, and I also understand that the report is either coming out today or tomorrow, and I gather from that that you are cognizant of these changes and have approved them.

A

I think whatever is done up there that Congressman Spence should be the spokesman because it is in his hands and they are very good hands.

Q

The Saturday Evening Post also had an editorial on Bretton Woods yesterday. Did you see it?

A

No, but I knew it was coming and I imagine it was good—no, no, no, I'm all mixed up. Wasn't there one on war bonds? That's what I am interested in.

MR. GASTON: Last week.
H.M.JR: I did not see it.

Q Which?

A That's what I knew about, and I knew if it was by Gamble it was good.

They don't give me a chance to do one on Bretton Woods.

Q Are you going to favor his paying income taxes for what he got for doing that?

A I imagine he would.

Q Mr. Secretary—
For your information, Gamble is a dollar-a-year man.

I know that. I read about that once.

He gets seventy-seven cents a year.

After deduction of taxes, and so forth.

Withholding tax.

Oh, I see. There is some controversy--

Do you get it?

Yes, sir, promptly.

Is that the exact amount you get?

It's paid in several checks. (Laughter)

Well, Congressman Dickstein is openly favoring the retaining of these refugees, or those who want to stay in this country. They have had some stories on it lately and he is going to investigate the Oswego camp, and there are six hundred and sixty-seven out of nine hundred and eighty-four that have stated their wishes to remain in this country. What is your feeling on it? Do you think they ought to go through as President Roosevelt said, return them to their countries and let them come in on an immigration quota?
H.M. JK: I am sorry I have to turn some of these questions down but I am one member of the War Refugee Board and I have not had an opportunity to discuss it with the other two members. I can't just talk for myself without discussing it with Mr. Stimson and Mr. Stettinius, and as far as I know, the matter has not yet been brought to the Board's attention. So pending a meeting of the Board at which this thing is discussed, I don't think it would be proper for me to discuss it.

Q Do you have something there to give us?
A Yes. It's on the positive side. Isn't there a song about the positive side?
Q "Accentuate the Positive."
A That's right.
Q It says, "eliminate the negative." (Laughter) That's very appropriate.
A You fellows come in and sing it the next time. I'll try to learn it. (Laughter)

There are a lot of smart people around here. One of the things that we are going to do to keep Mr. Roosevelt's memory alive is we are going to mint a new ten cent piece with
Mr. Roosevelt's head on it.

Q
How soon will they be out?

A
Just as promptly as we can. How long do you think that would take?

MR. D.W. BELL: Probably the balance of the year to get a supply of them sufficient to release— the end of the year or the first of next year— something like that.

Q
Will you remember us? We'll give you an old ten cent piece for a new one.

A
I will give you a new one in memory of Mr. Roosevelt.

Q
Mr. Secretary, would that be made at the Philadelphia Mint?

A
Yes. Wouldn't it?

MR. D.W. BELL: I think it will. It's hard to tell now.

Q
How many will be issued?

H.M. JR: It will replace all dimes.

Q
Oh, I see— completely replace old dimes.

A
Permanently. It will be a new dime.

Q
What will be on the other side?

MR. D.W. BELL: That we haven't decided.
H.M.JR: That hasn't been decided and also carrying out this thought that we want to keep his memory alive, there are literally thousands of requests to do something during this Seventh War Bond Drive, but it was so far along we didn't feel we could do him or his memory justice and therefore we didn't do anything. But we are now starting to take things under consideration and one of the things will be to print one of the war bonds with a picture of President Roosevelt and some very good quotation. I would like somehow or other to get suggestions from the working press for a quotation to put on the bond.

Q Like, "We have nothing to fear but fear itself?"

Something like that?

A Something like that.

Q Something that he said, though?

A I don't know how to define the working press. Is there a way to define it?

Q Those who are members of the House and Senate Press Gallery - is one way of doing it.

A All right. For the best suggestion and the suggestion which we accept for a quotation
under that—and I will ask the press to appoint their own committee and let them handle it.

You mean from those who cover the Treasury?

From the Senate and House—

...Press Gallery.

They will appoint their own committee to pass on it. I would like to give a hundred dollar bond to the man or woman who makes the best suggestion.

That's your personal gift?

That's my personal gift, and I'll ask the Press Gallery to appoint their own committee to pass on that and decide which is the best suggestion.

Only one suggestion from each?

Well, I'll let them make their own rules. I'll ask whoever the head of the Press Gallery is to work out a committee to work out rules. I should think one suggestion would be enough, but I'll let them work it out and appoint their own committee and make suggestions and then let them pick the suggestion and I'll accept it, whatever this group works out.
Mr. Secretary, may I suggest--
Yes.
...something? That the radio and periodicals be included in that?
They are members of the House and Senate Gallery.
No, they have separate galleries.
No--well, I just thought while I am sitting here--I think that's a good suggestion, the periodical press.
That's right.
And the radio.
Radio, periodicals, and daily press.
I'll ask Mr. Fussell and Mr. Shaeffer if they will get in touch with each of these associations this evening. Why not get one judge from each of them, see, let the President of each association be the judge? How would that be? Would that be all right?

MR. SHAFFER: Yes.

H.M.JR: Does each of these associations have a President?
Yes.
A We will ask the President of each, radio, periodical, and daily press to act as a committee to pass on
suggestions.

Q
That means I have already got one vote, Mr. Secretary.

A
Are you President of something?

Q
Periodicals—I just need one more vote now and the bond is mine.

A
You won't be able to participate.

Q
I don't think the President ought to be able to participate because—

A
He will be eliminated. Maybe they would rather have—you work it out—maybe you would rather have somebody else as a judge, somebody like Chief Justice Stone?

Q
That would be much better. The bigger the names, the bigger the publicity, so to speak, and the more people would know about it.

A
I am asking for suggestions of the three Presidents on how to run the thing, and I will meet with the three Presidents. We'll meet to work out a committee.

Q
What's the time limit on this thing?

A
Let's have it before Memorial Day. We'll announce it on Memorial Day. How would that be to announce the quotation on Memorial Day?
Q: When do you expect to issue that bond?
A: For the Eighth War Loan.
Q: And on what denomination?
MR. D. W. BELL: We don't know yet.
H. M. JR.: We don't know yet, but let's have the thing finished so we can announce it on Memorial Day.
Q: Can you tell me how many dimes are outstanding, Mr. Secretary?
A: I will meet, if you will fix it up, with the three Presidents of the associations sometime Monday at their convenience.
MR. D. W. BELL: The quotation ought to be relatively short. We don't have a lot of room.
H. M. JR.: Do you think that's a good idea?
Q: That's fine for me.
A: Do you think the others will like it?
Q: Sure.
Q: It has to be one of the quotations he said himself?
A: I think so, yes.
Q: There's plenty of field there.
A: Yes.
Q: May I ask--
A: Do you people like the idea?
Q: We think it's a swell idea.
A: They gave me—all I have here is quotations from Roosevelt and I thought you might like it. I know you were all devoted to him.

Q: It's a very good idea.

Q: This is only open to Washington reporters, of course?

A: I think so.

Mr. Gaston: There is one organization that hasn't been mentioned and perhaps it has some members not included in the Gallery, the White House correspondents. Are they members of the Gallery?

Q: Yes. Do you have to be a member of the Gallery before you can participate?

Q: That's right. They are.

Q: Mr. Secretary, now that the war is over—

H. M. Jr.: Can't we make it so that there will be—give a hundred dollar bond for the first prize, a fifty dollar bond for the second prize, and a twenty-five dollar bond for the third prize, and everybody can get a little—

Q: What about ties—one to each one? (Laughter)

A: I think that's—
Mr. Secretary, prior to—right after the outbreak of the war you were very helpful in having these background conferences on the protective steps taken before September, 1939.

Yes.

Now that the war is over in Europe I wondered if we couldn't have some more of those conferences on that score disclosing some of the steps Treasury took, for example, in stopping the smuggling of money on, you know, the case of the Italian mail pouch being opened in Mexico City, and other stories like that. I think they would make excellent stories and I wondered if you couldn't release that to us.

Which is that?

The Treasury's part in stopping these transfer of funds money by enemy embassies, and so forth.

I'll think it over. It sounds like a good idea.

Mr. Secretary, what is the decision on the denomination of the bond, to help round out the story?

I don't see why you can't—isn't it going to be a two hundred and fifty dollar bond?
MR. D. W. BELL: That's the one under consideration and that is one denomination which we don't have.

Q: Why can't you issue a twenty-five dollar bond, Mr. Secretary? Wouldn't that reach more people?

MR. D. W. BELL: That was the thought I had in mind as to whether this shouldn't be a bond that would reach more people, the common man, while a two hundred and fifty dollar bond may not. We haven't any denomination of two hundred and fifty. We have denominations of twenty-five.

H. M. JR.: What do you mean?

MR. D. W. BELL: We have no denomination of two hundred and fifty dollars.

MR. GAMBLE: The problem of a twenty-five dollar bond is that that's what you expect people to buy. That would pose a serious problem to us. We would sell in a war loan drive about forty-five million twenty-five dollar bonds. We are much more interested in the eight or nine million one hundred dollar bonds. That's a real problem.

H. M. JR.: You don't want me to say yes, do you?

MR. GAMBLE: No, not on twenty-five dollar bonds distribution.

MR. D. W. BELL: No.
H. M. JR.: We'll have to wait.

Q: Will you let us know?

Q: It would be on only one denomination?

A: Yes.

Q: It would be a new denomination?

MR. D. W. BELL: That's right. All the other denominations have portraits on them.

MR. GASTON: The two hundred fifty dollar bond would be a new denomination.

Q: What about a seventy-five dollar bond?

H. M. JR: We'll have advice from the press, too, and radio and periodicals. Believe me, we'll get suggestions. When I meet with you people next Monday or Tuesday I'll ask for suggestions, see? But I mean, here is something that I as an individual--I mean, here is something that we want to do, and I as Secretary of the Treasury want to do to keep this man's spirit alive for the people, and this is one of the ways that it can be done. We would like to do it, and we want the help of you men and women.
Q  Thank you, Mr. Secretary.

A  Have you got a picture here?

MR. GAMBLE: Yes. No one has seen it yet except the people that are working on it.

Q  That is a poster.

MR. GAMBLE: It is under consideration.

MR. GASTON: I think it is terrible. That was done during the last phase when he was a very sick man.

Q  He does look awfully old.

H.M.JR: The press doesn't like it.

Q  I do.

MR. GAMBLE: I think it is the greatest poster I've ever seen.

Q  If you could bring him up to look a little better.

Q  I don't like it.

Q  I like the Navy cape and that sort of thing.

H.M.JR: I wouldn't do anything without consulting Mrs. Roosevelt. I would want her advice. I asked her advice about the dime before I did it, and she said she would be very glad to see us do it on the dime. On anything like this I do like to consult her.

Q  Do you have to get statutory authority to mint
the new dime?

What was that?

Mr. Wilcox asked you whether you need statutory authority to mint the new coin?

I don't think so. We don't need any law, do we?

MR. D.W.BELL: No. The authority in the law is you can't change the design on the coin until it has been out for twenty-five years, and the dime has been out for about twenty-nine years.

MR. GAMBLE: This poster has not been selected. It is the first one under consideration. The artist is C. C. Beall.

Is this on the record that Beall has made this poster that is under consideration?

Yes.

That would be put on the bond, Mr. Secretary?

No. That is under consideration.

Will this be on the bond, Mr. Secretary, if it is selected?

Well, we were talking about this just before you came in, and Mr. Gamble said, "I've got it. Would
you like to show it?" I said, "Yes." but
I wouldn't do anything like that without first showing
it to Mrs. Roosevelt.
All right, everybody?

Thank you.
SECRETARY MORGENTHAU'S PRESS CONFERENCE
4:00 p.m., May 21, 1945

H.M.JR.: All right. What have you people got for today? We have no handouts.

Q: How is the Seventh War Loan going?

A: It's going about as expected. That's about all I can say.

Q: Are there any amendments on Bretton Woods yet?

A: Well, it depends upon which news service you read.

Q: Well, I don't think the UP has said anything about it yet, but I understand Treasury officials are meeting with the boys up on the Hill.

A: Whose ticker service is this? Isn't this UP?

Q: Yes. Maybe I don't read my reports. (Laughter)

A: Do you want time off to do your homework?

Q: I guess I better. Who did that? (Laughter)

A: Oh, yes, it came from up on the Hill.

Q: It's no good.

A: Well, there must be something to it if we wrote it.
With the boss's secretary around I want to treat you nicely.

Yes, you better. I hope you do. I want a good report to go back.

Where were we?

We'll skip that one then.

Does anybody else have anything?

Mr. Secretary, Canada has taken off several of their war-time emergency taxes. How soon do you think that we may be able to take them off?

After the end of the Japanese war will we be prepared with a program?

Well, the status is this: I realize Chicago is quite far away, but I'll be glad to help out and welcome you here. Last week, I think it was, this Joint Committee on Taxation--house and Senate--met and gave out a statement on what you might call, what would take place during the interim as between the defeat of Germany and the defeat of Japan. Now, beyond having made that statement public in which I happened to join Senator George and Mr. Doughton, subsequently the President of the United States
gave his approval publicly. The next thing that would happen would be that this committee which has its own technical staff under Mr. Stam would continue its studies with the Treasury staff, making a report back to this committee of Senators and Congressmen who are on the committees that have to do with taxes. Now, they just finished about, what is it hoy, eight months' work? Six or eight months' work?

MR. BLOUGH: We have been working since the 15th of June under resolution of the Joint Committee. I wouldn't say that what the Joint Committee did the week before last represents all of that eight months' work.

H.M. JR: Well, it's the first public statement.

MR. BLOUGH: That's right.

H.M. JR: And I believe that this committee plus the Treasury staff would now immediately begin to study the next step. I think that those are the wishes of President Truman and the members of the committee and myself.
Q  Mr. Secretary--

A  Does that answer your question?

Q  Well, not quite, I don't think. What I had in mind was, will it be months after the end of the war that a program will be put through, or will it be all ready to be presented immediately?

A  Well, of course, it's hard to answer that question, because I don't know how long the war is going to last, but my guess would be that within the next several months they ought to be able to work out a program which they could recommend to Congress if and when the Japanese war is over that they would proceed along the following lines. I should think that within several months--it would take several months to work out such a program. What do you think, Blough?

MR. BLOUGH:  I think that's a very reasonable statement.

H. M. JR:  Whether that would be ready when the Japanese war is over is anybody's guess, but within several months I should think this committee would have a definite program.
Now, just a second. I would like to answer one question at a time. Does that clean up that question?

Yes, it does. Thank you.

May I ask another question along that line?

You anticipate that would go into effect as of the time the Japanese war is ended or months or years later?

No. They have made certain recommendations which have not yet been introduced in the form of a bill. Now, these are simply recommendations which could go into effect right away if Congress would pass a bill.

Now, what is to happen if and when the Japanese war is over? Those studies, I believe, will be made promptly and I can't talk for them, but from conversations I had with Senator George and with Mr. Doughton, I think it is their wish that so-called Technical Staffs of the Congress and Treasury would proceed immediately to take those steps. Certainly it's my wish that we should be ready.
Mr. Secretary, Mr. Blough, in his speech in Buffalo on Friday, indicated at the end of his speech that some tentative studies had already been made and the tax program goes beyond the interim program, and I wonder to what extent that affects the excess-profits tax?

Mr. Blough is here. He can answer you better than I.

I can't remember what you are referring to.

The last page and a half of your speech.

What I said was that--yes, the Technical Staffs, the two staffs, Treasury Staff and Joint Committee Staff, are working now, and have been working. That's why I said a little bit ago I wouldn't want it to be understood that the whole eight months' work is wound up in the Joint Committee's recommendations the week before last. We have been working on the basic issues. Some of them were indicated in that statement in the speech. A lot of work must be done on those studies and a lot of work will have to be done. That's about as much as I can say.
Q: Did I understand you to say President Truman approved the Joint Committee's report?

(Discussion off the record.)

H.M.JR: Well, he made a statement which I can't paraphrase as to whether taxes should be reduced. He said very definitely. I did say--and I can't talk for him--but I did tell the press the last time I saw them, off the record, that he had seen this report. I had shown it to him in advance, and he approved it, but that was off the record. Is it still off the record?

Yes, but I had shown it to him in advance of our Treasury people meeting, so that I would be sure, and I know it met with his approval. I can't announce that, but I think that's all been pretty well cleared up with the President. I hoped it was. I can't speak for him, but I can tell you people, off the record, that he saw it.

(Discussion resumed on the record.)

Q: I wonder how that tax reduction for the exemption on the ten thousand dollars, twenty-five thousand dollars on the excess-profits tax is reconcilable to no reduction of taxes?
Well, Roy, can you explain that?

MR. BLOUGH: Yes, I think so. I suppose that it is obvious that that results in some people's taxes being lowered. However, in 1943, right in the middle of a big wartime program to increase taxes, the exemption was increased from five thousand to ten thousand dollars, while everything else was going up. Here is a segment of the economy, small business, on which the excess profits tax, as a wartime tax, has proved in practice to be exceptionally harsh, and it is viewed as an adjustment for this period during the latter part of the war when small businesses are starting to reconvert.

Q Have you any idea how much money would be involved in that?

MR. BLOUGH: Yes. The alleviation of the excess profits tax is expected in 1946—assuming, of course, that those are estimates, and you never know how accurate they are going to be—would be about one hundred sixty million dollars, or
about two percent of the total revenue of corporations.

Q

Do you have any designs under consideration of the roosevelt dime?

H.M.Jr:

Well, Shaeffer gave me these. I was just going to give you credit. They came from the Associated Press.

Q

Will they be helpful?

A

Oh, yes, definitely, and if this committee which I am meeting with tomorrow has any suggestions, we'd be glad to have them. but I am afraid it is going to have to be a profile for a dime.

Q

There are three profiles there.

A

I appreciate that.

Q

What about the bond picture? Is there anything more on that?

A

We are still considering them although the Bureau of Engraving says we can't change it from the one we already have. I think we are
going to have to because the one we have is 1933, and I think that's too old, and the Bureau will have to take a fresh look, or something.

MR. D.W. BELL: They can't change it without delaying the program a little, Mr. Secretary.

Q Did you decide on that two hundred fifty dollar bond?

H.M. JR: No. I am meeting with this committee. We would have met today, but because of President Truman presenting the medal of honor we postponed it until tomorrow.

Q There has been a good deal of criticism on what has been called the Treasury's promotion of the Bretton Woods program through the churches and other avenues. Do you have any comment on that?

A None whatsoever.

Q Is that being financed by the Treasury?

A No. We have no money for that purpose. These various organizations want it explained to them in the first instance. We explain it to them,
and they feel that it is an important piece
of legislation and should in turn be explained
to their membership. They go ahead and explain
it, and I don't see--it seems to me that is
democracy at work. If the electorate really
understands an important thing like Bretton
Woods and Dumbarton Oaks and then make up
their minds whether they are for or against
it, that is democracy at work. That is the
way we will, I hope, move forward. And I just
think that possibly we have gone to more pains
to have the thing explained, just as the State
Department has on Dumbarton Oaks, and I think
it is all to the good. I think it is all to
the good, but the Treasury books are open to
anybody. They can take a look at them.
Can you tell us anything about the Chinese
gold swindle? (Laughter)
No. I learned about it through reading the
papers.
Q

I thought you might be able to add something more to it, something from the inside.

A

I don't think so.

Q

Mr. Secretary, there has been a great deal of gold found in various places in Europe and censorship restrictions are being relaxed. Can you tell us anything about your policy in connection with that?

A

No. Anything on that will have to come from the Army in the first instance.

Q

Do they check with you?

A

We work very closely with them, and I think any announcement--I mean, in the first instance--has to come from them.

Q

From the scene of action?

A

Yes, on the spot. When they want to say something, they do, but the ultimate disposal is still all up in the air.

Q

Does anybody have any idea of how much they have discovered altogether?
A  No, nothing that could be used.
Q  The whole thing, then, as it now stands, is up to the theater commander?
A  Is that right, Mr. Bell?
MR. D.W. BELL: Any information to be given out on it comes from there.
H.M. JR: Isn't that our understanding with the Army?
MR. D.W. BELL: Yes.
Q  Is any of our invasion money being used in Germany?
H.M. JR: Well, we have printed regular money for that. We have regular money which we have printed.
MR. D.W. BELL: Allied military mark.
H.M. JR: The allied military mark.
Q  Will that be turned into German currency eventually?
A  It is on the same basis as the allied military money in Italy or France in the first instance.
Q  It will be the currency of Germany?
A  No. It is the currency of the military, and the military use that in payment for expenditures
in Germany. What will happen ultimately, nobody knows. Again--Dan, you correct me if I am wrong--no guarantee or anything else is under military procedure. The Army asked us to print this money for them, and we do. They use it and it has a nominal value of ten cents on the mark and for the time being our military commanders and troops are using this so-called allied military currency.

**MR. D. W. BELL:** It is the same as the Italian military lira, but not the same as the French, because that's the French government there.

**H. M. JR.:** But it is the same as in Italy.

**MR. D. W. BELL:** That's right, the same as in Italy.

**H. M. JR.:** Sometime our grandchildren will make a settlement. Will that be settled by the Reparation Commission?

**H. M. JR.:** It will be up to my grandchildren sometime to settle it. In the meantime, the Army is getting along all right. I'm not worrying about that, as long as the Army is doing all right and getting all they want and the Germans take this or nothing.
Q Can you tell us about this, Mr. Secretary?

A Well, Mr. Bob Patterson brought me back from some General—some General sent it to me as a present. I have got two more like it that my son sent me.

Q Japanese?

A No, no, no! German. There are two more over there, very nice ones, my son sent me.

Q Well, thank you very much, Mr. Secretary.

A Thank you.
How are you this morning, Mr. Secretary?

Very fine. You do ask very important questions, or rather, get important answers. I am all right.

That was a nice pat on the back.

Very nice.

Is this the hero that wrote that?

You got the President to answer one on taxes, too.

I figured you'd want to know where you stood, Mr. Secretary. (Laughter.)

I knew where I stood.

I gathered that from the comment the President made on it.

It was very helpful. I knew where I stood.

Does that mean you are going to remain right on through the Truman Administration?
MR. GASTON: He is pretty successful in getting that kind of news across the street.

H.M.JR I think a sufficient answer was given yesterday. You did all right. The only thing you didn't get was the byline.

Q I never get anything like that.

A You did all right.

The only thing I have which might be of interest to you people is that I am giving a lot of time myself to this drive that we are making against people in the black market who are not paying their taxes, and we ran into one case in New York where over a period of several years this man handled large amounts of currency and was not paying his taxes; and his tax lawyer walked in the other day and declared two million, two hundred thousand dollars he had overlooked, all of which he had cached in the various vaults. He called this a voluntary disclosure, and he is running a group of restaurants in New York.

Q Can you disclose the name, sir?
A

We can't. We put men on it. It takes a lot of time and all that sort of thing, and--

Q

He runs a chain of restaurants in New York?

A

Yes. And I have to remind you that in this country, thank God, you are innocent until you are proven guilty.

Q

Was this money in cash in safety deposit boxes his own?

A

It was.

Q

It isn't any more?

A

Well, I don't know whether he has paid the money. I don't know whether he has paid the money over or just what, but we ran into it through large denominational bills, and he knew we were on to it, so his tax lawyer comes in and makes a so-called voluntary disclosure.

Q

Does that mean that that was--he had overlooked that much altogether, or he hadn't paid that much in taxes?

A

He kept two sets of books and he would withhold--he sent a truck around every day to the restaurants and picked up so much cash, and he put this cash
into a vault, and over a period of two or three years it amounted to two million—over two million, two hundred thousand dollars. But he sent an armored truck each day to each restaurant and picked this stuff up. Now, the interesting thing is that some of the leases were on a percentage basis. I mean, he would pay a man five percent or ten percent of the gross business. He was honest with his landlord. He paid the landlord the correct amount, but what we are going to try to prove was he was dishonest with his government. That has to be proved, but with his landlord he was honest. He paid the correct percentage, and then he would take it out and just send an armored truck around every day and stuff the money away.

Q

How did you happen to run across these large bills if they are in vaults?

A

That is like when you get a story, you protect the source. I have to protect my source.

Q

You had the cooperation of the banks, in other words. I mean, he took small cash. His receipts
were in small cash which he converted into large denomination notes.

I am not—it is like when you get a story.

At this stage we don't want to disclose our source, but I am just telling you the unusual thing is he paid his landlord what looks like the correct amount, and then he took the cash, and his excuse was he needed that much money with which to buy supplies.

Was this a black market operation?

That is yet to be proved. All I know is you get, say, amongst the best meals in New York.

Sounds like the Colony Club.

No. It is a chain.

In New York City?

In New York City.

The two million, two hundred thousand dollars, is income that he is declaring, not back taxes.

This is gross income.

Gross income?

Gross income.
Which he had overlooked? I am sorry. I don't understand it.

Neither do I, young lady, and we have to prove it, but his lawyers came in and declared what they called a voluntary disclosure of this much, and when they make a voluntary disclosure they hope to get away from prosecution.

Do you intend to prosecute?

We are doing something we have never done before, but we are bringing in some shocking cases. On my own responsibility I am going to talk this much, and I think the public will be with me in trying to get--it's shocking and revolting that anybody who has got a fine business in war times is trying to make these kind of profits out of the people.
It's hard for a lot of people with moderate incomes to get enough to eat. It's revolting and disgusting, but we have to prove our case.

Q

It's clear if you can get a case you will prosecute.

A

To the hilt.

Q

Mr. Secretary, his lawyer hopes that you will accept the taxes on this two million two hundred thousand dollars?

A

Sure.

I think that has covered about a three-year period.
Q: Mr. Secretary, how did he discover that you people were--
A: We were going through his books.
Q: Oh, I see. You were suspicious.
A: We were suspicious.
Q: Did his lawyers come to Washington or did they go to the Collector's office up there?
A: They went to the Collector's office up there. They didn't come down here.
Q: Was this one of those cases where someone came to the Agent in New York and said, "This man is not reporting his total income?"
A: I must protect my source. How can I stay in business if I tip my hand?

MR. GASTON: They might cite you for contempt, you know.
H.M. JR.: What?
MR. GASTON: They might cite you for contempt. They haven't held an executive meeting yet on this.
H.M. JR.: That's right. You know how we are.
Q: I understand there is not much chance of that now.
A

On the Hill how would I know what happens to me if I--but I am sure you will understand what I mean.

Q

Is this fellow connected with any subversive developments, or is this a straight business?

A

I think he's just--I don't think there is anything subversive. I don't think so.

Q

When you say he runs a chain of restaurants, is he the owner or manager?

A

This fellow is the owner. I don't know whether he is the sole owner, but he certainly dominates it.

Q

Do you have anything to report that you have been working on?

A

We are so overwhelmed right now since we have started this thing a couple of months ago that we are going to ask for sufficient money to recruit an additional five thousand men. But we now have fifteen hundred men on this.

Q

An additional five thousand men?
A: We are going to ask the Bureau of the Budget and the Congress to give us enough funds to recruit an additional five thousand men at once.

Q: You have one thousand five hundred men now.

A: On it, and--

Q: Are they all tax agents?

A: They will be brought into Internal Revenue as field men.

MR. GASTON: The men we have on it now include all the men of the Intelligence Unit which is very small—there are only two hundred and eighty of those—and Deputy Collectors of whom there are something like over four thousand, and Revenue Agents of whom there are about forty-five hundred. The crew of fifteen hundred is made up from those three sources.

H.M. JR: But we need a minimum of five thousand men to do this thing.

Q: Additional?

Q: Revenue Agents?
Q: That will give you sixty-five hundred investigators.
A: The men--
Q: They would all be men or would that include clerks and stenos?
A: No, it would be men to go in the field, five thousand field agents. We have thousands of cases now that have come in that we just can't process.
Q: Will the fellow who comes in and makes a bona fide, voluntary statement of his back taxes be afforded better treatment than the one who is caught now?
A: Yes, but it always gets into the question of criminal intentions. Just before the fellow gets scared and somebody comes in who has been cheating his Government—I mean, a man, you and I, can make an honest mistake in our income tax, and if a man or woman finds he or she made a mistake and comes in and makes a voluntary disclosure and we are convinced that he or she made an honest mistake, we cooperate with them, but if on examination
we find it is deliberate cheating and then they make a voluntary disclosure, we don't necessarily accept it. Do you get the difference?

Sure.

I mean, if a man deliberately cheats his Government in war times, I think there is just one place for him and that is jail.

This amount of cash you found in this that you are turning up, is it your assumption—do your reports indicate that a lot of increase in currency has been due to actions like these, money piled up in safety deposit boxes?

Yes, a lot of it.

Well, how many restaurants does this man have, Mr. Secretary?

Oh--

Well, you said a chain and I wondered whether you said a large chain. Don't you know?

No, I don't.

Is it a partnership or corporation? You can disclose that.
I honestly don't know. I know there is one man dominating the whole thing.

You might be indicting some corporations like Horn and Hardart, The Exchange Buffet, Child's, Schrafft's and--

At least you have to have the best meals in New York.

Mr. GASTON: If you think it politic, you might list all of those in your story, Nick.

I know a little about the libel laws.

He operates in Philadelphia anyway.

Yes, Child's is a corporation, definitely.

Yes, it is listed in the New York Stock Exchange.

Well, I don't know who broke the Gould story.

I think they did that in Paris, didn't they?

Yes.

I don't know--

The Associated Press did it.

Did they? All right. Anyway, that's all.

That's as far as I can go without wanting to reveal my source.

What else?
Mr. Secretary, at the last press conference I asked whether you would be good enough to disclose some of these cases in the Foreign Funds Control Division. Have you come to any recent decision on that?

I wish you would sit down with Fussell and have a talk with him.

All right.

I just want to add that I am in dead earnest on this thing and we are going after it with everything that we have got. I don't want to leave it in a flippanant vain.

Is there anything else on taxes, Mr. Secretary?

Not that I have to volunteer. Mr. Shaeffer is going to have a conference on foreign funds in the Philippines which might explain a complicated release to you.

Shall we wait until you get something out on this?

MR. SHAEFFER: Yes.
H.M. JR: There's no rush.

Q It's an a.m. release, I understand.

A Thank you.

Q Thank you very much.
How do you do.

H.M. JR: Have you any questions?

Q: Will Clayton appeared before the Senate Finance Committee on that Johnson Act repeal and said that this government should make loans to foreign countries in the post war reconstruction period. Have you any plans for making long-time, big loans aside from the Reconstruction Bank and the Export-Import Bank?

A: No.

Q: He indicated that he wasn't referring specifically to the Export-Import Bank loans, but to something bigger.

A: You better ask him. I know nothing about it.

Q: There is nothing in the Treasury?

A: No, sir.

Q: Thank you, sir.

A: You are welcome.

Q: Do you have any particular comment on Secretary
Wickard's—I mean Secretary Wallace's report?

A
I saw the headlines. Well, now, I read that maybe the way you did. I thought it was a report—

Q
A special committee, yes.

Q
A special advisory committee.

A
...it was the committee making a report.

Q
That's right. He had some comments, too.

A
Well, I haven't. I haven't had a chance to—

Q
It had a tax section.

A
But I first got the impression—I got a little excited, and—

Q
His only reservation to the report was in the field of tax reductions. He said he had certain reservations.

A
When I saw it was just another committee, I said, "We'll let Roy Blough read it." I'm sure Roy Blough has read it by now.

MR. BLOUGH:
Haven't you got my memo yet? (Laughter)

H.M. JR:
Very good answer.

Q
Could we have the memo, Mr. Secretary? (Laughter)
That is very good, Roy. I won't ask you where it is. That would spoil a good story.

You people who live in Washington might be interested in a case that Commissioner Nunan and I are working on. We find that there is a Washington gentleman who sells about a quarter of a million pounds of meat a week through—not quite two hundred local merchants, and that he has been charging these local merchants six to eight cents a pound above ceiling prices.

Above ceiling prices?

Above ceiling prices, and so far it is evidenced that he overlooked about four hundred thousand dollars of his tax return for 1944 alone. Now, this is right here in the District.

For what year? 1944?

1944.

How many merchants does he service?

About one hundred seventy-five.

Mr. Secretary, is that the man that you caught onto just because he came home one night and
took an axe and broke up his house and refurnished it the next day, or something?

I don't know.

What is his name, Mr. Secretary?

Yes.

It doesn't say here.

It isn't Wright, is it?

It doesn't say here. It doesn't give his name.

Is he an authorized wholesale meat dealer?

I have given you all it says. I'll read it to you verbatim.

Could we go back a little to where that came from?

I'm afraid--

Does he live outside the District but serves the District?

I don't know. It says here--maybe this would help you. It says six to eight cents a pound on beef and veal, and that is all it says.

Now, the thing he doesn't say, but Mr. Nunan has brought to my attention is that we have done something quite new. We can close out
a man’s tax year any time we want to. I mean, we don’t have to wait until the end of the year. In this case we revoked this law—we closed his tax year as of April so that we can examine his returns from January to April inclusive. I don’t think we have ever done that before, have we, Commissioner?

MR. NUNAN: Not for a long time, Mr. Secretary.

MR. NUNAN: That is something we are doing. It is something new.

Mr. Secretary, is this really the practice of giving half of these statistics and then waiting for you to close a case and giving the name of the man? We are asking in the New York restaurant case—there are two of them. There is another case in point. Why not give us the names of these people? They can come back and say you are trying the case in the newspapers.

I can’t give the name, because they have to go before the court. If you don’t like these stories, I won’t say any more. If you don’t want any more, it is okay with me.
They make good stories.

This is the only way I can do it and stay within the law.

You mean legal restrictions prevent you from naming the man in the case until it is presented to the court?

On these things, to use what the Army says, you fill the pipeline up. You get them into court, and get them through the Bureau and get them in the hands of the Department of Justice. You get them into local courts and all the rest of that stuff. It takes a year to a year and a half, and what I am doing is—you are all intelligent people. I need the support of the newspapers to do this kind of thing, and the public. I got good support last week. I can do this thing ethically and properly this way, and I can't if I have got to wait until a man is found guilty. It would be a year and a half.

Oh, sure.
I consider this is, as I said the other day, a good method of doing this thing. Just one man alone through illegal black market operations kept four hundred thousand dollars. Now, I am up against this thing, and I need public help. I am going up to the Congress this week before the Appropriations Committees in the House and Senate, and I am asking for ten thousand additional men.

Ten thousand in addition to the five thousand?

I am asking for five thousand in the field and five thousand here in the Bureau to assist the Commissioner to make the cases. It would involve somewhere—we don’t know, depending on how fast we recruit them—around from thirty to fifty million dollars.

Thirty to fifty million dollars?

And that is a conservative estimate. We will collect over one billion dollars of illegal taxes in the black market.

Thirty to fifty million dollars annually?

Annually.
Q: For the next fiscal year?

A: Now that the Bureau of the Budget has cleared it, we go before Congress. We want to ask Congress for the right to recruit these men as fast as we can.

Q: That means an additional thirty to fifty million annually?

A: That's right.

Q: What is the over-all budget?

A: Well, what is it?

Q: What is the Internal Revenue cost now, over-all?

A: How much is it?

MR. NUNAN: One hundred twenty million.

Q: That would make it one hundred eighty.

MR. NUNAN: One hundred seventy.

