DIARY

Book 680

November 25-28, 1943

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DEPARTMENT OF STATE

Washington

IN REPLY REFER TO
FD 102.1/9496

November 25, 1943

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a letter dated October 22, 1943 addressed by the Honorable Jan H. Hofmeyr, Minister of Finance of the Union of South Africa, to the Secretary of the Treasury, in reply to the latter's letter of September 14, regarding the revised draft of the proposals for an International Stabilization Fund.

Mr. Hofmeyr's letter was transmitted under cover of despatch no.360 dated October 26, 1943 from the American Legation at Pretoria.

Enclosure:

Letter addressed to the Secretary of the Treasury dated October 22, 1943.

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Ref: F.S. 1/99/1

Treasury,
Pretoria,

22nd October, 1943.

My dear Mr. Secretary,

I write to acknowledge receipt of your letter dated September 14th, together with the revised draft of the tentative proposals for an International Stabilisation Fund. I have taken a keen interest in the proposals for stabilising currencies, which we all hope will lead to the forging of an effective instrument for dealing with the currency dislocation resulting from a great war. The new proposals and the development of the idea of currency stabilisation will be carefully studied by me in conjunction with my technical experts.

I have noted with pleasure your reference to Dr. Holloway. I am very glad to know that his visit to Washington was helpful from your point of view. It was certainly most helpful from ours.

Yours sincerely,

/s/ Jan H. Hofmeyr

The Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
WASHINGTON, D.C.,
U.S.A.

CM
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (SCOO)

Chungking

Dated November 25, 1943

Rec'd 11:54 a.m.

Secretary of State,

Washington.

U.S. URGENT

2235, November 25, 10 a.m.

(1) Dr. Chi, General Secretary of Board and of Exchange Control Commission called on me yesterday morning and informed me he had just been instructed by Kung to clarify the following points on Kung's behalf (from Adler to Secretary Treasury only refer Embassy's 2231, November 24 and your 1672 November 20):

(a) While Kung had no objection in principle to sale of gold in China on our account he deemed it inadvisable on additional ground that other governments had raised question and if he agreed in our case he could not refuse them.

(b) He would have to review questions raised in conversation of November 23 with Generalissimo and Cabinet before being able make final decision (correction foregoing paragraph should be lettered C repeat C).

-2- #2235, November 25, 10 a.m. from Chungking

repeat C).

(b) repeat (b). He wished to make it clear in connection with his offer of forty to one (Embassy's 2231, paragraph 4-b) that what he had in mind was China's eventually crediting the amount over and above the official rate paid to us for United States currency to reverse Lend Lease.

(2) Called on Kung yesterday evening and he confirmed above. No comment is necessary.

GAUSS

WSB

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NOT TO BE RE-TRANSMITTED

COPY NO. 12

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 386

Information received up to 10 A.M., 25th November, 1943.

1. NAVAL

NORTHERN WATERS. Heavily escorted convoy of 19 ships has arrived in North Russian ports without incident.

MEDITERRANEAN. 23rd. One of H.M. Minesweepers was sunk and mined off MADDALENA (N. SARDINIA). One of H.M. Submarines is overdue in AEGEAN and considered lost.

2. MILITARY

ITALY. Bridgehead over SANGRO now extends 6 miles inland from coast. North of CASTEL DI SANGRO our troops met stiff opposition from enemy who is also holding heights N.W. of ALFEDENA. PIZZONE (5 miles S. of ALFEDENA) clear of enemy.

RUSSIA. Russians have gained ground north of GOMEL, west of RECHITSA and have reached KHEINIKI (50 miles S.W. of GOMEL). German attacks S.W. of KIEV have been repulsed.

3. AIR OPERATIONS

WESTERN FRONT. 23rd/24th. 1,239 tons dropped on BERLIN. 24th. Typhoons damaged four minesweepers off Brittany Coast. Mosquitoes made low level attacks on power stations at VANNES and STHERBOT (S.E. of BREST). 24th/25th. Aircraft despatched - BERLIN 6; Intruders 3; anti-shipping 3; leaflets 9.

ITALY. 22nd/23rd. Wellingtons (one missing) dropped 64 tons effectively on airfield and railway station at CIAMPINO (five miles S.E. of ROME).

