

AUTOMOBILE INDUSTRY

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Although the automobile industry has about 16% of the durable goods production capacity of the country not more than 10% of that capacity has been mobilised up to the present time for defense purposes. Even with heavy curtailment now threatening car production, no appreciative steps have been taken to plan for conversion of present civilian facilities to defense production. This means that the major producing power of the industry is still being held out of defense work.

As a specific example of the absence of correlation of facilities and manpower to defense production is the fact that tool and die facilities in Detroit are now being used at 35% of capacity as revealed by a recent United Automobile Workers Union survey. The captive tool and die shops of Detroit (owned by the automobile corporations) are working one shift four days a week.

As the result of absence of correlation within the industry we have the following situations as examples:

(a) Ford, Chrysler, and General Motors are all receiving separate contracts for medium tanks. This means that each one of the companies will establish a full cycle of production for tanks, ordering a few parts from the outside. Through correlation of available machinery and technical capacity tank contracts could be broken down. For instance, Ford could make all castings for all the tanks in the industry, or, more specifically, for the production quota of Michigan. This is so because Ford can do the castings best. Each company could thereby concentrate on the specific tasks that they could do best. Thereafter all of the parts could be brought to a final assembly point.

(b) The same principle applies to aircraft. Ford has developed a technique for turning out cylinder sleeves or liners which could be used to make all sleeves used by Curtiss-Wright or Pratt Whitney. Today each of the companies, Ford, General Motors, and Chrysler are working on that problem in spite of the fact that Ford has already developed the process to the highest degree of efficiency.

(c) The subcontracts system has broken down completely. The big companies take all the plums and farm out the headaches. The smaller shops are obviously least well-equipped to assume the headaches--their technical staffs being smaller and their facilities of a character that they can't accept this burden.

An official channel must be established for the expression of workers' ideas and suggestions for the solution of the difficult production problem. Countless reports from defense plants recently built and now operating in the industry, demonstrate that this essential contribution is being made but unofficially by union members at the present time.

Because of the absence of planning in the transformation of existing automobile manufacturing facilities into defense facilities will mean the idleness of approximately 215,000 men by the first month of 1942. This will include skilled, semi-skilled, and unskilled men. Of course this will involve also a corresponding idleness of existing plant facilities that had been attuned to civilian goods.

PRODUCTION OF COPPER

One of the raw materials for which there is an alleged serious shortage is copper. Recently the United States government increased the price which it pays for copper imported from Chile in order to create an additional incentive for increased production in South America to make up for this shortage. While this step by the United States Government had to be taken because of an alleged shortage, we find the following situation at home:

(1) Only recently the Anaconda Copper Mining Company closed down its Walker mine in California where 500 men had been employed. The reason given was that it was a mine that was losing money for the company. In spite of all the subsidies that the Government has given to the Anaconda Copper Mining Company in one form or another, the company has the absolute right to close down a mine and stop production in the face of an alleged shortage.

(2) The Anaconda Copper Mining Company, at its Butte, Montana, mines produces some 15% of the nation's copper. A recent survey disclosed that of the 5000 regular employees at the ten mines in Butte, more than one-half of the men worked less than one-half of the month.

The foregoing indicates that we are not using all of the available miners nor all the available mines for the maximum production of copper. Furthermore, even for those mines already in operation it is possible to increase production considerably. The concrete proposal which the CIO union has offered in this connection is as follows:

Improvement of the ventilating system through installation of air conditioning and fan systems; the poking of holes through the surface so as to eliminate the "hot boxes" where miners cannot work at all or where their work is handicapped by humidity and high temperatures; improvement of servicing as in haulage or placing of supplies thereby making operations more efficient;

abolition of the contract system which, as the labor turnover proves, instead of acting as an incentive plan actually boomerangs by cutting production in that men are encouraged to quit when working conditions are such as to decrease earnings.

As an indication of the technical feasibility of the foregoing proposal, we submit the program of the Magna Copper Company in Arizona which recently installed 3 new 140-ton centrifugal machines to provide air conditioning down to the 4,600 foot level of its mines at Superior, Arizona. As a result of this installation, temperatures at the deepest workings will be cut from 150 degrees to 90 degrees, thereby increasing output.

The foregoing proposal of course means financial outlay. However, it will permit the mines to be operated, not merely on the present 5-day work shift basis but on the basis of unbroken continuity of production 7 days a week for 24 hours a day with proper allowance for the minimum amount of time required for clearing work places and general maintenance.

November 4, 1941

MORE EFFICIENT STEEL OPERATION

The steel industry is still operating, for all practical purposes, as seventy-five separate companies. The coordination of the industry's facilities as a whole, with the over-all steel demands for armament and domestic purposes is not being achieved, except in a few insignificant instances.

A typical example is the manner in which steel is being produced for the restricted automobile output. For example, the Lackawanna, New York Strip Mill of the Bethlehem Steel Corporation -- annual capacity seven hundred and twenty gross tons -- is operating on a very limited schedule, going as low as two and three days a week. This mill has an auxiliary fifty-four inch blooming mill which is capable of producing large size slabs for conversion on the Strip Mill into three-eighths inch to probably as thick as one inch plate. Yet, it has not been converted for this purpose. The auxiliary equipment, such as run-out tables and shears, needed for the production of plates could be achieved with highest priority rating in a reasonable period of time. Instead, the company, through this mill, is hanging on to as much of its domestic auto business as it can. As a consequence, the Defense Program is suffering of a shortage of the type of steel plates as could be produced on this mill.

In the meanwhile, for example, the Otis Steel Company at Cleveland, Ohio is compelled to divide the production of its Strip Mill -- which is running at full capacity -- between heavy flat rolled products for defense purposes and the lighter products for essential domestic purposes. As a result, its total output of finished flat rolled steel products is less than it would be if it were operating entirely upon lighter products. Thus, the maximum output of which this mill is capable is not being achieved.

This is a typical example of industry-wide inefficiency. It results from the absence of any power, adequately informed or being capable of being continually so informed. The obvious step that should be taken to achieve maximum efficiency is to place the Otis Steel Mill 100% on lighter products for which it is especially adapted. The Lackawanna Plant of the Bethlehem Steel Corporation, on the other hand, should be placed exclusively on the production of heavy products such as plates, and kept on these products for 168 hours a week, except for such shifts as may have to be lost for maintenance. This is only one out of many instances, and is cited to illustrate the fact that the steel industry is not being operated as one unit.

Another illustration of this fact, which deals with the actual production of raw steel is the scrap iron situation. In the week of October 20th, the Lackawanna Plant of the Bethlehem Steel Corporation had five of its thirty open hearth furnaces idle because of lack of scrap iron. All of these furnaces have over a hundred ton capacity, and these five being idle, amounted to a weekly loss of 7500 ton of steel.

This gets to the problem of scrap supplies. The freezing of scrap prices has made certain scrap piles unprofitable of collection and transportation to consuming points. If the problem of scrap iron collection were tackled on an industry wide and national basis, mobile scrap units could be organized for the purpose of reducing these presently economically unmoveable scrap piles to transportable form and transported to consuming points. The cost, of course, would probably double the present top price of twenty dollars a ton but the scrap would get to the open hearth furnaces and the output of steel would not be curtailed for this purpose as it is at present and will be increasingly curtailed in the future.

SPEEDY EXPANSION OF STEEL CAPACITY

The 10,000,000 ton of steel ingot capacity expansion program has been turned over for execution and allotment among the several companies to the OPM. At this point apparently the "big eight" steel companies dominate the program. In the first instance they established a ruling that any open hearth capacity would only be built with adjacent pig iron capacity. The technical arguments that can be made in support of this ruling are impressive on first presentation. The purpose and net effect of such a ruling is to remove all of the smaller companies from eligibility in participation in the expansion program. The Apollo Steel Company, which heretofore has never made any steel, has secured a quarter of a million ingot steel capacity allotment without auxiliary pig iron manufacturing facilities. This illustrates the untenability of the ruling, although the ruling has considerably delayed expansion programs throughout the whole industry and has definitely discouraged some smaller steel companies from even attempting to participate in the program. A careful analysis of the allocation of steel making capacity indicates a concerted effort, apparently successful, of the big eight steel companies to continue their virtual monopolistic controls and in the post-war period to literally wipe out of existence most of the smaller firms. Just as the allocation of defense orders to a few large companies creates a bottleneck. In brief, a new expanded capacity can be achieved in probably half the time by spreading the capacity over most of the companies in the industry as well as allotting a larger ratio of the new capacity to the smaller companies. Forty managerial organizations at work in an expansion program will produce much faster results than having the bulk of the program tied up in the hands of the technical and managerial staffs of eight large, cumbersome corporations.

There has been outright intimidation of smaller companies that has made them fearful to press their cases for a larger ratio or for even some of the new capacities. The courageous action of the Apollo Steel Company is the exception that proves the rule.

The expansion of electric furnace steel capacity approaches a scandal. None of the smaller specialty steel companies are participating in this program to any degree. The Carpenter Iron and Steel Company has expanded its facilities to some extent but this is part of the long range program that has been substantially financed with the company's own funds. The other specialty steel producers like this one, have not gone after any new electric steel furnace capacity nor has any been allotted them.

The seriousness of this will become apparent sometime in the year 1942. For example, one of the products of these specialty steel firms is welding rod steel. There is already a shortage of this product at the present time. Each of the companies in this group, such as Universal Cyclops Steel Corporation, Rustless Iron and Steel, etc., should receive from one to five 12½ ton electric steel furnaces with auxiliary equipment to meet the demands for this specialty steel and others that are so vital to the defense program. Welding rod will become particularly scarce when the tank production scandal breaks. The American Car and Foundry Company at its Berwick, Pennsylvania, plant will soon produce its 2000th 12½ ton tank. The Chrysler Corporation is producing its M-3 31 ton metal tank at the rate of around ten a day. All of these tanks are riveted construction. The marvel of Hitler's tanks has been that they could withstand 75 millimeter shells, because they were welded. It has definitely been established by trials that even a 37 millimeter shell will stop a riveted tank. The force of it, will, in most instances, shear off the rivets and thereby kill everybody in the tank. The shells that do not shear off the rivet heads knock it out of line, thereby slowing

it up and in most instances actually stopping it from further locomotion. Of course, when this fact penetrates through the mass of the defense machinery in Washington, D. C., there will be a speedy conversion to welded constructed tanks. In fact, unless the electric steel furnace capacity of the industry is expanded throughout all the companies experienced in operating steel furnaces the turnover to welded tanks may be delayed if not completely thwarted by the shortage of welding rod steel.