H.M.JR: I could sit here and say nothing about these cases as they are brought to my attention, but I am going to tell as much as I can. Now, there is nothing funny about this thing. One man alone keeps out about four hundred thousand dollars right here where you people are living.
Q: Is that income, Mr. Secretary?
A: That is income.
Q: Gross income, I suppose.
MR. GASTON: Unreported.
Q: He didn't pay income tax on four hundred thousand at all?
H.M. JR: There was a deficiency of four hundred thousand dollars.
Q: That is in his tax--tax deficiency?
A: He failed to report four hundred thousand dollars.
Q: Oh, I see.
Q: Mr. Secretary, under what section--
A: One minute. Is that right, Joe?
MR. GASTON: It is tax deficiency.
MR. O'CONNELL: Estimate of tax deficiency. The income would be more. That is an estimate of deficiency in taxes.
Q: The income must be around one million dollars, isn't it?
H.M. JR: That is the tax on the income.
MR. O'CONNELL: That's right.
Q: How much income was that altogether then?

H.M.JR: It doesn't say.

MR. O'CONNELL: Three-quarters of a million--

H.M.JR: It seems that the more I go into this thing the more shocking it is. As I say, in answer to Nick's query, if I sit here and say nothing, how can the public know about this thing? How can the Congress know about it?

Q: He must be one of the biggest meat dealers in the city.

Q: Mr. Secretary, you told us last week about the guy who had his money in a safety deposit box. Where did this fellow have his?

A: I don't know.

Q: Did you catch up with him through OPA?

A: They cooperated.

Q: They found him selling meat over ceiling prices, and then it got to you?

A: I am not quite clear, but I know the OPA is in on this.

Q: I didn't quite catch something you said. You said five thousand more men are going to be needed in the field and five thousand more in--
A: In the Bureau to make the cases, complete the cases.

Q: Would that include stenographers, and so forth?

A: Yes. The Commissioner needs—if we have five thousand people in the field as investigators, we need five thousand employees in the Bureau to complete the cases that they make.

Q: That would include lawyers, too, in the Bureau, wouldn't it?

A: Oh, yes.

Q: Under what section are you closing his books?

A: I am not familiar with the sections of the law.

Q: Can somebody give Nick Gregory the section?

A: I am not familiar with the section, Mr. Secretary, but we have that right in the Bureau. Any time we think a person might spend the funds, or they wouldn't be there at the end of the year, we can close the taxable year at that time.

H.M.JR: Well, we'll get it.

Q: He has to file his return immediately after that.

A: Oh, yes.

Q: For January, February, March, and April.
Instead of waiting until the end of the year.

Has this man filed his return?

That I can't say.

This is used for protection purposes to see that you get it for the four months, isn't it?

Yes, otherwise we might wait and can't go ahead and prosecute.

He might spend all his money, too.

This way we can prosecute. I don't know how you feel, but I think it's a terrible situation.

I'll bet if he sold it to all the merchants in the city, we've probably been buying black market meat and didn't know it.

One billion dollars is the estimate that you might recover?

You'd know if you were paying over ceiling prices.

Mr. Secretary, what day are you going before the Committee?

I don't know yet. I am asking them if I can come up this week.

What Committee?

House and Senate Appropriations Committees.

Both committees.
A I am going to ask to go to the House in the morning and the Senate in the afternoon, if they will see me.

Q What is the status of the Treasury's Appropriation Bill now?

A It passed.

MR. O'CONNELL: Our regular appropriation for the next year has already been enacted.

Q It was signed on May 3rd.

H.M.JR: This is supplementary.

MR. O'CONNELL: Supplemental.

H.M.JR: It's not a deficiency, it's supplemental. I can't recruit these people unless I get the approval of Congress.

Q You say thirty to fifty million dollars?

A Depending upon how fast we can recruit.

Q Mr. Secretary, what period does the one bill cover?

A Twelve months.

Q Would that be for the taxable year of 1944 or--

A Twelve months from the time we start--from the time we get the additional people. I mean, if we ask for ten thousand additional people and
let's say it takes us, oh, three to six months to recruit them and then we average it out.

Our people, say, if they get ten thousand people—on the average of ten thousand additional people working, they ought to produce an additional billion in taxes. These kind of taxes will be over and above anything we get for the present.

There is quite a shortage in the number of men you usually have in the Bureau of Internal Revenue.

There are literally thousands in the armed services. That's been our trouble. I mean, if they weren't in the armed services, we wouldn't be in this position today.

Is there a chance you might ask the War Department to release some of these men now with the war over in Germany?

No.

Just from the publicity you people gave us last week we have had all kinds of applications. I think as people are discharged from the armed services we hope more will become
available, but we have had a tremendous number of applications already.

Could you estimate how much you expect to recover altogether, including this billion you might not have gotten without the additional men?

Well, given the money and the additional men we feel that we could collect a billion dollars extra of this kind of tax that we couldn't get if we didn't have the men.

Mr. Secretary, pardon me.

You said last week, Mr. Secretary that you now had fifteen hundred of these field investigators. Is that about the number that you have back in the Bureau or working on the cases?

I don't think--can you figure it just like that?

MR. NUNAN: I didn't hear the question.

H.M.JR: If we had fifteen hundred men assigned to this special investigation, how many men have you got backing them up in the Bureau?

MR. NUNAN: You can't tell. Proportionately we only have three hundred and fifty men in the field today
as special field agents.

H.M. JR: No, but I said fifteen hundred men—I said last week we have fifteen hundred men working on this.

MR. NUNAN: There are fifteen hundred men. They are from the Collector's office, the Agent's office, and Special Agents. There are a little over fifteen hundred men now just working on this special drive the Secretary speaks about.

The Internal Revenue always collects a lot more money than it spends, doesn't it? (Laughter)

I mean, in finance, and so forth. Now listen, dammit! In other words, just like this, you are going to get a billion dollars for fifty million spent. Isn't that pretty much the way it goes all the time?

H.M. JR: Well, what I am trying to get over is this: Given these men and the money, the money first and the men, that there is at least this much money around that we can get that we won't get if we don't have the money and the men. We just haven't got the manpower to do it.

I have one other case, I think, if Nick Gregory doesn't object.
I like these stories.

Oh, you do? I didn't think you liked them.

There is another meat—what we call a meat case in Baltimore, a wholesaler over in Baltimore.

Wholesale?

Yes. Now, in 1944 he reported an income of thirty-five thousand dollars, net, and we already have his sworn testimony indicating that nine black market collections during 1944 were at least four hundred thousand dollars, and in his case, he's charging ten cents per pound over ceiling prices.

That was four hundred thousand dollars?

Yes, black market collections.

This man has been in court?

I guess he did it most likely before our people questioned him. That wasn't before the court, was it? Has he been in court?

MR. NUNAN: No, sir.

Has he been prosecuted?

MR. GASTON: It's not his testimony.
H.M.JR: No.

Mr. Gaston: It's testimony against him.

H.M.JR: Testimony against him.

Q: Oh.

H.M.JR: That just gives you some idea as to the size of these operations. In the first place, well, you can't get anything to eat, and in the second place, when you do, why, you have to pay so much more for it. Now, we are cooperating very closely with OPA on these matters.

Q: Is it true--

Q: Do you find them centralized in the larger cities?

A: They seem to be.

Q: Are any of them more or less immune?

A: I don't know. But this particular Baltimore wholesaler operated extensively in the New York area, and the meat supply came from a Midwest packing company. So, I mean, it's pretty well all over the country.

Q: That was the same as the liquor dealers. That was country wide.

A: Yes. As I say, and I repeat myself, I am telling you this at this stage because unless the public
will support the Treasury in this sort of thing, we won't get anywhere. But because of the stories you people wrote last week there is a great interest in the country and they want to see these people prosecuted.

Did these men pay their income taxes on their black market---does that let them out as far as the Bureau of Internal Revenue is concerned?

Yes, that's it.

Wasn't that the old rule?

Yes, and a lot of other things, too.

This means you are increasing your staff, if they give you the ten thousand men, from fifteen hundred at present to eleven thousand five hundred.

On this kind of work.

I mean on this special kind of work.

Yes. Now, there is one thing Mr. O'Connell wanted me to clear up; there evidently was one thing last week that I didn't make clear enough. He said---you explain it, Joe, in your own language.

MR. O'CONNELL: I wasn't at the press conference but I got the impression through reading the articles there
was some slight misunderstanding about what the voluntary disclosure rule of the Department is. The rule simply is if before investigation, before the minions of the law are on the man's trail, he voluntarily comes to the Bureau and makes an honest report as to his shortcomings, and pays the taxes he owes, and interest, and so forth, it's the policy of the Bureau not to recommend criminal prosecution. It has nothing to do with his motives or intentions when he failed to pay his taxes. He might have been wilfully intending not to pay his taxes, but if he has a change of heart before the Government has started investigation and comes in and pays his taxes--

Mr. J. H.: That was not true in the case of the New York restaurant man.

Mr. O'Connell: No indeed. In that case there was an attempt to do it, but the investigation was already under way at that point, so that was not an honest, voluntary disclosure.

Q: Are you encouraging voluntary disclosure or discouraging it? This publicity would encourage
it, wouldn't it?

Mr. O'CONNELL: The rule of the Bureau with respect to voluntary disclosure was not properly reported in the papers last week.

(Discussion off the record.)

H.M. Jr: Off the record, several attorneys have called up and said since the story broke they would like to come in in behalf of their client and make a voluntary disclosure if they would not be prosecuted. They want to know where they stand.

Q That's what this is doing. That helps your enforcement.

A Sure.

(Discussion resumed on the record.)

Q If you get the money, that's the important thing.

A And stop this racket. That's it.

Q Mr. O'Connell, on this voluntary disclosure of information, the man may not be criminally prosecuted but he is subject to penalties for failure to disclose taxes?

MR. O'CONNELL: That's true. He has to pay all of the tax and fraud penalty and interest. There is no
concession to his civil liabilities, which means penalties.

H.M. Jr: Criminal

Mr. O'Connell: It's been the policy of the Bureau not to recommend criminal prosecution.

Q

Mr. Secretary, does the Budget Bureau's clearance for you to ask Congress for this money indicate that President Truman has approved it?

H.M. Jr: President Truman is fully familiar with what I am doing. I can't quote him but I can say that what I am doing meets with his full approval. I can't, you know, quote the President. When you see him you can ask him a question, but he knows what I am doing. I am keeping him posted and he likes it. That's off the record for background.

Q

Can't we say--

A

No, I can't quote the President of the United States.

Q

I mean, just--

Q

We can deduce the fact through the Budget Bureau, can't we?
A

Yes.

Q

Thank you.

Q

Mr. Secretary, what you said about his being fully familiar with what you are doing, can we say that? You said he is familiar with it.

A

You can say he is fully familiar with what I am doing.

Q

Mr. Secretary, it was interesting last night to hear that the Bretton Woods Trade Act had passed the House. Winchell gave us that information.

A

He is fully familiar and sympathetic. Say that. You can go that far.

Q

Can we quote you as saying--

A

That the President is sympathetic with what I am doing. Excuse me, I just wanted to straighten that out.

Q

Did you hear Winchell last night?

A

No, I didn't hear Winchell.

Q

He said the Bretton Woods Trade Act had passed the House. He had it mixed up with the Reciprocal Trade Agreement.
He must mean the trade they made with the
Republicans, I guess. (Laughter)

You like that one, don't you?

MR. GASTON: That was good, wasn't it?

H.M. JR.: He didn't say who made what trade. All right,
what else.

Thank you, sir.
Good morning, Mr. Secretary.

Q: Good morning.

Q: This news has been out since yesterday, the news on this high denomination currency.

A: Has it?

Q: Yes. Somebody tipped them off. I think the Philadelphia Record and the Philadelphia Inquirer have a story on it.

A: I don’t know — when did it go to the Federal Reserve Banks?

MR. D. W. BELL: It went to the banks last week, but it was to have been mailed out by the banks Tuesday night.

Q: This is dated the 21st of May.

A: The Federal Reserve Banks should have mailed it out Tuesday night.

Q: Mr. Secretary, I think we are the only bunch around here that can keep a confidence. I don’t think anyone in any other town can do it.
Treasury people in other towns, Federal Reserve people, and so forth. They always bust it, don't they?

R.M.Jr.: Well, we can't handle a story like this that is going to involve Federal Reserve Banks and do it over the telegraph wire. We have to do it by mail, and they in turn have to, or are supposed to mail it so that it would be in the hands of all the banks tomorrow morning.

Mr. D.W.Bell: This morning.

R.M.Jr.: This morning.

Mr. D.W.Bell: It gives them the day to make arrangements for tomorrow.

R.M.Jr.: But anyway, here we are for better or worse.

Q: Can we get a copy of Form TCR-1?

A: Can you?

Q: I especially need it for my paper.

A: Sure.

Q: Doesn't this mean that it was mailed May 31, or what does the date under "United States Treasury Department" mean? That is on the second page.
A. Mr. Bell, what does that mean?

Mr. D. W. Bell: That is the day you approved it.

Mr. M. Jr.: That is the day I approved it.

Mr. D. W. Bell: It went to the Federal Reserve Banks shortly after that, so they could get their printing done and get it ready for mailing to commercial banks and others Tuesday night, the 29th.

Q. Do you know how many institutions are covered by this number?

A. No, I don't, like.

Mr. M. Jr.: Well, the banks are roughly fifteen thousand, but then we have brought in these new groups.

Q. Loan Associations.

Currency exchanges.

Currency exchanges--there are four hundred of them in Chicago, and we have never brought those in, these places that cash checks. There are sixty-two banks in Chicago and four hundred places to cash checks. This is something new, and as far as I know, we have never included them in an order before.
Q: Does Chicago have most of those currency exchanges? Are there any elsewhere?

Q: In New York?

A: There are a lot in New York, but this is something that has been thriving under this present method of trying to avoid paying taxes.

Q: Oh, I see.

A: This is something new which has grown up, and it is good from the standpoint of the banks that we include these. It is very helpful.

Q: For background, Mr. Secretary, the banks have actually been cooperating with you, telling you about unusual transactions that have been coming over the counter, haven't they?

A: Not in all districts.

Q: In some districts.

A: In some districts they have and in some districts they have not. That is why we have this order, because they took the position they needed an order. They were hesitant.
Can we use that?

Yes.

The banks have been cooperating.

In some districts. In some places they wanted something more than they had. They wanted a firm order. Now they have one.

Is this under the War Powers Act that you did this?

I think so, O'Connell?

MR. O'CONNELL: Yes. The authority is Title III of the First War Powers Act of 1941—the specific authority to do exactly this.

This says part of the Act of October 6, 1917.

That is the Act of October, 1917, which is known as Trading with the Enemy Act. That was amended and reenacted as Title III of the First War Powers Act of 1941, so you could cite it either way, the 1917 Act as amended or the 1941 Act.

Does this give the Treasury authority or does the President have to issue an Executive Order to the Treasury?
H.M.Jr: No. I have the authority.

Mr. O'Connell: by delegation from the President.

Q: Oh, I see. It has already been delegated.

A: Oh, yes, early in 1942.

H.M.Jr: but the point is I tried to do it without issuing an order, but some of the banks felt that the relationship between themselves and their depositors was such that they didn't want to do it. In other words, they wanted to say, you know, that Washington wants them to do it.

Q: he is the guy!

A: It's Washington!

Q: So you are willing to assume that responsibility, are you, Mr. Secretary?

A: Well, I think—you know, it's Washington—we've got to.

Q: More bureaucracy!

A: That's the idea, so I am in it. They could have done it, but they didn't want to, you know, the doctor-patient, lawyer-client, bank-depositor relationship. When you want an excuse—
How about going into safety deposit boxes?

Do you have that authority?

No, but I am glad you asked me that. It is something I wouldn't mind having. We have it when you are dead. We don't have it when you are alive.

Didn't they have that authority in Honolulu?

Didn't they use some legal authority over there?

I don't know. I am not familiar with that.

Mr. O'Connell, do you know?

Mr. O'Connell: I didn't get the question.

H.M.Jr.: In Honolulu how did you do it?

Q: Didn't they handle safety deposit box contents?

Mr. O'Connell: Under some circumstances we can go into safety deposit boxes. It is better to appear that we are not without any authority; certainly in individual cases if we have a tax case against Mr. X, we could get into his safety deposit box in order to levy upon whatever property he has there as well as other property, to make property assessments, or something like that.
H.M.JR.: But automatically, once a man dies, we have access.

MR. O'CONNELL: Of course. Safety deposit boxes are not to be opened after a man's death except in the presence of Federal or State tax people. That is for estate tax purposes.

H.M.JR.: But the fact remains we can look at a man's checkbook or bank account. It is a little difficult to open safety deposit boxes.

Q Are you going to seek that authority? Would it be necessary?

A I don't know.

Q Are you going to give the banks any indication of what—how they should define the term "unusual?"

A I think we will leave that to their discretion. They know what we are after. We are going to leave it to them. I mean, if a businessman withdraws ten thousand dollars for payroll or any ordinary transactions like that, we are not interested in that, but we are interested in something which-smacks of the illegal.
That puts it up to the banks to keep pretty close check on when somebody does make a big deposit or withdrawal. They are supposed to ask what the purpose is? We may leave it to them. If they see something coming along that looks unusual, we want them to cooperate. After all, we are servants of the government, of the people, and we want everybody to help. We are back where we were in the bootleg days. We have got to have people respect the law. I am going to use every legal means at my disposal. If I need any additional authority, I am going to ask Congress for it. I am appearing tomorrow morning at eleven-thirty before the Appropriations Committee, Mr. Cannon and Mr. Taber.

As a referee?

In the afternoon I am going before the Senate Appropriations Committee, Mr. Mckellar.

Are you going to ask for money for those ten thousand extras?

Yes. So—I mean, I'll be up there in the
morning before the House Appropriations Committee and in the afternoon before the Senate Appropriations Committee. But, as I say, we mean business, and where we need help from Congress, we are going to ask for it, and I have been encouraged to believe we will get it.

Mr. Secretary, when you ask these Committees for between thirty and fifty million dollars, do you make it the larger amount with the understanding it won't be used unless necessary?

I am working on a detailed statement, and when I come from the hill, if some of you ladies and gentlemen want to see me, tomorrow, I'll be glad to see you and show you my statement and tell you what luck I had.

We will be very glad to, Mr. Secretary.

I'll be available when I come from the hill if you want to see me.

have Mr. Shaeffer schedule that.

That would be about five o'clock, Mr. Secretary?
Along about that time. Are you all right on this so far?

Q

One other thing on safety deposit boxes. Would you go so far as to say you would like to be able to look into some of those on mere suspicion?

A

I don't want to say anything more than I have. Some of the people around the room now are frowning at me, see? (Laughter)

A

I wouldn't have raised it, but nick helped me today.

Q

You see, I am helpful occasionally.

A

It is a big day for me.

Q

They could have used the checks, but of course you have a check on that if they use checks instead of currency. You check on them that way anyway.

Q

You have records of checks.

R. D. W. Bell: Sure, you have a record on that.

Q

Mr. Secretary, have you a rough idea of how much money you think there is to be had out of this black market tax evasion program?
I made a statement the other day and said at least a billion dollars.

You said you would get a billion dollars if they would give you ten thousand people.

That's right.

That is the maximum?

That is the minimum.

Mr. Secretary, how many currency exchanges did you say there were in the country?

I don't think anybody knows. Somebody mentioned the fact that there were sixty-two banks in Chicago and four hundred currency exchanges. They just happened to mention that. We were discussing whether we should include them in the order, and when I found out how many there were, I thought we should. I don't know, but I think we'll find out.

Did you include them in the order?

Yes, and they have never been included in an order like this before.

Most of the bookies in Chicago and other gamblers use those currency exchanges almost entirely to
transact their business.

I wouldn't be surprised.

Will there be any considerable difficulty in enforcing it on fly-by-night exchanges? Some of them are just that.

We are taking on something new. Here is a new group that has grown up under wartime conditions, and we are issuing them an instruction that we expect them to obey, or else!

They are not now subject to any Federal or state regulation, are they?

MR. D.W. BELL: They are not subject to Federal, but a few states have passed laws and put them under the Banking Commissioner of the state. New York did that last year, putting them under the Banking Commissioner. I don't know about Illinois, whether it has a law like that or not.

What are the penalties for this under this War Powers Act? What are the penalties for failure to comply?

MR. O'CONNELL: The penalty under the War Powers Act for failure
to comply with the order could be a fine or imprisonment; in other words, a maximum fine of--

MR. PEBLE: Ten thousand.

MR. O'CONNELL: ...ten thousand dollars or ten years. The fine is not more than ten thousand dollars, and you can't put a person in prison for more than ten years.

That's "or?"

MR. O'CONNELL: For failure to comply with any of these.

Q "And/or," or "or?"

MR. PEBLE: Or both. Doesn't it say, "or both?"

MR. O'CONNELL: "Or both." You're right.

Q "And/or.

MR. O'CONNELL: If it is a person, you can give him imprisonment, but you can't put a corporation in jail.

R. M. JR: To give you an idea, you now have ten thousand leads, as we call them, cases which we are suspicious of being income tax evasion cases. Of these ten thousand cases, one thousand four hundred are listed as currency cases, which means that
the use of currency generally in large denominations is the outstanding feature of the case. Many of the other cases are notably black market operations such as liquor or meat and furs where currency plays a prominent part. Our special agents are now in charge of two thousand of these cases in which fraud is an element, and these two thousand cases—nearly a third of them are currency cases.

Nearly one-third of the two thousand, Mr. Secretary?

A

Yes, which are in the hands of the special agents. That gives you some idea.

Q

The total number was ten thousand, Mr. Secretary?

A

Yes. We have ten thousand leads.

Q

Four hundred are strictly currency and two thousand are black market?

A

Two thousand are in the hands of special agents.

Q

Oh, I see.

A

And of those two thousand about a third are now being investigated.

Q

You mean you have reports on eight thousand others,
but you haven't gotten to investigating them.
That's right. That's what we need these men for.

These ten thousand all concern 1944 taxes?
No. They are really ten thousand cases since we have started this drive. We have ten thousand leads. Now, two thousand are in the hands of special agents, and we need additional men with which to do the work. Of these two thousand which are in the hands of the special agents—the way they have given it is a little confusing. Simply say this. Let me go over it again. We have ten thousand leads. We have now placed two thousand of these in the hands of special agents, and of those two thousand about one-third are so-called currency cases. I think that makes it simpler.

And the two thousand are all fraud cases?
The two thousand are fraud cases.

Mr. Secretary, these currency exchanges, of course, cash checks for discount. What other services do they perform?

H.M.JK: I really don't know.
They provide people with change.

Do they charge a fee for that?

They charge a fee for cashing checks and giving currency.

I have been wanting to go into one of these places myself and see what they look like.

There are many in the garment industry district in New York where people don't have checking accounts and can't get their checks cashiered at the banks because they are not known. They go to these people for service who for a service fee cash their checks.

This is good for the banks because chances are that people who are on the level will put their accounts—open accounts in the banks, if they are on the up and up.

It certainly would be accurate to say there are thousands of those currency exchanges.

Easily one thousand.

Are you saying that, Mr. Secretary, these currency exchanges are being used for mediums for evasion
of taxes?

A  I wouldn't go that far. You can.

Q  I am just reporting.

A  No. No. (Laughter)

All right.

Q  Thank you, Mr. Secretary.

A  Thank you all.
Good afternoon, Mr. Secretary.

Hello. How are you all? Is everybody happy?

Yes.

I am happy.

Well, are there any questions? You people know I went up on the Hill this morning to appear before the House Committee on Appropriations, the full committee. In my whole experience I have never had such a kindly reception as I had this morning. It was the first time that I have ever been received quite so enthusiastically. This afternoon I asked for a vote of confidence and informal approval from the Senate Appropriations Committee, and I got that, so we are going to go ahead.

The two things are ready for release. The sixteen billion, three hundred million dollars which is now before the Committee for Appropriations in the House will go through in the regular way.
In this statement we advised them that we had of unexpended balances around one-half million dollars which we will use to recruit men at once for the balance of June.

Q: That's one-half million?
A: That's one-half million dollars.

MR. SHEFFER: Mr. Secretary, you said sixteen billion, three hundred million, and it should be sixteen million, three hundred thousand.

H.M. JR: I was thinking of war bonds.

Q: That's sixteen million, three hundred thousand.
A: Yes. I was thinking of war bonds.

MR. D.W. BELL: You can't come down to millions.

H.M. JR: Seeing George Little sitting there got me mixed up.

Q: I haven't had a chance to read this. Are those figures in here?
A: The gist of it is all in the last two pages, and here is the thing, you see. You have--pull up chairs and make yourselves comfortable. Are there enough chairs for everybody? I hate to see these boys stand up.
Oh, you are not going to ask for fifty million. This is the thing. I wanted to explain to Congress that we wanted to go ahead and begin to recruit these people at once. In other words, it is over and above anything we have ever asked for before, so we are starting at once, and we have one-half million dollars unexpended balance in Internal Revenue which we will most likely have to spend before we get the other. Then, we have an appropriation roughly of one hundred twenty-five million?

MR. NUNAN: One hundred twenty million.

R.M. JR: That is for next year starting July 1, and what I told these gentlemen was if they would give me their informal approval, we would start to spend that faster than we told them we would spend it, also provided we can get the men. In other words, they, so to speak, have given me a blank check, and we can go ahead and spend this money faster than we have said we would, provided we can get the men. Then, if we find we are running short, we will go up for another appropriation,
depending upon how many we think we can hire, see?

But you do want to get ten thousand people.

We are aiming for ten thousand. Now, the sixteen million, three hundred thousand, is in the works and that is for people—just a second, I have only got one copy of it, and you people will have to share it or divide it amongst yourselves—it provides the sixteen million, three hundred thousand dollar breakdown. Now, the unusual thing about this thing is, you see, that I go to Congress and tell them what my plans are. I didn't ask them for any money today, but I simply asked them for the approval of our plan of recruiting people and spending our one hundred twenty million dollar appropriation in Internal Revenue faster than we had originally asked for, and they said, "God bless you. Go ahead. More power to you."

The one hundred twenty was the full budget?

For the full year, but we will spend it much
faster.

And then ask for additional?

When we see how fast we will spend it, maybe next October we will go up and ask for an appropriation depending upon how many men we recruit.

The five hundred thousand dollars is from your 1945 appropriation?

The balance this month, yes, but the unusual part of this thing is we say, "These are our plans. This is our problem. We would like to go ahead and do this. Is it all right with you?"

And as I say, they were most enthusiastic in the House. I don't like to be quoted, but it never happened to me before. I mean, they stood up and applauded when I came in.

They did?

It never happened to me before, and it most likely never will happen again. (Laughter)

That was in the House?

When I walked in there they stood up and applauded me, and that happens most likely once in a lifetime. So they seemed to like what
we are doing.

Q  Is that the House or Senate?
A  The House side.
Q  Do you think the President's statement this morning had something to do with it?
A  A lot.
Q  You talked to the President about it this morning when you went over there, didn't you?
A  I did.
Q  He took the question right out of my mouth.
A  I talked to him about it two weeks ago, too, and first President Truman has given me his one hundred percent backing publicly, and then I went up to Congress and explained this thing to them. I have their informal approval to go ahead with this program, so we are on our way. Tax evaders, look out! We are coming!
Q  Tax evaders, you say?
A  Yes, tax evaders, look out! We are on our way!
Q  Is that evaders, plural?
A  Yes. We are coming ten thousand strong.
Mr. Secretary, has the one hundred twenty million dollar appropriation already passed Congress?

Yes.

And it has been signed by the President?

It was already signed, and the idea I wanted to get over to them is all explained in the last two pages. We are going to spend this thing faster than we have, and I wanted them to be sure they knew what we were doing. They said, "God-speed! Get on your way." That is what they did.

This sixteen million dollars is in addition to one hundred twenty?

Yes. That gives the breakdown that is now before the House Appropriations Committee.

Did you present that request today, or was that the other day?

That was presented some time ago.

MR. O'CONNELL: It cleared through the Bureau of the Budget last week and will reach the House Appropriations Committee next week for formal action.
You only mention five thousand here. You are planning a force of ten thousand.

H.M. JR: Yes. There are two different things. One of these pieces of paper—you read it. I have given it to you. Let me give you a breakdown.

Five thousand, nine hundred forty-three.

And don't quote this directly, but here is the other five thousand. I'll give you everything I've got.

It's ten thousand, nine hundred forty-three?

Yes. I am giving you two pieces of paper each giving a breakdown on five thousand. That is my own stuff that I took up to answer the Congress. Do you want to read it out loud and everybody can hear it? Why doesn't somebody read both pieces of paper?

This one is to Secretary Morgenthau from Charles Bell. "The Enforcement Drive which you have launched in the last sixty days reveals that 5,000 Special Agents receiving $2,600 and $3,200 annually aggregating twenty million dollars on an annual basis could be used profitably in this work."
"Since we do not know how long it will take to recruit the 5,000 agents, we are putting Congress on notice that we expect to recruit these agents and spend funds out of the 1946 Appropriation available 1 July 1945 at an accelerated rate. You are indicating to the Congress today, that as soon as you know definitely the number of persons you will be able to recruit in 1946 for this work, you will return for a specific appropriation which will not exceed 5,000 agents and twenty million dollars on an annual basis."

And in writing it don't put "Congress on notice." That is kind of abrupt, but this was from Bell to me. What did the other piece of paper say?

Do you want to read it?

"There is before the House Appropriation Committee a request for $16,300,000 which estimate was approved by the Bureau of the Budget. This estimate is for the purpose of employing 5,943 additional persons in the Bureau of Internal Revenue."
"Specifically:

"Deputy Collectors 1,000
Clerical help in
Collectors' offices 2,716
Revenue Agents 1,500
Clerks in Income Tax
Offices 611
Conferees and clerks in
Salary Stabilization 116

"These persons are to strengthen the Internal
Revenue offices generally and are separate from
the 5,000 agents to be engaged for the Tax drive."

A
Q
You didn't ask for any money today. Did you
mention this sixteen million, three hundred
thousand to them?
A
Q
Very definitely.
A
Q
That is a request.
A
Q
Very definitely.
A
Q
Is that sixty million?
A
Sixteen million, three hundred thousand. Com-
missioner Nunan, have I overlooked anything?

MR. NUNAN: No, sir.
H.M.JR: Would you like to add something?
MR. NUNAN: I haven't anything to add.
H.M.JR: May I say this, the Commissioner has taken hold
of this thing with both fists and is doing a very fine job and is going ahead extremely well, and I expect great things from him.

(Discussion off the record.)

Off the record, as Joe O'Connell said to the Commissioner, "We have got to get some good cases, or else!" That's right.

(Discussion resumed on the record.)

Who is going to handle this drive?

Commissioner Nunan, Commissioner of Internal Revenue. It is his responsibility. I am just a front man.

In other words, you have definitely got the go-ahead even though it isn't formal yet. It is informal.

We are going ahead now that the President of the United States plus the two Appropriations Committees have given us their blessing. Now we can say to the Commissioner, "You go ahead and spend the money and recruit the people and get busy." He has already gotten busy. He is in charge, and it is his job. We have made a good start.
Do you feel that the veterans you are going to hire will be taking a particularly tough attitude?

I don't know. I think they may feel it a little bit more than some others.

If you can hire these people fast enough and then get the whole twenty million supplemental appropriation next fall, is it correct to add twenty million and sixteen million, three hundred thousand? You will have thirty-six million, three hundred thousand in all for the fiscal year?

That's right.

Or would the twenty million run into the next fiscal year?

It might. You can't quite tell.

In other words, the thirty-six million can be an additional appropriation for use in the fiscal year and can possibly be used over the next year.

You can't tell. It all depends upon how fast we can recruit. Maybe we can recruit very fast, and maybe we can't.
President Truman says you are going to have a man at every discharge post in the country, and so forth.

That's right.

It is quite possible you might get most of your people from the Army.

If we could, it would be fine. It would be a good job, well paid. We certainly will do everything we can to cooperate.

What is the salary range in the jobs?

MR. NUNAN: About thirty-two hundred to four thousand.

Q For the field agents?

A Yes.

Q It says twenty-six hundred to thirty-two hundred on your statement.

MR. NUNAN: We are also going to recruit some deputies in Internal Revenue.

Q That is the other list. I see.

H.M., JR: I am sorry I didn't have enough copies, but we have been a little busy today.

Q Will the War Manpower Commission help you get these people?

A I suppose so. Mr. Charles Bell, my Administrative
Assistant, has this recruiting job. It is part of his responsibility, and I am sure he won't leave a stone unturned. Is that right?

MR. C. S. BELL: That's right, sir. We will coordinate the whole program through the War Manpower Commission and Civil Service Commission.

Q: The five thousand, nine hundred forty-three are all for the tax evasion drive?

MR. NUNAN: We will have to have clerical help to assist the agents, but all of them will have part in the tax evasion drive. Yes.

H. M. JR: We have borrowed a lot of the Commissioner's men. We have borrowed a lot of these people, and we have got to return them to their regular work. We will return them just as fast as we can get new people.

Q: This may be going over the same ground, but I want to be sure I have it. You have informal approval to start spending one hundred twenty million dollars faster in order to go ahead and recruit with it.
That's right.

Do you also have informal approval for this supplemental appropriation for sixteen million, three hundred thousand?

I can't say that, but certainly the reception I got in the House and Senate was a unique experience, and I would say after having that reception I think that we would have every reason to feel justified to go ahead and recruit just as rapidly as we can. Congress seems to be fully aware of the seriousness of this situation, and I would say they gave me their hearty backing.

How soon might we expect the first appearance before a Grand Jury?

MR. NUNAN: On any particular case? A big case or a small case?

Q: A big one.

A: I expect within two weeks. Now, that is, it might run two to three weeks, but we expect within two or three weeks to have a large case before a Grand Jury.
Q

Is that the New York restaurant case?

A

I couldn't say that. We have two or three of
them under investigation at the present time, and
I can't tell which will break first.

H.M. Jr:

At a quarter of nine this morning through the cooperation
of the Attorney General we had a meeting
here of Mr. Sam Clark in charge of the Tax Section
of the Attorney General's office, and a representative of the United States District Attorney's
Office in New York, Mr. Nunan, Mr. Nunan's General
Counsel, my General Counsel, and myself. Everybody
was very helpful.

Q

In other words, this big case that comes before
the Grand Jury within two weeks might well be
in New York. (Laughter)

A

It might well be.

Q

Would you say definitely it will be in New York?

A

I would say a New York case will be in New York
within a couple of weeks, but there will be other
cases.

Q

Mr. Secretary, would you refer to that as a big
bill case--one involving large currency?
A  Yes, definitely.
Q  And also tax evasion?
A  Definitely.
Q  You couldn't say it was a New York restaurant chain involved in it?
A  I don't think so.
Q  You don't think we better say that?
A  I don't think so.
Q  Mr. Secretary, I got here late so I don't understand this sixteen million dollars. I thought it was from thirty to fifty million dollars.
A  I said that—if you have a piece of paper that gives the breakdown there—there is sixteen million, three hundred thousand dollars which we got through the Bureau of the Budget last week, and it will come up through regular channels to the Appropriations Committee in the House, see?
Q  Yes.
A  That is one thing, and this piece of paper tells you just how this sixteen million, three hundred thousand will be used.
You mean for five thousand, one hundred forty-three people.

That's right. You have all my notes on this.

That is this one.

All right. In addition to that we said to Congress we would like to spend one hundred and twenty million dollars that you gave us for the fiscal year starting July 1 faster than we told you we would by recruiting another five thousand men. These are to be largely field agents. That's right, isn't it, Commissioner Nunan?

MR. NUNAN: Yes, sir.

H.M. JR: And therefore, when we see how many men we can recruit, sometime along in August, September, or so we will come up and ask you for another possible twenty million dollars.

Q

Thank you.

A

So that the appropriation would be one hundred twenty million dollars plus sixteen million, three hundred thousand, plus a possible twenty million. Is that right?
MR. C. S. BELL: That's right.