ALBANIA. 23rd. Escorted Spitfires bombed roads and mechanised transport in area of VALONA.

November 26, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I talked to Dave Lawrence and to Paul Wooten today.

I think Dave is opposed to any substantial additional taxes and willing to string along with the House bill, but he wouldn't say so. His main idea was that we should try to get agreement with the Senate leaders on a fixed ratio of taxes to budget expenditure, whether it be 33-1/3 per cent, 40 per cent, or 60 per cent, and then attempt to lay it in the lap of Congress to enact a bill to reach that ratio. He said one of the chief factors creating resistance to demands for higher taxes was uneasiness about the post-war situation. He thought that businessmen feared that extraordinary war taxes would carry over into peace-time and that if we really intended that the added taxes we propose now would terminate after the war we ought to say so very plainly. Businessmen, he said, are greatly troubled about insufficient reserves and conversion costs. I told him it was my opinion that the cost of orderly liquidation both of personnel and material involved in war contracts ought to be borne on a fair basis by the Government and I didn't think that problem was a tax problem, to which he agreed. He thought we ought to overhaul administration of the Bureau of Internal Revenue. The great difficulty facing the business taxpayer, he said, is delay in adjudication of tax matters so that it is years after the event before they know their actual liability. He told me his corporation was in the excess profits area and he didn't complain about the excess profits but he did complain about knowing where he stood. He said also that lawyers advised their clients to under-pay rather than over-pay their tax liabilities since it was so extremely difficult to get a refund. Also he stated the tendency of our agents and Bureau representatives before granting a refund to rake through the taxpayer's books to try to find some counterclaim to offset against it. He didn't think the

Bureau was at all political but that this sort of thing was the result of the career men's efforts to make a good record in protecting the revenue.

Paul Wooten is a Democrat from New Orleans; is sympathetic with the Administration and sympathetic with our desire to get substantial additional taxes. He is, as you know, Chief Correspondent and representative here for McGraw-Hill Publications, including Business Week, as well as correspondent for New Orleans newspapers. He is close to Senator Overton, who is a strong advocate of the sales tax. I summarized our objections to it, which he seemed to recognize as having validity. His main ideas regarding your appearance before the Senate were: (1) a strong general statement without too much detail as to our definite suggestions; (2) rallying Administration forces behind our position. It was news to him that we had consulted representatives of various other departments before presenting our suggestions to Congress. He had suggested this as something we should have done and was surprised to know that we had actually done it. He thought we ought to whip principal officers of the Cabinet and heads of independent agencies into line as an Administration matter to go up and present a solid front on our demand for additional taxes. He was surprised, as were others to whom I have talked, to learn that our income tax proposals would have imposed the chief burden on the income group below $5,000. I gave him figures of approximately 3-1/2 billion out of the 6.6 billion as falling on incomes up to $5,000 and he made note of the figures. I also explained to him the status of the 9 million who would have been excused and explained to him the complications of the House Committee minimum tax plan.

November 26, 1943

MEMORANDUM FOR THE SECRETARY

You inquired about the comparison of taxes and expenditures made by Godfrey N. Nelson in the New York Times of November 7, 1943. Upon analysis the figures presented by Mr. Nelson prove to be very misleading.

1. Ratio of revenues to expenditures

Mr. Nelson asserts the ratio of revenue to expenditures for all government bodies to be 49 percent in the United States and 52½ percent in the United Kingdom for fiscal 1944. Allowing for legitimate differences of opinion, his revenue estimate for the United States is several billion above the highest reasonably likely figure. The British ratio, on the other hand, is biased downward by failure to include extra budgetary funds for social security and war risk insurance, and to recognize that the British budget figures include substantial items not requiring domestic finance. Social security is already accounted for in the United States figures, and expenditures not requiring domestic finance are too small to affect the ratio appreciably.

Mr. Nelson's ratio of 49 percent for the United States is about 3 percentage points too high and the ratio of 52½ percent for the United Kingdom is approximately 10 percentage points too low. The difference is about 15 percentage points in favor of the United Kingdom, instead of 3½ as given by Mr. Nelson.