In most cases, the application of the simple idea of coordinating the steel industry on an industry wide basis will produce very definite and tangible results -- speedily. Unfortunately, the industry, acting by itself, is not disposed to so coordinate the industry. And equally unfortunately the federal government is neither adequately staffed nor effectively organized to make the industry do this job by itself. But there is a way in which effective industry wide coordination of the steel industry facilities and expansion program with demands for steel products can be accomplished.

ELECTRICAL AND MACHINE INDUSTRY

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As a few examples of non-use of facilities and men in the electrical and machine industry there are the following:

(1) For the refrigerator industry: 15,000 men have already been laid off and 10,000 more will be laid off in this industry by January 1, 1942. These are skilled machine tool operators as well as both semi-skilled and unskilled assembly workers. The equipment of the plants consist of excellent machine facilities as well as conveyor mechanisms for sundry work. Virtually nothing has been done to bring defense either to these unemployed men or the unused plant capacity.

(2) Westinghouse Electric Company: Westinghouse Company has a backlog of 400 million dollars in defense contracts, yet it is laying off workers. 2500 men have already been laid off and more are scheduled to lose their jobs. The company is utilizing only one-half its capacity for defense work, the rest going for consumer and industrial non-defense production. With all these contracts Westinghouse isn't even allocating its work within itself so as to avoid unemployment.

In addition, Westinghouse has let subcontracts to 300 companies but these subcontracts are very small. They total about 4,400,000 man hours of work. This is equivalent to one year's work for each company if only 7 or 8 men are employed on the job. Here is a beautiful example of inadequate subcontracting and altogether inexcusable unemployment of workers and plant facilities.

(3) Zipper industry: About 12,000 persons are either now out of work or will very soon be unemployed in the zipper industry. While their skills are specialized and their machinery is similarly specialized, operators must exist for utilizing this capacity for defense work. No steps of any effective nature, however, are being taken to bring these workers into this industry.

The United Electrical, Radio & Machine Workers Union is the CIO affiliate having jurisdiction in this industry. The union initiated a program to facilitate full defense production through labor, management, and government cooperation. The principal objectives of these efforts are the swift and essential conversion of consumer goods facilities to the production of defense items, the protection of union standards in this readjustment, and the development of an adequate defense training program.

As part of this program, for instance, the union initiated a conference in northern New Jersey of representatives of the union and 45 companies with which the union had collective bargaining agreements. On another occasion the union initiated and organized a Mid-West emergency conference. The first meeting was attended by 600 Mid-West Mayors and 700 labor and management representatives.

In both cases, the conferences set up a permanent organization with management and labor representation.

From these conferences, the following was obtained:

(a) Efforts to obtain a "shopping list" of defense needs proved to be futile. In other words, it was impossible to obtain from the government any idea as to what actually was needed for production needs. This almost makes it impossible to estimate the actual defense usefulness of existing facilities.

(b) Efforts to get aid from the Contracts Distribution Division of the OPM in making a survey of plant equipments in order to be in a position to determine what such equipment can be turned into failed. The union, as a result, is making its own survey without any assistance from government engineers.

(c) The washing machine industry was being turned into complete idleness. As a result of joint representations made by the union and representatives of the company in this industry contracts were finally wrenched out of Army and Navy departments for the washing machine companies for the production of war materials. This result was accomplished only after the most grave difficulties in interesting the Contracts Distribution Division and the Army and Navy. The joint efforts of the washing machine manufacturers and the union are also to be devoted in this connection toward the arranging of subcontracts among all the manufacturers in this industry so as to achieve the maximum production on the basis of the available plant facilities.

(d) Insufficient effort has been addressed to the training program in cases where the change over to defense production required different skills than those formerly required. It is essential that the Training Within Industry program be expanded and fully integrated with the plans to convert plants from consumer goods to defense production. Further efforts are required in this connection before the "training as usual" inclinations of the OPM can be overcome.

GENERAL DIFFICULTIES OF DEFENSE PROGRAM

The failures of the defense program highlight the necessity for a centralized authoritative agency to head up the task of production. The fact that in some categories our armament output is now beginning to be substantial only emphasizes how much greater actual output should be. The essentials of an effective arms production program are simple:

1. Find out how much is wanted; how many tanks, planes, guns and ships.
2. Find out what the nation's facilities for manufacturing are, what facilities need to be converted and what new plants must be built.
3. Engage the nation's industry in manufacturing the required goods at maximum rate.

Within these simple propositions the failures of the present effort are encompassed. The major failures may be summarized as follows:

I. The production program has never been laid out concretely. Those responsible for production in the nation have never known how many guns, tanks, planes or ships they might be required to produce. The major part of the responsibility lies upon the Army and Navy whose responsibility it is to lay down as concretely as possible the actual equipment needed for a maximum effort. This responsibility has not been met. At no time has the nation been presented with a clear, concrete enumeration of the articles necessary to a maximum effort.

The first few months of the defense program were marked by efforts which adjusted production to levels necessary to a program of only 6 to 10 billion dollars. As appropriations mounted over the past 18 months, so did the level of the total program. Periodically, therefore, production schedules had to be shifted and soon such schedules outgrew available production facilities. This failure to set forth a maximum plan for production contributed to other failures.

II. No survey has been made to determine the ability of the nation's industry to produce arms requirements. It is necessary to find out the total amount of available capacity, what of this is available for armament manufacture, what of it can be converted and what, in view of the total defense program, must be constructed.

No agency, in particular the procurement agencies, has any conception of the possible productive capacity that can be used in this nation.

III. Perhaps the most serious operating failures of the defense program has been the procurement job. Significant examples of this are the fact that at present only about half of the \$62 billion program is under contract. If the program is doubled, then the lag will be more serious. Six months after the Lend-Lease appropriation was made, the President's Report showed that only about half of that sum had been even let out to contract. After contracts are let there is a substantial period before manufacture can begin in most cases.

The Procurement agencies of the armed services are uncoordinated. They are manned by officers whose respect for business as usual exceeds their determination to procure the materials. The most immediate effective measure for speeding up the defense program would be to take procurement out of the hands of the Army and Navy procurement offices.

British and Canadian governments long ago removed procurement and the responsibility for speeding production out of the hands of the armed forces. One of the great handicaps to production in this country is that full control of all such policies still rests with the Army and Navy.

One result is that defense contracts are concentrated in the hands of a few major industrial corporations. About 75 per cent of all the prime contracts are in the hands of some 56 major corporations. A great majority of manufacturing establishments have no defense contracts at all, prime contracts or sub-

contracts. Many of the major corporations have defense contracts far beyond their ability to produce within the next two or three years.

Thus arms production is greatly hampered by high concentration in a few companies while enormous facilities and manpower lie idle in the nation. The United Automobile Workers, for example, has pointed out that machine tools in 34 Detroit automobile plants are now being employed at no more than 35 percent of full capacity.

A fair estimate of additional persons to be unemployed because of the dislocations is between 2 and 2½ millions. The Automobile Workers report that the idleness of the automobile manufacturing facilities will be matched by an unemployment reaching 215,000 additional jobless by the first months of 1942. The Steel Workers union has reported some 15 or 20 thousand already out of work in basic steel with a total of 100,000 expected to be unemployed in the basic steel fabrication within the next 8 months. Some 15 to 20 thousand have been already unemployed in the manufacture of refrigerators, washing machines, radios and other similar equipment. This is only the preliminary effect of curtailments in these consumer durable goods.

The picture is one of idle equipment and unemployed men on the one hand with a growing backlog of unlet contracts for defense production on the other.

SUGGESTED PROGRAM FOR PROSECUTION OF
NATIONAL DEFENSE PROGRAM

I. Introduction

The first task, and the one of greatest importance, is to produce the necessary quantities of materials within the shortest period of time. To accomplish this goal it is essential that our existing plant facilities be utilized to the full, with adequate provision for any increase in production facilities that may be necessary together with a maximum utilization of the available labor supply of the nation. This program demands extremely careful planning measures on a national scale, both for our present situation and for the one to follow the termination of world hostilities.

II. Industry Council Program

Congress has appropriated specific sums of money for the national defense program. These appropriations call for the production and supply of definite required materials. The problem now confronting the nation in the problem of production--is how to produce the required quantities of materials within the shortest period of time.

The administrative machinery contemplated under the Industry Council Plan is simple:

(1) The President of the United States shall establish for each basic defense industry an Industry Council. Each such council would be composed of equal representation through management and the labor unions in the industry, together with a government representative, the latter to serve as Chairman.

(a) Each Council will be advised of the domestic and armament requirements of its industry and the general price level that should prevail for the industry.

(b) It will be the duty of each Council to coordinate the production facilities of that industry to meet these requirements. The Council will allocate available raw materials within the industry, allocate outstanding contracts and new contracts among the available plant facilities, adjust the labor supply to the plant facilities without compelling any forced labor, arrange for housing facilities and make arrangements for necessary training to meet the labor requirements.

(c) Each Council will engage in active planning to make certain that it is achieving the greatest possible output within the industry for present needs as well as planning for the post-war needs.

(d) The Industry Councils must be implemented with full executive and administrative authority to carry out the program within each industry. Within the discretion of the Council there will be organized within each industry regional and local machinery to obtain the full participation of local management, labor and others in the communities.

(2) The President of the United States shall establish a National Defense Board consisting of an equal number of representatives for industry and labor unions over which the President or his designee shall be the Chairman. The National Defense Board will establish rules and regulations for the operation of the Industry Councils. The general policies of the national defense program shall be promulgated by the National Defense Board. The domestic and armaments requirements for each industry shall be determined by this National Defense Board. The National Defense Board will operate as a general staff. The Industry Councils will act as the generals in charge of their respective armies to

carry through the national defense program for their respective spheres of activity. The Board will act as an appeals agency for the Industry Councils and coordinate the work of the Councils by serving as a clearing house for inter-industry matters.

(3) The Industry Councils will furnish an excellent basis for promulgating industrial peace through the perfection and extension of sound collective bargaining relations between management and organized labor. Collective bargaining procedure between unions and management will not be superseded by the Industry Council program. The Industry Councils will not supersede but rather will secure the compliance of peaceful industrial relations established through basic collective bargaining negotiations.