H.M. JR: That would be one hundred fifty-six million dollars.

Q Was this statement given to reporters on the Hill?

A It was.

Q I answered all of their questions, but it was very--they didn't go into the thing, and I didn't give them this other stuff because they didn't ask me any other questions. In fact, only one man asked me a question. As I came out they did ask me. I think the custom is when you are on the Hill you have a statement and give it to the Hill reporters.

Q What are you going to do, Mr. Secretary, about all these high denomination notes in the foreign field, for example, you notice attaches up in Austria and Germany--are there any plans to syphon that back?

A There is nothing I can announce today, but I am sure our Monetary Section has something. I just can't tell you what it is.
I know some of your people now with Eisenhower have come to—

Colonel Bernstein of SHAEF, who is in charge of that work, and who also gave you the interview on the discovery of the salt mine, is here now. He is here now. I saw him at the Press Building. There is only one Bernstein.

Yes, I know that.

He is here now consulting on all of these matters with the Army and with Treasury.

Does everybody have it now?

I think so.

I'm sorry I didn't have any more copies of that. I gave you my own.

How about the economy bloc in Congress. What did they say about that? They are always talking about cuts in Federal personnel. What did they say about this?

The only question on the statement was, is this a matter which would use these men only during this emergency, and it is in the statement that they would be used only during this emergency. When the emergency has passed and we have got it
licked, I'll be the first to want to dismiss them. I think our reputation on the Hill is pretty good on that. It was today, anyway.

All right?

Thank you, Mr. Secretary.
Good morning, Mr. Secretary.

We have a chart room across the way with a long table if you people would like in the future to meet in there. You would have a place to write. Would you like that?

That would be fine.

Fine.

There is a table there. You can sit down.

Is this going to be a long press conference?

No. No. The most important thing I have is this release which I had prepared for you people. In view of the reports we get from the field from our War Bond people, we thought a statement like this was necessary, because there seemed to be considerable confusion as to whether we need the money, and some people seem to think that the war is over. It is far from over when you see these figures of expenditure.
Therefore, I thought it would be helpful to clear the air if I got out a statement like this showing figures for May reach an all time high, and our needs for cash within the next seventeen months is seventeen billion dollars, which is plenty.

So, there is a real need for the money, and I hope that the press will explain it to the public who have money to invest in government securities. Now, some of you who are mathematicians may find that this doesn't check, but if you want to know how we arrived at this, Charlie Shaeffer can explain it to you. It is correct, and we had to do a little adding and subtracting, but when we got through the figure of eight billion one hundred eighty-eight million is accurate. Can you tell us how fourteen billion makes seventeen billion?

Fourteen billion for the War Loan is what we are asking. The seventeen billion is what the Treasury's needs are for cash for the next four months.
Q: They will be met by the June collections, won’t they?
A: Oh, yes.

MR. D. W. BELL: No. This is really the deficit for the next four months. Seventeen billion dollars is the expenditures over and above your revenue.

Q: Oh, I see.
A: You would use whatever you get out of the Seventh War Loan plus the bond receipts between now and September 30, plus your general fund balance, but it shows the need for your fourteen billion and even more in the next four months.

Q: Does that mean you have to find some other way following the drive to make up the additional three billion?
H. M. JR: Unless the drive should run over that.
Q: I see. That is what you are hoping for.
A: Oh, yes.

MR. D. W. BELL: That’s right.
Q: And expecting.
And expecting.

It always does, doesn’t it?

It always has, but we have still got four weeks to go. We don’t know. Everybody knows we are doing all right except for E Bonds which are running behind. The last two days they have picked up. This is a very much condensed version. It gives the American public an explanation on why we need fourteen billion dollars, where it has gone in May, and what our deficit needs are for the next four months for cash. I think it is important for many reasons, but particularly on account of the Seventh War Loan. All right? I just wondered why May was an especially tough month on expenditures.

The war.

Yes.

I don’t know. Is there a breakdown of that?

The only breakdown we have is on the daily which shows the war activity expenditures broken down, War Department, Navy, Agriculture, Federal Security,
Lend-Lease, and so forth. That is the only breakdown we have, and you can compare them with the same period last year, the same months last year.

Q All of them were over last year?

A I don't have them with me. I don't know, but certainly the total is over last year, and the aggregate is over the previous high month, which was March.

Q Well, it is certainly news to me. I thought it would slide off.

H.M.R. The other thing of interest is the results of the publicity on the tax delinquent drive. Commissioner Nunan sent a telegram to his Collectors asking just what is happening in the field, and a tabulation shows about twelve thousand delinquents have sent in returns, and there are three hundred thirty-eight amended returns which were--

Q Three hundred thirty-eight amended returns?

A Which have yielded us so far two million three hundred thousand dollars.
Q
How much was that?

A
Two million three hundred thousand. We are just beginning, and we now have over eighteen thousand cases to investigate.

Q
That doesn't include this twelve thousand three hundred thirty-eight at all, does it?

A
No. On hand are eighteen thousand cases, so-called leads, which may or may not be real cases, but which are waiting investigation for which we need additional people.

Q
That doesn't require a revision of your estimate of one billion dollars?

A
No.

Q
That still stays put?

A
A billion dollars is the minimum we said.

Q
How much is that? A billion dollars would represent earnings of how much? What would that be based on? People have asked me that.

A
I wouldn't know, because, well, there are so many ways it comes in. I wouldn't know how to answer that. Would you, Roy?
MR. BLOUGH: No. There would be no way of computing it. It depends entirely on the income level of the people and the corporations.

Q About that New York Grand Jury case--is it ready now?

H.M. JR: No.

(Discussion off the record.)

Very much off the record, they say that they are working full speed and it will be about three weeks. The Attorney General, the United States Attorney, and ourselves, are working together. It will take three weeks before they can present it.

Q Mr. Secretary, was that the one on the restaurant chain?

A That's what you are asking?

Q That's the New York case? That was the restaurant chain?

A Yes.

Q That's off the record?

A Yes. He is beginning to get a little worried; he didn't think we meant business.
What reaction did you get on the currency order from the banks, and so forth?

Pretty good. One or two spots are a little bit worried about the relationship between themselves and their depositors, but I have checked now two or three times with the Presidents of the twelve Federal Reserve Banks, and they tell me that they think that talking for the whole country by and large, we would get good cooperation. There is one spot I think you know about that is a little troublesome, but I gather that he never likes anything in Washington and never will.

Can I guess?

Oh, I don't think you will get this one.

It begins with a "G"?

No. That's just chronic.

Mr. Secretary--

You mean, that went without saying. (Laughter)

He has retired to concentrate on Washington.

(Laughter)
Mr. Secretary, I understand--

He is going to give all of his time to that.

Is he here in Washington?

Well, he is around. (Laughter) Washington and me.

I understand that Mr. Munan was quoted as saying out in the hinterland someplace that he had nothing whatever to do with this bank order on this currency. Is that true?

I have heard New York called lots of things, but I have never heard New York called the hinterland. (Laughter)

No. It was out West. Indianapolis.

No. He went to New York over the week end, but I don't think he has been in Indianapolis. No, I don't know whether he had anything to do with it or not. It came out of my office. I am responsible for it as I am for everything. I doubt if he made any such statement, because
he hasn't been--the only place in the hinterland that he has been is Brooklyn.

MR. D. W. BELL: I think I can explain it, Mr. Secretary. My knowledge of it is that he was asked at an Appropriations Committee meeting this week, wasn't he, Joe, about the order?

MR. O'CONNELL: Yes.

MR. D. W. BELL: And he said the order didn't come out of his office and he would rather somebody else talked about the order. It came out of the Secretary's office. That was perfectly honest. And he is getting the information under the order and using it, but that the order was issued up here to the Federal Reserve Banks.

MR. O'CONNELL: It was in no sense a disclaimer, but he stated that it was the Secretary's order.

H. L. JR.: No. I can speak for Mr. Nunan. He is on my team and he is doing a good job. He is in there pitching.
I was asked to ask that question by one of my colleagues.

But to show you the reaction, here is a telegram from A. H. Williams of Philadelphia in which he says, "General reaction currency reporting by bankers and others in this area have been favorable." This is interesting, "Currency reporting has stimulated the return of hoarded or fear money."

Will you read that again?

"Currency reporting is stimulating the return of hoarded or fear money." Now, that is the Philadelphia President of the Federal Reserve Bank. Mr. Young in Chicago told Mr. Bell that just the first day--didn't he?

He said the first day.

There was over twenty million dollars returned in the Chicago District to the banks. Now, if anything like that should happen to grow, why that would be far beyond anything I had hoped for.

May I have a copy of that, Mr. Secretary?
Q: Who is Mr. Williams?
A: Director of the Federal Reserve Bank in Philadelphia. "General reaction currency reporting by bankers and others in this area have been favorable."

Q: Have been favorable?
A: Yes. Be sure you get that right.

Q: What is his first name?
A: A. H.

MR. D. W. BELL: Alfred.

H. M. JR: "Currency reporting is stimulating return of hoarded or fear money." That is all. I would like to say that in Chicago Mr. Young, who is President of the Federal Reserve Bank there--

Q: What are his initials?
A: I don't know. He is known as Hap Young.

Q: A. H.?
Q: That's Williams.
Q: You can find him in back of the Federal Reserve book.
He said the first day or so there was over twenty million dollars in currency returned to the banks.

Have there ever been any instances that you know of where high denomination notes have sold at discount because they have gotten hot?

I have heard that rumored. I don't know any facts.

You said that you had heard up in New York there were two cases where they have been offered as little as six hundred sixty-six and two-thirds dollars.

That's rumor. I couldn't prove it.

I didn't buy any myself.

You mean, people might think you are a sucker for not buying them, huh? (Laughter)

I'll let that ride. (Laughter)

Mr. Secretary, we can say that you heard the rumor.
A  Oh, yes. There are rumors around all the time.
Q  That is about the first time in the history of the United States, at least in the last forty-five years, that you have heard of any currency selling in a domestic market at a discount. Are there any records in the Treasury of it happening before?
MR. D.W. BELL:  I don't remember any except the Civil War.
Q  Oh, yes.
H.M.JR:  Prior to the resumption of specie payments.
MR. D.W. BELL: '78, I think it was.
H.M.JR:  That was the time the Secretary of the Treasury went out and bought some himself. (Laughter) They passed a law as a result of that that he couldn't buy any bonds.
Q  How are you going to buy this bond for Mr. Roosevelt?
A  I can buy bonds and give them away. I have given away a lot of bonds. I can't keep them myself.
Q  Oh, I see.
I can buy a bond and give it to you, but I can't keep it myself.
MR. D.W. BELL: You can't own them.
H. M. JR: That's right.
Q Mr. Secretary, I just want to say on behalf of all the people downstairs that these Foreign Funds Control stories are working up very well. We got our first story on the Westermann Bookstore yesterday.
MR. PEHLE: That is one of the Foreign Funds cases, Mr. Secretary.
A Oh, oh.
Q Mr. Secretary, I wonder if you could tell us about another specific case on this tax dodging, something sensational again. (Laughter)
A We have a case. It is so complicated I can't explain it. Joe can explain that Chicago-Indianapolis case to the boys.
MR. O'CONNELL: I'll try.
H. M. JR: I haven't got the piece of paper. You can explain it to them.
MR. O'CONNELL: The substance of it was that three men organized a corporation and went out and solicited orders for whiskey before they owned any, and collected in that fashion about four hundred thousand dollars.

Q. Collected how much?

A. About four hundred thousand dollars. With that as a base, they purchased a corporation which owned a stock of whiskey. They then distributed the whiskey to their customers at black market prices and reported as income only the profit they made based upon ceiling prices. The effect of it was that we have a tax case against the corporation involving about half a million dollars of taxes in penalties.

Q. In other words, that is what they owe?

A. That is what they owe.

Q. Did you say in taxes and penalties?

A. That is right, and the major person, the individual I would say who was the prime mover collected from one corporation about four hundred thousand dollars of the illicit profits which he never
That was four hundred thousand dollars.

Where is this case going to be tried?

In Indianapolis, probably. There are at least two corporations involved, one of which operated out of Chicago and the other out of Indiana.

Where do you think they got the liquor from?

Well, they got it from a corporation which operates in Chicago and other places.

The interesting thing is that a chain of drug stores had some liquor, and they finally had more liquor than they could dispose of. Isn't that right? So they entered into a contract with these people to dispose of this liquor through these channels.

The way they did it was the liquor was owned by a subsidiary of the drug chain, and the black marketeers to whom I referred purchased the subsidiary corporation which owned the whiskey.

But it was owned by this drug chain.

Yes. The drug chain owned the corporation which owned the whiskey.
Q: Is the drug chain involved in this tax evasion?
A: So far as I know, no.
Q: These two, or three men purchased the subsidiary of the drug chain which owned the liquor.

H.M.JR.: Three men on a horse.
Q: Did they own two corporations? I don't see--
MR. O'CONNELL: There are two corporations involved, one in Chicago and one in Indiana.
Q: Did they purchase two of them?
A: They organized two, one in Chicago and one in Indiana. They purchased stock of the subsidiary of the drug company that owned the whiskey.
Q: That was in Chicago. I see.
A: Yes. They started without any money and purchased the corporation by virtue of the four hundred thousand they collected from their potential customers. I think they started with about one hundred dollars.
Q: That's a pretty good deal.
H.M.JR: Well, the reason I didn't explain it was it was so terrifically complicated, and that is why it takes such a long time to develop these cases, but as I pointed out, we have eighteen thousand cases of this nature that we are going into.

Q There is no law against their purchasing that way. It is only on the evasion of the tax. Is that right?

H.M.JR: From our standpoint there are two violations. The people didn't report the price over and above the OPA ceiling. That is what we are interested in. And they --

Q They did pay income tax on the profits at ceilings?

H.M.JR: Did they?

MR. O'CONNELL: They reported income and kept books as though they did not get any so-called side money. They reported a relatively small amount of income.

Q How did you find out they got the side money?

A I don't know. I didn't investigate the case.

H.M.JR: But they started with one hundred dollars and financed themselves by going to potential
customers and said, "We can furnish you with this liquor," and they raised four hundred thousand dollars from that potential customer and bought a subsidiary of the drug store that had this liquor on hand.

They owe more in taxes and penalties than the original capital which they borrowed from all these customers.

Q

Are you simplifying it?

MR. GASTON: Yes, that's right.

Q

They started with about one hundred dollars.

H. M. JR:

If they paid their legitimate taxes, they would not have made any profit at all.

Q

If they had what?

A

If they had paid taxes on their income.

Q

You mean out of black market money? There wouldn't have been much left. On the other hand, if they had just done business on a legitimate scale they would have had a very nice business.

A

Did the affiliated drug store chain report what they had got from the whiskey from the subsidiary?
MR. O'CONNELL: So far as I know, we have no tax case against the drug company. Of course, the obvious reason for purchasing stock of the corporation which had nothing but whiskey was to pay a high price for the whiskey.

H.M.JR.: Did the drug company know where the ultimate sale or the disposal of it would go?

MR. O'CONNELL: That I do not know.

Q: There is only one drug chain in Chicago. (Laughter)

H.M.JR.: The cases are going to be tried most likely in Indianapolis.

Q: They are also operating down there.

Q: They are operating in the Pentagon, too. (Laughter)

A: All right.

Q: Thank you, Mr. Secretary.
In addition to these returns, special agents, revenue agents and deputy collectors completed reports on cases on which taxes and penalties of more than $6,000,000 were recommended.

Seventeen cases involving three corporations, two partnerships and 22 individuals were transmitted by field offices to the Chief Counsel for consideration of criminal action.

Six cases involving six individuals were referred to the Department of Justice with a recommendation for prosecution.

The Bureau now has more than 1,800 agents and deputy collectors assigned to the tax evasion drive and new "leads" plus cases on hand for investigation total more than 18,000.
On May 31, the following telegram was sent by Commissioner Nunan to all collectors:

"Furnish by wire best information available as to number of delinquent or amended returns voluntarily filed attributable to recent publicity concerning Treasury black market drive and amount of tax liability disclosed."

A tabulation of the replies shows 11,985 delinquent returns and 338 amended returns disclosing a liability of $2,303,406.68 as having been voluntarily filed as a result of the publicity concerning the tax drive.
In discussing the Seventh War Loan today, Secretary Morgenthau announced that war expenditures during the month of May reached an all-time high of $8,186,000,000, including expenditures of Government corporations for war activities. Moreover, the Secretary said there would be no reduction in the Treasury's cash requirements for the next few months.

Even though we have shifted from a two-front war to a one-front war, expenditures during the next four months are estimated to exceed revenue by $17,000,000,000, the Secretary said. This is about the same amount by which expenditures exceeded revenue in the four months ended May 31, a period when the war in Europe reached its climax. The Secretary said that the Treasury's estimates allow for all cut-backs in the war program which will have any effect on expenditures during the next four months.

Secretary Morgenthau called attention to the fact that the goal of the Seventh War Loan -- which is $14,000,000,000 -- is the minimum which must be raised to meet the Treasury's needs.

"The Japanese people," said the Secretary, "are being asked by their leaders to make a desperate effort to avert defeat; we are more fortunate in that we are being asked for means to achieve victory."

The Secretary said that cut-backs in the war program made possible by the defeat of Germany will eventually result in reduced expenditures, but the full effect will not be reflected in expenditures for several months. He pointed out that substantial payments will be necessary to wind up old contracts.

The Secretary also said that unforeseen developments on the war fronts might require emergency shifts in the war program. If these occur, expenditures might be enlarged above present estimates. But, he emphasized that the Administration is determined to keep military expenditures as low as possible consistent with achieving victory quickly and with a minimum of human cost.
The G. I. newspaper, the Yank has begun an editorial campaign in France complaining about the official exchange in terms of the franc. They say it's fifty to one dollar. That is stabilized at two cents, and apparently the G.I's. go broke every time they go out to buy something because of the terrific inflation there and the black market in francs.

Have you any comment on that?

H.M.Jr.: No. This is a matter that is entirely between, well, really a matter of the French Government.

Q: What do you mean by that?

A: It is the French Government that fixes the price of the franc.

Q: Why don't we have an elastic rate on that to meet what they are doing?

A: How can we have an elastic rate? They fix it.

Q: You recall in 1939, I believe, the old tripartite monetary agreement.
Yes, I know of it, but here we are in a country of an ally, and it is up to the French Government to fix the rate of the franc in relation to the dollar within its own country. Now, we, also, the Army, the U. S. Army—they set me up in the position of consultant.

(Discussion off the record.)

Off the record, I am kind of fed up on this because we have made a number of suggestions for six months to the Army and to the French as to what to do, and they just go in one ear and out the other. Frankly, I am not going to take this, because I have made all kinds of suggestions to the Army and to the French, and I have got nowhere.

Why can't we say so then?

No.

You are getting blamed for it now, Mr. Secretary. I have heard a lot about it.

Well, I don't want to blame another department, but that is the fact, and we made all kinds of suggestions over and over again. Am I right,
Harry?

Mr. WHITE: Yes. We have made several suggestions over at least six months.

H.M.JR: We got nowhere. I mean, it is in no way the United States Treasury's responsibility.

MR. WHITE: Well, there is the possibility of paying them in dollars, but that has so much--

H.M.JR: As to the rate, Harry. Back me up now. Come on.

MR. WHITE: As to the rate, it is the French Government that determines the rate, and we accept it.

Q: May I ask you this? How are they paid now? Do we buy French exchange and then pay at the fixed rate and then say to a soldier who gets fifty dollars a month that he is paid in francs?

H.M.JR: He gets a certain amount of his pay--does he buy it? Do we pay him in francs?

MR. WHITE: We pay him in francs, but we buy the francs at two cents.

Q: You buy them at the official rate?

MR. WHITE: We make no money on it.

Q: Why not buy at an advantageous rate in existence for our soldiers?
H.M.JR: This is the rate we have worked out with the Army and the French Government, and it just stays that way. We are perfectly cognizant of the fact--

(Discussion resumed on the record)

H.M.JR: What I can say on the record is that in Persia we went in and bought money to pay our troops at the most advantageous rate.

MR. WHITE: Where?

H.M.JR: In Persia.

MR. WHITE: In several places.

H.M.JR: And in India.

MR. WHITE: India?

H.M.JR: We went in there with the British Government and bought currency at the current rate and then gave it to our soldiers, but they got full advantage of whatever the situation was. Use Persia or India as an example. We used gold.

MR. WHITE: Well, it was a little different. We sold gold and we got francs.

H.M.JR: Not francs--sterling.

MR. WHITE: Sterling in that case--rupees in the case of India. But the soldiers didn't get it. We spent it for
government purposes, but the franc rate--quite obviously your suggestion--you can't go into another government and violate its own laws any more than another government can come here and engage in black market prices. It is against the law. The Secretary is right. They set the rate.

(Discussion off the record.)

H.M.JR: Take for example the English or French Purchasing Commission. I have heard--I was out one night to dinner, and one of the wives--the wife of the very head of it started to blame me because they couldn't live on what the British Treasury paid them per day to live, and finally after she got through, her husband said--he was very embarrassed--"Mr. Morgenthau doesn't have anything to do with that. It is what the British Treasury allows its people here per day." If they don't like the rate of the pound and dollar, well, there is nothing they can do about it.

Q: Yes, but this situation is much different in this country, Mr. Secretary.
A

Not as far as the U.S. Treasury is concerned. But, I am off the record. This is something between SHAEF and the French Government, and I can't say that on the record, but that is where the thing is. It is between SHAEF and the French Government. If they wanted to fix it, it is up to them. They could.

MR. WHITE:

Insofar as the rate is concerned, but there are other things they could do.

H.M.JR:

There are lots of things they could do.

This is Army business. They sent a release over here the other day that they wanted me to give out--joint Army and French. I wouldn't do it. There were a lot of promises, and I wouldn't give out the release. You may have noticed that Colonel was in.

Mr. Secretary, a friend of mine who was with Patton's Third Army and is a casualty in a hospital down South now told me that one reason for the crime in Paris, that some G.I's. have gone overboard, was the disadvantageous rate, you see?
They see where they can buy francs at a fixed rate where in the black market the natives themselves get more for their money than the G.I. does.

MR. WHITE: It's an illegal transaction. You could take stolen goods. You could get stolen goods at a price probably one-half the price of legitimate goods. It is an illegal transaction to engage in black market operations in France, and if a G.I. had dollars in his pocket and went out on the black market, he could get more francs for those dollars than he could officially, but he is engaging in illegal transactions and violating the laws of France.

Q The whole French population is doing it.

MR. WHITE: There is a good deal of it, but it is a violation.

Q What is the black market value of the franc?

A It varies.

(Discussion resumed on the record.)

H.M.JR: The answer, on the record, to your question is I direct you to the United States Army Public Relations. You direct the question to General
Surles or Mr. Stimson. Don't direct it to me. That is where the question should go because it is Mr. Stimson and Mr. McCloy who are handling this particular thing--or General Surles--but don't direct it at me.

(Discussion off the record.)

Q

Mr. Secretary, couldn't we go so far as to say you have made several suggestions?

A

I don't want to say that.

Q

But not say whom they were to.

A

No--not anything like that.

Q

That would let you out from under the whole thing.

A

It isn't worth it. I don't want to--between the Army and myself, I don't want to. I can take it.

(Discussion resumed on the record.)

MR. WHITE: I think it might be said that the problem is exaggerated from this point of view that the soldiers get most of their money in dollars. They get ninety percent, Dan, isn't it? It is between eighty-five and ninety percent of the pay that they get in dollars and which they remit home.
H.M.JR: Ninety-four percent of the soldiers' pay in France comes home. That is on the record. They spend six percent. The surveys of the Army show they spend six percent, and that six percent they spend is on wine, women, and song.

Q Black market and all.

MR. WHITE: And the wine is short. There isn't much wine.

(Laughter)

Q Wasn't this part of the early deal to cut down inflation spending?

H.M.JR: That was a strictly illegal remark.

Q Wasn't there, Mr. Secretary, an early deal to cut down illegal spending in France?

A On the record I direct you to the United States Army.

MR. WHITE: His question, I think, was directed to the suggestions made to curtail the soldiers' expenses and those that followed, and expenditures have been curtailed to the almost negligible proportion of six percent.

H.M.JR: That's right. What they are talking about is six percent of their pay.

MR. WHITE: What a lot of soldiers want to do is not get
an illegitimate return for their money, but they learned they could make money if they were able to buy francs on the black market and then turn them in to the finance officer which they have a right to do and get their dollars back. So they buy francs on the black market for a cent or a half a cent and turn the francs back and get two cents. They can make one hundred or two hundred percent profit.

Look at all the foreign exchange experts you will have for Bretton Woods when they come back, Mr. White.

(Discussion off the record.)

H.M. JR:

Again I can assure you we made all kinds of suggestions as to what they could do. I made all kinds of suggestions to Mr. Pleven, the Minister of Finance, when he was over here. This is off the record. None of them have borne fruit. Suppose a Frenchman went out to Kansas and bought a bottle of liquor for fourteen dollars a bottle and said, "I am being overcharged." Mr. Pleven can't do anything about it. But,
Q

In the first place it was illegal.

MR. WHITE: When you say the suggestions you made, they aren't concerned with the question of altering the rate.

H.M. JR: He's got the situation. We have suggested starting, for instance--you can't use this--you have got to get it from the Army. We suggested they establish all over France French USO's where the soldiers can go, and I took Mr. Pleven down to the Theatre Wing here and showed it to him. We went through the thing. He thought it was wonderful, and everything else. There are half a dozen things like that that would make it possible for the soldiers to get nice entertainment at a reasonable price and have a good time. We showed them everything and told them we would cooperate with them and help them get American beer. In Rome they are running this sort of thing for the American soldiers very successfully, and we keep at the thing and keep at it, but there are too many brass hats. That is all off the
record, but it is not here. I can settle it like this.

(Discussion resumed on the record.)

Q
Well, have you another tax story for us today?

A
I don't think so. I think we have given you enough. We have this story here.

Q
Before we get off currency, may I ask a question?

A
Please.

Q
Have you any comment on the British action with respect to price of gold?

A
No.

Q
Couldn't you give us anything on that at all?

A
Sure. Mr. White can—the British gold price.

MR. WHITE: What about it?

Q
What comment do you have on what happened?

A
Has something happened I don't know about?

Q
They raised the price of gold.

H.M.JR: Mr. White has been on Bretton Woods. I asked Mr. Coe and he said that has no significance.

MR. WHITE: The alteration in the British price? No. I'll be glad to explain it. It is a technical matter.

H.M.JR: If you want to know more, see Mr. White afterward,
but I asked Mr. Coe and he said that has no significance as far as we are concerned.

Q

Thank you.

A

No. The only thing I have on this matter is this letter to the banks which went out. We will bring that to your attention.

Q

I notice you eliminated one request in there.

A

That's right.

Q

Is it the one that most of the objections were on, or complaints?

A

That's right.

Q

You put them in the place of prejudging.

MR. D.W. BELL: What?

Q

The bankers thought they were being put in the position of prejudging a transaction.

A

That's it.

Q

Was the complaint fairly general?

A

We had no complaints, but they were asking if something could be done to relieve them of that responsibility.
H.M. Jr.: Now, we have a Seventh War Loan on, and I would like to hear from Mr. Gamble. Stand up, Ted, and tell these boys and girls something.

Mr. Gamble: We are progressing very well with our Seventh War Loan. We had seventy-four percent of the individuals' money tonight—five billion, one hundred fifty-one million. That is seventy-four percent of the individual goal of the seven billion. That is a little ahead of schedule. On E Bonds we have two billion three hundred thirty-three million, eighty-five percent, and that is a little under schedule.

Q: Repeat that figure, please.

A: Two billion, three hundred thirty-three million.

Q: And would you repeat that five billion something figure?

A: Five billion one hundred fifty-one million. But as in all drives, these last three weeks are the toughest, and it is still too early for us to make any conclusive predictions with respect to the E Bonds.
Q On E Bonds what is the percentage that has come out of payroll deductions, Ted?
A If it is according to schedule, we expect sixty percent from the payroll deductions.
Q Oh, I see. Well, you don't know what it is today.
A We don't know exactly what it is today but of the four billion two and one-half billion is scheduled to come from payroll deductions. As far as we can tell, except in one or two areas where they have had severe cutbacks, payroll is proceeding according to schedule.
Q What percentage of E Bonds?
A Four billion is the E Bond quota.
Q Will termination affect payroll deductions?
A Not actual cutbacks. I think it is rather talk about cutbacks that has affected this thing, rather than actual cutbacks. But it is where people can see the end of the road for their war production like in the highly concentrated shipyard areas where people know it is a matter of two or three months, and we have been trying to use that to
the advantage of sales by pointing out that
it was never more important to the individuals
employed in those yards than it is at the present
time for them to buy the bonds. We have been
successful to a considerable extent. We expect
to make the quotas at Willow Run, for example, which
goes down on June 30. That is a perfect example
where the people in that plant have wisely used,
we think, their remaining month's pay to set
some of it aside for a period of adjustment
that they must go through.

Q

How about the rural areas, Ted?

A

The rural areas are doing very well. The farm
areas all through the Middle West, and, in fact,
the two states that are leading are highly ag-
ri-cultural states, Montana and Mississippi. They
are leading the country in the sale of E Bonds.

Q

Is there a special drive in the rural areas?

A

Yes. All through the farm belt we are doing very
well.

Q

Are they doing better than in the other drives--
the farmers?
This is a better time for us. The reason is that bonds are sold when the people are asked to buy them in the main, and good weather makes it possible for us to reach nearly every farmer. It results in a better accomplishment or better sale. I am sure we will have the highest sale in the farm areas this time than we have ever had.

Q
You don't have any percentages in Montana and Missisippi?

A
I'd be glad to give them to you. I don't have them exactly.

H.N.JR:
I am appearing tomorrow morning at ten-thirty before the Senate Banking and Currency Committee on Bretton Woods. Wednesday night I am at the Air Corps Hospital, convalescent hospital, at Pawling, New York, for a broadcast at ten-thirty.

Q
On the bond drive?

A
Yes. That is on the bond drive.

Q
Your appearance tomorrow before the Banking and Currency Committee--

A
It has nothing to do with the Seventh War Loan.
...indicates that it might get this Bretton Woods over before recess, get it in and approved. I didn't realize it was so close. There was talk that it might be pushed over until September.

All I know is what I see in the papers, and they mentioned this morning three pieces of legislation that the Senate hoped to get through before they adjourned, and I think the date of adjournment affected the House.

The way I read it the House planned to take care of Bretton Woods before its adjournment.

And the Senate proposed to take care of Bretton Woods, Reciprocal Trade, and OPA. That is what I read in the papers. Of course, I believe it.

Thank you, Mr. Secretary.

You are entirely welcome.

May we have a copy of what you are going to say tomorrow?

Yes. It's finished.

When can we have it, Mr. Secretary?
A: You will have to ask Mr. Fussell. Fussell?

MR. FUSSELL: They are being cut now.

H.M.JR.: They are being cut now.

Q: Thank you.

A: Everything all right?

Q: Mr. Secretary, as a result of your order the other day, we got a swell story on Foreign Funds Control on a New York bookstore. The only thing bad about it was my office decided it was old and killed the thing. (Laughter)

A: I read it with interest in the papers today.

Q: It was a swell story. They just made the error in New York.

A: I read every word of it. I thought it was good.

Q: Mr. Secretary, last Saturday somewhat of a mystery came up with regard to these ten Secret Service men who were assigned to guarding the President who were suddenly, I understand, two weeks ago transferred to other duty and they were ordered--the news came out Saturday they were ordered to be inducted into the Army on June 15.
The White House declines to say anything on it and Frank Wilson, I understand, was mad as hell because the news came out. I wonder if you could say something on that.

Well, Fussell and Shaeffer, what have you said on that? That sort of helps me.

MR. SHAEFER: We have said that the Secret Service are in the habit of rotating men from time to time, so they will have a mobile force, and the rest is up to the Army.

That was the only motive in the change, you say?

But those fellows have been over there from three to ten years.

And another thing I want to point out is that some of these men have told us they were offered commissions, both Army and Navy, and they turned them down because they have been given assurance that they would continue on the White House staff. Now they are suddenly just buck privates in the Army.

H.M. JR: Well, I read the story on Sunday, and certainly the story that ran in the papers was accurate. I don't know what more there is to add to it.
I forget the technical language, but they were designated by the Army. I don't know just what the language is.

Part of the rotation theory.

Enlisted Reserve.

Enlisted Reserve.

And assigned to the White House.

And assigned to the White House detail. Once they left the White House detail, they, so to speak, were handed back to the Army.

Who made that decision to transfer them from the White House, Mr. Secretary? Was it Mr. Wilson?

I am trying to think. I would say that it was Mr. Wilson. Am I right?

You are right, Mr. Secretary.

Mr. Gaston isn't here. He is in charge of that.

He did it with Gaston's approval.

Chief Wilson did it with Mr. Gaston's approval.

Chief Wilson did it with the Assistant Secretary's approval.

He turned them over to the Army with Gaston's approval?
Q Oh, no. He assigned them to that detail.

A No. These men, so to speak, were taken into the Army and reassigned. I am not using military language, but that's what happened. They were reassigned to the White House detail and to protect the President of the United States. While they were there they were doing that work. Then, there was a rotation in the White House detail, and they were no longer on the so-called Presidential detail, but they came back to the Secret Service pool, and Chief Wilson notified the Army of this change.

Q Wouldn't they come under this new draft edict that anyone over thirty and essential or useful--aren't they useful as members of the Secret Service?

A I am frankly not familiar with the details. The thing was handled by Mr. Gaston and by Chief Wilson. But there is no mystery about it.

Q Don't you have any agents deferred if they are not at the White House?

A Pardon?

Q Isn't an agent deferrable from the draft if he
is not at the White House?

We have not asked for deferment. That's the point, you see? We have not asked for deferment.

Except in the case of the White House.

We didn't ask for deferment. They were in the Army and then on reserve. But I think that the story as it was written was correct, but with that exception. We cannot ask for it, so when they come back to the general pool of Secret Service, they become subject to all of the rules and regulations as apply to the ninety thousand personnel of the Treasury.

Mr. Secretary, is it possible because of the coming of the new President they would decide they need an altogether different group to handle it?

Look. If I had anything to do with it, I would say so. You people know me well enough to know I don't pass the buck to somebody else. There is a Bureau in the Treasury which goes under Mr. Gaston. Mr. Gaston and Chief Wilson decided what
to do, and the decisions were made by them. If I had any part in it, I would say so. I am responsible for Mr. Gaston and for Chief Wilson and for any action either of them take, but I can't give you the details. I don't want to have you write the story that I am trying to pass the buck, because I am responsible for both of them. I just don't happen to be familiar with the thing because it was handled by them. Please don't write the story that I am passing it on. The story that I read in the newspaper was written correctly and there was this rotation of men assigned to the President, and when they rotated they came back in the Secret Service pool, and as such, the Army had to be notified of the change. I gather the Army decided to pick them up.

Q

You have no objection to our saying that you said Mr. Wilson made the decision with Mr. Gaston's approval?

MR. FUSSELL: That's all right.

H.M. JR: Is that all right? What?

MR. FUSSELL: Yes.
H.M.JR: Is that all right?

MR. FUSSELL: Entirely.

H.M.JR: Is that correct? Did you understand it? If it isn't, please say so. Are you familiar with it?

MR. FUSSELL: Yes. Mr. Gaston talked the thing over with me.

H.M.JR: And that's correct.

MR. FUSSELL: Yes.

H.M.JR: All right. I don't like to pass the buck around. Anything else?

Q Thank you, Mr. Secretary.
Good morning, sir.

Good morning.

You'll keep us back here today.