2. Per capita comparisons

Mr. Nelson repeats the usual misleading comparison of revenue and expenditures on a per capita basis with the faint qualification that "the significance of these comparisons is not easily appraised." He thus fails to allow for the fact that our per capita income is much higher than the British and also fails to note the arbitrary nature of comparisons resting on exchange rates.

3. Ratio of government expenditures to national income

Mr. Nelson arrives at a ratio for government expenditures to national income of 76 percent for the United States and 60.5 percent for the United Kingdom. This difference results entirely from the use of non-comparable measures of national income for the two countries. The ratio for the United States is based on a figure of $152 billion which Mr. Nelson erroneously describes as "national income," although it actually represents "income payments to individuals." His estimate for the United Kingdom is based on a figure which is aimed as an estimate of "net national income at market prices" although as such it is apparently too high. Had Mr. Nelson presented estimates for the United States on the basis used for the United Kingdom he would have had to show the United States ratio lower than the British.

The object of comparing government expenditures with national product is to establish what proportion of national output the government is absorbing for the war. For this purpose the appropriate comparison is between "government expenditure for domestically produced goods and services" and "gross national income at market prices." The resulting ratios on this basis are 54½ percent for the United States and 51½ percent for the United Kingdom, a difference of 3 percentage points in contrast to the 15½ percentage points difference given by Mr. Nelson.

4. The "slant" of the Times article

It is interesting to note that the headline of the Times article reads "U. S. Taxation Goal Overtops British" although in the text the ratio of revenues to expenditure is shown to be 49 percent for the United States against 52½ percent for the United Kingdom.

On the basis of the erroneous comparison of government expenditures to national income, Mr. Nelson makes the astounding argument that our government expenditures on the basis of British experience are excessive in the amount of nearly $24 billion, and from this concludes that the Treasury's tax goal is inadvisable.

Roy Blough

The New York Times.
NOV 7 1943

# U.S. TAXATION GOAL OVERTOPS BRITISH

## Revenues Here Put at 49% of Expenditures, Against 52½% for United Kingdom

## PER CAPITA RATES HIGHER

### Morgenthau's Comparison of Levies Analyzed—All Forms of Taxes Included

By GODFREY N. NELSON

When the House Ways and Means Committee responds to the Treasury's call for $10,500,000,000 of more taxes with a proposal to raise not more than $2,000,000,000, the question whether taxes are not now high enough calls for serious thinking. One way of answering the question as to whether the people should pay more taxes is by weighing the effect of the present tax load upon our fiscal economy.

Secretary of the Treasury Henry Morgenthau Jr. suggests that because the United Kingdom is raising by taxation over 50 per cent of its national expenditures, we should do likewise. Despite the fact that we are spending more than four and a half times what the British are spending, we are not far behind them in the ratio. In order to make this comparison, from available statistics, we must include revenues and expenditures of "all governments" of each country.

According to the June issue of Economic Record, published by the National Industrial Conference Board, the estimated revenues of the United Kingdom for fiscal year ending March 31, 1944, are £3,176,000,000, equal, at $4 to the pound sterling, to $12,704,000,000; and their expenditures are £6,051,000,000, equal to $24,204,000,000. Thus their revenues are nearly 52½ per cent of their expenditures.

**Figures for United States**

The latest estimate by the Treasury of Federal revenues for the current fiscal year ending June 30, 1944, is $41,500,000,000. Current rate of revenues, however, indicate a total of $45,000,000,000. For several years the annual revenues of the States and local governments have been running at the rate of $10,000,000,000. Counting on an additional $2,000,000,000 from new Federal taxes, our aggregate revenues should be $57,000,000,000. On the basis of the total expenditure figure of the Economic Record ($115,823,000,000), our revenues should be over 49 per cent of expenditures.

Considering that our war disbursements have been averaging about $7,162,000,000 a month ($21,500,000,000 for the first quarter), it is unlikely that we can expend, for all purposes, the amount of the President's budgetary estimate of $106,000,000,000. It is not unlikely, therefore, that our ratio of revenues to expenditures will exceed that of the United Kingdom.

A more important aspect of these ratios, however, is the relative effect they will have upon our economy. In meeting our outlay, we are making per capita expenditures of $846, as against $500 for the British, and we are raising per capita revenues of over $420, as against $260 by the British. While the significance of these comparisons is not easily appraised, it bears directly on the degree of sacrifice our people are asked to bear.