III. Conclusion

The essence of the Industry Council program is that the persons directly involved in each industry, as management and labor, are the ones best equipped and trained to attain the goal set for each industry. The Industry Council Plan contemplates direct and active participation within each industry on the part of management and labor.

For labor we seek such representation not merely to protect labor's interests, but of equal importance, to obtain the full benefit of the resourcefulness and technical skill of labor's representatives who are fully acquainted with the problems and needs of the industry. For the national defense program to be effective, it is necessary to unleash the energies and resources of all our people and not merely of any one segment.

There is no monopoly of brains on the part of any one group. Our national defense program demands the full participation of all the people. Labor is interested in maximum production. It has no other interests.

11/6/41

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This is HM, Jr's reading copy of his statement before the House Ways and Means Committee on 11/5/51, which he took to the White House when he saw the President this morning. The President read the statement and approved it.

November 5, 1941

MEMORANDUM REGARDING THE PROPOSED REVENUE PROGRAM

When I appeared before the Senate Finance Committee on August 8, 1941, I pointed out that, in the light of rapidly changing conditions, the all-out defense program would necessitate all-out taxation, that much more revenue would be required not only to strengthen the government's fiscal position but especially to maintain economic stability and prevent "inflationary price rises which threaten to increase the cost of the defense program, unbalance family budgets, and seriously disturb our economic life."

At that time it appeared that early in 1942 would be soon enough to pass the next major revenue measure, but our study of the rapid developments of the past few months has convinced me that immediate passage of about \$4.5 billion of additional taxes whose collection would begin January 1, 1942 is imperative if we are to avoid further inflationary price rises.

Prices have been rising rapidly. The cost of living in the United States has risen over 5 $\frac{1}{2}$ percent during the last five months. (See attached chart "Cost of living and selected items.") The budgetary and economic situations which face us during the next few months threaten still higher and more rapidly rising prices unless we take steps now to meet the problem.

The Federal Government will spend about \$20 billion during the calendar year 1941. In October we were spending at the rate of \$26 billion. The present prospect is that in calendar 1942 we shall spend \$37 billion or nearly twice as much as in calendar 1941. The whole of the increase will be in defense spending which is expected to reach over \$30 billion in calendar year 1942.

Some of the increased spending will be covered by increased yield from the existing tax structure. In calendar 1941 we shall collect approximately \$9.5 billion and our collections in October were at about that rate. In calendar 1942 we shall collect about \$16 billion. That will leave us a deficit (before setting aside old-age reserves) of \$21 billion as compared with about

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\$10.5 billion in calendar 1941, or twice as much. That increased money is going out into the hands of people who, for the most part, are going to try to buy goods with it. They are not going to be able to get the goods. We are not far from the top of our national production for the next year or so. We may be able to expand at only about \$5 billion more in the course of a year. At the most, it looks as though we could expand by only about \$8 billion more. We shall need all of this increase, and more, for defense. That means that there will be less goods left than now for civilians to buy with their greatly increased incomes.

If we do not do something decisive about this promptly, the cost-of-living situation threatens to get away from us as it did during the first World War.

It should not be necessary to mention the very serious evils of inflation and the great importance of preventing it. We are all familiar with the way in which it burdens the great bulk of the population, including the lowest income groups, financially embarrasses State and local governments, increases the cost of defense materials, gives opportunities for profiteering and otherwise harms and demoralizes the

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people. What I would like to stress is that we have reached the point where vigorous action is needed now - without delay - if we are not to have an accelerated, destructive inflationary price rise.

The money is being paid out now. If the taxes are to help prevent price increases they must be imposed at once and collected currently.

After a great deal of study we have come to the conclusion that the minimum of taxes that should be imposed at once and collected currently beginning January 1, 1942, to hold down the cost of living, is \$4.5 billion. If Congress reduces non-defense spending, the minimum need for new taxes will be somewhat reduced.

The \$4.5 billion is an amount which should be imposed at once to control inflation. Beyond this we shall, of course, need a revenue program in 1942 for fiscal purposes. Even with \$4.5 billion more of taxes the deficit in calendar 1942 will still be \$16.5 billion, an amount which we shall have to borrow. To keep my financing problem at manageable levels and to avoid the difficulties and dangers of high interest charges and an overwhelming debt after the war, we should increase taxes even more than is indicated to avoid inflation.

For this reason I want to urge upon you the desirability of a major revenue raising program to be initiated this month. The program would consist roughly of three parts: (1) Taxes to be imposed as soon as possible and to be collected beginning January 1, 1942; (2) other major tax increases and changes to increase revenue and to balance the impact of the anti-inflation program on small incomes; and (3) changes to close important loopholes in the tax system and to remove hardships which have developed under the tax laws.

1. Anti-inflation taxes which should be imposed immediately.

The first recommendations relate to taxes which should be imposed at once so that collection may begin January 1, 1942. They are taxes which will withdraw purchasing power from consumers before it is spent.

The first recommendation for anti-inflationary taxation is the imposition of a new supplementary tax on net income to be withheld at the source on salaries, wages, dividends, bond interest, and similar items and collected quarterly throughout the year on other incomes. These taxes would thus be collected insofar as possible like the payroll taxes. They would, however, have

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personal exemptions and credits for dependents. The supplementary withholding tax would be deducted from net income in computing the income tax. Because of this deduction and because of the personal exemptions the increase in effective rate of tax would never be as high as the stated rate of tax. For example, if the rate of this withholding tax were 15 percent and the existing personal income tax exemptions of \$750 for single persons and \$1,500 for married couples, with \$400 credit for each dependent were allowed, a married couple with no children and \$2,000 of income would have their combined withholding and income tax increased from \$42 to \$110, or \$68 more, which is only 3.4 percent of the \$2,000 income.

At the rates and with the exemptions indicated, it is estimated that at present income levels, the withholding tax would yield annually about . . . \$2.5 billion

It is recommended, second, that the payroll taxes for old-age and survivors' insurance be increased. These taxes are at the present time imposed at a rate of 1 percent on employers and 1 percent on employees and are scheduled to rise on January 1, 1943 to 2 percent on employers and 2 percent on employees. The recommendation is that this increase be made one year

sooner than was scheduled. It will be recalled that no increase was made on January 1, 1940 when it was originally scheduled.

The increase in tax would yield during 1942 increased revenue of approximately \$0.9 billion

I would like to stress the very great importance of considering and passing these two tax increases at once in order that the money may be taken out of the hands of consumers before it can be spent by them, thus reducing the inflationary pressure of the increased defense expenditures.

Further, it is recommended that as soon as practicable, the Social Security Board's program relating to the extension of coverage for old-age and survivors' insurance and unemployment insurance and the revision of the unemployment insurance system should be enacted. The change with respect to unemployment insurance involves an additional 1 percent tax on the employees.

The combined effect of these changes would be to increase the revenue by approximately \$1.0 billion

The above anti-inflationary taxes recommended for imposition as soon as possible would yield a total increased revenue of \$4.7 billion

This is as far as I went.

2. Other changes to increase revenue and to balance the impact of the anti-inflation tax program.

The additional social security payroll taxes and the new supplementary individual income tax would fall very largely on the low income classes. Substantial increases in other taxes are necessary to balance the burden of these taxes, to restore an equitable distribution of the total tax load and to raise the revenue needed to finance the defense effort.

It is recommended that the surtax rates of the individual income tax be increased; that the excess profits tax be made more effective; that the corporation income tax be increased; that the estate and gift tax rates be increased and the exemptions lowered; and that the defense excise taxes be extended to important items requiring diversion for defense purposes.

These tax increases should be designed to raise a total additional revenue of from . . . \$1 to \$3 billion

3. Changes to prevent avoidance and promote equity.

Finally, in an all-out tax program, it is extremely important that all known avenues of tax avoidance be closed. It is likewise important that hardships and

inequities to certain taxpayers under present law be eliminated. The higher taxes of the defense period make these hardships and inequities increasingly burdensome and irritating. The elimination of both tax avoidance and tax hardships is desirable not only for fiscal reasons but for the promotion of equity and the maintenance of morale.

It is my understanding that the House Ways and Means Committee and the Senate Finance Committee are planning to undertake revisions along these lines in the very near future, in the so-called "administrative bill."

November 5, 1941

MEMORANDUM REGARDING THE PROPOSED REVENUE PROGRAM

Outline

- A. Conclusion: Immediate passage of \$4.5 billion of additional taxes whose collection would begin January 1, 1942 is imperative to avoid further inflationary price rises.
- B. Reasons for revenue program.
1. Cost of living up 5 $\frac{1}{2}$ % during last 5 months. (See chart).
 2. Threatening budgetary and economic situations.
 - a. Federal expenditures.

1941 calendar year	-	\$20 billion
October 1941 rate	-	26 "
1942 calendar year	-	37 "
 - b. Defense spending.

1941 calendar year	-	\$13.5 billion
October 1941 rate	-	19.5 "
1942 calendar year	-	30.5 "
 - c. Tax yields under existing law.

1941 calendar year	-	\$ 9.5 billion
October 1941 rate	-	9.5 "
1942 calendar year	-	16.0 "
 - d. Deficit (before setting aside old-age reserves).

1941 calendar year	-	\$10.5 billion
1942 calendar year	-	21.0 "
 - e. Possible increase in total 1942 national production: \$5 to \$8 billion.
 - f. Summary: Less civilian goods to buy with greatly increased incomes.
Result: Threatening rise in cost of living.
Need: Minimum \$4.5 billion taxes to fight inflation, plus more to help financing.