I've got another show going on in the other room. I've got a couple of things to say. The French Government through Mr. Pleven, P-l-e-v-i-n, the Minister of Finance, invited the United States Treasury to send over a War Bond exhibit to Paris early in July, and Mr. Gamble sent two men over there a couple weeks ago to look the situation over, and we are in the process of getting an exhibit ready, and it will be over there, we hope, early in July. They also invited several other governments, the English, Russians, Chinese.

What is the purpose?

The purpose is this: Mr. Pleven says that he would like to show the French people how a democracy finances a war under a voluntary system. He thinks that we have done a pretty good job here, and he would like the French people who have been
occupied by the Nazis for a number of years to see the contrast between the American way and the Nazi way. He thinks it would be very refreshing and heartening to the French people.

Q

Does he intend to have some bond drives over there to help them toward--

A

Reconstruction?

Q

Reconstruction.

A

Yes. I told him I hoped he didn't want us to teach the French people how to save. He said that wasn't the idea, but he did want to show them how here in America we got them to lend to their government. He is very much interested in it.

Q

Mr. Secretary, would you mind spelling that name again?

A

P-l-e-v-i-n.

MR. GASTON: I think it's e-n. P-l-e-v-e-n.

H.M.JR: Is it?

Q

P for Peter?

MR. GASTON: Yes, p for Peter.

Q

You don't know his first name?

H.M.JR: Rene. R-e-n-e.
Q

R-e-n-e?

A

Yes. He is the Minister of Finance. I think it is P-l-e-v-i-n, though. Anyway, Mr. Gamble is getting together a very fine exhibit and sending over various war bond pictures translated into French, some American war bond songs translated into French--

MR. GAMBLE: Movies.

H.M.JR: Different things. We are quite complimented that they asked us to do this.

Q

Are movies being made in French, too?

A

The voices will be in French. We are going back and picking some of the best. This picture, for instance, "Fury in the Pacific," was one of the best. It was done by the Marines, wasn't it?

MR. GAMBLE: The Navy.

H.M.JR: Navy. It is one of the best war pictures we have. The voice will be in French. We are picking some of the best movies that we have.

(Discussion off the record.)
Off the record, I'll be glad to have OWI notice it. This is off the record. The people we sent over think it is disgusting, the lack of American information in France. Is that all right with you? It is very, very necessary, and the British have gone to town and don't mind telling who won the war, but when it comes to our telling who won the war, or the job that has to be done—that isn't our job, but our people came back with the story, and there is a big job to be done, and I think OWI will do it if and when they get the money, but there is a big job to be done in France and in all those countries to let the people know who won the war. I don't want to go on the record to the extent of saying that.

(Discussion resumed on the record.)

Q

Is there any date set on this?

A

I think it is the first week in July if we get the stuff over there.
Q Have they set any date for the first bond drive, the French?
A No.
Q This is just preparation for it.
A What they are going to do, as I understand it, is take this exhibit from one province to another and have it all over France.
Q Is Ted Gamble going along by any chance?
A No. I can't spare Ted. He is getting ready for the eighth war loan.
Mr. Gamble: That's right.
H.M. Jr: What Hollywood word comes after the Mighty Seventh—Colossal?
Mr. Gamble: The Terrific Eighth.
Q Ask Hollywood.
A We did. We got the Mighty Seventh.
Q Mr. Secretary, along that line, how is our contest coming?
A Well, we have a very good committee, and it is in the hands of the committee. I don't know.
Q: It hasn't got to the judges yet?

A: No. No.

Now, again on enforcement cases, we had some very interesting cases in the State of Indiana, and I will tell you about them. Have you any copies to give them?

MR. FUSSELL: Yes. I've got a few extra carbons.

H.M. JR: Minus the names?

Mr. FUSSELL: Yes.

H.M. JR: I have concentrated today on the state of Indiana. We have one company in Indianapolis with half a million dollars additional taxes and penalties involved in the case of this Indiana concern. It showed remarkable acumen in branching out in the various fields where an easy dollar could be turned. While a major unreported income appears to consist of large sums of currency received from black market sales of whiskey, the company turned a neat bit of speculation in the purchase of ten thousand five hundred cases of pineapple. They also participated in sugar diversion.
Canned pineapple?

Yes. Altogether there is a half million dollars of additional taxes in liquor, pineapple, and sugar.

Is that just for the year 1944?

I take it it is. I'll give you it. We'll distribute it. I've got some carbon copies to give you.

Fine!

And the persecution—prosecution (laughter)—

(Discussion off the record.)

Off the record, that is almost a Freudian slip.

(Discussion resumed on the record.)

Anyway, prosecution of the three principals on charges of evasion of corporation and individual income taxes will be recommended.

I'll give you these things. There are four or five all on Indiana.

Will we get copies of each of them so we won't have to take notes?

That's right.
Q: Was this an old line firm, Mr. Secretary or was it newly organized?

A: Joe, do you know?

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

Q: It sounds like Black Market, Inc.

Q: You will recommend prosecution of the three officers of that company?

H. M. JR: The three principals.

Q: Individuals, you mean.

A: Yes.

Q: In other words, they worked in whiskey and pineapple mainly.

A: And sugar, but most of the money was in whiskey.

Then, there is another company in Gary, Indiana, where the Special Agents estimate total taxes and penalties of around a million dollars may be collected as a result of a series of cases revolving about the operations of another Indiana company dealing in wines and liquors. Sales were reported at ceiling prices by the corporation while "side payments" in cash allegedly were made to its officers.
Two such payments by a single individual totalled one hundred twenty-five thousand dollars in currency.

Then there is a case of a German immigrant. I'd cut that out. The fact that he is a German immigrant has no significance. My father was a German immigrant. He is all right. Anyway, an immigrant—I wouldn't even say that. I'd simply say somebody. I'd cut out "immigrant." There are sons of German immigrants in the room here, aren't there? Anyway, he stole lumber from his employer. This isn't a very good case. I'd cut it out.

Here is a slot machine operator. He hadn't made any money up to '42, and then came the war, and he neglected to report thirty-five thousand dollars over a three year period. We are going to recommend criminal prosecution. He comes from Mishawaka.

MR. GASTON: Mishawaka isn't a very big town. That pretty nearly puts the finger on the man.
Q There is probably just one slot machine there.

H.M. JR: All right--Indiana. Is Elkhart big enough, Herbert?

MR. GASTON: A little better, if it isn't a slot machine operator.

H.M. JR: No. This fellow is a truck farmer and florist in Elkhart, Indiana.

Q Truck farmer?

A And florist. And believe it or not, the investigation shows he has accumulated in a very short period one hundred thousand dollars including fifty thousand dollars in currency, and he is careless about his taxes.

Q Did most of these come to light through currency increases?

A Yes.

Q On two of these you said you are going to recommend criminal prosecution. Can we assume in the others you haven't decided whether to or not?

A That's right. Here they just say, "Indiana case. An Indianapolis man paid $39,000 in currency for a small apartment house. While Treasury agents
were investigating this case they learned that he and his son had made several other purchases, totalling in all $95,000, in which currency was used. These currency transactions appear out of proportion to the incomes reported. An Indiana liquor house found itself with an unusually large inventory during the liquor shortage period in 1943. The Treasury investigation of its operations, just started, has shown—"are these separate cases?"

**MR. FUSSELL:** Yes.

**H.M. Jr.:** Oh, I see, "that it received 'side money' in currency of $150,000 in excess of ceiling prices, and it is believed additional unreported income will be found."

Well, the point is the further we go into it, the greater this thing seems to be. We are making real headway in recruiting our people, and I want to compliment the press and radio for their interest. Their support means success or failure, and so far the support has been excellent.
On the announcement of this Grand Jury hearing in Wichita, Kansas, the press in Kansas has taken it up and is getting quite excited about it, and with the backing of the press and radio we can get somewhere, but without it the people just haven't been able to do it.

Q  Mr. Secretary, do these cases all come to light through the cooperation of the bankers?

A  Oh, I wouldn't say that.

Q  I had in mind the recent request for them to report unusual or suspicious transactions.

A  We have asked them to report on a monthly basis. That first report hasn't come through yet. The individual reports have come through but we get this from a dozen different sources. The banks are one of a dozen sources.

Q  One other question. Did the Indiana Bankers Association protest that request of yours?

A  Did they?

MR. O'CONNELL: My understanding is that they did.

H.M. JR: It never came to me. Let me talk for background.
I take it you are from Indiana.

Q
That's right.

(Discussion off the record.)

A
Off the record, I heard it was coming. I have never actually seen it.

Q
It was written in one Indianapolis paper but not printed in the other two.

A
To my knowledge I have never received a formal protest from the Indiana bankers. I am still talking off the record. We will check our records.

Q
You needn't do that.

A
I heard about it. How about you? Do you know?

Q
Yes. There were two, Illinois and Indiana both.

A
What happened to them?

Q
Both protested.

MR. GASTON: They adopted resolutions.

Q
Yes.

H.M. JR.

MR. D.W. BELL: I understood we were going to receive a letter, but I don't recall seeing any letter, and I understood what the Indiana Bankers Association did was write
a letter to their members protesting it and made that letter public, I believe.

H.M. JR: But have you ever seen a letter?
MR. D.W. BELL: I haven't seen a letter, although I understood we were going to get one. The Illinois Bankers Association did the same thing, but there was no indication that they were going to protest to you.

(Discussion resumed on the record.)

H.M. JR: On the record, so far as I know, I have not received a letter from any Indiana Bankers Association. That's on the record.

Q Can we use that?
A Yes. You better give us a chance to make sure.

MRS. KLOTZ: It may have been directed somewhere else.

H.M. JR: Give me a chance to find out. If I have received it, I'll let you people know through Charlie Shaeffer, but to the best of my knowledge I have not received it.

MR. O'CONNELL: You might have because we have received hundreds of them. We'll check, because it might have come.
Mr. Secretary, three weeks ago today you said you thought maybe there would be a case going before the Grand Jury in about three weeks, and I don't recall whether you indicated it was a New York case or not. We got the idea it was. Is there anything on that?

Only that the more we go into it, the more money we find, and the bigger the case grows.

That's the two million three hundred thousand?

Yes.

How big is it now?

It's bigger than it was by a lot.

By a million dollars?

I wouldn't want to say, but they are finding new facets all the time.

More deposit boxes?

New money all the time. It is growing in size.

In that one case?

We have eighteen men on that case alone right now. That is not saying how many there are in the New York District Attorney's office on it, but we alone have eighteen men.
I understand that the State of New York is also interested in that this man paid his sales tax based on the book that he kept to pay income taxes.

I don't know, but it is bigger than we had thought. It has been delayed because of the fact that we are finding more money and more ramifications.

That is the restaurant chain that serves such good food.

That's right. I'll have to find a new place to eat when I go to New York.

Then, is it sure that you will recommend criminal prosecution in that case?

Well--

You didn't say so before.

No. I don't want to go out on that limb.

Well, if we say that the Grand Jury hearing is delayed because the case is getting bigger and bigger, there isn't much difference.

What do you think, Joe?

MR. O'CONNELL: Well, the fact is that investigation has not been completed for presentation to the Grand Jury, and
technically, until investigation is completed, we are in no position to say specifically what recommendation will be made.

Q: Yes, but on the other hand you said that unless a fellow came in and made a clean breast of things before an investigation started that you were going to prosecute.

H.W.JR: Of course we are, but I don't want to go out on that limb.

Q: You're not quite ready to say.

A: That's right.

Q: You don't want to show your hand.

A: Not entirely. We are doing all right, though.

Q: Could we safely say another million dollars has been uncovered in this thing?

A: No.

Q: Just a huge sum of money.

A: That's right.

Q: In addition to two million three hundred thousand.

A: That's right. You can say hundreds of thousands of dollars and be safe.

Q: Hundreds of thousands?
A That’s right.
Q What was the original sum?
A Two million two. Now, we found hundreds of thousands of dollars more.
Q That two million two hundred thousand was the amount they owed the Treasury in back taxes, or what they had not reported on?
A That was the amount of cash which he withdrew daily from his business. He failed to include that in his report of his gross business.
Q Yes, I think I remember that case.
A He forgot he had it, or something like that.
Q Something like that. (Laughter)
A He had to use it for improvements, or something like that.
Q What?
A Didn’t you say something about his reason was he was using that money for improvements, or planned to use it for his improvements?
A I haven’t said anything publicly yet. All right?
Q Mr. Secretary, has the Treasury had anything to
do with the bill of Senator Morse's to exempt war savings bonds from attachments, levies, and so forth?

A Joe, do you know?

MR. O'CONNELL: I didn't get the question.

Q Senator Morse has introduced a bill to exempt war savings bonds from levy, attachment, garnishment, and other legal procedures.

A I am sorry, but I don't know anything about it.

H.M.JR: Do you know anything about it?

MR. GASTON: No.

H.M.JR: The Treasury has nothing to do with it.

Q Mr. Secretary, had you anything to do with Treasury people sent to Germany some time ago to help the Army audit this money found in Germany?

A No. That would have to come through the War Department. Anybody we have over there is on loan to the War Department, and it would have to come out of SHAEF.

Q Is there anything new on the exchange rate for the French franc?

A No.
Q: I was away last week. Have you commented on the movement for credit controls on real estate purchases, and will you comment?

A: I don't know. Is there a bill? Bell?

MR. D. W. BELL: No. There is not a bill. There has been some talk, you know, before the Stabilization Director, but you have not commented on it, and I don't think you have any comment.

H. M. JR: Bell said I have no comment. (Laughter) I have no comment.

I was telling them this morning that I'm getting so that, well, I almost can hold up my end with some of these Civil Servants. (Laughter) In a couple of years more I'll be a Civil Servant.

Q: Thank you, sir.
SECRETARY MORGENTHAU'S PRESS & RADIO CONFERENCE
4:00 p.m., June 28, 1945

H.M.JR: Does anybody have any questions?
Q What do you estimate the over-subscriptions for the Seventh War Loan Drive will be?
A Well, I don't think I will do any guessing on it.
Q Just in the family, give us a guess.
A In the family?
Q Yes.

(Discussion off the record.)

A Oh, twenty-four or twenty-five.
Q How about E bonds?
A That is in the family.

MR. GASTON: That means not for attribution, I suppose.
Q What about E Bonds?

H.M.JR: It is going to be very, very close. If we miss it, we are only going to miss it by a hair.
Q Will there still be more than the average sold of any other?
A Oh, yes, and on the individuals we will sell more than we have in any other. This is all off the record, but we will go well over seven billion, seven or seven and a half. Am I too optimistic, Bob?
MR. COYNE: No.

H.M.JR: Twenty-four or twenty-five, and that is not including bank subscriptions, either, is it?

MR. BELL: Twenty-four isn't. Twenty-four, I think, is a safe estimate excluding banks.

H.M.JR: With the banks it would be about twenty-five.

That is all off the record. We will go close to seven and a half on individuals.

MR. COYNE: I would think so, yes.

H.M.JR: And the E's would be--if we miss it, it will be by one hundred million or fifty million; we may not miss it at all. But this is all, as I say, in the family.

Any other questions?

Q I came in late. Did you say that was--

A Somebody asked me just in the family--

Q Did you say that was all off the record?

A All that was off the record.

(Discussion resumed on the record.)

A I have some good black market tax evasion stories for you. I will read them to you, and then we will have some copies to give you. "Treasury agents last week completed a report recommending additional
taxes and penalties totalling $1,800,000 against a Broadway playboy, in a case growing out of the Treasury's investigation of the liquor black market in 1943.

"In our investigation of these cases we sought this man for an explanation of his widespread operations in liquor sales and a bench warrant was issued for his arrest. He was sought unsuccessfully in various parts of the United States, Mexico and Canada, but was finally discovered to be living in a Southern state under an assumed name. He refused to make any explanation of his operations or of the reasons for his disappearance.

"Meanwhile Treasury agents have traced collections of more than $1,350,000 in excess of ceiling prices on liquor which he sold during a few months in 1943. This money was collected in cash and we have ample testimony to support these figures. Since this man does not choose to tell what he did with this money, we are treating it as his income. The agent's report also recommends criminal prosecution for filing a false and fraudulent return."

Charlie, have you got a few copies of this?
MR. FUSSELL: I have a few of them.

Q A million?

H.M. JR: A million, three hundred and fifty thousand. I have three cases for you today.

Q Doesn't that leave his whereabouts or status a little uncertain now?

Q Is he under arrest now?

A No. Lynch, do you know?

MR. LYNCH: I don't know.

H.M. JR: We know who it is, and I am not--I can't answer that question.

Q Is he well known?

A He is well known on Broadway.

Q He is awaiting trial? He has been apprehended?

A Yes, he has been apprehended.

Q Since he has been arrested, can't we have his name?

MR. FUSSELL: He wasn't arrested on this case.

Q Can we say he has been arrested on another case?

H.M. JR: Just a minute.

MR. PEHLE: He was arrested on an OPA case.

Q For selling above ceiling prices?

Q Couldn't we have his name and say he is also wanted
in connection with this other thing? He can't run away now.

H.M.JR: Are you familiar with this, Lynch?

MR. LYNCH: Yes, sir, generally.

H.M.JR: What do you advise?

MR. LYNCH: I think in other cases where the circumstances were quite similar the names weren't given out.

Q Well, none of them were quite similar because we didn't--

MR. LYNCH: No, in some other cases where there was an OPA charge as well as an income tax case--

H.M.JR: Well, I will play safe and not give it out.

"Earlier this month (June 10) I told a radio audience about an income tax investigation in Kansas which involved long-standing liquor black market operations and gambling.

"A grand jury which began its sessions June 11, at Wichita, has revealed a situation which should get a thorough airing.

"When previous attempts had been made to get to the bottom of this case, important witnesses disappeared just when they were needed most. So this time, as soon as the grand jury was called, special agents,
revenue agents and deputy collectors were sworn in
as special deputies of the United States marshal and
given 75 subpoenas to serve.

"Even with this precaution we had trouble. Judge
Guy T. Helvering issued bench warrants for some
witnesses who failed to appear. Two witnesses
were jailed for contempt of court when they refused
to testify and one was indicted for perjury, on
the basis of his testimony before the grand jury.

"In spite of these evident efforts to prevent the
Government from making its case, the grand jury has
already indicted two men, (Robert L. Carnahan and
Max Cohen), regarded as the ringleaders in the
gambling-liquor black market syndicate. The
charges against them are evasion of federal taxes
amounting to more than $220,000."

Now here is one more. "A peculiar case in Texas
involves a buyer and processor of turkeys who sub-
mitted a tax return showing that he sold $854,000
worth of turkeys--and bought exactly the same amount.
Examination of returns of other turkey buyers in
the same area indicated that they were following
similar procedure--that is, reporting sales in
approximately the same amount as their purchases.

"But our investigation of this first case indicates that the buyer has understated his income substantially to conceal profits from sales at over ceiling prices, and that his tax deficiency will be approximately $100,000.

"The indications also are that this buyer and others paid black market prices for most of the poultry they bought and one interesting indirect result is that 50 farmers in the neighborhood have employed accountants and that several deputies have been kept busy assisting other farmers, all of whom are voluntarily preparing amended returns."

And another thing, since we have asked the banks to cooperate, some of the Federal Reserves tell us that there is a considerable increase now in small-denomination bills. The requests for withdrawing from the banks large denomination bills has practically ceased, and there is a great demand for small bills. I think you will be interested in that. That is all I have to offer. If anybody has any questions, I will be glad to answer them.
Mr. Secretary, I don't know whether this is altogether proper or not, but in your letter on the John Hartford case you said this item, the one hundred and ninety-six thousand dollars had not been allowed. Has that gone any further yet, whether it is definitely disallowed or not?

I don't think—I haven't got the letter before me, but I don't think that is what I said. I think the technical explanation is it was returned to the field for examination.

The item was questioned and an investigation ordered.

I didn't say whether it had been allowed or disallowed.

The inference was that this would not be allowed by this Department.

I think you are wrong. I think I can get the letter. I think the facts are it was returned to the field, Lynch, for further examination.

Right, for further examination and determination as to whether it merited allowance or not.

As a matter of fact, Mr. Secretary, I don't believe that even said for sure whether that was one of the items. It just said two hundred twenty-eight
thousand four hundred dollars, didn't it?

Wait a minute. Let's get this, gentlemen. Did I answer your question?

I think you have, sir. May I ask another in connection with the same thing? Have you any idea about how soon you will complete this information requested by the Congress—by the two committees?

No, all I can tell you is that in view of the wide interest in the case it is being expedited just as rapidly as it possibly can be.

I think that takes care of everything I want to say. Thank you, sir.

Thank you.

Now, how about you?

I just brought that up. I didn't think it said for sure that was one of the items. Did it? It just said two hundred twenty-eight thousand, four hundred dollars; it didn't say what that included. I suppose everybody just figured that that was part of it. There was nothing to indicate that that was part of it, was there?
I will answer your question, but I will have to ask counsel whether I have the right to answer it on the record. But off the record, there was nothing in the return of the amount he took off, whatever it was, two hundred and twenty thousand dollars, to show what the item was.

I see.

MR. GASTON: Or items.

H.M. JR: Or items. This thing came into the Treasury and automatically went back to the field, and whatever it was, two hundred and twenty odd thousand, there was no indication that among the two hundred twenty thousand was an item of a loan to General Roosevelt. See? Do I have the right to say that, or don't I?

MR. LYNCH: May I answer it this way? I think that information has been given out already, not in that form, but I have seen statements to the effect that there was no indication in the return that this particular transaction was involved.

H.M. JR: Those are the facts.

Q That was given out officially, but that was not itemized. It did not mention the General by name or anything.
MR. LYNCH: I think it would be appropriate for you to state that there was no disclosure in the return that this involved any transaction on Mr. Hartford's part with Mr. Roosevelt.

H.M. JR: That is on the record.

MR. LYNCH: It was a general item of deduction for bad debts of two hundred twenty-eight thousand dollars.

H.M. JR: That is on the record then.

Q: Did you say it went automatically to the field? Do you mean it had been returned to the field for examination before this whole matter came out in the press?

A: We made it very clear. We made it very clear that that was back before--

Q: May, I think your letter said.

A: Whatever it was, but it went back to the field. That is quite an important part of it from our standpoint. It went back for further information before anybody drew it to our attention publicly. That I know is very definite.

Q: May I come back to the tax evasion cases?

A: Please. I haven't got them, so I'll have to
refer to our friend, the American Banker.

I am not very clear on the Kansas case, the second one, whether that has been announced or publicized out there.

Yes, it has.

There is nothing new.

Nothing new. The only thing I am trying to do is I am trying through the press and the radio to inform the people what we are doing. Now, around May 10 or so I told you about a case. I couldn't give you the name. Now we have an indictment of the two principal people, and I am reporting to you people. I am going to keep a score on myself even if you don't, and let you know. Now, here is one of the cases I talked to you about, and this has been disposed of so far through an indictment, and I am just bringing you up to date. It has been announced in Wichita, but as we go along, if the Broadway playboy is indicted on the thing, I'll tell you about it and give you his name. I am keeping little tabs on myself and on the Department as
we go along.

Q

Mr. Secretary--

A
If we miss one, I'll let you know, too.

Q
We can say that this playboy has been arrested on an OPA case, can't we?

MR. PEHLE: I don't see why not. It is a fact.

Q
Has he been indicted in that case--held for Grand Jury, or what?

A
He pleaded not guilty and is awaiting trial.

H.M. JR:

He pleaded not guilty, but he was arrested.

Q
Do you know whether newspaper stories were published on that or not?

A
We don't know.

Q
Did he plead not guilty in New York? Was he taken back to New York after being found in the southern city--location?

MR. PEHLE: Where do you stop, Mr. Secretary?

H.M. JR: I stop right there.

Q
When you first read the thing--I don't have it in front of me--you said a bench warrant was issued and he was arrested. I gathered it was on your case, but it must not have been.
MR. PEHLE:  It was on the OPA case.
Q  And then you came onto it as a result of this OPA deal?
H.M.JR.:  Is that right?
MR. FUSSELL:  No. Our people made most of the evidence. It started as an alcohol tax investigation, and we turned over whatever evidence we had to the OPA, and they actually—the case was actually prosecuted under their jurisdiction, and we are stepping into it again as an income tax case.

H.M.JR.:  Okay.
Q  What about your other New York case, the restaurant dealer?
A  It is coming along nicely.
Q  Is it about ready to go before a Grand Jury?
A  They are making real progress.
Q  How much more money have you found?
A  No more since I spoke to you.
Q  Hundreds of thousands of dollars.
A  That's right—no more. But it is coming along very nicely—for the government, I better say. It is not coming along so nicely for the fellow.
That makes it around a three million dollar case.

Not quite, but the government is making real progress.

Mr. Secretary, to return to the Seventh War Loan Drive, can you give us anything on when the Eighth comes up? It has been variously publicized as November or December, and so forth.

Well, I'll tell you--give me another day or two, see? I have the answer, but the reason I don't want to answer it is that I don't want to tie it up with the success of this one, you see? If we talk about it today with two days to go, some of the people in the last couple days might slow down, so we may have something for you for Sunday, or Monday.

I see.

But I have the answer, and we could give it.

(Discussion off the record.)

Off the record, it looks like it would be the
same as last year, late in November and December. As a matter of fact, the interesting thing is that here is my first letter. This is all off the record. Here is my first letter starting on the Eighth War Loan. I am writing the Commanding General of the Army Ground forces asking for one hundred ten men weapon demonstration squad for the Eighth War Loan. I just happened to have it right here. We have already started plans for the Eighth. That is my first shot.

Q For the Eighth?
A For the Eighth.
Q Mr. Secretary--
A Excuse me, but we will have something for you more definite about the Eighth somewhere along next week. Would that be right?

MR. COYNE: I would think so.
Q Next week.
H.M.JR: Yes. If we say something now, we are afraid the bonds might slow down the last couple days.
(Discussion resumed on the record.)

Q

Mr. Secretary, are you satisfied with the results of your contest to get a slogan for the Roosevelt bond?

A

Yes. That's fine.

Q

When are you going to announce it?

A

We have a radio show at ten-forty-five tomorrow night, and it will be announced Saturday morning. Justice Roberts picked the three winners. It is very interesting, and it will be out Saturday morning.

Q

Have they been notified yet? (Laughter)

A

I don't know. Have they?

MR. FUSSELL:

We have got some contestants in here, Mr. Secretary. You better not announce it.

H.M. JR.

I can't even go off the record on this.

Q

Have you bought the bonds yet, Mr. Secretary?

A

They are bought and paid for.

Q

In those names?

A

In those names.

Q

Have you got them there in your desk?

A

No.
Q  I thought maybe you would let us look at them.
A  No. Tomorrow night, if you people are still up at ten-forty-five—if you can stay awake that long.
Q  Mr. Secretary, this is really a sensational thing today, the taxation of the war refugees' profits.
A  Yes.
Q  Congressmen approached me a long time ago and asked us to be quiet on that.
A  Yes? We gave that out.
Q  Yes. There are some very great fortunes that have been made, I understand, by some of these refugees.
Q  Do you mean those people haven't had to pay any taxes?
A  Whatever it says there.
Q  I don't know.
A  If there are any questions about it, who is an expert on this?

MR. FUSSELL: Mr. Lynch.

H.M. JR: Mr. Lynch, do you want to speak on that?
MR. LYNCH: The general effect of the release, as you doubtless know after reading it, is that the Commissioner of Internal Revenue requests the field offices to give special attention to the tax problems of alien refugees in this country, and the matter principally involved is to determine for tax purposes if they are non-resident or resident aliens, because there is an important tax difference. One point to which this is particularly directed is the fact that non-resident aliens are not subject to capital gains taxes as are citizens and resident aliens, and in this direction to the field particular attention has been given to transactions as to stock exchanges and commodity markets. The general substance is that through these field offices it will be sought to obtain as much information as is possible to get to determine whether returns have been properly filed and what the proper taxation status of the aliens is, I presume.

H.M.JR: Is that okay to everybody?
(Discussion off the record.)

Wilcox, here is the opening letter on the Eighth.

Q Can I have this?

A Yes.

(Discussion resumed on the record.)

Q Thank you very much.
How do you do, Mr. Secretary?

Fine.

I want to congratulate you on your new job. I was reading here about it.

It must be a good job.

Bretton Woods, Mr. Secretary.

Nothing like that. I tell you what I thought we would do first, if it is agreeable to you, is to have a friendly off-the-record chat.

(Discussion off the record.)

Do I have to have OWI here?

Yes.

(Discussion resumed on the record.)

Then if you want to ask me some questions, all right. If anybody wants to ask me anything off the record, I will be very glad to talk.

(Discussion off the record.)

Will you go on the Bank and Fund as American Director?

This is off the record. Up until this morning I have been so busy here that I haven't thought
about anything, and I haven't had time to think about anything. But after Mr. Truman's return I think after twelve years here and four years in Albany with Mr. Roosevelt I will take a little rest.

Q
Then you won't consider it. You won't decline to consider it?

A
Well, I am not--let me be very frank--I am not going to. I don't want anything dangled in front of me. It just doesn't interest me.

Q
What do you mean by that?

A
Just what I am saying. I mean, you don't have to treat me the way they have some other people. They don't have to fix up something for Morgenthau. Nobody has to fix up anything for me, see? I mean, when the time comes around--my farm is very big now.

Q
Strawberries?

A
The strawberry season is over; we are picking currants now.

Q
You can make a living off the farm if you want to.

A
Yes, I can, but the point I would like to get over to these people now is that no Federal job is interesting to me, see? I am not interested in
any Federal job. I have given my country every-
thing that I have inside of me, and I gave Governor
Roosevelt everything I had when he was Governor,
and now the parting of the ways came when he
died as far as I was concerned. But I just want
to get it over that nobody has to fix me up with
an Ambassadorship, or Governor to this or that.
I mean, I am not interested in anything right
now except holding on. I will be acting in Mr.
Truman's and Mr. Byrnes' absence, and in the
meantime that gives me a couple weeks to pack up.
Then I am going to take a little rest.

But you are the father of the Bretton Woods Plan.
I thought you might want to stay on--

No.

...to see it through its first year.

No, no, let's get it very clear. When the
Secretary of the Treasury--it has been a wonderful
opportunity Mr. Roosevelt gave me, the finest
opportunity anybody can give anybody else. Now,
I had that. Sixteen years out of a man's life is
a long time. Nobody has to fix up anything for
me. I can't be any plainer.
Q | That is off the record, though?  
---|---  
A | Yes.  

(Discussion resumed on the record.)  
Q | On the record, will you say you just have no plans, or will you say anything?  
---|---  
A | I have no plans other than to take a rest.  
Q | Where are you going to take your rest, up at the farm?  
---|---  
A | At the farm.  
Q | How long a rest would you like to take?  
---|---  
A | Long enough to get rested.  
Q | I mean, will it be a month, two months, or--  
---|---  
A | I don't know.  
Q | The President said, Mr. Secretary, that he had your successor in mind. May I ask if you know who the successor is?  
---|---  
A | No.  
Q | You mean you don't know, or he can't ask?  
---|---  
A | I don't know.  
Q | Oh, I see.  
Q | Do you have an idea, I mean?  
---|---  
Q | Can you give us a guess?  
---|---  
A | No. He knows more about it than I do.
Q Would you put it in the record, Mr. Secretary, about not taking a Federal job, just a little something along those lines that would greatly clarify—

Q Yes, but it wouldn't rule out the International Monetary Fund.

A Let's leave it for background. How is that, all right? For your background, I want to make it very clear that I am not interested in anything right now that—oh, I don't know how to put it. You people can put it in, but nobody has to cook up a job for me. I don't see how I can make it any plainer than that. Isn't that plain enough?

Q Good.

A I mean, I don't want to draw any comparisons with what has happened to any other people, but I should think it is very obvious what I am trying to get at. I mean—

Q You wouldn't feel—

Q We can say that. Thank you.

A The point I want to get over to you people is that they don't have to create any position for me,
because I am not interested. That is the point.

Is that on the record, or off the record?

That is for your guidance.

That is background, not to be quoted directly or indirectly.

We can use it, but not attribute it to you.

That is right. It is for background.

We can't say it came out in the press conference?

(Discussion off the record.)

Was there any disagreement over your resignation, Mr. Secretary, with the President?

Again, very much off the record--this is for background--no.

That is background, again?

No, no, off the record. I just wanted to know where I stood, that was all. And I thought it was about time I knew, so the only thing that you could say was that I insisted, that I wanted to know now if there was any question in his mind as to the length of time he wanted me here, if there was any question in his mind as to how long.

I raised the issue. With all this discussion, all this gossip, and everything else, I wanted to
know where I stood.

Q
He made it clear, Mr. Secretary, that you had
brought the issue up.

A
I brought it up, and I forced the issue, too. I
can only work in an atmosphere of confidence, and
you know--

Q
Well, he praised your work over here.

A
That is very nice.

Q
Incidentally, in your letter you said that you
would be available in a consulting capacity, or
something to that effect.

A
Well, I had accumulated over twelve years a tremen-
dous amount of information which is at the disposal
of my Government at all times to anybody that can
make use of it.

Q
Are there any resignations from your staff? Have
they been submitted?

A
This was completely a surprise to them.

Q
Can you tell us in the family, so to speak, how
you happened to reach the decision today?

A
On account of his going away.

Q
I see.

A
He has been away.
Q

Yes.

And I telegraphed out for an appointment because I wanted to get this thing cleaned up before he left. If he had been here two weeks ago, I would have raised it two weeks ago, but I didn’t want him to leave the country without getting this thing settled.

Q

Did you know about it the last time out at the airport that you were going to approach him on this?

A

Yes.

Q

And you didn’t tell me?

MR. FUSSELL: This is off the record, what you are telling them now.

H.M.JR: Yes, this comes under the heading of confidential. Being the top ranking member of the Cabinet, the courteous thing for me to do was greet the President of the United States when he came in.

Q

I wasn’t questioning that.

A

Here I was, the ranking member, and so I felt that the courteous thing to do was to go down and greet him, which I did.

Q

Off the record, Mr. Secretary, would you tell us what Mr. Truman said to you when you brought up
this issue and said you wanted it settled?

A: I don't think so. It was all very friendly like.

Q: Did he seem surprised at all, Mr. Secretary?

A: I think he was very much surprised.

Q: You originally submitted your resignation, as I recall, on the day that President Truman assumed office.

A: Off the record, I did at least twice by word of mouth. I never handed in my written resignation until today, but I did by word of mouth tell him that his hands should not be tied, that he should be free to choose anybody that he wanted. I think I did it twice, but I never gave him a written document until today.

Q: Well, he told us he had the resignations of every Cabinet Member on his desk.

A: I suppose he meant when I offered it to him verbally. That is good enough, but I never offered it in writing until today.

(Discussion resumed on the record.)

Q: Who started these rumors about your resignation, Mr. Secretary? They have been current now for at least three or four months.
Q    Well, there have always been rumors ever since I have been Secretary of the Treasury.

Q    Well, Mr. Secretary, if I may suggest, earlier when this question came up when you had first mentioned the fact that you would not tie his hand, as you say--

A    I didn't hear you.

Q    Earlier when we were up here following the first time you had apparently submitted your resignation verbally, it was my understanding you got pretty firm assurance of his plans. I was just wondering--

Q    And you had his backing--may I add to this? You told us you had his backing one hundred percent, and I think I asked you whether you would quit after the Seventh War Loan Drive. I think you made some comment off the record, and I left the room, and then all this thing ended. Then suddenly your resignation is submitted.