**Expenditures Here Higher**

Another prevailing impression is that we are spending for the war and for the support of the Federal and local governments a smaller proportion of our national income than the United Kingdom. Accepting the Treasury's estimate of our national income for the current fiscal year of $152,000,000,000, and the Economic Record's expenditure figure of $115,823,000,000, the expenditures are 76 per cent of our national income; whereas, estimating the national income of the United Kingdom at $40,000,000,000, their expenditures are only 60½ per cent of their national income (the national income is based on Economic Record's figure for 1942 of £8,603,000,000, plus an estimated increase of nearly 7 per cent for the years 1943 and 1944).

Thus, if we accept the British experience, as a criterion, whose economic program appears to have kept them on a fairly even keel in respect to the avoidance of a major inflation, our aggregate expenditures should not exceed 60½ per cent of our national income, in amount $91,976,200,000, as against actual expenditures of $23,847,800,000 in excess of that amount; and it will be noted that this excess in itself is almost equal to the total expenditures of the United Kingdom. These staggering comparisons show the inadvisability of Secretary Morgenthau's taxation goal and make one ponder over the economic effect of the Treasury's planning.

It is reported that two tax modifications are in contemplation, one affecting corporations and the other individuals. The corporate proposal is that the excess profits tax be increased from 90 to 95 per cent, estimated to yield a revenue of about $600,000,000. Apart from the fact that any extremely high rate of tax encourages waste and extravagance and discourages economy and efficiency, the excess profits tax exaggerates inequalities and compounds hardships.

Instead of increasing further the excess profits tax it is suggested that the differential over the rate of 90 per cent be allowed as a reserve for post-war readjustments, in addition to the 10 per cent post-war excess profits credit. It would appear that the additional yield of the tax would be unimportant as

U.S. TAXATION GOAL OVERTOPS BRITISH

Continued From Page Seven

compared with the beneficial effects on business obtainable in the period of transition from a war to a peace basis.

The second contemplated tax modification is a proposal to decrease the personal exemptions and credits for dependents. The purpose of the proposal is to reach the vast amount of national income not now within the taxable brackets of the income tax. The injustice of this method of raising new taxes should be obvious: While new taxpayers would be added the impact upon those already paying taxes would be more than ten to one; every million dollars collected from new taxpayers would place an additional load of ten millions on present taxpayers. A retail sales tax is the only levy which would yield a substantial amount of revenue and would spread the burden according to purchasing power.

*The opinions expressed herein by Mr. Nelson, who is an authority on taxation, are his own and not necessarily those of* THE NEW YORK TIMES.

Finished

# TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE Nov. 26, 1943

TO Secretary Morgenthau

FROM Mr. Haas

I am transmitting herewith a memorandum prepared by Dr. Rensis Likert of the Department of Agriculture covering the results of a survey which investigated the circumstances under which people redeem savings bonds. The survey was made by means of interviews with persons who had redeemed a $25 savings bond late in June or early in July. These redemptions passed through the Federal Reserve Banks between July 6 and July 12, and it was from the record of payments that the names of persons interviewed were taken. A total of 293 interviews was conducted, and they took place in the following six cities: New York, Chicago, Detroit, Grand Rapids, New Haven, and Peoria.

## I. The Typical Bond Redeemer

Dr. Likert summarized the results of the survey by preparing a description of what he calls the "typical redeemer". This person is described in the following excerpt from the report:

"The typical redeemer earns less than $3,000 a year and has a family somewhat larger than average.

"He buys bonds through the payroll deduction plan, putting in a somewhat smaller percentage of his pay than do other people on payroll deduction.

"War bonds make up the only liquid reserves which he possesses.

"He finds himself in a situation in which he feels an urgent need for cash. Most frequently this situation is an emergency caused by illness. Sometimes it is the falling due of some obligation for which available funds are inadequate. Other times current bills pile up too high to be met with available funds.

"Since War Bonds are the only reserves available, he cashes some of his bonds. He does not redeem all of his bonds, nor does he stop buying on the payroll deduction plan.

"He regrets having to cash his bonds, but he is grateful that he has accumulated liquid reserves which can carry him through his emergency."