C. Tax program.

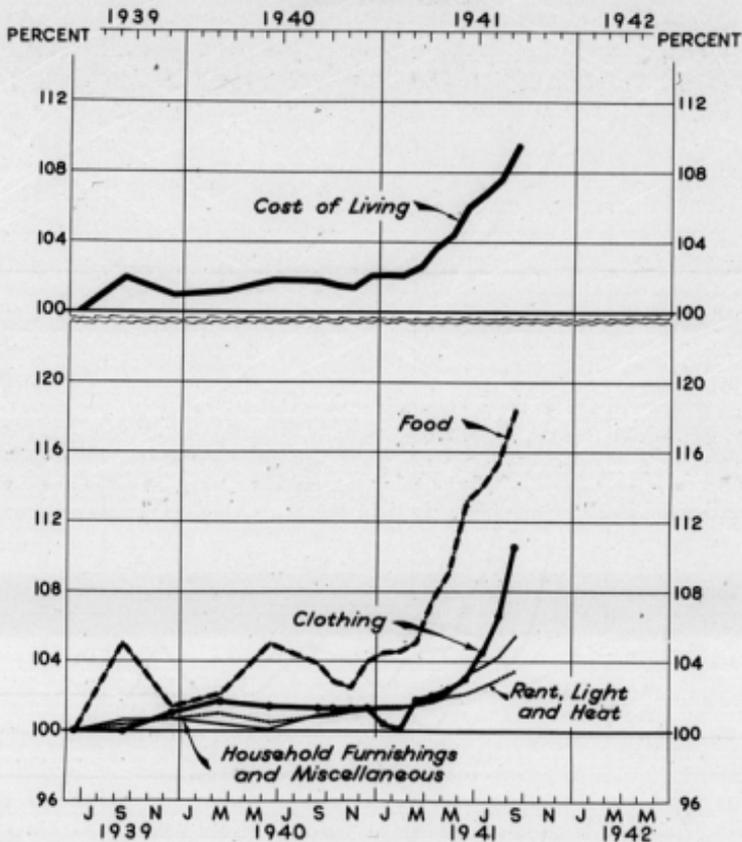
1. Anti-inflation taxes to begin January 1, 1942.
 - a. New supplementary withholding tax on net income to yield \$2.5 billion
 - b. Increased payroll taxes for old-age and survivors' insurance (add 1% on employers and 1% on employees) to yield \$2.9 billion
 - c. Extension of coverage for old-age and survivors' insurance and unemployment insurance; revision of unemployment insurance system; increase unemployment tax 1% on employees, to yield. \$1.0 billion

Total anti-inflationary taxes . . . \$4.7 billion
2. Other changes to increase revenue and balance tax system.

Higher individual surtaxes, more effective excess profits tax, higher estate and gift tax rates, and lower exemptions, greater use of defense excise taxes \$1 to \$3 billion
3. Changes to prevent avoidance and promote equity.

COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



Source: B.L.S.

Comparison of present individual income tax and individual income tax giving effect to proposed supplementary tax, for net incomes of selected sizes ^{1/}

Single person - No dependents
(Supplementary tax computed on basis of present exemptions)

Net income before personal exemption and credit for dependents ^{2/}	Amount of tax		Effective rate	
	Present law	Proposal	Present law	Proposal
\$ 700	-	-	-	-
800	3	11	0.4%	1.4%
900	11	33	1.2	3.7
1,000	21	56	2.1	5.6
1,500	69	171	4.6	11.4
2,000	117	287	5.9	14.4
2,500	165	403	6.6	16.1
3,000	221	519	7.4	17.3
4,000	347	773	8.7	19.3
5,000	483	1,030	9.7	20.6
6,000	649	1,306	10.8	21.7
8,000	1,031	1,895	12.9	23.7
10,000	1,493	2,545	14.9	25.5
12,500	2,178	3,437	17.4	27.5
15,000	2,994	4,423	20.0	29.5
20,000	4,929	6,653	24.6	33.3
25,000	7,224	9,157	28.9	36.6
50,000	20,882	23,953	41.8	47.9
75,000	36,487	40,522	48.6	54.0
100,000	53,214	58,034	53.2	58.0
500,000	345,654	363,627	69.1	72.7
1,000,000	733,139	766,114	73.3	76.6
5,000,000	3,923,124	4,073,101	78.5	81.5

Treasury Department, Division of Tax Research

November 4, 1941

^{1/} Under the proposal a supplementary tax is imposed at the rate of 15 percent of net income after the deduction of the personal exemptions. No earned income credit is allowed under the supplementary tax.

^{2/} Maximum earned income assumed.

Comparison of present individual income tax and individual income tax giving effect to proposed supplementary tax, for net incomes of selected sizes ^{1/}

Married person - No dependents

(Supplementary tax computed on basis of present exemptions)

Net income before personal: exemption and credit for dependents ^{2/}	Amount of tax		Effective rate	
	Present law	Proposal	Present law	Proposal
\$ 1,500	-	-	-	-
1,800	23	63	1.3%	3.5%
2,000	42	110	2.1	5.5
2,500	90	226	3.6	9.0
3,000	138	342	4.6	11.4
4,000	249	576	6.2	14.4
5,000	375	834	7.5	16.7
6,000	521	1,091	8.7	18.2
8,000	873	1,666	10.9	20.8
10,000	1,305	2,297	13.1	23.0
12,500	1,960	3,165	15.7	25.3
15,000	2,739	4,121	18.3	27.5
20,000	4,614	6,300	23.1	31.5
25,000	6,864	8,759	27.5	35.0
50,000	20,439	23,477	40.9	47.0
75,000	35,999	40,008	48.0	53.3
100,000	52,704	57,495	52.7	57.5
500,000	345,084	363,030	69.0	72.6
1,000,000	732,554	765,505	73.3	76.6
5,000,000	3,922,524	4,072,479	76.5	81.4

Treasury Department, Division of Tax Research

November 4, 1941

^{1/} Under the proposal a supplementary tax is imposed at the rate of 15 percent of net income after the deduction of the personal exemptions. No earned income credit is allowed under the supplementary tax.

^{2/} Maximum earned income assumed.

Comparison of present individual income tax and individual income tax giving effect to proposed supplementary tax, for net incomes of selected sizes ^{1/}

Married person - Two dependents
(Supplementary tax computed on basis of present exemptions)

Net income before personal exemption and credit for dependents ^{2/}	Amount of tax		Effective rate	
	Present law	Proposal	Present law	Proposal
\$ 1,200	-	-		
1,500	-	-		
1,800	-	-		
2,000	-	-		
2,500	\$ 12	\$ 40	0.5%	1.6%
3,000	58	153	1.9	5.1
4,000	154	385	3.9	9.5
5,000	271	625	5.4	12.5
6,000	397	882	6.6	14.7
8,000	717	1,430	9.0	17.9
10,000	1,117	2,034	11.2	20.3
12,500	1,728	2,874	13.8	23.0
15,000	2,475	3,803	16.5	25.4
20,000	4,287	5,935	21.4	29.7
25,000	6,480	8,353	26.9	33.4
50,000	19,987	22,970	39.9	45.9
75,000	35,479	39,460	47.3	52.6
100,000	52,160	56,919	52.2	56.9
500,000	344,475	352,393	68.9	72.5
1,000,000	731,930	764,854	73.2	75.5
5,000,000	3,921,684	4,071,815	78.4	81.4

Treasury Department, Division of Tax Research

November 4, 1941

- ^{1/} Under the proposal a supplementary tax is imposed at the rate of 15 percent of net income after the deduction of the personal exemptions. No earned income credit is allowed under the supplementary tax.
- ^{2/} Maximum earned income assumed.

November 10, 1941

Sunday night. Six fifteen.

Harry White came to see me and explained to me that Philip Murray wanted to see me because he's very anxious to place before the President what he considers the true facts about this coal strike.

I said, "Before I see Philip Murray, I'd want to ask the President whether it would be agreeable to him," because I knew what White told me, that Philip Murray wanted to see the President. I didn't want him to come here and then call on the President and have the President turn Murray and me down, which would be embarrassing for all concerned.

I called the President and got him immediately on the telephone, and asked him whether he'd care to have me see Murray and he said he would, and that what Murray really wanted was to see the President, and the President said, "I'd love to see him." So I said that Murray felt that the President hadn't got the entire story, that there was a bitter feud between Davis, Chairman of the Mediation Board, and Lewis, and that Davis was having his judgment colored through this feud. The President said yes, there was such a feud.

Then I went on to tell the President that Murray said if he got an unfavorable ruling from the Mediation Board, he, Murray, would have to resign from the Board and that he was very much afraid that they would then call a strike of the entire CIO and that this thing would build up Lewis tremendously. The President said, "Murray is wrong, it will not build up Lewis; but I want you to tell Murray that they can't have a closed shop in this coal mine and that if he's going to call out the entire CIO, it's the CIO against the Government; and while I'd hate to get into a war with Japan, we'll lick them in the long run, and the same thing holds true with CIO. If we get into a fight with them, the Government will win. And I want you to tell him that."

So I said to the President, "Well, I'll have him tonight and listen to him." So the President said, "Well, I want you to do more than that. Tell him some of these things that I've been telling you."

I then called up General Watson and told him that the President said to find out where he, the President, could reach Murray at nine-thirty tomorrow morning and told Watson that they could reach Murray at the Hotel Carlton. Then Watson said, "You know you haven't had lunch with the President in a long time. I'll try to put you down for lunch tomorrow." And I said, "Please note that I haven't hinted at being asked to lunch, and it's been months." Then the General said, "I know," he said, "it's time that you should be invited to lunch."

I'm curious to see what happens. I'm also curious to see whether the President really sends for Murray and whether Watson reminds him.

November 26, 1941

I called on the President this morning and told him that next week we would have to raise a billion and a half dollars. He asked, "Long or short?" and I said, "Long." He asked me at what interest rate and I told him 2-1/2%.

I then told him that I would like to talk to him as one friend to another. I said that I felt when he brought up at Cabinet two weeks ago the question of there being too many Jews employed in Oregon that it could very well lead to a misunderstanding on the part of the Cabinet, and leave them with the impression that the President didn't want so many Jews in the Government.

The President became quite excited - but not at all personal - and said, "Well, you completely misunderstood the thing." He said, "I think it is much better to discuss this thing out in the open. The worst thing you can do is to discuss it secretly." He said, "I heard from a number of sources that there is considerable feeling there, and this is the only way to handle it. You have to talk about it in the open." I said, "Well, I don't know whether you are right or not about doing it that way." He said, "Let me give you an example. Some years ago a third of the entering class at Harvard were Jews and the question came up as to how it should be handled." The President said, "I talked it over at that time with your father. I asked him whether we should discuss it with the Board of Overseers and it was decided that we should. After discussing it, it was decided that over a period of years the number of Jews should be reduced one or two per cent a year until it was down to 15%."

The President then said, "I treat the Catholic situation just the same." He said, "I appointed three men in Nebraska - all Catholics - and they wanted me to appoint another Catholic, and I said that I wouldn't do it because I had appointed three already, and that was enough." I think he said that Ed Flynn had asked him to do it. He said, "I treat the Catholic situation exactly the same as the Jews. You can't get a disproportionate amount of any one religion."