(Discussion off the record.)
Well, when you talk on the record and off the record, it is difficult, but these rumors seemed to gain in strength and force, and I don't like to work under that kind of atmosphere. I just thought that you people have bosses, and if you hear around the office that so and so is on the way out and you are on the way out, you sort of take it—you want to know whether you are or are not. And I don't figure that after twelve years I am on trial. I think my record—I am not being modest—whatever it is, good or bad, has been made, so I just figured that this was a good time to find out before he leaves. I have this terrific responsibility of being here in charge while he is gone, and I just wanted to know where I stood. And when Mr. Truman didn't seem to know his own mind, what he wanted, that was enough for me. So I just thought today would be a good day to find out.
He gave you no assurance as to where you stood?

That is right. He wouldn't give me any definite assurance.

You handed him your resignation then?

I didn't have it written. I wasn't looking for trouble, and I just wanted to know where I stood like the darkey did who called up the fellow at the drugstore and said, "Mr. Smith, are you satisfied with the boy that cuts your lawn?" He said, "Yes, I am very much satisfied."

The darkey said, "You are sure he is all right—he cuts the lawn all right?" The man said, "Sure."

The darkey said, "Good by." He came in a little later to buy something, and the man said, "Wasn't that you on the phone?" The darkey said, "Yes."

He said, "Why were you calling up?" The darkey said, "I am just checking up on myself." (Laughter)
So, I couldn't call him up on the phone to check up on myself. I thought I'd walk over there and do a little checking. It wasn't very satisfactory.

Q  I detect a note of bitterness in what you say.

A  You mentioned other people going out.

Q  Not at all. My shoulder is a little straighter and I feel a little bit lighter. The load is beginning to slide off. There is no bitterness whatsoever. The air seems a little easier to breathe. My family is quite happy. There is no bitterness. It is quite the contrary.

(Discussion resumed on the record.)

Q  After you rest, Mr. Secretary, can you give us any idea what you might do?

A  I haven't the slightest idea. I have just been so busy doing my job I haven't thought of anything but Treasury business. I haven't the faintest idea.

Q  Mr. Secretary, can we quote you as saying you haven't the slightest idea?

A  That's right.

(Discussion off the record.)
Mr. Secretary, you said that Mr. Truman was surprised when you brought this matter up. Well, can you give us your opinion on what that surprise indicated? Had he thought that he would just let this matter go along for a while? I think so.

Mr. Secretary, that is off the record?

Yes. We'll go back over this thing to check up on what is on and what is off and what is background when we are through. Have you been keeping score, Fussell?

MR. FUSSELL: Yes.

Mr. Secretary--

I have lost track.

Where are we? Are we on or off?

I take it for granted everything is off and then we can go back on and say what is background and what is off.

I have it, what you want us to say.

We will go back. Remind me.

(Discussion resumed on the record.)

I want to say this. I feel those of you men and
women who have been here—you keep changing, but I have always felt that the working press has given us a straight story, and I have never once had a complaint about a news story written by a working newspaperman or woman. I have always felt that we have gotten what we gave, and I felt that ninety-nine and nine-tenths of the time you fellows have kept faith, and I have always tried to tell you people the truth. I never knowingly misled you, and as far as I am concerned, one of the very pleasant things I will have to look back to is my relationship with the press. From my standpoint it has been wholly satisfactory. You people know I have had no private pipelines. I have not sold any articles for pay. I have not permitted anybody associated with me to sell any articles for pay. If I have had a story, I have given it to the working press, and it has been a very happy relationship. I am sorry to see this team break up because we have had a very close working team in the Treasury with you people.
As time goes on and some of us begin to talk, I think that we can maybe blow our horns a little more than we have in the past. It certainly will be nice to be a private citizen and not have to worry about off-the-record on-the-record, ring around the rosy.

Q
Maybe you will invite us to Fishkill for a picnic sometime, Mr. Secretary.

A
You are all invited.

Q
Before you go, and I think I can speak for the rest, we would like to see you and chat very freely around—have a little dinner or something like that.

A
Fine. I'll be glad to act as host.

Q
Swell! Fine. (Laughter)

A
That's all right.

Q
You mentioned the heavy responsibility of being in charge while the President and Mr. Byrnes are away, the fact that you would be the next in line in succession.

A
Yes.

Q
Does that give you actually any added respon-
sibility or authority while they are gone?

A

Well, it just gives you added worry.

Q

It isn't a matter of being Acting President and signing papers.

A

No. It is just a matter of worrying, having the President and Secretary of State hopping all over the place, and being here sort of as a--what do they call it on the stage?

Q

Prompter?

Q

Fill-in?

A

No. The person that is supposed to take the place of the actor.

Q

Understudy.

A

Understudy. The understudy is always worried if he is going to have to go on and sing, and I don't want to sing in that capacity.

Q

But technically you would be Acting President.

A

When the President and Secretary of State leave the country even if it is adjacent to the United States I am responsible, but Mr. Truman will conduct his business wherever he is.

Q

You will officially be Acting President?
Pardon?

Your official title will be Acting President?

I don't think so. I hope not.

In that job you go over to the White House and look at the mail and make sure everything is all right.

I go and see if the hot water is on and if the electricity has been turned off and that sort of thing--check up on the housekeeper, you know.

(Laughter)

Mr. Secretary, how is Mrs. Morgenthau?

Mrs. Morgenthau is getting along very nicely.

Is she still in Daytona?

No, no, she has been here, what Joan, about a month? About a month.

How long is it going to be before your resignation is effective?

Didn't he tell you boys?

He said after his return, but he didn't mention the time element. I wondered if he had given you any.

No. We just talked about it and he wanted me
to be here until he got back, and I said I
would be very glad to stay.

Q

They didn't have copies of the correspondence
available. Will you have copies here?

MR. SHAEFFER: We will have.

H.M.JR: We will have.

A

Now, if you are all satisfied, let's go over what
is on and what is off the record. Have you got
it there?

Q

Generally, I have this. You said that you have
no plans other than to rest. That is on the record.

Q

For background you said you are not interested in
any Federal job, and then also for background they
cannot create any Federal job for you.

Q

On the record, "I haven't the slightest idea what
I might do." That is after you rest.

Q

After the rest.

A

That's right. That covers it.

Q

Well, what you said to us is on the record, too,
isn't it? You said you were sorry to see this
team break up, speaking to the press.
The Treasury team?

Yes, the Treasury team.

Yes.

Didn't you mean this as a team, your press conference?

I meant this group and the people in the Treasury.

Oh.

I meant the press and myself and the people who have been associated with me. That is what I meant.

Is there anything else?

No. Thank you, sir.

Thank you all.

Are you going to hold another press conference before you leave?

You will hold regular press conferences until you go, won't you?

Sure. We continue as is. I may ask you to pack up a couple of boxes.

We will be very glad to. Thank you very much.

Thank you all.
SECURITY MORGENTHAU'S PRESS & RADIO CONFERENCE
4:00 p.m., July 12, 1945

Q. How do you do, Mr. Secretary? How are you today?
H.M. JR.: Fine.
Q. This is on Lustig (handing paper to the Secretary). I got it on the message wire today. I asked for it so I could let you see it in case you hadn't already.

A. Is this off the record?
Q. Oh, no, he put out the statement in New York today, and he said you people are all wrong.
A. Who put out the statement?
Q. Lustig.
A. Who is that?
Q. You know, the guy that you have got the case on up there.
Q. He used to have the swellest broccoli with hollandaise sauce. I am sorry to see him go.
Q. He denies everything. He said he called you people in and asked you to look him over.
A. And so what?
Q. Well, Mr. Secretary, in view of the fact that the New York Daily News has a story with the
names and everything in it, isn't there something that you could do about letting us go ahead with the details that we know about?

A  
I am sorry, I can't. I can't help it if any particular newspaper wants to go ahead. Under the freedom of the press they are at liberty to print anything they want. Under the laws which govern me, I am not free to comment on it for a little while yet. So I can't help you out. I would like to, but I can't.

Q  
Could you comment on this at all? Inasmuch as he says that the paper bases this charge on complete distortion of the facts, and he said, "I state now that I have not evaded the payment of taxes, never have intended to do so"--

A  
Well, his argument is with the newspaper that ran the story, not with me.

Q  
Well, he says, "An income tax investigation was requested by me," Mr. Lustig.

A  
I am sorry, but I am not going to be able to help you out on that.

Q  
Mr. Secretary, you said that you were precluded
from commenting under the law. What law is that to which you refer?

A Mr. General Counsel?

MR. O'CONNELL: Section 55 of the Internal Revenue Code surrounds tax information or information taken from people's personal tax returns with a great deal of protective mechanism. The Secretary and other people in the Department are pretty strictly limited with respect to the extent to which they may disclose tax information.

Q So if he were innocent, the law wouldn't apply? If Lustig were what he claims to be, innocent, the law wouldn't apply?

MR. O'CONNELL: I don't follow you.

Q Well, you say that Section 55 protects the income tax returns of taxpayers when they are in difficulty.

A Tax returns, whether they are in difficulty or not.

Q After that, there wouldn't be much use asking about the Elliott Roosevelt case, would there?

H.M. JR: You can ask me anything you want. I don't have to answer you. You may ask me anything you want. I will volunteer this information. It may be helpful.
Mr. Norman Cann of the Bureau of Internal Revenue yesterday went up and made a report to the Ways and Means Committee, and we are informed that they were satisfied with the progress that the Bureau of Internal Revenue was making and told them to continue. Is that right?

MR. O'CONNELL: The matter is still under investigation in the hands of the Bureau.

H.M. JR.: Other than that we have no comment to make. Is that right?

MR. O'CONNELL: That is correct.

Q Would you please spell Mr. Cann's name?
A C-a-n-n.

Q He is one of the investigators?
A He is the Deputy Commissioner of Internal Revenue in charge of income tax.

H.M. JR.: After Mr. O'Connell has given you the law as to what I can say and what I can't say, I have a couple of nice cases I would like to tell you about. I don't know how nice they are. That is a poor way to describe them, because they are pretty shocking. But I might say that this investigation of tax evaders and black market
people is growing in size all the time, and there just seems to be no end to the amount of evasion. The more we go into it, the more shocking it is. Here is the sort of thing that we find. I will read it—and we have copies. A particularly distressing case of attempted tax evasion is disclosed by Treasury investigation of a manufacturer who made jewelry boxes and novelties for the jewelry trade and obtained a subcontract for boxes to obtain Purple Heart medals for wounded service men. This manufacturer reported a loss on his last fiscal year, and filed a claim for a carryback against taxable net income from the previous years. Investigation of the refund claim indicated that the corporation actually made a profit on the last fiscal year. The President of the firm has admitted to a Treasury agent that sales had been concealed by invoicing merchandise under billheads printed under his own name instead of the name of the corporation. The proceeds from such concealed sales were then deposited in nine or ten banks, in states other than the state in which the firm was located. Deposits thus far located approximate
$80,000 over the last three years. The investigation has just started, but early indications are that sizable taxes and penalties will be collected and that criminal prosecution will be recommended. That is about as bad a case as we have had in a long time. That is eighty thousand in the last three years, you say? Yes.

I have another case here which I think involves five million dollars.

An important case, involving a firm of Midwestern war contractors, is expected to be presented to a grand jury within the next three or four weeks. This case probably will involve larger sums of money, in unreported income and in evaded taxes, than the New York restaurant case. When Treasury representatives were called to
Washington recently for conferences, the files they had accumulated were so bulky—200 to 300 pounds—that they could not get them in their valises and had to ship them by railroad express.

The case involves understated and suppressed reports of sales, padded reports of purchases, padded payrolls and diversions to the private accounts of members of the firm, including use of materials and manpower to build a private residence for a member of the firm.

This is in the State of Wisconsin, isn't it?

MR. FUSSELL: Yes.
Now, on the other side, which is a by-product of this drive, under voluntary disclosures, the number and importance of voluntary disclosures as a result of the special tax drive is increasing rapidly. I have a list of the whole group of voluntary disclosures. There was a case in which investigators had discovered that a company dealing in women's clothing had cashed checks totaling more than two hundred thousand dollars during the last two years. The attorney of the company offered a complete disclosure. He was told by the investigators that this could not be considered a voluntary disclosure because the case was already under investigation. I have a list of the whole group here, but I won't take up your time by reading them. We will give you a copy. I have another memorandum of war activities donations. I will furnish you with copies of that. You might be interested.
Donations for war activities amounted to one million four hundred and twenty-three thousand dollars during the fiscal year ended June 30th, and during the entire war period a little over seven million dollars in gifts which have been given to the Treasury.

In the final reports on E Bonds, Mr. Little informs me that the four top States are Montana, with a percentage for E Bonds of one hundred and nineteen point two of its quota, Iowa is next with one hundred and nineteen, Alabama with one hundred and eighteen point nine, and Wyoming with one hundred and eighteen point nine. Those are the four States that topped the country in E Bonds.

Q What was the Wyoming figure again, please, sir?
A Wyoming with one hundred and eighteen point nine.
Q Mr. Secretary, have any of your staff submitted their resignations to you effective upon your departure from the Treasury?
A: No, they have not.

Q: Mr. Secretary, is the Bureau investigating Judge Johnson or any others in that Pennsylvania deal?

A: Not that I know of. That doesn't mean that they might not be. It just means that it hasn't been brought to my attention.

Q: Mr. Secretary, Dean Acheson, before the House Banking Committee, indicated in answer to questions that he would obtain for the Committee or file with the Committee a report on the breakdown of foreign currency; that is, currency printed for the armed forces, and so forth.

A: Will you answer that, Mr. White?

MR. WHITE: I am awfully sorry. I wasn't able to hear the whole question.

Q: Dean Acheson, before the House Banking Committee, in answer to questions about the amount of currency used for the pay of the American forces overseas, said the Treasury would furnish a statement or that he would secure for the Committee a statement from the Treasury on it.
The statement has been submitted to the Committee today on invasion currency. It did not contain amounts. I don't know whether that was the question or not, but it contained a discussion of the invasion currency. That discussion has been available to the press for some time, in the main. So, there would be nothing new in it for you.

Nothing new in the report?

No, because the whole matter has been explained before, except the amounts, and the amounts are not available. The Army could make that available. (Discussion off the record.)

Mr. Secretary, is there any new plan for changing the rate of exchange of the franc for the soldiers?

No. Did we say anything about that?

Well, you might want to suggest the adjustments. It is pretty near consummation—not the change in the rate, but the adjustments, which would very clearly help out the soldiers.
Well, there is a program under way between the Minister of Finance, the War Department, and the Treasury.

Would that be a special type of franc for the GI's?

I guess we are not ready to talk about it yet.

Not quite.

About what you have said so far?

There is something under way.

It will be helpful to the soldiers in France?

I think I had better wait, if you don't mind. It may upset the people over there. It is going to be simultaneous for weeks.

Then all that was off the record?

Yes, if you don't mind. You had better wait.

You don't want to be quoted concerning anything on this point?

No, if you don't mind.

You are a little meticulous with the francs.

Well, at least I can look anybody in the eye.

Do you remember when they changed the franc in 1939?

That was before the war.
(Discussion resumed on the record.)

A Is there anything else? Don't try to manufacture something. (Laughter)

Q How about this report that you are going to become Governor of the Fund? Is there anything to that, Mr. Secretary?

A We had a long talk about that last time.

Q Drew Pearson said you might run for the Senate in New York State.

A Well, it is summertime.
H.M.JR: Good morning.

Q Good morning, sir.

A I am sorry that I have gotten you people up so early.

This is my report. (Handing out copies)

Q How do we refer to you in this if it is for Wednesday? Are we going to say "ex" or "past" or "retired"?

A Tomorrow morning it will be the report of the former Secretary.

Q The late Secretary?

A Yes.

I think you people will find it quite interesting. There are some suggestions for reorganization, which I felt were good with all these different agencies around. I told Mr. Truman he needed one person to be the watch dog of the Treasury.

There are some recommendations in here which I hope will be carried out.

Q You mean somebody in the Executive Department
wants them.

No. You will see that there is a whole suggestion here of the set up. The idea is that the Secretary of the Treasury should be Chairman of the Board with eight or nine assistants. He will be Chairman of the Board.

The section on organization.

Yes.

I also suggested that they move Budget back into the Treasury. He has a big job ahead of him and he ought to have the tools to work with. Nobody can be Secretary of the Treasury with all these organizations and no real control. You will see. They should really give the Secretary of the Treasury the responsibility.

The other agencies have worked with me on a personal basis, but there is no equal authority. When big transactions have taken place they have always consulted us, but it has always been on a loose basis.
Do you recommend that the Audit be moved under the Treasury also?

It has a Board of Directors just the way any big bank would be run. If a bank has a department that lends to industry, that man won't be off by himself. He reports to the Chairman of the Board. If you had a Foreign Department of a bank, that would be operated like the Export-Import Bank, and if you had a Foreign Economic Department, you wouldn't have that. In other words, it brings them in and makes them Vice Chairman of the Board, but they have to get the approval of the Secretary of the Treasury to function. It is just the way any private institution would be run. It is something we have worked out here with great pains. It is the same thing with the Bureau of the Budget. I think any Secretary should have it. There is a lot of meat in here. Had you made all the suggestions for reorganization earlier?

Everything.
Q How long ago, would you mind telling us?
A May 9th.
Q You mean you wrote this or you suggested it?
A It was made to the President.
Q Did he express himself in any way at all?
A No.
Q Do you have any plans, Mr. Secretary, for yourself that you can tell us about?
A Well, the only plans I have are that I am going to New York tonight with Fred Gehle. I told him if he made his E Bond quota I would give him a dinner. I wanted to be here today so I postponed it. I am going to be host to sixty members of the New York State War Finance Committee. Then I am coming back tomorrow night for a very important dinner. I am leaving on the five o’clock plane.
Q Have you got a priority, Mr. Secretary?
A They say I can go. I haven’t asked for any priority.
I mean coming back tomorrow night. That is the most important part of it all, after all. Well, I haven’t asked for any priorities, but Eastern Air Lines assures me they won’t bump me. If they do, I will call up one of you people.

Yes. We will take care of you.

I am starting on my book on Germany. I have promised it to my publisher.

When is it to be done?

I promised it to them August 6th.

You mean you have already started on it. Is that it?

Well, we have had the makings of it around here. Those are the plans for postwar Germany?

Yes. But any profits that might accrue are going to a trust fund to be distributed in the interest of the peace. The book has been given to a trust fund which will distribute the profits in the interest of the peace.

Are you going to finish it up at the farm?
Well, it all depends on whether Mrs. Morgenthau can go.

Q
Can't she go yet?

A
Not for a couple of weeks.

Q
Then you will still be in town.

A
I will be in town writing.

Q
You can borrow a typewriter down in the press room. (Laughter) Have you selected the title yet?

A
I don't know what the title is, but it is the Morgenthau Plan. A rose by any other name would smell just as sweet.

Q
Could you give us the name of the trust fund?

A
I don't know yet.

Q
Is it a new one?

A
It is quite new and my attorney fixed it up, and all I had to do was give the book. I have done that. All royalties and any profits of any kind accruing from the book will go to this trust fund.

Q
Moving picture rights and everything?
Everything.

Q  Mr. Secretary, could you tell us a little more of what will be done? In what way will it be used in the interest of peace?

A  Well, that will be for the trustees to decide.

Q  You don't know yet whether it is scholarships or not.

A  No, sir.

Q  What will be the name of it? Do you know yet?

A  No, the lawyers will fix it up.

Q  You are not ready to release the names of the trustees yet?

A  Not yet. But Morris Ernst has got the thing.

Q  Before we go, Mr. Secretary, I still note a rather supercilious glint in Mr. Gallatin's eye, and I still think he served longer than you.

Is that right? (Refers to Mr. Gallatin's picture)

A  That is right.

Q  Drew Pearson said last night that you served longer consecutively.

A  Mr. Gallatin is affectionately known around here as "old pickle puss."
He ain't going to like that. (Laughter)

If anybody ever asked him for a loan, I'll bet he would get just nothing but a cold stare. (Laughter)

Do you have any other public plans?

No. I am going to do the book, get Mrs. Morgenthau to the country, and take a little rest.

You wouldn't like to make a little bet that you wouldn't be in some public office rather soon?

You would lose some money.

I have heard some rumors.

I have nothing but those plans. I have told you everything I have got in my mind. I am going to do this, get it out of the way, get up in the country just as soon as the doctors say Mrs. Morgenthau can go, and go up to the farm and rest, and that's about all.

Well, you will be getting there just about in time for apples.
There are no apples this year.

How come?

Ninety-five percent of the crop has gone with the wind.

Are you going to buy the first bond?

I am coming back here with Mr. Vinson and he is going to sell me a thousand dollar bond.

Can we get in on that?

Sure. Right after his return here he asked me if I would come down with him, and he is going to sell me an E Bond.

Do you have any plans about your close associates that you can tell us about?

That is their business.

It has been a real pleasure knowing you, Mr. Secretary, and we will see you.

(The Secretary shook hands with all the reporters)
Digest of Report to Congress by Secretary Morgenthau

In a report to the Congress prepared immediately prior to his retirement as Secretary of the Treasury, and now released, Henry Morgenthau, Jr., discusses the broad reasons for his interest in the problems of peace and reconversion.

"The tax bill of the American public after this war, the burden imposed on the taxpayer by that tax bill and the soundness of this nation's whole public debt structure will be affected in a major way by the degree of success we achieve in solving the problems of lasting peace and full employment," Secretary Morgenthau said in a concluding section of his report. "The policies of the Treasury Department in the fiscal field are, therefore, inexorably affected by what is done in these fields.

"Specifically, if the end of this war finds a world torn with fear and suspicion -- with nations doubtful of the real intentions of other nations -- this country and other countries will be compelled to seek security through the maintenance of a huge military establishment," entailing immense expenditures.

The recognition of this fact intensified the Secretary's concern for the success of the Bretton Woods program "and the formulation of an effective program from preventing Germany and Japan from fomenting another war."

On the domestic front, the report indicates concern for the reconversion period. If the period is marked by unemployment, retrenchment and an economy of scarcity, the cost of government will fall heavily on the depleted income of the taxpayer, regardless of tax rates, the report says.

But if incomes are high and business is good, the cost of government -- including the servicing of the debt -- can be met with substantially lower taxes.
"Incomes will be high and business will be good if this country undertakes a speedy post-war reconversion accompanied by intelligent protection for the wage-earners' pay envelope, stability in farm prices and reasonable profits for business. Such a program calls for a high order of statesmanship on the part of our industrial and financial leaders. A great responsibility falls upon them."

Mr. Morgenthau's final report as Secretary of the Treasury closes with these words:

"In the long and sometimes trying years during which I have held stewardship over the financial affairs of this Nation, I have leaned very heavily upon the support and the inspiration of the great President under whom I served -- Franklin D. Roosevelt. It was President Roosevelt who gave me the opportunity to serve. It was President Roosevelt's confidence which enabled me to carry through the policies which have governed our fiscal affairs through the crisis years of the great depression and the greatest of World Wars. I could not take leave of my stewardship without an expression of my gratitude and affection for him.

"There are bright horizons before us. Under the leadership of President Truman, we can move toward them, if we will, in the new national unity forged for us by war. We can move toward, and beyond, them with the sure confidence of a free people who have found in the ways of freedom a pattern for the solution of whatever problems may confront them."

The reason for the issuance of the report, some months in advance of the normal appearance of the annual report of the Secretary of the Treasury, and for the broad field it covers, is set forth as follows in a foreword:

"Since I am about to retire as Secretary of the Treasury, and since the more important data dealing with the operations of the Treasury Department are already available, it seems fitting that I should give an accounting of the last fiscal year under my stewardship. Actually, most operations of the Department are not rigidly partitioned into fiscal years, but are affected by developing conditions and policies. Therefore, this accounting deals briefly with the period since January 1934, the date on which I assumed the Secretaryship. And since we should utilize whatever light the past and present can throw toward the future, I am noting certain matters in which further action seems desirable."
The body of the report deals with the major subjects of Taxation, Borrowing, International Monetary and Financial Developments, and Administration.

Following is a digest of the report, by subjects:

**TAXATION.**

The report states:

"Treasury tax policy in the past 12 years has been guided by the rapidly changing needs of the nation in depression, recovery, defense and war. While holding firm to certain basic tax objectives -- fairness in distribution of tax burdens, ease of administration and taxpayer compliance, and active support of the nation's economic policies -- the Treasury has continually sought to adapt the tax system to fit the needs of the time. These same considerations apply to revision of the tax system that will be necessary to adapt it to postwar conditions."

The report notes that through a combination of tax increases and a rising national income the total yield of internal revenue taxes grew from $2,670,000,000 in the fiscal year 1934 to $5,340,000,000 in the fiscal year 1940, and that under the impact of war, 1940 collections were multiplied 8 times to reach $43,800,000,000 in 1945. "In contrast with World War I, when less than one-third of our expenditures were financed from taxes and other non-borrowing sources, we have in this war financed 41 percent of our total expenditures since July 1, 1940, from such sources, and reached a peak of 46 percent in the fiscal year 1945."

In the pre-war period, Treasury tax policy was directed chiefly toward making the tax system more equitable and combatting tax avoidance. Loopholes which still need to be closed, it is noted, allow interest upon state and municipal securities to escape taxation, give married couples in community property states special advantages, and provide "overly generous depletion allowances on oil, gas and mineral properties".

Other recommendations during the thirties included an undistributed profits tax and steps to alleviate taxation which discriminated against certain types of business, operated as irritants or otherwise hampered business expansion. Attention was also paid to the need for coordinating Federal, State and local tax systems to prevent overlapping and conflicting taxes.
Wartime tax policy, in a series of steps, has resulted in tax revenues meeting nearly half of current expenditures, "without sacrificing standards of equity and justice", the report says. "The test of taxation according to ability to pay has in general been met through heavy reliance on progressive taxes, through special relief provisions to avoid hardship and through continued efforts to close avenues of escape from just taxation. ... Through the introduction of withholding and the drastic simplification of individual tax returns, the compliance burden of the mass of taxpayers has been greatly eased."

The wartime tax system has also "played a major role in restricting war profiteering and curbing inflation", it is noted. This has been done without hampering wartime production, the report points out. At the same time, the Treasury has opposed a tax pattern for individuals which would "encroach harmfully upon the standard of living". Throughout the development of these policies, it is noted, emphasis has been placed upon "the need of cutting down borrowing by courageous taxation, so that our postwar debt problem would be more manageable and that our returning service men and women would not be burdened with the cost of the war they had fought for us".

In the field of postwar taxation it is noted that staff members from the Treasury have aided the Joint Committee on Internal Revenue in preparation of tax legislation, recently enacted for the pre-VJ Day period, and adds that "although this legislation meets the more immediate interim problems it does not deal with more fundamental long-range aspects of postwar taxation. Work on these is being continued by the Joint Committee staff and Treasury staff."

The report also deals with the currently intensified campaign against tax evasion and points out that "The objective of this campaign is not merely to detect and punish those who have evaded their obligations, but also to encourage respect for the law."

BORROWING.

Federal expenditures in the present war period already are approximately nine times those of the World War I period -- $325,000,000,000 as against $37,000,000,000 -- and gigantic sums have had to be borrowed by the Government to supplement its tax revenues. But the net cost of each dollar borrowed
in this war is only about one-third that of the last war. This is pointed out by Secretary Morgenthau in the section of his report reviewing the Treasury's wartime borrowing program. The period covered is from June 30, 1940, to July 9, 1945, when final figures on the 7th War Loan were tabulated.

Rising interest rates which were paid on Government loans for World War I had reached an average of 4.22 percent on June 30, 1920, the report notes. Declining rates paid on loans for World War II were down to an average of 1.94 percent on June 30, 1945. The net cost per dollar borrowed for World War II has been further lowered by reason of the fact that interest paid on all Government securities issued since March 1, 1941, has been subject to the full rates of the Federal income tax, whereas the yield of World War I securities was either wholly or partially tax exempt.

"I have said on previous occasions, and I say here again, that I do not anticipate an increase in interest rates (with a consequent decline in bond prices) after this war", the retiring Secretary commented. He pointed out that while interest rates have no effect on prices during war, a low level of rates will be a highly important factor in stimulating employment in the post-war period.

The wartime borrowing program has been keyed to two objectives other than that of reasonable interest rates, the Secretary said. One of these has been the raising of the necessary funds in such a manner as to minimize inflation dangers. The other has been the offering of securities suited to the needs of purchasers.

As an anti-inflation safeguard it was necessary to borrow substantially from other sources than banks. The Treasury set about accomplishing this by offering savings bonds of Series E, F and G issues and other securities planned to meet specific needs; by launching its payroll savings plan of regular bond purchases by wage and salary earners; and by conducting war loan campaigns aimed specifically at nonbank investors.

As an indication of the success of these steps, the report notes that of a $211,000,000,000 increase in the interest-bearing public debt during the period from July 1, 1940, through July 9, 1945, nonbank investors absorbed about $122,000,000,000 and commercial and Federal Reserve Banks about $89,000,000,000.
The savings bonds offered to small individual investors as part of the wartime borrowing program are completely free from risk, it is noted. This fact is one of the important features of the Treasury plan to adapt its wartime securities to the needs of the various classes of buyers. The savings bonds have guaranteed redemption values, which protect the purchaser in the event that he is compelled to part with his securities. In contrast, securities sold to small investors in World War I were of the marketable type, and when market prices dropped precipitously after the war, many small investors suffered.

The report says that from July 1, 1940, through July 9, 1945, $51,000,000,000 was raised by selling savings bonds to approximately 85,000,000 persons. Of this total, bonds to the amount of $43,000,000,000 still are outstanding.

Of days to come, Secretary Morgenthau remarked:

"The job of war finance is not yet finished. The peak, both in war expenditures and in borrowing requirements, has probably passed; but, in some respects, the most crucial period still lies ahead. This is because, while the physical dimensions of the problem are shrinking, its psychological difficulties may increase.

"Periods of crisis unite men in action for the common good, while victory too often brings relaxation and recrimination. I am sure, however, that the people of the United States are not going to hazard the postwar economic stability, which is now almost within their grasp, by prematurely relaxing their efforts on the War Bond front, or any other."

INTERNATIONAL MONETARY AND FINANCIAL DEVELOPMENTS.

In the sphere of international money and finance, the last twelve years have been the most important in United States history, the report notes. During the period this nation's monetary policy has had two objectives -- restoration of our international economic position through revaluation of the dollar and stable exchange arrangements following revaluation.

Stabilization of currencies at exchange rates prevailing in 1933, while the World Monetary and Economic Conference was in session in London, would have perpetuated the serious overvaluation of the dollar, it is explained. But once readjustment had been effected, the Treasury proceeded with its policy of international monetary cooperation. The Tripartite Declaration of September, 1936, and numerous bilateral agreements are cited.
"The experience of the 1930's convinced me that it was possible to obtain international agreement on foreign exchange problems," Secretary Morgenthau said. "Accordingly, in 1941, I instructed the Treasury staff to begin work on the international monetary and financial problems that would confront us after the war."

From this sprang the Bretton Woods Agreements, accepted by the Congress of the United States in legislative action just completed. In the overwhelming votes by which the Bretton Woods bill was approved, Secretary Morgenthau said, "The American people and their Congress demonstrated to all that they are united in their willingness to fulfill the grave responsibilities of world leadership."

The report recites the various steps taken in carrying out gold and silver policies.

World War II, with its widespread battlefronts, presented currency and exchange problems unique in world history, the report notes. From the time in 1942 when the Treasury provided the gold coin which General Clark carried to North Africa by submarine, and throughout the campaigns in Europe and the Pacific, new procedures were required to meet totally new conditions.

The report discusses in detail the aid rendered by the Treasury to the Chinese Republic, in 1937 and subsequent years, and the steps taken to facilitate supplies for the British and French governments, prior to the institution of Lend-Lease.

The development of Foreign Funds Control, it is noted, likewise traces from activities instituted by the Treasury, several years prior to the outbreak of World War II, to limit the benefits which aggressor nations might obtain by seizing the foreign exchange assets of invaded countries.

In the ensuing economic warfare program, the United States applied a "scorched earth" policy to currency and securities which could not be removed from the Philippines and planned similar protective measures in the event that Hawaii should be invaded. The report adds:

"We prevented the use of United States financial facilities by the enemy even in cases wherein no frozen funds were involved. Because the dollar is the strongest currency in the world, it is the medium of exchange most widely used in international transactions. Through cooperation received from our banks, we were able to examine hundreds of financial transactions handled through United States facilities or persons in countries which were not blocked, thus preventing the enemy
from using channels such as South America for effecting transactions inimical to us."

As the war progressed it became apparent that the Government required further information on American property interests abroad. Under a reporting system instituted two years ago, it is noted, some 235,000 reports were obtained, and preliminary tabulations of these reports indicate total holdings abroad of approximately \$13,000,000,000.

With the cessation of hostilities in Europe an orderly program for terminating freezing controls is being put into effect. The basic principles followed in this procedure, it is noted, are these:

"The rights of American creditors and other American claimants must be adequately safeguarded; assets held in the names of persons within blocked areas, but which actually belong to the enemy, must continue under American control; no benefits must be permitted to accrue to elements which have collaborated with the enemy; looted property must be returned to rightful owners and transfers executed under duress and compulsion must be vitiated."

In administering freezing controls, the Treasury has also been concerned with the large number of accounts held in the name of neutrals which actually represent enemy assets.

During the Bretton Woods Conference a resolution was adopted calling upon all neutral nations to cooperate in solving this problem, the report notes, adding:

"Our success in securing the forthright and active cooperation of the neutrals in such programs will have a direct bearing on the unfreezing of their assets in this country, for such measures can be taken only after bona fide neutral assets have been segregated from cloaked enemy assets. Otherwise, neutral accounts in our own banks may serve as havens for the ill-gotten gains of Nazi war criminals. Indiscriminate unblocking might permit the Nazis to keep their loot as a nest egg for another war."

ADMINISTRATION.

Pointing out that the United States Treasury is "the largest financial institution in the world", the section of the report devoted to administration cites a number of statistics indicating the magnitude of its operations. During
the last fiscal year there passed through the Treasurer's money accounts more than $500,000,000,000 of receipts and disbursements, including public debt and currency transactions, at the rate of $1,500,000,000 per working day. The Division of Disbursement issued nearly 82 million checks, amounting to over $19,000,000,000. All told, the Treasurer of the United States paid over 332 million checks involving $189,000,000,000. The Bureau of Engraving and Printing produced 1,700,000,000 pieces of currency, bonds, notes, certificates and bills, representing a money value of $245,000,000,000. The Bureau of the Mint produced 2,600,000,000 separate domestic coins, with a money value of nearly $125,000,000 and 1,400,000,000 individual foreign coins.

In carrying out fiscal operations involving these immense sums of public monies, the retiring Secretary noted, he had been guided by three fundamental procedural principles:

"(1) The maintenance of adequate control over the funds and securities at a minimum of administrative expense; (2) prompt and courteous service to taxpayers, public creditors and others with whom the Treasury does business; and (3) a full and complete disclosure for the Congress and the nation of the financial operations of our Government."

The report notes continuous steps to improve working conditions and safeguard the health and well being of Treasury workers, and points out that the organization of more than 97,000 employees has one of the lowest turnover rates of the Federal agencies.

Establishment of a permanent Fiscal Service within the Treasury, the coordination of the work of law enforcement agencies, and the decentralization of much of the work of the Bureau of Internal Revenue through the establishment of field offices, are among the administrative improvements of recent years, as noted in the report.

The report also summarizes recommendations made by Secretary Morgenthau to the Congress and the President.