## II. Statistical Summary of Reasons for Redemption

Dr. Likert drew the foregoing picture of the "typical redeemer" from a study of the reasons the persons interviewed gave for cashing bonds. These may be of interest to you, and they are shown on the following pages. In looking over these reasons it might be well to remember that Dr. Likert also found that most people do not redeem all the bonds they own. Three persons out of five interviewed, for example, said they still owned more than five $25 denomination war savings bonds.

Secretary Morgenthau - 3

Uses of Money Received from the Redemption of War Bonds
(As Reported by those Interviewed in the Department
of Agriculture's Survey)

1. To meet emergency expenditures . . . . . . . . . 49%

This general category is composed of the following:

| | |
|---|---|
| Expenses caused by illness ............... | 35% |
| Expenses brought about by child-birth .... | 3 |
| Cost of treatment for teeth or eyes ...... | 3 |
| Expenses caused by death and burial ...... | 3 |
| Cost of unexpected and necessary travel .. | 2 |
| Current expenses during unemployment ..... | 3 |
| Total ......................... | 49% |

2. To meet necessary and predictable large expenses . . . . . . . . . . . . . . . . . . . . 23%

This general category is composed of the following:

| | |
|---|---|
| To make income tax payment .............. | 11% |
| To make other tax payment................. | 1 |
| To make payment on old debts ............ | 3 |
| To purchase coal.......................... | 2 |
| To purchase clothing ..................... | 2 |
| To purchase household furnishings ........ | 2 |
| To make needed repairs on house .......... | 1 |
| To meet moving expenses .................. | 1 |
| Total ......................... | 23% |

3. To meet current expenses in face of a shortage of cash . . . . . . . . . . . . . . 17%

The reasons for the shortage of available cash are difficult to ascertain precisely. From one-third to a half of these families appear to have no money after the basic needs of food, shelter, and clothing are tended to. Their bond purchases are made

Secretary Morgenthau - 4

out of a feeling of patriotism, a desire to go along on the payroll deduction plan, or a hope to be able to save, but the pressure of meeting basic needs is too great to avoid cashing some or all of the bonds. The remaining half to two-thirds of this group appear to have found themselves short of available cash due to misplanning or mismanagement. A large proportion of them tend to spend their money as impulses to do so arise and they find themselves pinched whenever bills pile up.

4. To make non-essential expenditures . . . . . . . . 4%

Vacation expenses make up the bulk of this item. There are a few other uses such as buying jewelry or other luxury items.

5. For miscellaneous uses . . . . . . . . . . . . . . 7%

The major components of this group are the following:

| | |
|---|---|
| To make a down payment on a house ........... | 2% |
| To meet business expenses .................... | 1 |
| To change ownership of bond .................. | 1 |
| Other personal reasons ........................ | 3 |
| Total .............................. | 7% |

6. Total . . . . . . . . . . . . . . . . . . . . . 100%

III. Recommendations for a Policy Toward Bond Redemptions

Dr. Likert says that the findings of his survey point to the conclusion that any direct pressure to prevent savings bond redemptions through the medium of a publicity campaign would probably cause more harm than good. He arrives at this conclusion in the following manner:

1. "The principal causes of redemption at the present time are:

   (a) "Genuine and unexpected emergencies.

   (b) "The use of bond money for purposes which ordinarily would be met from other forms of saving or borrowing if the person did not put all of his reserves into bonds.

   (c) "The overbuying of bonds by a small group of people with low incomes or with heavy obligations.

   (d) "Mismanagement of personal finances.

2. "Pressure against redemption will have no effect on the first group other than that of encouraging them to keep liquid reserves in other forms than bonds.

3. "On the second group, pressure against redemption will certainly discourage the use of bonds as the principal form of saving.

4. "The third group can be made to reduce redemptions only through reduction of purchases.

5. "The fourth group can be effectively reached only through getting them to manage their finances in a more systematic way. Public encouragement of budgeting and assistance in doing so would help reduce redemptions among this group of redeemers.