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At least, that is the way the President feels on the issue. I don't know whether he is right or wrong that it is better discussed openly or not. While he talked excitedly about it, at no time did he make it personal.

I then told the President that Mr. C. D. Howe, Minister of Munitions and Supply, had left me a chart which I would like to show him (chart showing setup of Ministry of Munitions and Supply in Canada, dated November, 1941). I told the President, "In Canada if they are not producing enough guns or tanks, Mackenzie King can buzz for just one man and the entire responsibility rests with him." To my great surprise, the President was keenly interested.

I explained to the President how Howe said he wouldn't dream of doing purchasing if he couldn't have the allocations. The President said, "What do they do about priorities?" I said, "Well, they don't have priorities. They tell the steel mills how much they should produce, what to produce, and to whom it should go. The thing is settled at the door of the factory."

The President then said, "Well, I don't know whether Nelson is unhappy or what, but he is coming in to see me today." The President gave me the impression that he would take this thing up with Nelson. The President certainly was keenly interested. He said, "I hear there is a lot of grouching in Canada." I said, "I think the chief explanation for that is they have 500,000 men under arms in the Army alone. They have been taking them in for 2-1/2 years; they haven't been able to fight; and they are restless, dissatisfied and over-trained." I gave the President some additional explanations which I can't go into here. The President said, "That's pretty good because that's the same as having an Army of 5,000,000 in this country."

I gave the President the Russian memo, which is attached hereto. He didn't want to take up the Russian matter. He said he had lunch yesterday with Admiral Land and he wanted me to have Admiral Land come in for a talk. I told him that I didn't like to do that and that I would take it up with Hopkins but he isn't well. The President shied away from the Russian matter.

The President said, "The trouble is they can't unload the ships fast enough in Archangel," so I said, "They can unload one a day, and we have only given Russia half a dozen ships." It was finally left that the President would take the matter up with Hopkins.

I don't want to convey the impression that the President was annoyed about the Russian matter. He was in a good humor but he just didn't want to go into the thing, which makes me believe he knows the situation is bad.

While I was with the President, Cordell Hull called him up and evidently he discussed with him the same memo which T. V. Soong gave me last night from Chiang Kai-shek. The President said, "Well, send Hu Shih and Soong in to see me today and I will quiet them down." I read the memo from Chiang Kai-shek and I think he has every reason to be disturbed. Soong told me that the agreement with the Japanese provides for the withdrawal of all Japanese troops from French Indo-China with the exception of 25,000. We, in turn, are to unfreeze the Japanese assets and allow them to buy as much oil as they need, based on their monthly quota, for their industrial uses (which, of course, they can fake). The Japanese are to be allowed to sell unlimited quantities of goods to us, provided two-thirds of it is silk. The Japanese are to agree not to attack Russia in Siberia. This is lovely for us, but it leaves the poor Chinese holding the bag with 25,000 Japanese troops right at their back door. T. V. Soong told me that the only thing which has helped so far is the freezing of the Japanese funds. This is having a terrific economic effect internally on Japan.

He said something very interesting to the effect that Hull called in the English, Australians, Chinese and the Dutch, and Halifax evidently was upset by a suggestion which was made and he said he would have to consult his government. Hull became very annoyed and said that it was up to the English to accept the proposal without any comments, which seems to me rather high-handed.

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T. V. Soong, who seems to be very well informed, told me, to my surprise, that the English have sent either seven or eight capital war ships to Singapore.

I think the President will have more of a situation on his hands than he realizes when he receives Hu Shih and T. V. Soong, but I think they have every reason to be outraged.

Soong also told me that up to date the only planes they have received are the one hundred P-40s which I got for them. They hope to get some more soon but they haven't received any as yet. Soong said they have over 300 American pilots and mechanics flying these planes around Rangoon, but they have not yet gone into action.

Eleanor Roosevelt called up while I was with the President. I naturally only heard one end of the conversation, but evidently she said somebody had asked Miss Elliott to resign. The President said, "That's ridiculous. I never heard of it." Then he laughed. Then the President asked Mrs. Roosevelt who had asked her to resign. Mrs. Roosevelt evidently said somebody in OPM. The President giggled and said, "She doesn't work there." The more Mrs. Roosevelt said the funnier the President got. He didn't help her one bit and he wouldn't volunteer to tell her where Miss Elliott works. Finally Mrs. Roosevelt must have asked him where she did work, and the President said, "She works under Henderson and Nelson." I think the President is wrong because I don't think Henderson and Nelson have anything to do with it. He finally said he would look into it, but Mrs. Roosevelt must have pushed him very hard. Just as a reaction, she asked him how things were going. He said, "Everything is terrible. The Russian situation is awful. Moscow is falling." Then he said, "I don't think the English are going to make it in Libya. It looks very bad." He also said, "I don't know when the English will be able to make it in Libya." I think this was just sort of a reaction to his being pushed.

- 5 -

To show how things go, when I came in to see the President, his breakfast had already been brought in. He hadn't touched his coffee. He had some kippered herring which he had just begun to eat when Cordell Hull called up. He was talking to Hull and trying to eat his food at the same time, but by the time he finished the conversation his food was cold and he didn't touch it. I don't think the President ought to see me or anybody else until he has finished his breakfast.

I asked the President about Nan Honeyman for Collector and evidently he wants her. He said, "She is very helpful." I told the President that it was okay with me, so I have sent for her.

The most pleasing thing of the whole conference was how the President grabbed at the chart on the Ministry of Supply for Canada. If I only could see him more often I think I could get somewhere with him on that question.

MEMORANDUM

At the present time various cargoes which are to be shipped to the Union of Soviet Socialist Republics from the United States in accordance with the October program of deliveries and requiring 15-17 vessels are lying in United States ports. These cargoes consist of armaments and items of military importance.

Among these cargoes are:

- 120 pursuit planes P-40
- 100 light bombers B2-7
- 8 medium tanks
- 2,456 trucks
- 176 scout cars (Jeeps)
- 12 tons of chemicals
- 14 tons of army shoes
- 165 tons of brass
- 815 tons of aluminum
- 26 tons telephone wire
- 119 tons Ethyl (liquid)
- 459 tons presses, hammers and different machines
- 1,110 tons Isopentane

and other very important goods, the total weight of which is 21,000 tons and which occupies a space of 4,180,056 cubic feet.

In addition to the aforementioned cargoes, there is some merchandise which is ready to be delivered to ports, but which has not been delivered due to lack of transportation facilities.

In connection with this absence of means of transportation much cargo is now distributed at various railroad stations. The condition of the freight has been adversely affected by weather conditions, etc. This applies particularly to that freight now lying in the railroad yards twelve miles from Boston. No adequate provision has been made for the protection of this freight not only against the elements, but also against any harmful acts such as theft, malicious mischief or other acts of damage.

The United States Maritime Commission promised us ten vessels for shipment of cargo in October. Actually only five ships were granted to us. Of these five ships, the S/S "Friar Rock" was not in seaworthy condition, as borne out by the fact that within two or three days after sailing it was necessary for this vessel to return to port due to the bad condition of this ship, resulting in the unloading of the cargo in port.

For delivery of cargo to the Soviet Union in November the United States Maritime Commission had planned 31 ships. Actually, by November 24th only 7 ships had been placed at our disposal.

Thus for October and up to November 24th, there had been granted to us a total of only twelve vessels instead of forty-one as promised. It is understood that twelve ships could not fulfill the requirements for delivery of cargo from the United States to the Union of Soviet Socialist Republics in accordance with the October program.

We cite below an example to illustrate the serious situation which exists with reference to deliveries of material and other cargo from the United States to the Union of Soviet Socialist Republics.

By November 24th only the following part of the quantity
planned

planned for delivery in October had been actually shipped:

Trucks	37.6%
Airplanes	30.0%
Tanks	43.0%
Scout cars	27.0%

As to the November program for delivery of goods from the United States to the Union of Soviet Socialist Republics, it is necessary to state that delivery has not commenced as yet.

In order to facilitate the shipments of military supplies and other cargoes which are urgently required by the U.S.S.R. we are ready to deliver monthly some of the cargoes through the Persian Gulf, such as airplanes DB7, 2,000 military trucks, leather, shoes, part of sugar shipments, and other cargoes. We are providing for shipment to Archangel of all kinds of armaments and other cargo of military importance, raw materials, chemicals, toluol, TNT, and so forth.

In order to ship all the cargo which is in ports now and which is to be transported to ports in accordance with the October, November, and December schedules we need 98 ships by January 1, 1942. 63 of these ships will go to Archangel, 21 to the Persian Gulf, and 14 to Vladivostok. To relieve the tense situation in shipping no less than 30 ships are needed by December 1, 1941.

As can be observed from the foregoing, the situation pertaining to shipments from the United States to the Union of Soviet Socialist Republics is most critical. Therefore everything possible should be done to remedy this situation, so that to ensure the fulfilment of the established program of monthly deliveries of vital war materials and armament from the United States to the Soviet Union.

Embassy of the Union of Soviet Socialist Republics
November 25, 1941
Washington, D.C.

Called F. H. R. Lat. 6¹⁰P.M.
after hearing the coal miners were
going back to work. I congratulated
him most warmly on his great
victory. He sounded very happy.
Said the Japanese situation was
coming to a head and prospects
were not too good for a
favorable settlement. I asked
him if the memo I had sent
him in Japan was of any
help. He said yes that I had
had incorporated several of
the suggestions into his proposal
that the rest were not usable.
He said he hoped to get
to Warm Springs for the
second Thanksgiving.

He said is it not fine
that Bob got a destroyer and
he hoped he would be in the
same division as Franklin Jr.

COPY

*original in diary filed under
date of acknowledgment*

TELEGRAM FROM GENERAL CHIANG KAI SHEK TO DR. T. V. SOONG

11/25/41

DATED CHUNGKING, NOVEMBER 25, 1941

1029

I presume Ambassador Hu Shih has given you a copy of my telegram yesterday. Please convey contents of the message to Secretaries Knox and Stimson immediately.

Please explain to them the gravity of the situation. If America should relax the economic blockade and freezing of Japanese assets, or even if reports that the United States is considering this should gain currency, the morale of our troops will be sorely shaken. During the past two months the Japanese propaganda have spread the belief that in November an agreement will be successfully reached with the United States. They have even come to a silent but none the less definite understanding with the doubtful elements in our country. If, therefore, there is any relaxation of the embargo or freezing regulations, or if a belief of that gains ground, then the Chinese people would consider that China has been completely sacrificed by the United States. The morale of the entire people will collapse and every Asiatic nation will lose faith, and indeed suffer such a shock in their faith in democracy that a most tragic epoch in the world will be opened. The Chinese army will collapse, and the Japanese will be enabled to carry through their plans, so that even if in the future America would come to our rescue the situation would be already hopeless. Such a loss would not be to China alone.