In 1939, it is noted, the Secretary suggested "that if the Ways and Means and Appropriations Committees of the House and the Finance and Appropriations Committees of the Senate would meet each session as one joint committee on fiscal policy to consider the overall aspects of the expenditures and revenue program, simplification and greater effectiveness would result."
The report also suggests simplifications of the financial structures of Government-owned corporations and more lucid public reports covering their finances. The retiring Secretary added:

"To me, the outstanding weakness in the management of Federal fiscal business is the absence of a single, responsible officer to whom the President may look for complete and comprehensive policy direction over the entire field of borrowing, lending, spending and insuring .... Since the Treasury Secretary is charged with the responsibility for raising the funds, managing the public debt, collecting the taxes and maintaining the accounts, he is identified as the Chief Fiscal Officer. Yet in actual practice the area of control and influence exercised by the Secretary of the Treasury is largely limited to one side of the ledger. He is not in a position to exert proper influence over the use and disposition of the funds he must raise and account for to the nation. This weakness is a material handicap to the functioning of the Treasury Department and, moreover, to the orderly and unified conduct of this Government's financial affairs."

In this direction the report suggests establishment of a National Committee for Fiscal Affairs of which the Secretary of the Treasury would be chairman. The committee would consist of representatives from each of eight subcommittees covering the fields of (1) Industrial Finance (2) Agricultural Finance (3) Foreign Finance (4) Maritime Finance (5) Money and Credit (6) Housing Finance (7) Public Works Finance (8) Federal Budget.

It is suggested in this connection that many corporate organizations could be dissolved and their functions woven into those of the executive departments. Mr. Morgenthau added that personally he felt that the responsibility for preparing and submitting the President's budget should be returned to the Treasury.
SUMMARY REPORT
of the
SECRETARY OF THE TREASURY
1945

Washington – July 21, 1945
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Sirs: I have the honor to make the following report.

Normally, issuance of the annual report on the finances of the Federal Government is delayed several months following the end of the fiscal year which it covers, in order to include comprehensive statistical material requiring much time for compilation.

However, since I am about to retire as Secretary of the Treasury, and since the more important data dealing with the operations of the Treasury Department are already available, it seems fitting that I should give an accounting of the last fiscal year under my stewardship. Actually, most operations of the Department are not rigidly partitioned into fiscal years, but are affected by developing conditions and policies. Therefore, this accounting deals broadly with the period since January 1934, the date on which I assumed the Secretaryship. And since we should utilize whatever light the past and present can throw toward the future, I am noting certain matters in which further action seems desirable.
The following report is submitted in the expectation that my successor as Secretary of the Treasury will present, at a later date, the additional statistics which ordinarily are included in an annual report, together with such comment, analyses and recommendations as he may desire to submit.
TAXATION

Treasury tax policy in the past twelve years has been guided by the rapidly changing needs of the Nation in depression, recovery, defense, and war. The important repercussions of taxes throughout our social and economic structure make it vital that our tax policy and our tax system be responsive to social and economic change. While holding firm to certain basic tax objectives -- fairness in distribution of tax burdens, ease of administration and taxpayer compliance, and active support of the Nation's economic policies -- the Treasury has continually sought to adapt the tax system to fit the needs of the times. These same considerations apply to the revision of the tax system that will be necessary to adapt it to postwar conditions.

Prewar Tax Policy, 1934-1940

Appearing before the Ways and Means Committee in 1939, I said that "When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens and of national income, that the change promotes and does not retard business recovery, and that the change makes easier and not more difficult progress toward the establishment of a balanced relationship between revenues and expenditures." These tests, combined with the ever-present goals of
reducing complexity and improving administration, guided the successive recommendations which I submitted, in accordance with the late President Roosevelt's fiscal program, to strengthen the tax system of the 'thirties.

Through a combination of tax increases and a rising national income, the total yield of internal revenue taxes grew from $2,672 million in the fiscal year 1934 to $5,340 million in the fiscal year 1940. Testifying before the Ways and Means Committee in 1935, I said that "The Treasury's first concern is with the adequacy of the national revenue," but that "it would, of course, be unwise to impose tax burdens which would retard recovery." It was recognized then, as it is now, that "There are times of emergency when the Treasury must finance expenditures in excess of income by borrowings which increase the public debt." To have balanced the budget at a time when millions were unemployed would have required sharply heavier taxes curtailing further the already inadequate buying power of consumers and dulling the incentives of businessmen.

We turned our attention, therefore, to strengthening the tax system in those areas where justice and equity could be served by closing tax loopholes and making the tax system more progressive. In an address in October 1936, I summarized our efforts of the first three years, noting that "it would have been popular among certain groups of our population to have raised additional revenues by new excise and sales taxes — taxes that would have fallen most heavily
on those least able to pay." Instead, "First, we borrowed to meet
the emergency" and then we provided "taxes based upon the democratic
principle of ability to pay -- primarily income and estate taxes.
Through the Revenue Acts of 1934, 1935 and 1936, we lowered the
effective rates of taxation on small individual incomes and on small
corporation incomes, but we raised and made more fully effective the
rates of income tax on those best able to pay them."

The revenue acts of the middle 'thirties also strengthened the
estate and gift taxes by broadening the base and increasing the rates
of those taxes. Little reliance was placed on new excises, other
than liquor taxes, although we reluctantly approved the retention of
certain manufacturers' excises which I had hoped might be dropped.

During the past twelve years I have again and again directed
attention to devices which taxpayers use to escape their fair share
of taxes, thereby undermining the productivity and impairing the
equity of the tax system. I stated before the Joint Committee on
Tax Evasion and Avoidance in June 1937:

"The problem of closing loopholes in tax laws is
continuing and ever-present. It is never settled by
any particular legislation. Tax administration today
requires a succession of laws to prevent the use of
ingenious devices which distort the original purpose
of the act and which create what to the average man
seems unethical and unwarranted avoidance of taxes."

Tax loopholes do more than confer unfair tax benefits on some
at the expense of others. They distort normal business relationships
and act as a drag on the economy. For example, as I noted in
appearing before the Ways and Means Committee in 1939, tax exemption of governmental securities "operates as a magnet which pulls persons subject to high income taxes away from investments in private business."2

In a series of revenue acts during the 'thirties, many loopholes were closed. The full deduction of capital losses, particularly fictitious losses, from ordinary income was curbed by the Revenue Act of 1934. The 1936 Act employed the undistributed profits tax to cut down the avoidance of individual income taxes through the retention and accumulation of corporate profits. The 1937 Act, which grew for the most part out of Treasury investigations and recommendations, was designed principally to stop abuse and avoidance of the income tax through trusts, family transactions, and personal holding companies, both domestic and foreign.

From time to time I have recommended to the Congress that it remove certain other loopholes from the law. For example, in March 1934 and several times since, I have strongly recommended that the statutory exemption of the interest on government securities from Federal income taxes be eliminated. The Congress in 1941 eliminated the tax exemption of future issues of Federal securities, but the exemption of State and municipal securities continues. Moreover, the overly generous depletion allowances on oil, gas, and mineral properties constitute a loophole which I have repeatedly recommended be closed, but which still remains in the law. I have also urged,
without success, elimination of the special income tax benefits conferred upon residents of community-property States. I sincerely hope that the Congress will devote its attention to these loopholes in its postwar revision of the tax system.

The impact of tax changes on business expansion was a major consideration in our tax program of the 'thirties. For example, in submitting the proposal for an undistributed profits tax to the Congress in 1936, the Treasury aimed not merely at preventing tax avoidance but also at eliminating the double taxation of distributed corporate income and at preventing the accumulation of idle corporate funds. Moreover, in 1939 I suggested to the Ways and Means Committee that the absence of a carryover of net business losses discriminated against businesses with fluctuating earnings. It was also noted that such "tax irritants" as the capital stock tax and the declared value excess profits tax had adverse psychological effects on business.

Finally, certain over-all problems of public finance occupied our attention. I have long been concerned over the lack of coordination of Federal, State, and local tax systems. At the direction of President Roosevelt, the Treasury conducted a preliminary study of overlapping taxes early in my term as Secretary. In 1939, I suggested "that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of intergovernmental fiscal policy and propose a plan for the solution of the problems involved." When Congress took no action, I appointed in 1941 a three-man Committee on Intergovernmental Fiscal Relations, which
intensively studied this problem and reported its conclusions and recommendations to me in 1942. Action in the field of overlapping and conflicting taxes should be an integral part of our postwar tax program.

Also in 1939, I suggested a method of coordinating our fiscal policy on the Federal level, stating to the Ways and Means Committee that, while a balanced budget is "a fundamental objective of sound finance, . . . there are periods during which sound fiscal policy calls for an excess of outgo over income, and others when it calls for an excess of income over outgo." It was suggested that a simpler and more effective fiscal policy would result if the Ways and Means and Appropriations Committees of the House and the Finance and Appropriations Committees of the Senate "could meet each session as one Joint Committee on Fiscal Policy, to consider the over-all aspects of the expenditure and revenue programs . . . ." Some integration of this type at the Federal level is still a basic need.

Wartime Tax Policy, 1940 to Date

The year 1940 marked a sharp turning point in Federal tax policy. In a series of revenue acts beginning in that year, the peacetime tax system was geared to meet the demands, first, of a large-scale defense program and, then, of a total war effort. The magnitude of the job that was done becomes apparent when we see the fiscal year 1940 internal revenue collections of $5.3 billion multiplied eight times to
$43.8 billion in 1945 under the combined impact of unprecedented tax increases and a great expansion in the national income. In contrast with World War I, when less than one-third of our expenditures was financed from taxes and other non-borrowing sources, we have in this war financed 41 percent of our total expenditures since July 1, 1940, from such sources, and reached a peak of 46 percent in the fiscal year 1946.

The Federal tax structure has undergone far-reaching changes in the five years since 1940. An excess profits tax was added to the tax system in that year and now applies at a gross rate of 95 percent and a net rate of 85 1/2 percent. The corporation standard income tax rate was increased from 19 percent to 40 percent. Individual income tax exemptions were repeatedly cut; for example, surtax exemptions for a married couple with two children fall from $3,300 to $2,000. Combined normal and surtax rates applicable to the lowest surtax bracket rose from 5 percent to 23 percent. The former top rate of 79 percent, reached at $5 million, was pushed to 94 percent, reached at $200,000 (subject to a 90-percent limit on the total effective rate). The tax on distilled spirits was increased from $2.25 to $9 per proof gallon, the tax on cigarettes from 6 cents to 7 cents per package of twenty. Hardly a tax, however small, escaped the impact of wartime increases.

These levels of tax rates, together with a level of tax revenue approximating close to one-half of our current expenditures, have
been reached, not at one stroke, but in successive stages which have avoided shock to the economic system. They have been reached without sacrificing standards of equity and justice in taxation. The test of taxation according to ability to pay has in general been met through reliance on progressive taxes, through special relief provisions to avoid hardship, and through continued efforts to close avenues of escape from just taxation. Our concern for taxpayer welfare has had as its objective not only a fair distribution of tax burdens but also greater taxpayer convenience in the budgeting and payment of taxes. Through the introduction of withholding and the drastic simplification of individual tax returns, the compliance burden of the mass of taxpayers has been greatly eased.

With the advent of the war the functions of the tax system have broadened. It has been the instrument of raising huge amounts of revenue; but, more than that, it has played a major role in restricting war profiteering and curbing inflation. Taxes have effectively supported the economic stabilization program by removing billions of dollars of excess spending power from the hands of civilians. These high taxes have made civilian demand more controllable and have eased the strain imposed on the direct controls relating to priorities, wages, and prices. Taxes on excessive war profits combined with high taxes on large individual incomes have limited the financial gains from war and have thereby helped gain acceptance of the various direct controls necessary in war times. Tax policy has thus been an
integral part of our wartime economic policy designed to promote the maximum war effort while protecting minimum living standards.

In submitting tax proposals to the Congress to meet the gigantic revenue needs of war, the Treasury has consistently stressed "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." This principle, as I said in 1942 in discussing the Treasury tax program before the Ways and Means Committee, demands "that special privileges in our tax laws should be removed" and "that taxes which cannot be adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided."

It was pointed out further that fairness in wartime taxation demands "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." In accord with this principle, the Treasury worked for the adoption of an excess profits tax in 1940, and recommended changes in credits and rates to strengthen it in 1941 and 1942. The high excess profits taxes combined with standard corporation income taxes have been an important influence in curbing war profiteering. Together with high individual surtax rates and provisions for contract
renegotiation they have been a significant factor in eliminating wartime inequality and in gaining acceptance for other parts of the Government's stabilization program.

Another vital non-revenue objective of wartime taxes, which has been given due weight in each of our Treasury tax programs during the defense and war periods, is that of preventing inflation. In 1941, I stated to the Senate Finance Committee that "increased taxation is needed also to maintain economic stability," and that the combination of "increased demand and restricted output is causing inflationary price rises which threaten to increase the cost of the defense program, unbalance family budgets, and seriously disturb our economic life." I stated further that "if, in an attempt to protect the incomes of our people, we hold down taxes and as a result the cost of living rises, we shall have taxed them just as fully as if we had levied on them directly -- and we shall still have the inflated costs of defense to pay later from taxes." Again in 1942 and 1943, I directed attention to the anti-inflation aspects of taxation, suggesting to the Ways and Means Committee in 1942 "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," and that inflation "is a source of grave social injustice" and "undermines morale and impedes war production."

To make taxation an effective instrument in the fight against inflation requires heavy taxes levied on a broad base. Accordingly,
the Treasury recommended successive reductions in individual income
tax exemptions and increases in income tax rates. Many of the selec-
tive excise tax increases proposed by the Treasury also had anti-
inflationary objectives. Consistently, however, I opposed a general
sales tax as an inflation preventive on the grounds that it would
aggravate rather than curb inflation. My recommendation in 1942 that
the Congress enact instead a progressive spendings tax directed
squarely at the inflation problem was rejected.

In pursuing our other objectives of wartime tax policy, at no
time did we lose sight of the principle that funds had to be raised
in ways which would not hamper economic mobilization and would not
interfere with the wartime efficiency of production. In the field of
business taxation, Treasury policy has been clear in this respect.
For example, at the joint hearings on the Second Revenue Act of 1940
regarding the excess profits tax, I stated "that the present need is
for immediate action, so that those businessmen who have hesitated
to participate in the national defense program because of tax uncer-
tainties may proceed without further delay." Moreover, at that time,
I endorsed the provision for accelerated, five-year amortization of
war facilities which gave businessmen assurance that they could
speedily write off the investment in such facilities. In 1942, I
advised against a confiscatory excess profits tax rate on the basis
"that when excess profits taxes are too high, they may result in
extravagance and waste in the conduct of business" and thus impede
the war effort.

In the realm of individual taxation, I have steadfastly opposed a tax pattern which "encroaches harmfully upon the standard of living." I stressed the importance of setting a floor below which taxes should not go and of removing special privileges enjoyed by certain groups under our tax laws in order to preserve the incentives and working morale of our workers and to protect their wartime health and efficiency.

During the war period, the Treasury proposed new or increased excises on various commodities in order to aid in diverting resources from the production of civilian goods to the production of war goods. This was entirely consistent with Treasury dislike of excise taxes for peacetime financing. Our 1941 program was thus designed, among other things, "to help to mobilize our resources for defense by reducing the amount of money that the public can spend for comparatively less important things."

One of our concerns in wartime taxation has been to provide simple and convenient methods of payment for the many millions of taxpayers who have been drawn into the income tax system. The former method of lump-sum payments lagging a year behind the receipt of the income being taxed was ill-adapted to the greatly broadened wartime income tax. Therefore, the Treasury recommended to the Congress in 1941 and 1942 that a system of withholding be adopted to ease the payment problems of taxpayers. The Congress responded in 1943 by
enacting a system of withholding for wages and salaries and current payment of all liabilities. As a result, income tax payment now fits into the budget patterns of the mass of taxpayers, who are no longer faced with the spectre of overhanging tax liabilities for earnings in a prior year.

The need for simplification was recognized in a series of Treasury proposals and Congressional acts. Stating that "we ought not to take into the income tax system millions of new taxpayers with small incomes without simplifying the way in which their tax is computed," I proposed and Congress adopted in 1941 a short form of income tax return to simplify income tax mechanics. Despite this innovation, further simplification was needed, especially after the introduction of current payment. Early in 1944, the Treasury worked out cooperatively with the Congressional tax committees and the Joint Committee staff a plan to effect a decided simplification of the individual income tax for the great bulk of our taxpayers. This plan was enacted in the Individual Income Tax Act of 1944.

Finally, our wartime tax policy gave full weight to considerations of the postwar financial health of our economy. Again and again I stressed the need of cutting down borrowing by courageous taxation, so that our postwar debt problem would be more manageable and that our returning service men and women would not be burdened with the cost of the war they had fought for us. The provisions for carrybacks and carryforwards under the corporation income and excess
profits taxes will be important in easing the process of reconversion. And a vital aim of our anti-inflationary tax program was to protect us from a legacy of inequities and price distortions after the war.

Postwar Tax Developments

Although preliminary work had already begun in the Treasury, formal work on tax adjustments for the transition and postwar period was inaugurated by the adoption of two resolutions by the Joint Committee on Internal Revenue Taxation on June 15, 1944. In its first resolution the Committee called upon its staff, in collaboration with the Treasury, to make a special study of postwar taxation. In its second resolution it requested the Chairman of the Committee on Finance and the Chairman of the Committee on Ways and Means each to designate a minority member of his committee to work with the Joint Committee in the study of postwar taxation.

In accordance with these resolutions, the Joint Committee on Internal Revenue Taxation for Postwar Taxation was organised, with equal representation for both parties, and the tax staffs of the Committee and the Treasury, including the Bureau of Internal Revenue, undertook a series of joint studies relating to various aspects of the transition and postwar tax problems. In addition to their own studies, the staffs held many off-the-record conferences with representatives of business, labor, agriculture, and other groups, some
of which had undertaken their own postwar tax studies.

A number of confidential reports were submitted to and studied by the Joint Committee in meetings held throughout the winter months. Based on these studies, the Committee reached conclusions which were set forth in a report made public at a press conference held by Chairman Doughton, Chairman George and myself on May 10, 1945. This report recommended certain changes in the operation of taxes affecting business for the interim period between the end of the European war and the end of the war with Japan. These changes did not, for the most part, involve any reduction in ultimate tax liabilities. They were designed primarily to facilitate reconversion by improving the cash position of business enterprises and by lightening burdens on smaller businesses.

Specifically, the recommended changes were as follows:

1. Increase the excess profits tax specific exemption from $10,000 to $25,000, effective beginning with the tax year 1946.

2. Provide that the postwar credit of 10 percent of excess profits tax be taken currently with respect to tax liabilities of 1944 and subsequent years.

3. Advance to January 1, 1946, the maturity date of outstanding postwar refund bonds.

4. Provide for speed-up of refunds resulting from carrybacks of net operating losses and of unused excess profits credits.

5. Provide for speed-up of refunds resulting from the recomputation of deductions for amortization of emergency facilities.
These recommendations of the Joint Committee were incorporated in a bill introduced in the House of Representatives by Chairman Doughton on June 15, 1945. This legislation has been passed by both Houses of Congress and awaits the approval of the President.

Although the bill meets the more immediate interim problems it does not deal with more fundamental, long-range aspects of postwar taxation. Work on these is being continued by the Joint Committee staff and Treasury staff. Study of postwar taxation is also being carried on by the Interdepartmental Tax Committee which was set up at my suggestion over a year ago.

**Tax Administration**

Throughout the past twelve years I have been intensely interested in raising the standards and improving the efficiency of the administration of our tax laws.

It has been a guiding principle of my administration that every taxpayer should pay the Government all he owes and no more. My instructions to administrators have been to collect that amount without fear or favor, and to protect the taxpayer from over-taxation with as much zeal as the Government is to be protected from under-taxation. I believe that the relations of the administrative staff with the taxpayer have materially improved during my administration.

In addition, I have sought to bring tax administration closer to the taxpayer, to simplify his compliance with the laws and to
ease the burden of payment for the large masses of individuals who have been added to the tax rolls as the need for revenue has increased. In my opinion, successful taxation in the future depends in large part on the effectiveness of measures for dealing with our large numbers of taxpayers.

I am taking this opportunity to present a brief resume of some of the principal features of the expansion in the task of tax collection since 1933 and some of the steps taken to improve the administration of the tax laws.

The Period 1934 to 1940. During the prewar period the activities of the Bureau of Internal Revenue increased rapidly. From fiscal 1934 to fiscal 1940 internal revenue collections rose 100 percent and the number of individual income tax returns increased from 4 million to about 6 million.

The underlying changes in the tax structure adding new taxes and increasing rates gave rise to greatly expanded administrative problems. In particular, it was necessary to develop changes in organization and procedures to deal with the agricultural adjustment taxes and refunds, the administration of liquor taxes following repeal of the 18th Amendment and the taxes enacted under the Social Security program.

The processing and related taxes levied in connection with the agricultural adjustment program presented new problems in tax
administration. Moreover, after these taxes were declared unconstitutional, difficult technical and economic questions were encountered in making refunds and administering the Unjust Enrichment Tax. This episode in tax administration has been largely completed but the experience gained may well be of interest and application in future tax administration.

At the time of the repeal of the 18th Amendment, illicit liquor operations were exceedingly widespread and frequently conducted on the scale of large business. In view of the serious nature of the situation, I gave a great deal of attention to the development of an effective organization and new techniques in administration to suppress such activities. As a result there was a constant decrease in illicit operations and before the outbreak of the war they had been reduced to a practical minimum for peacetime conditions.

The Social Security program required the collection of taxes from 2 million employers. Administration of these taxes was rendered difficult because of the necessity of collecting the tax from large numbers of small employers, many of whom had no more than one employee, and also by the necessity of securing reliable records of wages required by the Social Security Board for the administration of benefits.

Improvement of administration in the fields of income, estate and gift taxation occupied a prominent role in the developments of this period. Steps were taken to prevent avoidance and evasion of
these taxes, to bring about greater certainty regarding tax liability and to expedite the closing of cases. In 1936 and 1937 extensive investigations were made of tax avoidance devices and the results were presented to the Congress as a basis for the tax avoidance legislation of 1937.

Perhaps the most important development from the point of view of bringing tax administration closer to the taxpayer and expediting the determination of tax liabilities was the decentralization of operations for income, estate and gift taxes. Following certain experimental efforts and studies, a final plan for complete decentralization of the Bureau's settlement function was made effective in 1938 and 1939. Under this plan, the facilities of the Bureau were made available locally in order to permit prompt action on all contested cases at a point near to the taxpayer and to the sources of evidence regarding his transactions. The experience of the ensuing years has, I believe, firmly established the effectiveness of this plan in providing taxpayers a convenient hearing and in minimizing litigation.

Wartime Period. The wartime demands for revenue have added enormously to the job of tax administration. Collections in fiscal 1945 were more than eight times the 1940 figure. For the same period the number of all types of tax returns filed increased from less than 20 million to more than 80 million. The expansion of the individual
income tax alone has resulted in the filing of about 48 million
returns in fiscal 1945 compared with about 6 million in fiscal 1940,
and 4 million in fiscal 1934.

The principal problems raised by the wartime revenue measures
have been the enormous expansion in the number of individual income
taxpayers with the accompanying development of withholding procedures,
the wartime excess profits tax with its relief provisions and other
related problems, the imposition of many additional excises and in-
creases in rates of most taxes, and finally non-tax functions of
salary stabilization.

In order to meet the problem of collecting taxes from masses of
individual income taxpayers a number of basic changes have been made
in collection methods. The first step which I initiated in 1941 was
the provision of a simplified return for taxpayers with small incomes
from a limited number of sources. Supplement T of the Internal
Revenue Code, enacted in 1941, provided for a table of tax liabil-
ities which was incorporated in a simplified Form 1040A for that year
and enabled millions of taxpayers to ascertain their liability in a
few simple operations. This basic reform has been continued through
the present law.

Further steps in simplifying collection of the individual income
tax and the development of withholding have been described above in
connection with the Current Tax Payment Act of 1943 and the Individual
Income Tax Act of 1944. Out of a total of 48 million returns filed by
individual taxpayers, about 20 million now file as their returns the withholding receipt (Form W-2) and the collector computes the tax. Another 17 million use the standard deduction and ascertain their tax liability from the simplified tax table on Form 1040.

These measures of simplification have, of course, required the development of new collection and refund procedures in the Bureau and have entailed a large addition to the work of tax administration. I am fully convinced, however, that not only is the additional procedure justified in terms of enhanced tax collections but also that collection procedure of this character is essential to the administration of an individual income tax extended to large numbers of taxpayers.

The excess profits tax enacted in 1940, with its subsequent amendments, has posed many difficult problems. The administration of the relief provisions, the carrybacks and the accounting for the postwar credit have imposed heavy demands on the Bureau staff. These and other wartime provisions have complicated the closing of corporation tax cases and have required the development of many new procedures and additions to the organization. For example, about 16,000 taxpayers have filed claims for relief under the excess profits tax which will engage large numbers of the Bureau's staff for a considerable period of time. The Bureau has also devoted a great deal of time and attention to the examination of deductions for pension trusts and annuity plans.
The conversion of distilleries to the production of industrial alcohol required major administrative changes and reassignment of staff in order to meet wartime requirements.

In addition to the unprecedented job of tax collection imposed upon the Bureau, it has been made responsible for other unrelated wartime activities, including participation in the administration of salary stabilization. Under the stabilization program the Commissioner is given authority over all adjustments to salaries in excess of $5,000 and salaries of certain employees receiving less than $5,000. The administration of these functions required the establishment and staffing of a country-wide organization specially for this purpose.

In the last fiscal year investigations of black market activities and unprecedented increases in currency in circulation indicated much more extensive disrespect for the common obligation of supporting the tax laws than I had anticipated. It appears now that many individuals have taken advantage of economic conditions and the heavy burdens that have been laid upon the Bureau of Internal Revenue to avoid their just share in financing the war. We have now under way a comprehensive program designed to uncover these attempts to evade the responsibilities of citizenship.
BORROWING

The Treasury's borrowing operations during the eight years which ended with the fiscal year 1940 were reviewed in some detail in the annual report for that year. It would seem of interest, however, to review briefly the major objectives of borrowing policy during this period.

Major Objectives of Borrowing Policy, 1933-1940

The first major objective of the Treasury in conducting its borrowing operations during the period between the bank holiday and the beginning of the defense program was to restore to the economy the money supply which had been wiped out during the unprecedented deflation of the great depression. This was, of course, necessary if the expenditures of the Federal Government were to have their maximum effect in stimulating and maintaining business activity.

Between the middle of 1933 and the middle of 1940, the gross national product of the United States rose from about $55 billion to about $95 billion; while the amount of money in the hands of the individuals and business firms of the country, as measured by the adjusted demand deposits of all banks plus currency outside of banks, rose from about 35 cents per dollar of the gross product in the middle of 1933, to about 41 cents per dollar in the middle of 1940.
Expressed in another way, at the beginning of the period, each dollar of money supply had to turn over about three times in order to produce a dollar of gross product; while at the end of the period, the necessary turn-over had declined to two and a half times.

The second major objective of the Treasury's borrowing operations during this period was to reduce the rate of interest on United States securities; and, consequently, on high-grade obligations generally. The average rate of interest on the outstanding interest-bearing debt of the United States (including guaranteed securities) fell during this period from 3.35 percent on June 30, 1933, to 2.51 percent on June 30, 1940.

The reduction in the rate of interest which occurred during this period naturally resulted in lightening materially the interest burden on the public debt, compared with what it would have been had rates not fallen. The primary purpose of the Treasury in seeking lower interest rates, however, was the stimulating effect which they have on the economy as a whole by encouraging expenditures for housing, and for plant and equipment in those industries where the return on capital is an important factor in total costs.

The third major objective of the Treasury's borrowing operations during this period was to broaden the base of the public debt by increasing the number of persons holding United States securities. It was for this purpose that United States savings bonds were first introduced in March 1935. Although no reliable estimates are available
with respect to the number of separate holders of savings bonds until the war period, this number had already reached substantial proportions by the middle of 1940.

The purpose of this broadening of the base of the public debt was, not that of raising funds — as these were readily available to the Treasury from other sources — but that of increasing the number of persons with a direct financial interest in the affairs of the Government, and so promoting an interest in public affairs generally. The work of familiarizing the public with the nature of savings bonds, nevertheless, laid the foundation for the widespread public participation in the purchase of Government securities during the subsequent period of defense and war finance.

Defense and War Finance

It is convenient to treat the commencement of the fiscal year 1941, on July 1, 1940, as the beginning of the period of defense and war finance. France and the Low Countries had just fallen before the might of the Nazi war machine, and the conflict had cast that long shadow across the United States, which will not be completely eliminated until victory is finally won in the Pacific. It was clear at that time that — whatever might be the course of events — the industrial machine of the United States would be principally devoted for years to come to the task of preserving our national sovereignty; and that it would be the principal function of finance to serve as the
handmaiden of industry in developing the country's full war potential.

Since the objectives of borrowing policy continued substantially the same during the entire periods of defense and war finance, changing only in emphasis and intensity, I shall treat them as a single period for the purposes of this report, carrying the exposition through July 9, 1945, the date when books were finally closed on the Seventh War Loan.

**This Has Been the Most Costly War in History**

This has been incomparably the most costly war in history. This has been true for most of the countries which have engaged in it, not only in terms of money expenditure, but also in terms of the destruction of property and the loss and raising of human life. The United States has been more fortunate than most of the belligerents in that it has escaped property damage, and has been able to minimize the cost of the war in human life by training and equipping its armed forces as no other forces have ever been trained and equipped in all history. This has cost money; and the United States has never spared an opportunity to reduce the human cost of the war at the expense of increasing its money cost. This, to me, is the most significant fact in war finance.

The total expenditures of the United States Government for all purposes, from July 1, 1940, the beginning of the period of defense finance, through July 9, 1945, amounted to $325 billion. This is nine
times the total expenditures of the Government from July 1, 1916, the
beginning of the fiscal year in which the United States entered World
War I, through the end of 1919, when the demobilization from that war
was substantially complete. (See chart: This War Nine Times as
Costly as Last.)

Ninety-five percent of all the expenditures of the Government
since July 1, 1940, have been for national defense and war, or for
the related items of interest on the public debt, tax refunds, and
veterans. Only five percent were for all other purposes. A corre-
sponding breakdown for the World War I period is not available; but,
based upon an examination of the available figures, it appears that
expenditures for war and war-related purposes were a smaller propor-
tion of the total at that time than they have been during this war
period.

A Dollar Buys More Now than It Did in
World War I

A comparison of the dollar cost of the two World Wars under-
states, rather than overstates, the difference in their costs
measured in physical things.

A dollar spent for war purposes buys more today than it did in
the last World War. The difference is difficult to measure in terms
of completed war goods. A plane or tank used in this war has little
in common with any used in the last war, save the name and the basic
idea. The weapons of war have become tremendously more complex and
This War Nine Times as Costly as Last

We have spent $325 billion in World War II so far, through demobilization in World War I, we spent only $37 billion.
effective. A comparison can be made, however, in terms of the prices of raw materials: Copper, which costs 12 cents a pound now, sold as high as 26 cents a pound in 1918; cotton which costs 23 cents a pound now, sold as high as 35 cents a pound in 1918; crude petroleum, which costs $3.00 a barrel now, sold as high as $4.00 a barrel in 1918; and steel billets, which cost $34 a ton now, sold as high as $47.50 a ton in 1918. (See chart: A Dollar Goes Farther in This War.)

The War Is Taking About Half of Our Entire National Product

It is not only true that this war has cost much more in dollars

A Dollar Goes Farther In This War

<table>
<thead>
<tr>
<th>PERCENT (1918 = 100)</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>One dollar could buy</td>
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</tbody>
</table>

Government gets more of typical raw materials for its money now than in 1918.
than its predecessor and that each dollar has bought more goods. It is also true that it has taken a much larger proportion of all the dollars and all the goods which we have available. World War I at its peak absorbed about one-quarter of our national product; World War II is absorbing, and has absorbed for three years, about one-half of the product. (See chart: Half Our National Product Goes to War.) This has greatly magnified the problem of war finance. This problem is, of course, that of placing in the hands of the Government, in a fair and equitable manner and without undue strain on the economy, the funds necessary to purchase one-half of the whole national product.

The Interest-bearing Public Debt Has Increased $211 Billion Since the Beginning of the Period of Defense Finance

As I have indicated previously in this report, it has been the policy of the Treasury to raise as large a proportion as possible of the expenses of the Government during the wartime period by taxation. During the period from July 1, 1940, through July 9, 1945, the net receipts of the United States Government from taxes and other non-borrowing sources (such as cash refunds resulting from the renegotiation of war contracts) amounted to $134 billion, or 41 percent of the total expenditures of the Government during the same period.

This fell so far short of the funds required to finance the war, however, that during the same period the interest-bearing public debt
Half Our National Product Goes to War

In the fiscal year 1945, Federal expenditures, mostly for war, were $100 billion; national product, $203 billion.

DOLLAR AMOUNTS

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Dollars (Billions)</th>
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<tbody>
<tr>
<td>1940</td>
<td>85.5</td>
</tr>
<tr>
<td>1941</td>
<td>106.5</td>
</tr>
<tr>
<td>1942</td>
<td>133.5</td>
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<td>1943</td>
<td>173.2</td>
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<tr>
<td>1944</td>
<td>195.1</td>
</tr>
<tr>
<td>1945</td>
<td>203.0</td>
</tr>
</tbody>
</table>

PERCENT OF TOTAL

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>90</td>
</tr>
<tr>
<td>1941</td>
<td>87</td>
</tr>
<tr>
<td>1942</td>
<td>74</td>
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<tr>
<td>1943</td>
<td>54</td>
</tr>
<tr>
<td>1944</td>
<td>51</td>
</tr>
<tr>
<td>1945</td>
<td>51</td>
</tr>
</tbody>
</table>
(including guaranteed obligations) increased by $211 billion. This borrowing includes $23 billion increase in the cash balance in the Treasury.

**Principles of War Borrowing**

In borrowing the sums necessary to finance the war, the Treasury has been guided by three underlying principles:

1. The necessary funds should be raised in such a manner as to minimize the risk of inflation.

2. The securities offered should be those best suited to the needs of the investors to whom they are sold.

3. The cost of financing the war should be kept at a reasonable level.

**Noninflationary Borrowing**

Diverting half of the country's total product to the use of the Government involves problems so vastly different in degree from those of peacetime finance, that they become different in kind also. Inevitably, the first consideration in raising sums of this magnitude must be to avoid inflation.

The nature of the inflationary pressure inherent in diverting half of the income stream of the country to the Government is simple. It is this: The value of all of the production of the country goes
to its producers in the form of wages and salaries, rents, interest, dividends, and profits. But only half of this production consists of goods and services which are available to be purchased by these producers. The remaining half goes to the Government for prosecuting the war. The problem is to prevent the people from trying to spend all of their incomes on half of the goods — and so merely bid up prices.

To the extent that the Government secures its money by taxes, the problem is relatively simple. The Government receives the money, and the taxpayers merely receive tax receipts. The funds are finally and irrevocably diverted to the purposes of the Government. Nearly half of the Government's expenditures — equal to about one-quarter of the total national product — is being financed in this way. The remainder — equal to another quarter of the product — has to be borrowed; and the Treasury has endeavored in every way at its command to make these borrowing operations, as far as possible, result likewise in the transfer of spending power from the people to the Government.

The War Loan Campaigns

To accomplish this objective means that a substantial proportion of the total has to be borrowed from investors other than banks.

It was in order to do this that as early as May 1941 the Treasury initiated a campaign to sell Series E, F, and G savings bonds
to the American people.

It was in order to do this that immediately after Pearl Harbor the Treasury initiated the payroll savings plan for the sale of savings bonds to wage and salary earners in plants, stores, and offices throughout the country.

It was in order to do this that the Treasury has conducted seven war loan campaigns, the last of which has just ended.