Secretary Morgenthau - 6

6. "There is no reason to believe that, at the present time, pressure upon people to buy bonds has become excessive. Most bond redeemers cash only a portion of their bonds and they continue to purchase after redeeming. The number of bonds redeemed by people who cash regularly is still small. Although redemptions will undoubtedly increase as people put more and more of their reserves into bonds, the point has not yet been reached where a large proportion of the sales do not "stick". Any policy which reduced sales pressure or which made people reluctant to put all of their reserves into bonds would undoubtedly reduce the number of bonds which these people own - even after redemption.

7. "The problem of rumors that bonds will not be redeemed is closely connected with policy toward current redemptions. Those people who know that they can now redeem their bonds are much less likely to pass along rumors that bonds will not be repaid. A clear understanding on the part of the public that the Government is willing to have them redeem their bonds <u>if they really need to</u> will go far to counteract rumors that bonds will be frozen or not repaid."

UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics

# A SURVEY CONCERNING THE REDEMPTION OF BONDS

November 6, 1943

Division of Program Surveys

SECRET

# SECRET

## INTRODUCTION

The survey reported here was conducted by the Division of Program Surveys of the Department of Agriculture at the request of the Treasury Department. People who have recently redeemed bonds were interviewed to find out the reasons they had for redeeming in order that the Treasury Department might have a clearer understanding of its responsibility toward these people.

A full discussion of the technical details of sampling and of interviewing may be found in the technical appendix attached to the end of this report.

SECRET

## The Typical Bond Redeemer

For purposes of convenience, the major trends of the survey may be phrased in terms of the "typical urban redeemer".

The typical redeemer earns less than $5,000 a year and has a family somewhat larger than average.

He buys bonds through the payroll deduction plan, putting in a somewhat smaller percentage of his pay than do other people on payroll deduction.

War Bonds make up the only liquid reserves which he possesses.

He finds himself in a situation in which he feels an urgent need for cash. Most frequently this situation is an emergency caused by illness. Sometimes it is the falling due of some obligation for which available funds are inadequate. Other times current bills pile up too high to be met with available funds.

Since War Bonds are the only reserves available, he cashes some of his bonds. He does not redeem all of his bonds, nor does he stop buying on the payroll deduction plan.

He regrets having to cash his bonds, but he is grateful that he has accumulated liquid reserves which can carry him through his emergency.

## Recommendations for a Policy Toward Bond Redemptions

Any policy toward the problem of bond redemptions must, of course, be based upon all of the known facts which have bearing upon the problem. The findings of this survey, however, point rather clearly to certain major conclusions.

The most important conclusion is that direct pressure against the redemption of bonds by publicity will probably cause more harm than good.

The principal causes of redemption at the present time are:

1. Genuine and unexpected emergencies
2. The use of bond money for purposes which ordinarily would be met from other forms of saving or borrowing if the person did not put all of his reserves into bonds
3. The overbuying of bonds by a small group of people with low incomes or with heavy obligations
4. Mismanagement of personal finances

Pressure against redemption will have no effect on the first group other than that of encouraging them to keep liquid reserves in other forms than bonds.

On the second group, pressure against redemption will certainly discourage the use of bonds as the principal form of saving.

The third group can be made to reduce redemptions only through reduction of purchases.

The fourth group can be effectively reached only through getting them to manage their finances in a more systematic way. Public encouragement of budgeting and assistance in doing so would help reduce redemptions among this group of redeemers.

There is no reason to believe that, at the present time, pressure upon people to buy bonds has become excessive. Most bond redeemers cash only a portion of their bonds and they continue to purchase after redeeming. The number of bonds redeemed by people who cash regularly is still small. Although redemptions will undoubtedly increase as people put more and more of their reserves into bonds, the point has not yet been reached where a large proportion of the sales do not "stick". Any policy which reduced sales pressure or which made people reluctant to put all of their reserves into bonds would undoubtedly reduce the number of bonds which these people own - even after redemption.

The problem of rumors that bonds will not be redeemed is closely connected with policy toward current redemptions. Those people who know that they can now redeem their bonds are much less likely to pass along rumors that bonds will not be repaid. A clear understanding on the part of the public that the Government is willing to have them redeem their bonds <u>if they really need to</u> will go far to counteract rumors that bonds will be frozen or not repaid.