We could therefore only request the United States Government to be uncompromising, and announce that if the withdrawal of Japanese armies from China is not settled, the question of relaxing of the embargo or freezing could not be considered. If, on the other hand, the American attitude remains nebulous Japanese propaganda will daily perform its fell purpose so that at no cost to them this propaganda will effect the breakdown of our resistance. Our more than four years of struggle with the loss of countless lives and sacrifices and devastation unparalleled in history would have been in vain. The certain collapse of our resistance will be an unparalleled catastrophe to the world, and I do not indeed know how history in future will record this episode.

November 27, 1941

T. V. Soong called on me this afternoon and told me about his conversation with the President. It is rather hard to dictate it because Soong didn't seem to be too clear on it. Any way I didn't get too clear a picture from what he told me. However, it seems the President presented the facts to him in the following manner.

The reason that they were giving to the Japanese a memorandum which they called Modus Vivendi was because of the United States' concern about the Burma Road, and they were so anxious to keep that open. Furthermore, the President said he thought Chiang Kai-shek was much too excited. Furthermore, Hull said the Chief of Staff of the Army and the Chief of Naval Operations said they desperately needed three to six months to get ready in the Philippines. Soong says he knows from a very reliable source that this is not true.

Soong told the President that if it was left to them as to whether the Japanese should get oil, embargo lifted on other goods, and Japanese given the right to export silk to the United States on the one hand as against protecting the Burma Road on the other that they would be in favor of not changing the economic status between the United States and Japan, and they would take their chances on the Burma Road.

The President at the meeting yesterday with Hu Shih and Soong told them that he had information the Japanese were moving thirty or forty thousand troops somewhere just north of Shanghai. He said he didn't have the details but the men are on the boats. The President said that to do such a thing in the midst of the conference is a definite breach.

Soong said he pressed the President pretty hard, and the President may have become annoyed at him. I told him not to worry, and that I was sure in his heart the President knows Soong was right, and he wouldn't hold anything against him.

- 2 -

To go back to last Saturday when Hull met with the four countries known as A. B. C. and D. (Australia, Britain, China, and Dutch), it seems that Hu Shih made the tactical mistake of not turning down the Modus Vivendi on the spot. He tried to bargain with them as to how many troops should be left in Indo-China.

On Monday, I gather that at least Halifax saw Hull again, and when he told Hull that he hadn't heard from Churchill, Hull was very much annoyed and told him that it was very embarrassing because this was a great crisis.

I understand that they heard from Churchill either yesterday or today, and that Churchill was opposed to the so-called Modus Vivendi, was absolutely opposed to giving the Japanese any oil, and objected to other parts of the arrangements. Most important of all, Churchill said that he couldn't agree to this Modus Vivendi on account of what it would do to the morale of the Chinese troops.

As near as I can make out three things happened yesterday: (1) The President saw Chiang Kai-shek's memo for the first time; (2) Information was received that the Japanese were moving troops; and (3) Churchill objected to the Modus Vivendi. Any way last night Soong had a call from Stanley Hornbeck who told him they had not heard from the A.B.C.D. powers, but they had presented a memo to the Japanese. It was not the Modus Vivendi memo but one which had been prepared some time ago in case the United States was ready to break off with Japan, and they hadn't shown it to them because they felt confident that the A.B.C.D. powers would agree to it. This memo contained no economic factors but was more a question of 16 or 18 points.

The President also told the Chinese yesterday that for the first time yesterday the Japanese learned about the large number of four-engine bombers in the Philippines. (I can't believe this because they have been there for a long time and you can't bring in a four-engine bomber and not have the Japanese in the Philippines know about it.)

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Soong feels that the matter is taking a definite turn for the better as far as their country is concerned, and maybe I was foolish but I told him I had prepared a letter to send to the President on this question but now that the thing seemed better I wouldn't send it. I told Soong that if things got worse, he should please let me know.



THE SECRETARY OF THE TREASURY
WASHINGTON

1034

not sent

My dear Mr. President:

The gravity of the situation is my only excuse for writing to you on the subject uppermost in your mind and mine. We are both of us keenly aware -- as indeed the country and the world are -- that the negotiations with the Japanese are of the most profound import and that the decisions reached, whatever their nature, will have world-shaking consequences. I am convinced that your many times expressed stand against appeasement is as firm as ever and that it is far from your intent that there shall be an Eastern Munich; yet I cannot but be deeply alarmed by the hints that have come to me of the direction of the negotiations.

These hints, for all the evasive language, give what seems to me a dangerous picture -- a picture the full significance of which the American people are only beginning to grasp. I may be wholly wrong in my deductions as to what is being contemplated, but the situation is so crucial that I dare not refrain from speaking my mind.

It is because of your forthright and unyielding stand, it is because you are the one statesman whose record has never been besmirched by even a trace of appeasement that the United States holds its unique and supreme position in world affairs today. Not the potential power of our great country, but your record, Mr. President, has placed the United States and you, its titular head and spokesman, in a position to exercise the leading force which will bring ultimate victory over aggression and fascism.

Mr. President, I want to explain in language as strong as I can command, my feeling that the need is for iron firmness. No settlement with Japan that in any way seems to the American people, or to the rest of the world, to be a retreat, no matter how temporary, from our increasingly clear policy of opposition to aggressors, will be viewed as consistent

FOR DEFENSE



- 2 -

with the position of our Government or with the leadership that you have established. Certainly the independence of the millions of brave people in China who have been carrying on their fight for four long, hard years against Japanese aggression is of no less concern to us and to the world than the independence of Thailand or French Indo-China. No matter what explanation is offered to the public of a "truce" with Japan the American people, the Chinese people, and the oppressed peoples of Europe, as well as those forces in Britain and in Russia who are with us in this fight, will regard it as a confession of American weakness, and vacillation. How else can the world possibly interpret a relaxation of the economic pressure which you have so painstakingly built up in order to force Japan to abandon her policy of aggression when that relaxation is undertaken not because Japan has actually abandoned it, but only because she promises not to extend her aggressive acts to other countries? The parallel with Munich is inescapable.

The continuation and further intensification of our economic pressure against Japan seems, in the light of all the opinions I have sounded out, to be the touchstone of our pledge to China and the world that the United States will oppose Japanese aggression in the Pacific.

The eyes of nations and their peoples are centered on you as a promise of a better life. There can be no diplomacy no matter how attractive a promise of temporary peace may seem to some that is worth the price of shaking the confidence of those who turn to you for leadership, who turn to you as the answer of the false and disastrous diplomacy followed abroad for so many years.

After our long association, I need not tell you that this is not written in any doubt of your objectives, but I feel and fear that if the people, our people, and all the oppressed people of the earth, interpret your move as an appeasement of repressive forces, as a move that savors strongly of "selling out China" for a temporary respite, a terrible blow will have been struck against those very objectives. You have a supreme part to play in world affairs and you can play it, Mr. President, with complete effectiveness only if you retain the people's confidence in your courage and steadfastness in the face of aggression, and in the face of the blandishments of temporary advantages.

December 1, 1941

The Secretary called the President at 2:20 p.m. The following is Mr. Morgenthau's end of the conversation:

"Hello! How are you? You had a short trip.

The reason I am bothering you is that I had an appointment with Cordell Hull, but he went home sick. I wonder if you could give me a tip as to whether I should go ahead with my \$1½ billion financing this week. I am planning to raise \$1½ billion on Thursday.

You think it is all right?

You think it may be worse next week?

Could I check with you again on Wednesday?

How did you find Missy?

A little better."

The President said that I should go ahead. He said "I cannot guarantee anything. It is all in the laps of the Gods," but he said it is apt to be worse next week than this week.

December 3, 1941

1057

I saw the President of the United States at 2:35 this afternoon. I asked him whether he was satisfied with Colonel Starling. He said, "Yes, as an advance man but Mike Reilly has always been close to me." However, he said that as an advance man Starling was all right and he was satisfied with him on that job.

I showed the President the chart which George Haas made up on the Navy (chart on Navy contracts dated 12/3/41). He was very much interested and when I left the room I noticed he had put it back on his lap and was studying it again. He asked me, "How much lag is there in the checks which the Treasury pays? Let's say, for example, a destroyer or battleship is being built. Just how long a time elapses from the time the Yard certifies that a certain amount of a ship is finished until they get a check?"

On the Japanese question, the President said he had the Japanese running around like a lot of wet hens after he asked them the question as to why they were sending so many military, naval and air forces into Indo-China. He said that Korusu asked to see Barney Baruch and a number of other people today to try to bring influence to bear on the President. The President said, "I think the Japanese are doing everything they can to stall until they are ready." The most important thing is that the President said he is talking with the English about war plans as to when and where the U.S.A. and Great Britain should strike, and that is what he is waiting for. I think the Japanese here in Washington have the instructions to do everything possible to keep the United States from getting in at this time or at least until such time as the Japanese can get their troops into whatever position they want.

I found the President in excellent shape. He told me a story which is full of human interest. He said that the destroyer which Franklin is on "rubbed noses" with another destroyer at night and damaged each other. It was somewhere in the South Atlantic. The President said he was scared stiff for fear Franklin was deck officer in charge when it happened. He said, "What a sigh of relief I gave when I found out the both captains were on the bridges when this happened, and so the responsi-

- 2 -

bility could not be Franklin's even though he was on the bridge at the time." In other words, the President is a father first even though he is President of the United States.

I brought Bob in to see the President, and he really seemed more pleased to see him than I have seen the President pleased over anybody in a long time.

.....

December 7, 1941

HM Jr spoke to the President at approximately 6:40 this evening and the following is their conversation:

The President: Hello, Henry. Cabinet at 8:30.

HM Jr: Yes, sir.

I have some orders which we are getting out. I cleared all of them with Welles.

The President: Fine.

HM Jr: We are freezing all Japanese funds.

The President: Yes.

HM Jr: We are not going to let any Japanese leave the country or to carry on any communications.

The President: I see.

HM Jr: Well, our responsibility is the border.

The President: Yes, yes. That's right.