These campaigns have been successful because millions of citizens have banded themselves together in local war finance committees, in order to explain to their friends, neighbors, and co-workers why the Government needs money, and why it needs it from individual income earners. These people — farmers, labor leaders, businessmen, and bankers — have given ungrudgingly of their time; and it is to their efforts, and to the support which they received from their fellow citizens, that the success of our war finance is due.

Nonbank Investors Have Purchased and Held
$122 Billion of Government Securities

Of the $211 billion total increase in the interest-bearing public debt during the period from July 1, 1940, through July 9, 1945, about $122 billion was absorbed by nonbank investors; and about $59 billion, by commercial and Federal Reserve Banks. "Absorption" means the net increase during the period in the amount of debt held by each investor class. This increase is the net resultant of the purchases, sales, maturities, and redemptions of securities by each
investor class during the period. All of the amount "absorbed" by
the Federal Reserve Banks was purchased by them on the open market,
principally for the purpose of supplying commercial banks with the
necessary funds to meet the required reserves on their increased de-
posits and the demands of the public for currency. The amount of
Federal Reserve Bank purchases of Government securities is determined
primarily by these needs, rather than by separate decisions of the
Federal Reserve authorities — other than the general, and unques-
tionably wise, decision that these needs must and will be met.

A Large Increase in the Money Supply of the
Country Was Necessary to Permit the Wartime
Expansion in National Product

The $69 billion of Government securities absorbed by commercial
and Federal Reserve Banks is larger than I would have wished, just
as the proportion of our total funds raised by taxes is smaller than
I would have wished.

The increase in commercial and Federal Reserve Bank holdings of
Government securities is, of course, represented on the other side of
the balance sheet by a corresponding increase in currency and bank
deposits. The increase in currency and deposits occasioned by the
increase in bank holdings of United States securities was supple-
mented to some extent by an increase in other bank assets. Part of
the total increase in currency and deposits, however, took the form
of time deposits; and another portion is still in the form of
balances held by the Treasury in commercial and Federal Reserve Banks. Giving effect to these and other less important factors, the total increase during the period in the money supply of the country — defined, as previously, as the adjusted demand deposits of all banks plus currency outside of banks — amounted to about $57 billion.

This increase seems large, just as all the figures associated with World War II seem large; and it is often not realized what a large increase in deposits and currency has been necessary in order to permit the smooth functioning of the economy during the war period. During this period the national product has doubled, and most individuals and business firms have handled a greater volume of business and have experienced a greater degree of prosperity than they have ever known before.

This larger volume of business has naturally required a larger volume of cash; and, at the same time, both individuals and business firms have striven to build up cash reserves against the varied contingencies of war and peace. In June 1940, the individuals and business firms of the United States had about 41 cents in currency and demand deposits for every dollar of the annual product of the country. At the present time, they have about 46 cents. In other words, a dollar of money supply has to turn over nearly as often now to produce a dollar of national product as it did in 1940. The present proportion is not fully representative of the trend of the period, however, reflecting as it does the transfer of bank deposits from
private to Government account, because of the Seventh War Loan. By the end of October, when the expenditure of the proceeds of the Loan will have drawn down the Treasury balance to more normal proportions, the cash holdings of individuals and businesses will have risen to about 51 cents per dollar of the present annual product of the country. I do not consider this amount excessive, and I do not believe that it harbors an inflationary hazard.

**Treasury Securities Have Been Tailored to the Needs of the Purchasers**

The second major objective of the Treasury in its war borrowing—second only to the objective of avoiding inflation—has been to adapt the securities which it has offered to the public to the requirements of the various classes of investors.

**The Small Investor Has Been Offered a Security Entirely Free from Risk**

The most important requirement of the small investor is that the securities which he purchases should be absolutely free from risk. The small investor wants to be sure that he can get back his money when he needs it. He accepts on faith the type of obligation which the Government offers him. He does not want to gamble with his principal.

The Government securities sold to small investors during the last World War were marketable. They were consequently subject to price
fluctuation. After the war, the prices of Government bonds fell precipitously. Fourth Liberty Bonds, the largest issue, sold below 83 in 1920. (See chart: World War I Securities Not Risk-proof.)

The Government, of course met all of its obligations issued in World War I in full, in accordance with their terms. But many small bondholders who sold during the decline were embittered against the Government. They had bought the bonds at the Government's request, and did not understand — and could not be expected to understand — the "normal risks of the market".

I have said on previous occasions, and I say here again, that I do not anticipate an increase in interest rates (with a consequent

**World War I Securities Not Risk-proof**

![Graph showing monthly price ranges on 4th Liberty Loan 4¼% Bonds](chart.png)
decline in bond prices) after this war. But the Treasury felt -- and Congress agreed with us -- that the small investor is entitled to more than merely the expectation of a stable market after the war. He is entitled to a legal guarantee. This is the reason why our sales appeal to small investors has been confined to savings bonds -- which have guaranteed cash redemption values that assure the investor of always getting at least his money back. Between June 30, 1940, and July 9, 1945, $51 billion was raised by selling these bonds to about 85 million persons. Of this, $43 billion has been paid out in redemptions; $8 billion is still outstanding.

Other classes of investors have likewise had securities tailored to their needs.

Savings notes (formerly tax savings notes) have been especially designed as liquid investments for the tax and reconversion reserves of industrial corporations, and have been largely purchased by this class of investor. Short-term marketable Treasury securities are likewise a suitable investment for funds requiring a high degree of liquidity, and are held principally by industrial corporations, and by commercial and Federal Reserve Banks.

Long-term marketable Treasury securities, on the other hand, offer a higher rate of return and are more suitable for insurance companies, savings banks, and large private investors. (See chart: Treasury Securities Tailored to Needs of Investors.)
**Why a Large Portion of the Debt Is Short-term**

The policy of fitting the security to the needs of the investor makes it inevitable that a large portion of the public debt should consist of short-term securities. This is a good thing for the investor, a good thing for the Government, and a good thing for the economy as a whole. It permits liquid funds to be shifted readily between currency and bank deposits; and permits bank deposits to be shifted readily from one bank to another, and from one section of the country to another, without strain on the money market. It likewise permits corporations and other businesses to apply their tax reserves
to the payment of taxes, and their reconversion reserves to the expenses of reconversion without money market strain.

The policy of financing the war, in large part, by short-term securities has been followed by Great Britain to a greater extent than by the United States; and by Canada to a somewhat smaller extent. In Great Britain the volume of securities with a maturity of over 10 years has actually decreased since 1939. (See chart: Short-term Borrowing General in World War II.)

In arranging the maturity of the public debt, the Treasury has always borne in mind the fact that the time which the original purchaser of a security will hold it will depend, principally, upon his

**Short-term Borrowing General in World War II**

![Chart showing percent of total increase in each maturity class](chart.png)

*Large part of increase in marketable debt of United States, Great Britain, and Canada matures within 10 years*

<table>
<thead>
<tr>
<th>Country</th>
<th>1 Year and Under</th>
<th>1-10 Years</th>
<th>Over 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>43%</td>
<td>40%</td>
<td>17%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>43%</td>
<td>37%</td>
<td>-1%</td>
</tr>
<tr>
<td>Canada</td>
<td>83%</td>
<td>17%</td>
<td>-3%</td>
</tr>
</tbody>
</table>
own future needs and convenience, and to a very minor extent upon the nominal maturity of the security. The indiscriminate issuance of long-term securities to all classes of investors would not insure their being held to maturity by their original purchasers, but would result merely in premature market liquidation.

In the case of private debtors, this would make no difference, since the debtors would not be called upon for repayment. The Government, however, comprises such a large segment of the total market, and has such a high degree of responsibility with respect to the remainder, that, so far as Government securities are concerned, market sales are essentially the same thing as cash redemptions. Each puts spendable funds into the hands of the same classes of investors, and each involves the absorption of additional amounts of Government securities by other investor classes -- which will ultimately be the same in each case. The only significant difference is that cash redemptions permit the Treasury to issue new securities suited to the classes of investors who will hold them; while market sales must involve already-outstanding securities, which may or may not be so suited.

The War Has Been Financed at a Low and Declining Level of Interest Rates

The final of the three principal objectives of the Treasury in its war borrowing program has been to finance the war at a reasonable level of interest rates.
This war, unlike any previous major war in which this country has been engaged, has been financed at a low and declining level of interest rates.

On June 30, 1914, just before the outbreak of World War I, the average rate of interest on the interest-bearing debt of the United States Government amounted to 2.36 percent. The debt then amounted to $1 billion, and was largely held by national banks to secure their outstanding circulating notes. Six years later, on June 30, 1920 — when the debt had risen to $24 billion — the average rate had increased to 4.22 percent.

On June 30, 1939, just before the outbreak of World War II, the average rate of interest on the interest-bearing debt (including guaranteed obligations) — which was then $45 billion — amounted to 2.53 percent. On June 30, 1945, six years later — when the debt had risen to $257 billion — the average rate of interest had fallen to 1.94 percent. (See chart: Interest Rates Rose in Last War; Fell in This.)

The figures just given (and those plotted on the chart) substantially underestimate the saving in interest cost between this war and the last one. This is because the interest on all the securities issued in World War I was either wholly or partially exempt from the Federal income tax; while the interest on all Government securities issued since March 1, 1941, has been subject to the full rates of the Federal income tax. Giving effect to the greater proportion of the
interest on the securities now being issued which will be returned to the Government in the form of taxes, the net cost of each dollar borrowed in this war is only about one-third that of the last war.

In addition to the saving in net interest costs, the elimination of the tax-exemption privilege on Government securities was an important step toward more democratic war finance. This is because the privilege of tax exemption — which all received at the same price — was worth nothing at all to the poorest subscribers, but was worth a great deal to those in the high-income brackets. The poor were, therefore, always overcharged for it, while it was sold to the rich
at a fraction of its value.

It is, of course, a corollary of the declining level of interest rates during this war that the Government bond market has been, and continues to be, strong. This, again, is in sharp contrast to the experience of the United States in prior major wars — which have always been accompanied by weak bond markets with consequent capital losses to persons who purchased Government securities.

The contrast between the two World Wars in the cost of money to the Government, and in the behavior of the bond market, is not confined to the United States. It has been world-wide. It is due principally to the improvement in the art of monetary management during the last generation.

It was formerly believed by some that a high rate of interest was inevitable in wartime; and by others that, if it was not inevitable, it somehow helped to check inflation. Finance ministers in every major belligerent country have learned that neither of these views is true. High rates of interest are not inevitable in wartime, and they do not help check inflation.

Inflation can be checked only by increasing production or reducing expenditure. High interest rates do nothing to increase production, nor do they check either Government expenditure or ordinary consumer expenditure. The only types of expenditure which interest rates can affect are those for capital goods and for housing. These expenditures comprise a very small segment of the wartime
economy; and are, in any event, held on short leash by direct controls. To endeavor to control inflation in wartime by raising interest rates is, therefore, like raising a lever which has no machinery behind it.

After the completion of the transition from war to peace, the continuation of low interest rates will be a definite factor in the stimulation of full employment. This is because those very sectors of the economy which are potentially sensitive to interest rates -- housing and producers' expenditures for capital goods -- bear just the reverse relationship to the economy in peace as in war. In war, they are small; and they are limited in amount, not by interest rates, but by the Spartan necessity of conserving our resources for the war effort. In peace, they must be large in order to insure full employment, and will be larger at low interest rates than at high ones. The benefits of a low interest-rate policy, therefore, will carry through from the wartime to the peacetime economy.

The Job Ahead

The job of war finance is not yet finished. The peak, both in war expenditures and in borrowing requirements, has probably passed; but, in some respects, the most crucial period still lies ahead. This is because, while the physical dimensions of the problem are shrinking, its psychological difficulties may increase.

Periods of crisis unite men in action for the common good, while
victory too often brings relaxation and recrimination. I am sure, however, that the people of the United States are not going to hazard the postwar economic stability, which is now almost within their grasp, by prematurely relaxing their efforts on the war-bond front, or any other.
INTERNATIONAL MONETARY AND FINANCIAL DEVELOPMENTS

During the period 1934-45 the actions of the United States in the sphere of international money and finance were of greater importance than in any previous period. They were of great importance to our own country, and since our country had become the largest factor in the field of international finance, its actions were also of great importance for affairs in other countries. Within our Government the Treasury Department was the central agency for handling these matters and had to meet, in peace and war, unprecedented conditions and demands.

A. Stabilization, Gold and Silver

Stabilization 1934-40

The depression, which began in 1929, increased the tremendous strain on the international exchanges which had been restored with so much difficulty in the 1920's. During the depression most countries had to, or chose to, depart from the fixed gold parities of their currencies. Unfortunately in some cases, when a change in parity was made, the change was excessive, with the object of securing a competitive advantage in international trade. Other countries felt compelled to take protective measures. In addition, the Axis powers, as part of their campaign for war, resorted to a
series of foreign currency practices designed to increase their political and monetary strength and to undermine the independence of weaker nations. In consequence, international monetary relations went through a period of serious disorder.

The international monetary policy of the United States of the last decade has had two objectives: first, in 1933, to restore the international economic position of the United States through the revaluation of the dollar; and second, when a reasonable value for the dollar was attained relative to other currencies, to secure the cooperation of other countries in entering into orderly and stable exchange arrangements.

Because the World Monetary and Economic Conference in London in 1933 would have perpetuated the serious overvaluation of the dollar, this Government found it necessary to decline to enter into an agreement for the stabilization of currencies at the then prevailing exchange rates. Once the readjustment had been made in 1934, the Treasury proceeded with its policy of international monetary cooperation.

Of special significance in this period is the Tripartite Declaration of September 1936. For some time the French Government had had great difficulty in maintaining the gold value of the franc and France had decided to relieve the downward pressure on the French price level through devaluation. Under the Tripartite Declaration, the Governments of France, the United Kingdom and the
United States declared their determination to consult with each other on exchange policy and to cooperate in reducing the disturbances in international exchange markets. On November 24, 1936, Belgium, the Netherlands, and Switzerland indicated their adherence to the Tripartite Accord.

During this period, beginning in 1936, the Treasury also made a number of bilateral stabilization agreements with the object of helping to stabilize the rates of exchange. Of special interest have been the various stabilization agreements with China. As early as May 1936 the United States undertook to make available to the Central Bank of China dollar exchange to the extent of $20 million for currency stabilization purposes. In 1937 the scope of this arrangement was broadened and the amount increased to $50 million. The 1937 arrangement was renewed from time to time until 1943. In addition, in April 1941, a $50 million stabilization agreement was signed, simultaneously with a similar agreement by China with the British Government. Under these arrangements a dollar-sterling-yuan Stabilization Fund was established under the management of a board consisting of three Chinese, an American appointed by China on the recommendation of the Secretary of the Treasury, and a British national appointed on the recommendation of the British Treasury. These monetary arrangements with the Chinese Government were among the first concrete steps which this Government took to assist China in resisting
Japanese aggression.

The Bretton Woods Agreements

The experience of the 1930's convinced me that it was possible to obtain international agreement on foreign exchange problems. It also became clear in that period that in the absence of such agreement peace and prosperity would be in constant jeopardy. Finally, the Treasury experience with bilateral and the Tripartite agreements led to the conclusion that success on these matters required the active cooperation of many countries.

Accordingly, in 1941 I instructed the Treasury staff to begin work on the international monetary and financial problems that would confront us after the war. A memorandum was prepared recommending the establishment of an International Fund and an International Bank. In January 1942 the Conference at Rio de Janeiro took cognizance of this recommendation by adopting a resolution calling for participation in a conference to consider the establishment of an international stabilization fund. Two months later a memorandum on the establishment of an International Fund and an International Bank was presented to President Roosevelt who requested the Treasury to continue this work in consultation with other agencies of the Government.

In March 1943, with the approval of President Roosevelt and Secretary Hull, a tentative proposal for an International
Stabilization Fund was sent to the finance ministers of the United and Associated Nations. At the same time, a proposal for an International Clearing Union was submitted by the United Kingdom Treasury. Proposals were later submitted by France and Canada. In November 1943, I also submitted a tentative proposal for an International Bank for Reconstruction and Development to the finance ministers of the United and Associated Nations. All proposals, those of the United States and of other countries, were made available to the press.

The various proposals, and particularly those submitted by the United States, were the subject of long discussion with the technical representatives of some 30 other countries over a period of more than a year. These bilateral discussions revealed a large measure of agreement on the principles that should be followed in dealing with international currency and investment problems after the war. President Roosevelt, therefore, invited the United and Associated Nations to a conference to be held at Bretton Woods, N. H., beginning July 1, 1944, to consider the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development.

Throughout the long period of preparation and during the Conference itself, there was the closest cooperation between the Administration and Congress. On four occasions, I appeared before the Interested Committees of the Senate and the House to inform
them of the progress in the discussions. Included in the American
dlegation to the Bretton Woods Conference were four Congressional
delegates: the chairman and ranking minority member of the House
and Senate Committees on Banking and Currency. In addition, the
chairman and ranking minority member of the House Committee on
Coinage, Weights and Measures were included as advisors to the
American delegation.

The Conference, of which I was chairman, prepared proposals
for an International Monetary Fund and an International Bank for
Reconstruction and Development. Their purpose is to facilitate the
expansion and balanced growth of international trade and the en-
couragement of international investment for productive purposes.

The Fund's essential features can be summarized in four main
points:

1. Members of the Fund recognize that international monetary
problems can be solved only through international cooperation and
they agree to collaborate in dealing with such problems.

2. The Fund provides for the establishment of the parities
of the currencies of its members in terms of gold. Members agree
to maintain exchange rates stable within 1 percent of these parities
and not to alter the parities of their currencies except after con-
sultation with the Fund or with its concurrence.

3. Members of the Fund agree not to impose new restrictions
on making payments or transferring funds in connection with exports
and other current international transactions and to remove the restrictions now in effect as soon as conditions permit.

4. In order to help countries maintain these fair exchange standards the Fund will sell foreign exchange for a country's own currency in limited amounts and under adequate safeguards. For this purpose the Fund has resources of $8.8 billion in gold and currencies subscribed by all countries. The subscription of the United States will be $2.75 billion.

The essential features of the Bank can be summarized as follows:

1. Private international investment for sound and productive projects is beneficial to the borrowing and lending countries and to the international economy in general and should be encouraged.

2. If private investors are not prepared to make worthwhile foreign loans at reasonable rates of interest, the International Bank will guarantee the loans or make the loans directly out of its own capital or out of funds raised through the sale of its debentures.

3. Because the benefits of international investment are world-wide, the risk should be shared by all countries. This would be done through their subscription to the Bank's capital of $9.1 billion. Of this, the United States will subscribe $3.175 billion.

Legislation authorizing American participation in the Fund and the Bank was introduced in both Houses of Congress on
February 15, 1945. After thorough discussion, in which the American people were given every opportunity to express their views, the bill was passed by the House of Representatives on June 7, 1945 by the resounding majority of 345-18.

On June 12, 1945, I appeared before the Senate Committee on Banking and Currency and urged that the Senate pass this bill as "an inspiration to war-weary and hungry people everywhere, to people who have faith that the United Nations can and will work together to bring about a better world."

The Senate, reflecting the overwhelming sentiment of the American people, passed the bill with a few minor amendments on July 19, 1945 by a non-partisan vote of 61-16, and on the following day the House unanimously concurred in the Senate's amendments. The American people and their Congress had demonstrated to all that they are united in their willingness to fulfill the grave responsibilities of world leadership.

The establishment of the International Fund and the International Bank is the direct result of the preceding eleven years of Treasury initiative and cooperation with other countries in the field of international money and finance. The Articles of Agreement embody the lessons we have learned and the best statements of policy which we had earlier worked out on many technical points. I am confident that these two organizations can contribute a great deal to world peace and prosperity. They can be effective instruments. However, they are instruments and their effectiveness
must depend upon the will of many countries to use them for the common good of mankind.

Gold Policy

1934-40

The gold policy of the United States since 1934 has been founded on two basic premises: first, the economic recovery and stability of the United States depends on an external value of the dollar in relation to other currencies which will not depress the domestic economy; and, second, the prosperity of the United States will be furthered by international cooperation to facilitate the holding and use of gold to settle international payments and to stabilize exchange rates.

The first step after 1933 in developing this policy was to protect our gold reserves from the effects of speculation. In recognition of the fact that the hoarding of gold and speculative gold movements in and out of the country vitally affect our economic system through our monetary and banking reserves, the President by a series of executive orders directed the Secretary of the Treasury to regulate transactions in gold. Thereafter, the import and export of gold, and the use of gold at home, were subject to Treasury license.

The second step was to revalue the dollar in terms of gold
to take account of the serious distortions in relative currency values that had taken place.

By 1933, nearly all countries of the world, with the exception of the United States and a few American Republics, and France and the small European gold bloc, had gone off gold and had depreciated their currencies. This depreciation of most of the currencies of the world inevitably added to the pressure on our domestic prices and was a factor in reducing our exports. Before recovery could take place a readjustment of the relationship of the dollar to other currencies was necessary.

As a result of the Congressional Acts of 1933 and 1934 and the pursuant Executive action, the United States departed from the traditional gold standard and established a new value of the dollar at 15-5/21 grains of gold 9/10 fine, equivalent to $35 a fine ounce. This reduction in the gold content of the dollar was not undertaken with a view to increasing our trade at the expense of other countries. Rather, the action was taken as a means of adjusting prices in the United States to those of the rest of the world, prices which had moved out of line largely because of the depreciation which had occurred in the currencies of other countries.

With the readjustment in the price of gold and the regulation of gold transactions, we at the Treasury were in a position to proceed with our policy of international currency cooperation without imperiling the domestic economy. The Gold Reserve Act of 1934
authorized the establishment of an exchange stabilization fund to be operated by the Secretary of the Treasury with the approval of the President, and appropriated the sum of $2 billion out of the increment resulting from the reduction in the weight of the gold dollar.

In order to facilitate the use of gold in the settlement of international transactions, I announced in February 1934 that as a matter of policy we would grant licenses for the export of gold to central banks and treasuries of other countries whenever such exports were needed for international payments. The effect was to place the United States on an international gold standard with the foreign exchange value of the dollar tied to the legal price of $35 an ounce for gold. In 1936 in connection with the Tripartite Declaration, we undertook to sell gold to the exchange stabilization funds of other countries who offered similar facilities to the United States. In fact, from February 1934 until the present, the Treasury has freely bought and sold gold to central banks and governments.

While the Treasury was partially successful in its policy of encouraging the use of gold for settling international transactions, it could not prevent the continued maldistribution of gold which developed in the 1930's. From 1934 until the outbreak of war in 1939, gold continued to flow into the United States in relatively large amounts. In this period the gold holdings of the
United States Treasury increased from $6,880 million on February 1, 1934 to $16,110 million on September 1, 1939. In part, this inflow represented payment for the excess of our current transactions, including exports. But a greater part of the influx was the result of a capital flight in search of speculative profits or security from the threatened aggression in Europe.

1941-45

From 1939 until November 1941 the inflow of gold continued at an accelerated rate as European nations transferred their gold stocks to this country, for use in the war and to put them beyond the reach of the Axis aggressors. In the first two years of war the monetary gold stock of the United States increased from $16,110 million to $22,800 million (October 21, 1941).

In the years which followed, effective use in the conduct of the war was made of our large supply of gold. From November 1941 to June 30, 1945, our gold holdings were reduced by $2,590 million. The gold sold to foreign countries was used in the acquisition of foreign resources, materials, and services vital to our conduct of the war. The greater part of this gold was purchased by the foreign central banks whose dollar balances had been increased by United States war expenditures abroad. A minor, though not unimportant, part of this gold was used in the gold sales program in India and the Middle East, assisting those countries in their
efforts to check inflation, and at the same time providing the United States, at a great saving in dollar costs, with local currencies needed for military expenditures.

During the war we pursued our policy of encouraging other countries to hold and use gold for settling international transactions. Gold purchase agreements were made with the Union of Soviet Socialist Republics to enable the Soviet Union to purchase goods and services in the United States for the prosecution of the war against the Axis. Agreements were signed with Brazil and with the Republic of Cuba whereby the United States undertook to sell gold to them as a backing for their currency.

The International Fund, discussed elsewhere, recognizes in several significant ways the importance of gold as a means of settling international balances and as an international currency standard. Under the Fund Agreement the par value of each member’s currency must be defined in terms of gold or in terms of the United States dollar of present weight and fineness. A considerable part of the assets of the Fund will be held in the form of gold. In addition, the Fund will acquire gold under the provision requiring countries to repurchase their own currencies held by the Fund with gold or foreign exchange. In turn, countries obligate themselves to purchase gold from the Fund when their currencies are needed for international transactions. The establishment of the International Monetary Fund will represent the fruition of the basic gold policy of the Treasury.
Silver Policy
1934-40

During the years of depression the price of silver had fallen steadily. In part this was due to the reduction of the fine content of silver coins and the decreased monetary use of silver in a number of countries. In the 1920's and early 1930's, some countries were sellers of silver taken out of coinage. At the same time, the non-monetary use of silver declined sharply because of the industrial depression.

It has been my policy at the Treasury to encourage the monetary use of silver, to broaden the monetary base by the inclusion of a larger proportion of silver in the monetary stock of the United States, and to raise the price of silver to a reasonable level and to stabilize it.

The Silver Purchase Act, approved June 19, 1934, declared the policy of the United States to increase the proportion of silver to gold in the monetary stocks of the United States with the object of maintaining in silver one-fourth of the monetary value of the stocks of silver and gold. The Act directed the Secretary of the Treasury to purchase silver upon terms and conditions he deemed reasonable and in the public interest so long as the silver in the monetary stock was below this ratio and the price of silver was below its monetary value. The silver is paid for by issuing silver certificates in an amount not less than the cost of the silver.
Under this Act, the Treasury increased the silver in the monetary stock by 2,350 million ounces from 1934 to 1940. Nevertheless, because of the increase in the gold stock, it was not possible to attain the ratio of one-fourth of the monetary base in silver, the objective of the Silver Purchase Act.

Since December 21, 1933, the Treasury has acquired all domestic silver offered to the mints at a price fixed by Presidential proclamation or by law, varying from 64.64 cents an ounce to 77.57 cents an ounce. Since July 1939 such silver has been bought at 71.11 cents an ounce as directed by the Act of July 6, 1939. We also acquired considerable quantities of foreign silver under the Silver Purchase Act. Prior to our entrance into the war and for some time before, the price of foreign silver had remained fairly constant at 35 cents an ounce.

1941-45

After this country entered the war, I steadfastly pursued the aim of putting all available silver into urgent war uses. The concrete steps taken during this period reflected the determination of the United States to fight a total war with all the means at hand.

First, we made Treasury silver available for use in the domestic production of munitions of war. Second, the Treasury withdrew from the silver market and allowed domestic and foreign
production to be channeled into war uses. Third, we sent silver abroad to our Allies to be used in the common war effort.

Because of the growing scarcity of strategic metals, I entered into an agreement with the Defense Plant Corporation in 1942 to "lend-lease" silver to be used in war plants. More than 900 million ounces of silver were put to non-consumptive use as a substitute for copper and other metals in producing aluminum, magnesium, and other war materials. In this way, substantial quantities of critically needed copper and other metals were released for the production of munitions. Title to the silver remains with the Treasury and the silver will be returned after the war. We have also cooperated with the War Production Board in channeling foreign silver into high priority war uses. Similarly, the Treasury has left available for important war uses nearly all of the silver produced in the United States by drastically limiting its purchases of domestically-mined silver. We purchased no foreign silver after November 1941 and reduced our purchases of domestic silver in 1944 to 125,000 ounces out of a total production of 35.7 million ounces.

In addition, under the Green Act, I have arranged to sell silver to industrial users certified by the War Production Board. As of June 30, 1945, the Treasury had sold 106.9 million ounces of this silver for war purposes.

We further conserved vitally needed strategic war metals by substituting silver for nickel and copper contained in the new
5-cent piece composed of 35 percent silver, 56 percent copper, and 9 percent manganese. Previously, the 5-cent piece was composed of 75 percent copper and 25 percent nickel. This measure was designed to save annually almost a million pounds of nickel and up to a million pounds of copper.

We have also played an important part in assisting the Allied war effort in various theaters of war by lend-lease silver for coinage and industrial uses and to help prevent price inflation. The Treasury made available 335 million ounces of silver to foreign countries under lend-lease arrangements. These countries include the United Kingdom, India, Australia, the Netherlands, Ethiopia, Saudi Arabia, and the Fiji Islands. Under the special agreements, these countries will return the silver after the war to the United States Treasury on an ounce for ounce basis. The demand for silver by these countries will provide a stabilising influence in the silver markets after the war.

There can be no doubt that after the war the demand for silver will be greatly increased. Post-war silver policies are important to many countries, including the United States. At the Bretton Woods Conference, the Treasury supported a recommendation of the Conference that the problems resulting from wide fluctuations in the value of silver should be further studied by the interested nations.
B. Military Financial Operations

The fact that our Army and Navy have had to fight this war in all parts of the globe has resulted in a multitude of foreign currency and foreign exchange problems such as no other military force in history has had to meet. Under my direction, the Treasury Department has worked closely with the military on these problems in all their campaigns and in the planning which preceded the campaigns. From the time in 1942 when the Treasury provided the gold coin which General Clark carried with him on his secret mission to North Africa by submarine, the Treasury has been helping the military to meet the monetary problems of waging warfare in foreign countries.

Each major campaign posed new problems. The Treasury Department undertook a thorough analysis of the economies of the countries in which the United States military forces would operate. From the first it was recognized that we would need suitable currencies with which to buy food and pay for labor, and our troops would have to receive their pay in a form which would enable them to buy locally without creating economic chaos behind our lines. Exchange rates with the dollar were needed for each currency used. The financial arrangements had to be consummated in the planning stage of each military operation.
Negotiations with our allied governments-in-exile prior to military operations for the liberation of their territories resulted in arrangements for the supply of local currency for military use. Agreement was reached on the military rate of exchange between the United States dollar and the local currency. In enemy countries, since there were no governments with which to deal, the armed forces were provided with special currencies and appropriate rates of exchange were established. Such arrangements were made in cooperation with the United Kingdom or the Soviet government or both, as was appropriate.

Much of the special currencies used by our armed forces was designed and printed in the United States under conditions where great secrecy and speed were essential. To assist in this, the facilities of the Bureau of Engraving and Printing were made available, and the facilities of American commercial firms were also enlisted.

New accounting procedures were necessary, and these were planned and put into operation. Where advances of special currencies (such as the Allied Military mark) or of currencies of Allied countries (such as the French franc) are received by the United States armed forces, a charge is made against the appropriated funds of the War or Navy Departments, as the case may be, in the amount of the dollar equivalent of the local currency advances. This is computed at the rate of exchange being used for
military transactions. These United States dollars are placed in special deposit accounts established for each currency with the Treasurer of the United States. In this way Congressional control over the expenditures of the armed forces is maintained, regardless of whether full settlement in dollars is made for the advances obtained by the armed forces.

**Invasion Currency**

When we prepared to invade enemy countries, and countries occupied by the enemy, we could not plan to use customary procedures for countries which have not been battlefields of the war. From the outside, we could not know with certainty what we would encounter in enemy-held territory. In Tunisia, the Germans flooded the territory with French francs, paid out with a lavish hand, in the hope of setting loose an uncontrollable inflation, as they did so much more thoroughly in Greece. In Sicily, the Germans ordered the banks to burn Italian currency before our forces arrived. We had to be ready to meet both these tactics, as well as others which have been used against us. We needed to assure our troops of necessary currency, without depending on local banks (because we might find banks destroyed, or unusable because their management's loyalty was questionable), without knowing whether civilian government would be in condition to permit normal business transactions, and without the opportunity (in the case of enemy and French
territory) of making arrangements in advance with a recognized government. We had to anticipate the possibility that we would be required to provide currency for civilian needs, before local self-government could be re-established in liberated areas. Our assault forces would precede even a recognized government. We might find that the mayor of the first town liberated needed money urgently to keep his police force on the job, to hire laborers to clear the streets, or for a host of other work needed in the immediate wake of battle. Our supply officers needed an acceptable currency so they could hire local civilians. It is obviously easier to hire a crew of laborers to unload ships if we pay them in cash at the end of each day, rather than give them receipts and tell them to submit their claims for future collection.

However, our currency programs had to be suited to the very diverse conditions that were found in the countries in which our troops fought. In North Africa, we first used specially prepared yellow seal dollars and then North African currency. In Italy, we again used yellow seal currency in the early weeks of the invasion of Sicily but we soon introduced a specially prepared Allied Military lira. In France the allied forces landed on the Normandy beaches with "supplemental francs" printed in the United States, while in Belgium and in the Netherlands our military forces used the currencies which had been prepared by their respective governments in London. In Germany Allied Military marks had been
prepared in advance and for Austria, Allied Military schillings. In
the Netherlands East Indies, Netherlands Indies guilders obtained
from the Netherlands Government were provided to our troops. In the
Philippines, new "Victory Pesos" were produced by the United States
Bureau of Engraving and Printing for the Commonwealth Government and
made available to us in exchange for dollars. On Okinawa, our
valiant troops are being paid in Military yen. Thus we have made
available to the Army and Navy the full experience of the Treasury
in dealing with financial problems and we hope that we have thereby
made a substantial contribution to the effective prosecution of the
war.

In each of the Allied countries, the invasion currency used
was not in any sense a currency of the United States. It was pro-
vided by the local government of the liberated country itself, and
such government or its central bank is solely responsible for the
redemption of the currency. We pay in U. S. dollars for the foreign
currency we use for net troop pay and certain other strictly mili-
tary expenditures not covered by reverse lend-lease. The moment
any such disbursements are made by Army Finance officers, Washington
is notified and the dollar amount is taken from the Army appropria-
tion and set up in a special account in the Treasury. A similar
procedure is followed with Navy expenditures. Thus, Congressional
control over the size of Army and Navy appropriations is strictly
maintained, Generals Eisenhower and MacArthur and Admiral Nimitz
are supplied with ample local currency of the country in which they are operating and the Allied government is paid later when the accounts are balanced up.

Currency Practices of Our Allies

Our allies have followed similar procedures in providing currency for their military forces in foreign lands. The British used a British Military Authority note, denominated in pounds in their early operations in Africa; again, side by side with our yellow seal dollar, in North Africa and in the early weeks of the Sicilian operations; and, only a few months ago, in the operations in Greece. The British joined us in the use of AM lire in Italy. British arrangements with the Western European countries for currency are much the same as ours. Canada is being supplied with francs and guilders in the same way. The Russian forces introduced a military lei in their invasion of Rumania, and are today using the same AM mark in eastern Germany and in Austria as we are using in our occupation zones. We have planned with our Allies for the use of money as well as for the use of other weapons of war.

Financing of U. S. Army in China

The U. S. Army began its activities in China in July 1942.

From the very beginning, because of the peculiar conditions in China, particularly the existence of an advanced inflationary
situation, our troops have been paid in U. S. currency. This has been done with the permission of the Chinese Government.

The problem of procurement for the Army in China was not very serious until the end of 1943 because our military establishments in China were still comparatively small. However, with the stepping up of our military program in China toward the end of 1943, particularly the building of large air bases, it became necessary to re-examine the question of how to finance U. S. Army procurement in China. Following negotiations with the Chinese, it was arranged that periodic settlements be made with China for advances of local currency and for supplies, services and military construction furnished the U. S. forces in China.

On January 22, 1945, I announced that the Treasury Department had just completed transfer to the Republic of China of $210 million in settlement for such advances.

The Treasury Department has assisted the Chinese in obtaining the necessary facilities to print Chinese currency in the United States, as well as the necessary transport facilities to ship such currency to China.