## TABLE OF CONTENTS

# I

## USES MADE OF MONEY RECEIVED FROM CASHING BONDS

The solution to the problem of bond redemptions can best be guided by an understanding of the purposes for which people now cash bonds. What uses of money do people now see to be important enough to bring them to cash their bonds? How is the money paid out by the Treasury in bond redemptions being spent?

The following table presents the uses made of money received from bonds as reported by those interviewed in the survey:

1. <u>To meet emergency expenditures</u> - <u>49%</u>

   This general category is composed of the following:

| | |
|---|---|
| Expenses caused by illness | 35% |
| Expenses brought about by child-birth | 3 |
| Cost of treatment for teeth or eyes | 3 |
| Expenses caused by death and burial | 3 |
| Cost of unexpected and necessary travel | 2 |
| Current expenses during unemployment | 3 |

2. <u>To meet necessary and predictable large expenses</u> - <u>23%</u>

   This general category is composed of the following:

| | |
|---|---|
| To make income tax payment | 11% |
| To make other tax payment | 1 |
| To make payment on old debts | 3 |
| To purchase coal | 2 |
| To purchase clothing | 2 |
| To purchase household furnishings | 2 |
| To make needed repairs on house | 1 |
| To meet moving expenses | 1 |

3. <u>To meet current expenses in face of a shortage of cash</u> - <u>17%</u>

   The reasons for the shortage of available cash are difficult to ascertain precisely. From one-third to a half of these families appear to have no money after the basic needs of food, shelter, and clothing are tended to. Their bond purchases are made out of a feeling of patriotism, a desire to go along on the payroll deduction plan, or a hope to be able to save, but the pressure of meeting basic needs is too great to avoid cashing some or all of the bonds. The remaining half to two-thirds of this group appear to have found themselves short of available cash due to misplanning or mismanagement. A large proportion of them tend to spend their money as impulses to do so arise and they find themselves pinched whenever bills pile up.

4. <u>To make non-essential expenditures</u> - <u>4%</u>

Vacation expenses make up the bulk of this item. There are a few other uses such as buying jewelry or other luxury items.

5. <u>For miscellaneous uses</u> - <u>7%</u>

The major components of this group are the following:

| | |
|---|---|
| To make a down payment on a house | 2% |
| To meet business expenses | 1 |
| To change ownership of bond | 1 |
| Other personal reasons | 3 |

# II

## SOME ILLUSTRATIVE FAMILIES

To illustrate the more typical situations which bring people to cash their bonds, some of the people interviewed in the survey are here described.

## Emergency Expenditures

In this family of six, living in Grand Rapids, Michigan, the father and mother are both working. The mother is an inspector in a factory making parachutes and the father is a furnace man in the same plant. Between them they are now earning $77 a week.

The oldest child of ten looks after the younger children when the parents are not at home.

The house is a dilapidated duplex, badly in need of paint. The porch steps are broken down. The house is bare; the linoleum rug no longer shows a pattern.

The family was on relief for a period during the depression, and so the war has brought it relative prosperity. The wife is working for the first time since she was married. They have more food, more clothes, have ordered some coal for the winter (something which they have never been able to do ahead of time before), and they have now paid off all of their bills.

Both the husband and wife buy bonds through the payroll deduction plan, their combined allotment amounting to approximately 10 percent of their combined income.

During June both the husband and wife became ill and each had to have an operation. At this time both were out of work for over three weeks. To meet these expenses they cashed some of their bonds, since they had no other form of savings.

Emergency Expenditures

This 50-year-old steel worker in Buffalo, New York, feels that he is much worse off financially than he was before the war. Due to a change in the method of computing his wages from piece rates to an hourly rate, his weekly income has been reduced. At the same time, prices for all the things he purchases have risen sharply.

To add to his difficulties he suffers from chronic bronchitis. This illness makes it necessary for him to miss periods of work rather frequently. Although he lives by himself and has no family expenses to draw on his weekly pay-check of $40, whenever he is ill he is forced to hire someone to bring him meals and look after his needs. Whenever these periods of illness come closely together he finds himself in a serious financial emergency.

Despite the fact that these extra demands upon his income seem almost certain to continue in the future, he feels that he should keep on investing five dollars a week in bonds through payroll deduction. Even when he is able to work only part of the time, he has this amount deducted from his paycheck.