HM Jr: And we're putting people into all the Japanese banks and business houses tonight and we're not going to let the Japanese get in there at all.

The President: That's good.

HM Jr: Now the other thing I would like - Chief Wilson and Gaston are here.

The President: Yes.

HM Jr: We would like permission to put a detail of soldiers on the White House grounds.

The President: Well, wait just a second. Steve Early said something about that. (Slight pause while President talks aside.)

The President: Well, the thing has been suggested by the War Department but I don't think - my idea is that. Suppose you get some additional White House guards?

HM Jr: We've done that. We've already doubled the guard force.

The President: You've doubled the guard. That's all you need. As long as you have one about every hundred feet around the fence, it's all right.

HM Jr: But you think that's enough?

The President: That's fine.

HM Jr: Well, the guards have already been doubled.

The President: What you could do is this: Block off both Executive Avenues. In other words, the one on the East and the one on the West. Put up barricades between the White House and the Treasury and also on the one between the White House and State Department.

HM Jr: We will do that tonight. All right, sir.

(End of conversation with the President.)

HM Jr: He said Steve Early had suggested it but he said we should close the traffic on both Executive Avenues.

(Above conversation is included as part of the meeting held in HM Jr's office at 6:35 on 12/7/41)

December 11, 1941

HM Jr called Miss Tully at 10:30 this morning, and the following is HM Jr's end of the conversation:

HM Jr: I would like very much to see the President for a few minutes tomorrow morning. I do not know how many are ahead of me, but I have Senator George and Rep. Doughton for lunch, and I would like to see him before that. Tell him there is nothing unpleasant, but that I want a little guidance, and I will not take very long.

Have you noticed how much better the White House grounds are protected? I was sick about it on Monday, but I feel better about it now.

H.M.Jr:

I told the President about last night's tax meeting, showed him the list of the people that were there, and it is agreeable to him that we postpone doing anything about a tax bill until the middle of January.

The President said somebody had given him an idea that when we pay contractors for Government purchases, that possibly we pay them part of the money in three, six and twelve months Tax Anticipation Notes.

Please give this suggestion to Paul and Sullivan as coming from the President to be studied.

December 12, 1941

I gave the President today the letter from
Lauch Currie. He said he knew about it and turned
it over to the Attorney General. The President said
the FBI was already investigating it, but the
Attorney General didn't seem to know anything about
it.

*Original letter to
Lafayette (Pres.)*

COPY

December 11, 1941.

Dear Mr. Secretary:

You may be interested in the attached report on a meeting I attended last night.

What I perhaps should have added is that too many of the business men present are still fighting the wrong enemy -- the New Deal, labor, and, obliquely, the President.

Sincerely yours,

(Signed) Lauchlin Currie

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

COPY

December 11, 1941.

MEMORANDUM FOR THE PRESIDENT:Re: Dissemination of war information by Louis Johnson.

Stacy May and I flew up to New York last evening to attend a dinner meeting of some eighty or ninety important industrialists. Louis Johnson was there. He told me he was going to give the low-down on Hawaii. I advised him strongly not to. When it came to his turn to speak he said that since it was an off-the-record meeting he would communicate to them what he had learned in Washington the day before. He made the following allegations:

1. Our losses were three battleships and seven cruisers.
2. The fleet was bottled up by mines and the West Virginia was lost by hitting a mine.
3. Out of sixty PHM's, only two were left.
4. The Japs came in after the completion of the dawn patrol.
5. Two German battleships were with the Japs.
6. American bombers flying to Hawaii were shot down over the field, since they had grease in their guns instead of ammunition.
7. Naval supremacy had passed to the Japs.

He was followed immediately by a Dr. Stolper, former Budget Director of the German Reichstag, who gave a completely defeatist speech, predicting that both China and Russia would come to an agreement with their Axis foes. He even suggested that we had backed the wrong horse in the Far East and that we should have strung along with Japan.

I got very hot under the collar and went after them both hard for their defeatism, and reminded Johnson in particular of what you had said about the dissemination of stories giving assistance to the enemy. He retorted that this was a closed meeting and that people had a right to know, and went on to intimate that an important portion of the German air fleet was now operating in Japan.

In view of this performance I feel that something should be done to prevent Johnson's continued access to information at the War Department.

(Signed) Lauchlin Currie

1045

December 12, 1941

I gave the President the list that Harold Graves gave me showing how much each district had turned in on Defense Savings Bonds, and he used it in his press conference, as shown in the attached ticker item.

SALE OF BONDS AND STAMPS

This is a preliminary report. It includes bank reports from various cities, but does not include all banks in cities listed. Post Office reports do include all post offices in cities mentioned.

BOND SALES (E, F AND G)

Banks**

	Last Week			This Week			\$ Increase	% Increase
	Mon.	Tues.	Wed.	Mon.	Tues.	Wed.		
Boston, Mass.	\$202,718			\$480,425			\$277,707	137
Providence, R. I.	23,550			80,725			57,175	243
New York, N. Y.	461,697			1,159,425			697,728	151
Brooklyn, N. Y.	270,950			380,875			109,925	41
Newark, N. J.	92,200			205,975			113,775	123
Philadelphia, Pa.	221,900			500,300			278,400	125
Atlanta, Ga.	31,770			64,012			32,242	101
New Orleans, La.	39,950			99,586			59,636	149
Cleveland, Ohio	264,375			561,100			296,725	112
Minneapolis, Minn.	56,300			105,800			49,500	88
St. Paul, Minn.	60,600			100,200			39,600	65
Detroit, Mich.	483,300			1,076,250			592,950	123
Denver, Colorado	101,175			297,200			196,025	194
Seattle, Wash.	99,900			266,050			166,150	166
Houston, Texas	61,908			214,636			152,728	236
TOTAL BANKS	\$2,474,293			\$5,592,759			\$3,118,466	126

**These are totals for representative banks

Post Offices

Boston, Mass.	\$94,888.65	\$181,837.50	\$86,948.85	92
New York, N. Y.	322,159.08	614,075.00	291,915.92	91
Philadelphia, Pa.	135,651.69	176,681.25	41,029.56	30
Cincinnati, Ohio	35,795.46	67,537.50	31,742.04	89
Chicago, Ill.	264,330.00	469,968.75	205,638.75	78
TOTAL POST OFFICES	\$852,824.88	\$1,510,100.00	\$657,275.12	77
GRAND TOTAL - BONDS	\$3,327,117.88	\$7,102,859.00	\$3,775,741.12	113

STAMP SALES

Post Offices

	Last Week			This Week			\$	%
	Mon.	Tues.	Wed.	Mon.	Tues.	Wed.		
Boston, Mass.	\$37,999.80			\$45,675.40			\$7,675.60	20
New York, N. Y.	81,718.68			82,901.05			1,182.37	1
Philadelphia, Pa.	45,619.02			85,111.95			39,492.93	87*
Cincinnati, Ohio	8,210.07			10,647.80			2,437.73	30
Chicago, Ill.	24,008.55			27,728.40			3,719.85	7
TOTAL	\$227,556.12			\$282,062.60			\$54,506.48	24

*This high percentage is result of newspaper carrier boy campaign. Similar campaigns either started, or about to start, in 489 cities with 678 newspapers participating.

REMARKS

Chicago - Federal Reserve Bank wires as follows:
"Chicago, Detroit, Milwaukee and Indianapolis all report substantial sales of Defense Bonds as compared with any previous period. The increase in larger banks ranges from seventy to five hundred per cent. We have been swamped with requests of issuing agents for more bonds from all sections of district, many telephoning us to rush shipment. First National Bank, Chicago - this their record day. Terre Haute reports post office entirely sold out.

Federal Reserve Bank of New York reports demands have increased at least 800 or even 1000 per cent.

Administrator for Honolulu wires bond sales increased ten times.

Pittsburgh Postmaster reports that on Monday newspapers purchased 700,000 or \$70,000 worth of Stamps. These are for newspaper carrier boys for delivery to customers.

Retail stores pledge sale of \$1,000,000,000 worth of Bonds and Stamps for 1942. The larger stores will permit customers to buy Bonds and Stamps on charge accounts. New York department stores have already inaugurated plan.

Sale of Bonds and Stamps increased slightly on Monday, increased more on Tuesday, and much more on Wednesday. Indications are that Thursday's figure will be still greater. Continued increase is expected.

It is reasonable to assume that the increase of 11 1/2 per cent on sale of Bonds (three days this week compared to three days last week) will certainly prevail for many months. A much greater increase can be anticipated as the planned intensified sales campaign gets under way.

Applying this 11 1/2 per cent increase on a monthly basis, it can be reasonably expected that Bond sales monthly (from December on indefinitely) will reach \$497,000,000.

This figure is arrived by taking the November sales (\$233,000,000) as a basis, and applying percentage increase of 11 1/2 per cent.

ADD-ROOSEVELT

UNDER IMPETUS OF THIS COUNTRY'S ENTRANCE INTO THE WAR, SALES OF
GOVERNMENT DEFENSE SECURITIES, INCLUDING BONDS AND STAMPS, SKY-
ROCKETED EARLY THIS WEEK, ACCORDING TO TREASURY REPORTS RELAYED TO
THE PRESS CONFERENCE BY MR. ROOSEVELT.

1050

DEFENSE BOND SALES FOR THE FIRST THREE DAYS OF THIS WEEK THROUGH
COMMERCIAL BANKS AMOUNTED TO \$5,592,000, COMPARED WITH SALES OF
\$2,474,000 FOR THE CORRESPONDING THREE DAYS OF THE PREVIOUS WEEK, AN
INCREASE OF 126 PER CENT.

BOND SALES AT POST OFFICES WERE UP 70 PER CENT FOR THE THREE DAYS
AND DEFENSE STAMP SALES FROM POST OFFICES WERE UP 25 PER CENT, ACCORDING
TO A SURVEY MADE IN THREE MAJOR METROPOLITAN POST OFFICES. 10/18/41 H. G. B. M.