Financial Settlement

It is necessary to prepare now for the financial settlement which will ultimately close out our military operations in many countries. To this end, I have instructed the technical staffs
of the Treasury Department to consult with the accounting officers of War and the Navy Departments, and to prepare the records and to institute steps leading towards the liquidation of financial questions between the governments involved.
C. Foreign Aid and Lend-Lease

Early War Period

One of the major contributions of the United States toward victory in the Second World War has been the tremendous outpouring of supplies which have been made available to our allies. On the side of finance this aid has only been possible because ways were found to finance actions which would save lives and hasten victory.

Even before the outbreak of the Sino-Japanese War in 1937, the U. S. Treasury attempted to help the young Chinese Republic lay the financial and monetary basis for a united nation capable of resisting Japanese aggression. In the four years between the outbreak of the Sino-Japanese War and Pearl Harbor, we worked out an integrated program of financial aid to China. This program included direct aid in the form of stabilisation agreements (dealt with in the section on international monetary cooperation), and the use of the Treasury's Foreign Funds Control to implement China's exchange controls, and indirect aid in the form of supporting Export-Import Bank loans to China. Thus, in consultation with other U. S. government agencies and proper Congressional committees, the U. S. Treasury rendered effective aid to China in her resistance against Japanese aggression, recognizing that the Japanese defeat of China would be a vital blow against American national interests.
in 1938 I assisted the Chinese to obtain a $25 million loan from the Export-Import Bank for the purchase of supplies essential to the Chinese war effort. Moreover, I placed the experience of the Procurement Division of the Treasury Department at the service of the Chinese Government. When most of the original $25 million had been spent, China was given in March 1940, a second loan for $20 million and then, during the remainder of 1940, the third and fourth Export-Import Bank loans for $25 million and $50 million respectively were granted.

The $50 million stabilization agreement entered into in April 1941 was made effective by a program of freezing Chinese and Japanese assets in the United States with the result that China could now regulate the foreign assets of Chinese in occupied China while the dollar proceeds of financial transactions with China were channeled into the coffers of the Government of China. (See section on Foreign Funds Control.)

Beginning in 1938 the British and French Governments began to place orders in this country for war materials. It was important to facilitate such foreign purchases. The defense of those countries was in fact the defense of the United States. These purchases would, moreover, encourage the increase of production facilities here. Finally, it was part of my responsibility to make certain that such foreign procurement was within the financial capacity of the nations involved. At my insistence all foreign
governmental orders were cleared through this Government, and in late 1938 the President asked me to represent the United States Government in its relations with foreign purchasers. On December 6, 1939, the President formally appointed a Liaison Committee consisting of representatives of War Department, the Navy Department and Treasury Procurement and asked me to serve as his liaison with it.

To assist the Committee in carrying out its tasks, I arranged for a system of detailed, periodic reports on the status of all orders placed in this country. Information drawn from these reports was made available to the foreign purchasing missions and to the United States Government agencies concerned. As orders mounted after the fall of France in the summer of 1940 the Liaison Committee acted to coordinate the foreign with our own domestic needs. This was a forerunner of work later to be done by Lend-Lease Administration.

Origin of Lend-Lease

Throughout this period I was kept informed concerning Great Britain's financial position. By the end of 1940 British gold and dollar balances were reduced to a level barely sufficient to discharge existing obligations. Britain, then the lone bulwark against aggression in the Atlantic, was in a position in which it would be compelled by lack of adequate financial resources to shrink in a
defense which was our own as well as theirs. In recognition of this contingency President Roosevelt asked Congress to authorize the manufacture of materials and supplies to be turned over to those engaged in war with the Axis.

In anticipation of this situation the Treasury under my direction had prepared for the President's consideration, and subsequent approval, the formula which was incorporated in H.R. 1776 -- the Lend-Lease Bill. After full hearings this Bill was enacted into law on March 11, 1941.

The Liaison Committee continued to function until May 2, 1941, when the President by Executive Order made it the Division of Defense Aid Reports, which took over the administration of the Lend-Lease Program. The Office of the Lend-Lease Administrator was established on October 28, 1941. At no time did Lend-Lease involve the creation of new procurement agencies. Instead, the existing facilities of the Government were employed. The Procurement Division of the Treasury was designated to purchase industrial and other commodities, automotive equipment, and miscellaneous items. It has been substantially enlarged to permit the discharge of this added responsibility. In addition throughout the war I have continued to review the finances of countries which are eligible to receive aid under Lend-Lease.
Other Wartime Financial Aid

In some cases it has been necessary to afford special facilities to a co-belligerent. As noted above, following the German attack upon Russia in June of 1941, gold arrangements were made with the Union of Soviet Socialist Republics which enabled it to make purchases in the United States.

The outstanding instance of direct financial assistance to our Allies was the $500 million financial aid extended to China in March, 1942. Japanese military victories had made imports of military and civilian supplies very difficult. Financial aid, however, was still possible, and it was given without stint, reflecting the keen desire of the American people and their government that China's resistance against Japan should be strengthened to the fullest extent possible.

By the terms of the agreement entered into between the Foreign Minister of China and the Secretary of the Treasury with the unanimous authorization of Congress, the Chinese were given a credit of $500 million on the books of the Treasury on which they could draw at such times and in such amounts as they wished. Most of these funds have been used as backing for issuance of U. S. dollar savings certificates and U. S. dollar bonds and for the purchase of gold from the United States for sale in China. These measures have been part of the Chinese Government's effort to reduce the inflationary price increases, which have hindered the Chinese war effort.
D. Foreign Funds Control

Development of the Control

For several years before the war we were at work on measures designed to limit the benefits which aggressor powers could obtain from seizing the foreign exchange assets of invaded countries. During the same period we closely studied the financial activities of the Axis powers in the United States and drafted preventive measures. Long before it was decided to freeze foreign funds in the United States, we had prepared and carefully considered the plans for establishing a bureau of Foreign Funds Control and the purposes and policies it was to follow.

Freezing control was initiated on April 10, 1940, when Germany invaded Norway and Denmark. On that day the President, by Executive Order No. 8389, pursuant to Section 5(b) of the Trading with the enemy Act, prohibited transactions involving Norwegian and Danish property within the United States except as authorized by the Secretary of the Treasury. During the summer and fall of 1940, as other countries were invaded or dominated by the Axis, the control was successively extended to the assets of the Netherlands, Belgium, France, the Baltic and Balkan States. These extensions were largely due to the initiative of the Treasury Department.

Foreign funds control had as its primary purpose the protection of the assets within the United States of invaded
countries. It was designed to prevent the control of these assets from falling into the hands of the invaders and to protect American institutions from possible adverse claims. As the international crisis deepened, and as the scope of the control was widened to include other countries, it soon became apparent that the control was a sharp and valuable weapon of economic warfare which could strike telling blows at the Axis powers.

In June 1941, the control was extended to Germany and Italy and to the rest of the continent of Europe. On July 26, 1941, the control was initiated against Japan. At the same time, the freezing control was extended to China at China's request. Freezing of Chinese assets was part of an over-all program of aid to China. (See section on financial aid.) It also prevented Japan from using the occupied areas in China as a loophole for evading our freezing controls.

Through the bureau of Foreign Funds Control, we have also carried out all the Presidential powers under Section 5(b) of the Trading with the enemy Act, as amended. The freezing control covers the current financial transactions of more than thirty-five countries. The frozen assets consist not only of bank deposits, gold and securities, but also of 4,000 business enterprises, as well as merchandise, patents and other forms of property. These assets are administered through an orderly licensing procedure whereby
permission is granted to effect transactions not inimical to the interests of the United States.

As licensing problems unfolded and we became familiar with their nature and pattern, we were able to carve out certain areas wherein, under specified conditions, the restrictions could be safely relaxed through the means of general licenses. Other more complex transactions were kept subject to specific license. The volume of applications for such licenses, which are now being received at the rate of about 6,000 per month, was at one time as high as 40,000 per month. From January, 1942, through March, 1945, transactions in assets totalling over $10 billion have been authorized under specific licenses.

At the outbreak of war on December 7, 1941, it was indicated that a separate agency might be created by the President to exercise managerial functions with respect to enemy property. In anticipation of the creation of such an agency, I refrained from actions on those matters which would be exercised by an Alien Property Custodian. On March 11, 1942, Executive Order No. 9095, was issued establishing the Office of Alien Property Custodian. It was amended on July 6, 1943 by Executive Order No. 9193. The latter order divided the authority between Treasury and the Alien Property Custodian as follows: The Custodian was given the responsibility of (1) vesting or supervising of business enterprises owned by, or on behalf of, persons living in the six countries which had declared war
against the United States; (2) handling of enemy-owned real estate and foreign owned patents, trademarks and copyrights and ships; and (3) dealing with enemy interests in litigation. The Treasury retained control of dollar balances, securities and other liquid assets of enemy countries, pending clarification of this Government's policy with regard to the ultimate treatment of the assets of enemy countries.

On June 8, 1945, Executive Order No. 9193 was further amended on the basis of an agreement between the Alien Property Custodian and myself, which gave the Custodian power to vest all German and Japanese dollar balances, securities, and other liquid assets heretofore administered by the Treasury. This was effected in line with the agreed policy to eliminate completely all existing German and Japanese interests in the United States with the object of reducing the ability of Germany and Japan to rebuild their war potential.

Scope of Economic Warfare Program

Enemy Deprived of Financial Means in the United States. One of the primary objectives of the freezing control was to prevent the enemy from making use of the financial facilities of the United States. This objective was accomplished by (1) sterilizing and vesting the assets openly held in German, Japanese or other enemy accounts, (2) placing a "protective blocking" over the assets of countries occupied by the enemy, and (3) freezing the assets of
persons located in the European neutral countries as a defense to forestall their being used for the benefit of the enemy.

In the early stages of the war when American territory, such as the Philippines and Hawaii, was being invaded or threatened by the enemy, some action was required to protect the hundreds of millions of dollars worth of currency, checks, bonds, and other securities held in these areas from possible seizure by the enemy. Since it was physically impossible to remove these assets, we initiated, supported and helped carry out the application of the "scorched earth" policy to these assets. For example, in the Philippines, many such liquid assets were destroyed and reissued to their owners in the United States.

We prevented the use of United States financial facilities by the enemy even in cases wherein no frozen funds were involved. Because the dollar is the strongest currency in the world, it is the medium of exchange most widely used in international transactions. Through cooperation received from our banks, we were able to examine hundreds of financial transactions handled through United States facilities for persons in countries which were not blocked, thus preventing the enemy from using channels such as South America for effecting transactions inimical to us.

To prevent the enemy from disposing of dollar securities and currency, which they seized from their victims, I instituted a program prohibiting the importation of securities and currency into
this country unless the titles were demonstrably free from Axis taint. Probably the most telling demonstration of the effectiveness of these controls to frustrate enemy looting has been the recent discovery within Germany of huge caches of securities, currency, gold, etc., which the Nazis were unable to convert into foreign exchange.

Elimination of Enemy Influences and Activity in the United States and Abroad. In the business enterprise field, wide authority has been exercised in eliminating dangerous Axis influences. Since a number of business enterprises in the United States were used as a base of operations to carry out Axis plans to influence and to distort production; to hold markets in this hemisphere; to support fifth-column movements, and to lay the basis for post-war influence, stringent forms of control were exercised (even before the establishment of the Office of the Alien Property Custodian) by subjecting approximately 140 enterprises to rigid supervision, involving the dismissal of a number of executives and employees; by compelling the liquidation of approximately 300 enterprises, and by vesting the capital stock in large enterprises owned or controlled by Axis nationals.

Throughout the war I have striven to enforce a general policy of severing and eliminating all financial and commercial intercourse, direct and indirect, between the United States and the Axis and Axis-dominated countries. Pursuant to Section 3(a) of
the Trading with the Enemy Act, we examined and regulated all communications of a financial, business, or commercial character and all trade transactions between persons subject to the jurisdiction of the United States and persons in enemy countries or persons in Europe or Latin America included on the Proclaimed List of Certain Blocked Nationals.

We have worked actively with the State Department to secure the adoption of effective controls by other American Republics, to coordinate their controls with those of the United States, and to encourage and to facilitate the destruction of Axis financial power within this hemisphere.

Procurement of Vital Financial Information. In 1941, the hazardous world situation demanded that this Government obtain as quickly as possible comprehensive information on all foreign-owned property in the United States, including that held by non-blocked countries and their nationals. We therefore, in June 1941, undertook a census of foreign-owned property in the United States. We required all persons in the United States having custody, possession, or control of any property in which a foreign national had an interest, direct or indirect, to file a full report with us. Foreign nationals who had arrived in this country since June 1940, were also required to report their own property.

About 565,000 reports were submitted and they were carefully collated and scrutinized. The study of these reports, which is
nearly completed, shows that total assets in the United States belonging to persons in foreign countries amount to about $12.7 billion, of which over $6 billion is held by blocked countries and their nationals.

As the war progressed, it became apparent that the Treasury and other agencies of this Government also needed more information on American property interests abroad. This information was necessary to deal adequately with blocked countries and to meet the problems of reoccupation. Therefore, in June 1943, persons subject to the jurisdiction of the United States having foreign assets valued at $10 thousand or more, were required to file reports giving foreign-issued securities held in this country, as well as property physically located abroad.

Some 235 thousand reports were submitted, of which 171 thousand came from individuals. Preliminary tabulations, which may be subject to considerable change in the final analysis, indicate total holdings abroad of approximately $13 billion.

**Preventing Post-War Use of U. S. Financial Facilities by Enemy Interests**

With the cessation of hostilities we have developed and have begun to carry out an orderly program for unfreezing blocked assets and for terminating the wartime freezing controls. In executing this program, we have followed certain basic principles:
the rights of American creditors and other American claimants must be adequately safeguarded; assets held in the names of persons within blocked areas, but which actually belong to the enemy, must continue under American control; no benefits must be permitted to accrue to elements which have collaborated with the enemy; looted property must be returned to rightful owners, and transfers executed under duress and compulsion must be vitiated.

Program for Releasing Assets of Liberated Countries

As previously noted, during the course of the war all trade and business communication between the United States and the countries occupied by the enemy has been prohibited, and the property in the United States of such countries and their nationals has been immobilized under the freezing control. Upon the liberation of these areas from the enemy, however, we have facilitated, in cooperation with other agencies of this Government, the re-establishment of normal communication and financial channels.

Soon after liberation, we authorized various governments to use with relative freedom their public assets in the United States, including the funds of their central banks, for official purposes and for the purchase of merchandise for shipment to the liberated countries. Thus, with respect to France and Belgium, the first occupied countries to be liberated, we issued general licenses
authorizing private trade and certain other current transactions between France and Belgium and the United States.

Program for Releasing the Assets of Neutral Countries

In administering the freezing control, we in the Treasury have also been concerned at the large number of accounts held in the name of neutrals, which actually represent enemy assets.

As a first step in the frustration of these plans, we initiated and secured the adoption of Resolution VI by the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, calling upon all neutral countries to cooperate in meeting this problem. In execution of this Resolution, approaches have been made to the neutral governments, requesting their cooperation in uncovering and controlling German assets hidden within their borders.

Our success in securing the forthright and active cooperation of the neutrals in such programs will have a direct bearing on the unfreezing of their assets in this country, for such measures can be taken only after bona fide neutral assets have been segregated from cloaked enemy assets. We have instituted measures to this end. Regulations have been issued whereby no sales of securities held in accounts of blocked foreign financial institutions may be effected, and no purchase of securities held
in such accounts may be collected unless the nationality of the
beneficial owners of the securities is disclosed to the American
depositary. This process of forcing disclosures of enemy
interests must be completed prior to the release of blocked
neutral assets; otherwise neutral accounts in our own banks may
serve as havens for the ill-gotten gains of Nazi war criminals.
Indiscriminate unblocking might permit the Nazis to keep their
loot as a nest egg for another war.
ADMINISTRATION

Up to this point, I have dealt largely with the policy matters involving taxation, finance, and money. However, policy decisions and program plans, if they are to be effective, must be translated into action through a well-managed and smoothly functioning administrative machine. No review of the period covered by my service as Secretary of the Treasury would be complete without reference to the management policies, organizational objectives, personnel programs, and public service ideals to which my efforts have been directed.

It is important to point out that during the entire period of my incumbency I have enjoyed the loyal and efficient support of an outstanding group of officers and employees. No Secretary could have asked for a finer body of men and women upon whom to rely for assistance and organizational improvement, and who so willingly gave of their time and effort to the service of their country. The Treasury Department is most fortunate in having within its ranks a splendid corps of career service employees, many of whom have remained in the employ of their Government largely because of a fine spirit of genuine public service. To the many thousands of Treasury employees go my sincere thanks and praise for their excellent work and devotion to their jobs during my tenure. I know that they can be relied upon by future Secretaries to give continuity and strength to all of the many diversified Treasury activities.
Personnel Policy

As an unqualified advocate of Civil Service principles, I have sought at all times to foster a personnel policy that would guarantee the efficient conduct of public affairs, reward meritorious service and insure just and equitable treatment of all employees. Realizing fully that the efficient employee is the man or woman who is healthy, well-adjusted and happy in his work a special effort has been made to improve the working conditions in the Treasury Department. We have actively encouraged an adequate health program for Treasury employees and given every support to the United States Public Health Service in its maintenance in the Department of 14 well-equipped health units with 5 doctors and 38 nurses to attend the 25,000 Treasury workers in Washington. In Treasury offices throughout the United States emergency rooms are located wherever there are large numbers of employees.

New eating facilities have been provided in Treasury buildings in Washington, including an attractive cafeteria in the Main Treasury Building and improved units in our Procurement Division and Auditors Building. Programs to help employees in obtaining housing, day care for their children, and opportunities for recreation have been encouraged. Steady progress has been made in providing rest periods, proper lighting, air conditioning, and pleasant working surroundings.

Employee organizations in the Treasury have received unfailing support. The Treasury Credit Union, a part of the system I helped
create earlier in the Farm Credit Administration, has loaned $1\frac{1}{2}$ million to Treasury employees since its organization in 1935. The Department's Welfare Association was organized in 1935 "for the mutual benefit and improvement of the employees of the Treasury Department."

In addition, the Bureau of Internal Revenue has long maintained a splendid welfare organization. The Red Cross Unit of the Treasury was founded in 1940 and has an outstanding record of accomplishment in the donation of blood and in equipping recreational units in hospitals and military camps.

Perhaps my basic policy on employee relations was best expressed at a meeting of Treasury personnel officers in January of this year when I said, "Through constant realization by everyone that all Treasury employees are human beings, the efficiency of our work will be improved." This emphasis on good working conditions and sympathetic understanding of the problems of employees has been responsible for the high morale and efficiency of Treasury personnel.

Indicative of the success of our personnel policy and of the attention given to the problem of keeping employees on their jobs is the fact that the Treasury, though an organization of over 97,000 employees, has one of the lowest separation and turnover rates of any Federal agency.

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The Department has received the commendation of the Congress and the military establishments for its very rigid policy on draft deferments. Feeling as I did that nothing, however important in a peace-
time or domestic activity, should be permitted to impede the development of a fighting field force, I personally reviewed every request for military deferment submitted on Treasury employees. When the last report was made to Congress we had outstanding only eight deferments and all of them were of a temporary nature. Today, there are no men under thirty years of age in the Treasury Department holding a deferred status. We feel that this solid position symbolizes the Treasury's consistent policy of doing everything possible to speed the winning of the war.

Treasury men leaving the Department for military service number 10,760. Many of these men, because of their training and past Treasury experience, have rendered highly specialized technical assistance and leadership to the armed forces. In combat duty 107 former Treasury employees have given their lives.

Organizational Development

It has been a vitally important and challenging task to build, maintain and improve an organization capable of discharging the ever-increasing volume of work borne by the Treasury Department. Through the years of my Secretaryship I constantly endeavor to stimulate an active team spirit and to achieve a harmonious balance between the separate activities of the Department. In appraising the organization I repeatedly asked the question, "Is this good government?"
During the past twelve years many changes were made with a view toward strengthening and coordinating the work of the Department. Every branch of the organization was subjected to unceasing study and from these constructive efforts have come substantial benefits in the form of better service and lower costs.

In 1940 the Congress approved a recommendation that there be created a permanent Fiscal Service within the Treasury. The change brought together under career leadership three key bureaus administering policies in the fiscal field. This grouping of the Bureau of Accounts, the Bureau of Public Debt, and the Office of the Treasurer of the United States under a Fiscal Assistant Secretary achieved a highly desirable functional integration.

As has been mentioned in the preceding section on taxation we greatly improved our service to the taxpaying public through the decentralization of a large portion of the work of the Bureau of Internal Revenue. The establishment of these field offices throughout the country resulted in material savings in time and money, both to the Government and to the citizens having taxation business with us. More recently we have undertaken the decentralization of a portion of the Bureau of Internal Revenue's legal staff in order to ensure the rapid and exacting enforcement of the revenue statutes. To cope with its war-expanded activities, the Bureau's personnel was increased from 22,400 in 1940 to almost 60,000 in 1945. It is today, however, greatly understaffed and has been depleted of experienced
personnel, over 5,000 of its employees having entered the armed forces. The ability of the Bureau to carry on under these circumstances is testimony to the effectiveness of the organization which had been developed prior to the war. The nation should realize, however, that as the war draws to a close the Bureau of Internal Revenue confronts a large unfinished task and should be strengthened as rapidly as circumstances permit. During the closing weeks of my Secretarship there was launched a general expansion program aimed at increasing the staff by 11,000 employees.

Treasury's position as the largest financial institution in the world creates the need for highly skilled technical research talent if the perplexing problems of public finance are to be intelligently solved. This need led me to develop within the Treasury an expert staff of research economists and monetary authorities whose work covers the entire field of domestic and international finance. The work of these economic scientists has been an invaluable aid in charting the path of this Government's management of its financial affairs and in meeting its international responsibilities.

During the course of my administration the Treasury's bureaus and offices engaged in law enforcement activities were drawn into a coordinated pattern of operation to insure militant enforcing of the Federal laws administered by the Department. Concentrated campaigns were organized as the need arose to control, under the law, traffic in alcohol, smuggling in violation of the Customs statutes, illicit
narcotics transactions, counterfeiting, and fraudulent evasion of income tax laws. The success of these drives is a matter of public record.

Concurrently with the over-all expansion of the Bureau of Internal Revenue, its law enforcement machinery is being overhauled for a full-scale attack on war-time tax evaders. Preliminary investigations of black market activities and increases in currency circulation indicated an alarming disrespect for the common obligation of supporting the tax laws. We have now under way a comprehensive program designed to uncover and bring to book those who would defraud their Government and their fellow citizens by tax evasion.

President Truman has given his full support to enlarging the internal revenue staff to insure full compliance with the law, and the Appropriations Committees of the Congress have approved the intention of the Treasury to accelerate its rate of expenditures to recruit the necessary personnel.

As in all of its law enforcement drives, the Treasury seeks to stimulate the public’s respect for Federal law and cooperative assistance by pointing to the stake which the honest taxpayer has in this effort. This public participation has been fostered by such educational programs as that carried on by the Secret Service Division entitled, "Know Your Money".

As a service agency, the Treasury has been called upon during the past twelve years to perform enormous new tasks requiring the
enlargement of existing organisations and the creation of new units. It is a tribute to the flexibility and capacity of the Department that it took and performed admirably each new assignment given it. For example, in 1935 President Roosevelt placed upon this Department the responsibility for purchasing materials and equipment, disbursing funds and exercising accounting controls for the emergency relief and work relief programs, involving $15 billion. During the pre-war period our Procurement Division purchased and stock-piled strategic and critical materials amounting to more than $46 million. With the inception of the Lend-Lease and UNRRA programs our Procurement Division was called upon to buy an unprecedented volume of goods to aid our Allies. Through June 30 of this year the Division had purchased more than $6 billion of Lend-Lease goods, and over $100 million of United Nations Relief and Rehabilitation supplies.

Procedural Improvements

In any large organisation such as the Treasury millions of repetitive operations must be performed. The magnitude and sheer physical volume of Treasury business can best be visualised in the following figures drawn from the last fiscal year of my service. During the year there passed through the Treasurer's money accounts more than $600 billion of receipts and disbursements, including public debt and currency transactions. This is at the rate of $1½ billion for every working day of the year. The Division of Disbursement
issued nearly 82 million checks, amounting to over $19 billion. All
told, the Treasurer of the United States paid over 532 million checks
involving $189 billion. Our Bureau of Engraving and Printing pro-
duced 1.7 billion pieces of currency, bonds, notes, certificates, and
bills, representing a money value of $246 billion. The Bureau of the
Mint manufactured 2.6 billion separate domestic coins, representing
a money value of nearly $125 million, and 1.4 billion individual
foreign coins. These data, it will be observed, represent only a
partial picture of those functions involving the handling of money
and securities. In addition there were voluminous transactions
necessary to the functions of the Bureau of Customs, Foreign Funds
Control, and the Bureaus of Public Debt and Internal Revenue.

In carrying out fiscal operations involving huge sums of public
monies, I have been guided by three fundamental procedural principles:
(1) The maintenance of adequate controls over the funds and secur-
ties at a minimum of administrative expense; (2) prompt and courteous,
service to taxpayers, public creditors, and others with whom the
Treasury does business; and (3) a full and complete disclosure for
the Congress and the nation of the financial operations of our
Government.

With these principles in mind, we have constantly reviewed
Treasury operations. In a sense, many of our jobs are mass produc-
tion enterprises where the saving of small fractions of cents on each
unit of work results in a significant cumulative total. Thus, the
Treasury is continually studying processes of streamlining and simplifying its methods in order to reduce these unit costs. Illustrative of progress resulting from this constructive work is the change to a mechanical and decentralized procedure for paying Government checks. From this change alone the savings thus far have amounted to more than $2 million annually. Comparable savings have been brought about through such things as the reduction in the size of War Savings Bonds and the improvement of manufacturing processes in our Bureau of the Mint.

In connection with the pay-as-you-go system for collecting income taxes on salaries and wages at the source, the Congress approved the Treasury's request for authority to establish a special depository system for those withheld taxes. This procedure permits the employers to deposit monthly, in designated depository banks, the taxes collected during the month. This money is promptly remitted to the Federal Reserve Banks, thus making these funds available to the Treasury on a more current basis with a resultant saving in interest charges that would otherwise accrue.

Similarly, Congress approved Treasury's proposal for carrying its own insurance on shipments of securities, currency, coin and other valuables. The savings to the taxpayers resulting from this legislation have already exceeded $12 million.

We have made it a Departmental policy to encourage all employees to critically appraise their jobs with a steady view toward
conserving time and equipment, avoiding waste, and improving in every way Treasury's operating practices.

Recommendations on Fiscal Administration

The task of improving our organization and adapting it to the changing demands of growth and development is a never-ending one. It is for this reason that I am summarizing below recommendations that I have made with a view toward strengthening Federal fiscal management. Much progress has been made, but much remains to be done if the Treasury is to assume the challenging responsibilities which lie ahead. We have come a long way in the past 12 years in developing the thesis that the Federal Government's monetary force should be a dynamic and useful instrument in improving the total national well-being. We have endeavored to create an organization dedicated to this objective. The job is not finished. The foreseeable post-war tasks of this Department may well be even more challenging and intricate than those that confronted us during my period of service in Treasury. My recommendations are offered as constructive suggestions drawn from experience as the Treasury Secretary.

As mentioned in the preceding section on Taxation, in 1939 I suggested that if the Ways and Means and Appropriations Committees of the House, and the Finance and Appropriations Committees of the Senate, would meet each session as one joint committee on fiscal policy to consider the over-all aspects of the expenditures and revenue program,
simplification and greater effectiveness would result. By providing for preliminary legislative consideration of the over-all picture of appropriations and revenue measures, Congress would be given a broad perspective of the state of the Government's finances and permit a better ordered coordination by the Executive and Legislative branches in this field.

This joint committee would, in effect, be a lens through which all appropriation and revenue measures could be viewed in relationship both to what the nation needs and to what the nation can afford. The Committee should have continuous life for the purpose of actively studying fiscal programs between as well as during sessions of Congress; and the Treasury Department, would, of course, cooperate in the work to the full extent that the Committee should desire.

As an aid to the joint committee in performing its work I believe it would be helpful if the Treasury Department were to submit a comprehensive financial statement periodically, showing the Government's financial operations and condition. Further, officials of the Treasury Department should be called before the committee to explain the significance of the figures, their implications, and their relation to the estimates contained in the approved budgetary program. This procedure would be an extension of the existing procedure inaugurated in 1941 whereby financial statements are submitted quarterly to the House Appropriations Committee for publication in the Congressional Record.
Informative fiscal accounts are a primary essential to intelligent understanding of Government. They are not only important tools of management but are also the prime conservator of the public funds against waste and graft. Beginning with the year 1934, the Treasury has published regularly in the Daily Treasury Statement a monthly financial record showing the assets and liabilities of the various corporations in which the Government has a financial interest, and in 1939 I made a report to the Senate embodying the principles contained in the pending legislation dealing with the audit control of Government corporations. Much can be done to simplify the financial structures of Government-owned corporate activities, and make more lucid the public reports covering their finances.

To me, the outstanding weakness in the management of Federal fiscal business is the absence of a single, responsible officer to whom the President may look for complete and comprehensive policy direction over the entire field of borrowing, lending, spending and insuring. During the period of my Secretaryship it has become increasingly apparent that the many segments of important financial activity that are managed administratively by agencies other than Treasury should be drawn together for purposes of policy coordination. Since the Treasury Secretary is charged with the responsibility for raising the funds, managing the public debt, collecting the taxes, maintaining the accounts, and reporting to Congress on the financial condition of the nation, he is identified as the Chief Fiscal Officer. Yet, in actual
practice the area of control and influence exercised by the Secretary of the Treasury is largely limited to one side of the ledger. He is not in a position to exert proper influence over the use and disposition of the funds he must raise and account for to the nation. This weakness is a material handicap to the functioning of the Treasury Department and, moreover, to the orderly and unified conduct of this Government's financial affairs.

No Secretary of the Treasury can properly serve the Chief Executive, the Congress and the American people during the trying post-war period of international rehabilitation and domestic reconversion without maintaining a balanced policy over both sides of the Federal ledger. In 1933 President Roosevelt adopted my recommendation that all of the agencies engaged in lending to farmers be consolidated into a Farm Credit Administration. The success of this merger speaks for itself. Based on this experience as Governor of the Farm Credit Administration, and on my years as Secretary of the Treasury, I recently recommended a reorganization program aimed at the unification and correlation of related functions in the entire area of Federal fiscal activity.

Generally, I proposed that Treasury's influence be extended to embrace these areas:

A. Policy control and correlation of programs relating to banking, insurance, lending, and borrowing, now spread principally in the Departments of Agriculture, Interior and Post Office (Postal Savings),
the Federal Loan Agency, the National Housing Agency, and the Federal Deposit Insurance Corporation.

B. Policy influence with respect to the money and credit markets of the country, typified by activities of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee, and the Securities and Exchange Commission.

C. Policy direction over Federal revenue and expenditures typified by the President's budget and proposed legislation submitted to the Congress from the standpoint of a unified fiscal program.

The plan for accomplishing the necessary degree of integration in this area of fiscal management contemplated first the establishment of a National Committee for Fiscal Affairs chairmanned by the Secretary of the Treasury and composed of representatives from each of eight subcommittees covering these fields: (1) Industrial Finance. (2) Agricultural Finance. (3) Foreign Finance. (4) Maritime Finance. (5) Money and Credit. (6) Housing Finance. (7) Public Works Finance. (8) Federal Budget.

Thus, the Secretary of the Treasury would be in a position to oversee the fiscal programming of all constituent organizations without disturbing the basic corporate patterns, regulatory and insuring controls or operational practices of such agencies. The work and investigation of the top policy committee would no doubt demonstrate the necessity for rather far-reaching, basic organizational changes. It seems likely that many of the corporate organizations, while neces-
sary at their inception, could now be dissolved and their functions woven into those of the existing executive departments. Personally, I feel that experience has demonstrated the desirability of returning to the Treasury Department the responsibility for preparing and submitting the President's budget. I believe that time will prove that the wise course for the Congress to pursue is to place the responsibility for financial planning and expenditure control squarely upon the shoulders of the Secretary of the Treasury.

The need for welding together the separate parts of the Federal fiscal program is great today and will assume even more importance after the war when the preservation of delicate balances between taxation, borrowing, spending, and lending will be essential to a healthy internal economy and to the fulfilling of our international responsibilities. Further consideration of these recommendations may be an aid in equipping the Treasury for the role of a master coordinator on all of the Federal fiscal policies.
IN CONCLUSION

This report would be incomplete if I did not touch upon the Treasury's interest in the problems of lasting peace and post-war reconversion.

The tax bill of the American public after this war, the burden imposed on the taxpayer by that tax bill and the soundness of this nation's whole public debt structure will be affected in a major way by the degree of success we achieve in solving the problems of lasting peace and full employment. The policies of the Treasury Department in the fiscal field are therefore inexorably affected by what is done in these fields.

Specifically, if the end of this war finds a world torn with fear and suspicion—with nations doubtful of the real intentions of other nations—this country and other countries will be compelled to seek security through the maintenance of a huge military establishment. The huge dollar cost of dependence upon this kind of armed security would be reflected in the taxpayer's tax bill and in a drain on our national economy.

The grim appreciation of this fact has intensified my concern for the success of the Bretton Woods program for international economic cooperation and the formulation of an effective program for preventing Germany and Japan from fomenting another war.
On the domestic front, the direction taken by this country in the post-war reconversion period will affect profoundly our whole tax and public debt structure.

If reconversion ushers in a period of stagnant unemployment, retrenchment and an economy of scarcity, the cost of government will bear heavily on the depleted income of the taxpayer regardless of tax rates. With a withering national income, tax receipts will fall. These problems will be intensified by the task of servicing our huge national debt growing out of this war.

In short, industry, agriculture, labor and government together must take bold and positive measures to meet the problems of reconversion.

On the other hand, the cost of government—including the servicing of our public debt—can be met with substantially lower taxes if incomes are high and business is good. Incomes will be high and business will be good if this country undertakes a speedy post-war reconversion accompanied by intelligent protection for the wage-earners' pay envelopes, stability in farm prices and reasonable profits for business. Such a program calls for a high order of statesmanship on the part of our industrial and financial leaders. A great responsibility falls upon them.

Fiscal policy is clearly capable of being utilized as one of the effective instruments for the promotion of full employment in the post-war period. Our primary objective should be to make it
possible for our people to purchase the full amount of goods and services which our economy is capable of producing. I do not consider this objective incompatible with that of encouraging the largest possible volume of private investment in industry. On the contrary, I believe that the two objectives go together and that neither can be achieved without the other. Consumer demand is the motivating force of private industry and lays the basis for profitable private investment.

In the long and sometimes trying years during which I have held stewardship over the financial affairs of this Nation, I have leaned very heavily upon the support and the inspiration of the great President under whom I served—Franklin D. Roosevelt. It was President Roosevelt who gave me the opportunity to serve. It was President Roosevelt’s confidence which enabled me to carry through the policies which have governed our fiscal affairs through the crisis years of the great depression and the greatest of World Wars. I could not take leave of my stewardship without an expression of my gratitude to and affection for him.

There are bright horizons before us. Under the leadership of President Truman, we can move toward them, if we will, in the new national unity forged for us by war. We can move toward, and beyond, them with the sure confidence of a free people who have
found in the ways of freedom a pattern for the solution of whatever problems may confront them.

Henry M. Morganthau, Jr.
Secretary of the Treasury

To the President of the Senate
To the Speaker of the House of Representatives