December 19, 1941

Present: Mr. Foley
Mrs. Klotz

H.M.Jr: The last thing that I said to the President this morning was, "I thought you would be interested to know that the Attorney General, Crowley, Foley, and I had lunch together last Saturday and we came to an agreement on the alien property custodianship," so the President said, "Why, I thought there was an Executive Order all ready for me to sign," and I said, "No, I don't think so." I said, "We agreed that we would continue this committee with the exception that Crowley would substitute for Shea, and then continue the way they have and that if and when they felt that a business should be taken over, that it would then be turned over to Crowley," and I said, "Everybody agreed to this last Saturday," and he said, "There is no Executive Order?" I said, "Not until we have tried that out. Don't you think it is good?" He said, "It sounds fine to me." I said, "Of course a great deal of this work depends upon working with the banks, and the Treasury organization has done a swell job, and we had the connections." So the President said, "It sounds all right." I said, "The trouble is, this time it is some of the bright young men in the Department of Justice that aren't satisfied, and they want more power," and he laughed and he seemed to enjoy it. I went down the elevator with the President, and Hopkins joined us, and as the President left, I couldn't help but overhear Hopkins say to the President, "Jimmy Byrnes just called me up about the alien property custodianship."

December 26, 1941

The President evidently talked last night until one o'clock with Beaverbrook going over production matters. The President said that quite frankly he was ashamed that on certain of the items we were not nearly producing, in proportion to our population, what England is producing. He said he was going to approach the subject this afternoon from the point of view of what the country could produce rather than setting quotas. The President said that at his meeting which would take place immediately after Cabinet, he would like to have Jessie Jones sit in with them as the question of expansion of plants would come up. For some reason or other, he seemed to be courting Jessie Jones this afternoon. I believe that Jones had lunch with Beaverbrook, and it just occurred to me that possibly Beaverbrook is pushing Jones into the picture.

The President went on to talk about the matter, and he said he wasn't satisfied with the Army and Navy's approach, which didn't seem to please Stimson, and I don't blame him. After thinking about the matter while the President was talking, I finally said, "Well, Mr. President, if you really want to get production you will have to change your setup with the authority divided between OPM, Army and Navy." The President said, "Well, I think the thing is working much better," but, to my surprise, he neither jumped on me nor did he take the suggestion very seriously. But at least I had the satisfaction of getting it off my chest.

From the amount of time the President spent on it, I gather it is worrying him considerably, and I think that Beaverbrook must have given him the works last night.

December 30, 1941

I saw the President this morning with Harold Smith. Harold Smith, having been up to New York for three days, was not prepared; neither was the President, and he was only thinking in terms of his annual message rather than his budget message. I made the suggestion that he try to get the country on a calendar year basis rather than a fiscal year, which would mean that he would only have to estimate his expenditures for the last six months of 1942. The President said he thought that putting a new wrinkle in it would sort of upset the people, but he suggested that as a compromise he make his estimate for the full fiscal year but only ask for enough money for the first six months. I said that would be all right.

While we were with him, the President received the plans for a tentative victory program from Secretary Stimson, in which Stimson said he could only give the President the final figures about the first of March. This annoyed the President very much. I remember that Stimson told me he was supposed to give him this program either on December 8th or 11th. Also while we were there, Beaverbrook's memo came in, and it was quite evident from the few figures the President read that in many instances England is producing as many tanks and planes as we hoped to, notwithstanding the fact that we have 130,000,000 people against their 40,000,000.

Harold Smith told the President that it was his opinion, based on information from OPM, that the country could only produce \$55,000,000,000 of war supplies, and this is where I began to butt in. I said, "You know, Mr. President" - and I put it on the other people rather than on himself - "OPM and the War Department have been giving you an upper limit on what we can produce and, therefore, they have gotten you in the position where you have to give an upper limit rather than saying that you want so many tanks and so many planes, etc." I think the figure the President mentioned was 45,000 tanks and 75,000 airplanes a year. I said, "It seems that you could set the figure and then I am confident that the country will rise to it."

- 2 -

I then gave the President the attached sheet on War and Navy Department supply contracts, and I pointed out to him that exclusive of motor trucks, the automotive industry only had \$218,000,000 of war orders in existing plants, and that these existing plants were able to turn out \$3,500,000,000 worth of automobiles.

Then I told him the whole Dodge story, with numerous breaks about the shop stewards coming in to me and, to my amazement, he didn't know what they were; neither did I until I went out to Detroit three months ago. I also got over to him the fact that there are only 500 four-engine bombers scheduled, and we can only reach that schedule in June, 1943, and when I talked to Lovett he said they were going to order another 500, making a total of a thousand, and they would only reach that late in 1943. I showed him how the schedule was constantly coming down on the four-engine bomber.

Then we came to the taxes, and Harold Smith said that they wanted \$10,000,000 taxes, and that the Budget was in agreement with the Treasury on this plan which they have for an "added value" tax on the increased price. I challenged him on that, and he said, "Oh, yes, your people are in agreement with us on that." I checked afterwards with Paul, and he said that Smith wasn't telling the truth and that he (Paul) had definitely told the people over in Budget that we were opposed to it.

There was a lot of talk, and then I said that exclusive of social security and exclusive of the victory program, and based on the information we now have, we have asked for an additional \$5,000,000,000 of taxes. I gave him this note and told him that I didn't know whether he could read my handwriting but I would like to have him look at it. He said, "That's perfect. That puts it simply - the way the people can understand it, and I want to do it exactly that way. That's good." Then from the figures on this slip, he said that the increased deficit would be \$18,000,000,000. He said, "Taking a rule of thumb we will ask for half of that in increased taxes, namely, \$9,000,000,000. I asked, "Does that include social security?" and the President said, "Yes." I said, "Does that include what you expect to spend

see attached
 June 1943
 mcb

during the fiscal year for your victory program?" and he said, "Yes." I said, "All right. On that basis, I will go along because it is half way between what we wanted and what the Budget wanted. As a matter of fact, I think it is a little more than that because my \$5,000,000,000 was exclusive of social security and the victory program. I have asked Mr. Bell to check with the Director of the Budget to find out how the President arrived at the \$18,000,000,000 increase in the deficit. Then the President said, "I think the thing to say is that we are going to spend half of our national income for national defense, or \$50,000,000,000.

The thing that pleases me is that in the afternoon at his press conference the President practically repeated the whole of our conversation. I feel that I got him to change his attitude, namely, that he is going to set the mark for national defense, and whoever is in charge of supply is going to have to make good, rather than his former attitude at the last Cabinet meeting that he would simply take the maximum of tanks and guns which the Army and OPM thought the US could produce. This is of tremendous importance, and is a tremendously important change in the President's attitude. This goes back to the conversations at Hyde Park when Prime Minister Mackenzie King was there (see item dated April 20, 1941 in President's book).

WAR AND NAVY DEPARTMENT SUPPLY CONTRACTS • PLACED WITH
THIRTEEN MAJOR ** VEHICLE COMPANIES AND THEIR DIVISIONS

To Be Produced In -	Value Millions of Dollars	Percent of Total
<u>All Contracts</u>		
Government-Financed New Plants	1,189.6	54.7
Government-Financed Modified Plants	236.1	10.8
Other Plants <i>existing</i>	<u>751.7</u>	<u>34.5</u>
TOTAL	2,176.3	100.0
<u>All Contracts Except Motor Vehicles Other Than Tanks</u>		
Government-Financed New Plants	1,189.6	73.1
Government-Financed Modified Plants	219.7	13.5
Other Plants <i>existing</i>	<u>216.0</u>	<u>13.4</u>
TOTAL	1,627.2	100.0

* Includes contracts of \$50,000 and over awarded or approved by O.P.M. for award, June 1, 1940 through October 15, 1941

** Other motor vehicle companies held a total of about \$70 million of supply contracts awarded or approved as of October 15.

Heavy Bomber

Full in Total

	CONTRACT	SCHED-ULED	PRO-DUCED	1941 AUG.	SEPT.	OCT.	NOV.	DEC.	1942 JAN.	FEB.	MAR.	APR.	MAY
OPM 86 Meyers	6310 12683	350	6090			41 7	52 ?	68 90	70 54	93 107	110 130	123 134	137 148

4 Engine Bombers — Success

FB (Oct 23, 1940)						115	98	100	96	95	104	98	73
FC (Mar 1, 1941)						50	57	66	75	83	94	101	114
FD (Apr 21, 1941)						50	64	75	82	88	94	99	103
FE (May 5, 1941)						51	60	74	89	92	95	99	114
FF (July 15, 1941)						42	61	68	78	90	95	95	101
FG (Oct 27, 1941)						41	52	65	70	93	110	123	137

Bomber Schedule

1057

	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	1943 JAN.	FEB.	MAR.	APR.	MAY	JUNE	<i>after June</i>
0	123	137	149	165	182	200	232	260	291	332	386	418	453	485	502	1884
1	134	148	165	171	186	213	245	275	328	364	426	548	486	472	520	

Successive Production Schedules

4	95	73	73	32												
4	101	114	132	150	201	203	200	200	200	200	200	200	205	201	182	
4	99	103	108	110	118	122	128	135	144	153	169	192	188	193	190	
5	99	114	130	144	165	190	220	246	277	304	351	384	422	465	500	X May
5	95	101	111	124	136	167	206	255	309	374	411	423	437	465	500	
0	123	137	149	165	182	206	232	260	291	332	386	418	453	485	502	X

<u>1942 Budget</u>	29.5	1058
receipts	<u>11.9</u>	
deficit	17.6	
R. F. C. extend	<u>2.0</u>	
	19.6	to borrow

1943 expenditures	45.5	
Receipts	<u>16.4</u>	
deficit	29.1	
R. F. C.	<u>1.</u>	
	30.1	borrow

[It is believed President knew
 That the total revenue, including social
 security taxes, for 1943 would be about
 \$18 billion. So he said raise revenue by 50%
 or \$9 billion, \$2 billion social security and 7 billion
 other taxes.]

no plan to convert
auto industry to
War time Basis
~~200,000 - 300,000 out of work~~
Earliest June or July

1059

~~Victory Plan~~

Win-the-War Program
state your needs
and that let us
aim for that bulls-eye

(The above is what HM Jr took to the
President to post himself)

December 30, 1942

After the meeting on taxes, I said to the President, "My heart bleeds for you that you have to be fussing with these production problems when you ought to be concentrating on how to win the war." Then the President said, "Let me tell you what I am going to do. I am going to appoint Harry Hopkins to handle foreign affairs - the distribution of it - Jimmy Byrnes to handle legislation on the Hill, and now keep your shirt on on the next one - Wendell Willkie, Bill Douglas and you as a trio to do the production thing. I am not going to give it to one man the way the newspapers want it. It is too big a job for one man. I would not let you give up the Treasury." The President then said, "What do you think about it?" I replied, "I think the thing would work." He said, "Give me a name for it."