On four occasions in the past when his income was reduced he found expenses piling up so that he felt compelled to cash a bond. Expressing regret about cashing bonds, he told the interviewer, "Naturally a man don't like to dig into his savings, but when you can't do no better what can you do?"

Even with the redemptions which he has made, he still owns ten $25 bonds. This money, he says, he would never have saved had he not bought bonds through the payroll deduction plan.

Necessary Large Expenses

This Detroit family is made up of a father, mother, and two small children under five years of age. The father is employed as a deliveryman for a department store and earns $48 a week.

Due to OPA regulations upon store deliveries, he is unable to get any over-time work and so his total weekly wage is now lower than it was before the war. This decrease in income, combined with increased taxes, rising prices, and the arrival of the second child in the family, have made it difficult to make ends meet. To add to the difficulties, illness prevented the father from working for a period of two months about a year ago.

In order to adjust to these financial pressures, the family car was sold. Also, the family moved from their rather nice apartment into an old house which they owned and had been renting to another family.

To realize this long-term economy, however, it was felt necessary to make repairs on the house so that it would be comfortable this winter. Since all of the family's reserves were in War Bonds, two bonds were cashed to meet the repair bill.

Twelve $25 bonds are still held, and the parents hope to keep them to help send their children to college.

Necessary Large Expenses

The war has hit this middle-aged woman rather hard financially. Doing office work for the telephone company, her weekly income of $28 has not been increased since the war began. She is feeling the pinch caused by the higher cost of living, by higher taxes, and by her allotment to War Bonds.

To meet these pressures she has moved into a cheaper apartment. She has had to do without new clothes this summer, which hurts her very much. She has even curtailed her buying of fruits and vegetables. She feels keenly deprived and is acutely aware of her lower standard of living.

Bonds are the only form of saving she has. Under considerable pressure, she puts 10 percent of her income into bonds. It is almost certain that she would have no savings if she did not buy bonds.

On four occasions she has felt it necessary to cash bonds. She cashed her first bond eight months ago to meet current bills, then she redeemed two for income taxes, one for moving expenses, and, finally, one to buy coal for the winter. Since she has been buying bonds she has not had enough left over from regular living expenses to meet these large payments.

At the present time she owns four $25 bonds and she still buys on the payroll deduction plan.

## Current Expenses

Even before the war, things were not easy for this Italian family of seven. The father, working in one of New York City's clothing factories, found that he was getting too old to earn more than $30 a week.

Shortly before America's entry into the war, the oldest son began working, and he was able to help feed and clothe his four younger brothers and sisters.

A little over a year ago, however, this financial assistance was lost when the son was drafted. With rising prices and growing children this family's budget became more and more strained. It became necessary to open charge accounts, to buy things on time - a practice entirely new to these people.

The father was asked at this time to buy bonds through payroll deduction at his work and, even though he felt that he could not afford to do so, he did not want to seem uncooperative or unpatriotic. So he agreed to have seven percent of his pay withheld for bonds.

When the first bonds were brought home, the mother immediately saw an opportunity to buy some clothes for the children, an expenditure which she felt was very urgent. Since this first redemption, $18.75 has become "ripe" at roughly two-month intervals, and each time the children have been in need of clothing.

The oldest daughter has, within the last month, taken a job as a clerk for the Government. Her earnings will supplement the family income, but even so, the mother feels that the next bond will probably have to go for the children's clothes.

"Bonds are a good thing if you can save and put a little away," the mother says, "but I can't. If we didn't have to cash them in I would like to save them for after the war. Maybe my husband, who is so old, won't be able to work. Then we could have something to live on."

## Non-Essential Expenditure

This Chicago chemist and his wife have one young child and manage to meet their needs on $40 a week. Prior to the war, they say, they never thought of saving; they would spend their money as they got it. Since the war and the arrival of their daughter, however, they have begun to think of the future and of the security which savings will bring them.

When asked at his work to start payroll deduction, the father saw several advantages in doing so. As he put it, "Bonds are O. K. They are a good investment and it is a good deed to the country. A Government man came to our place and spoke. He said the more bonds we could buy, the better it would be for the boys overseas. We're about 98 percent signed up down at our place. I put in seven percent of my salary."

From time to time he has put extra money in bonds so that he now owns $450 worth. Apart from insurance, bonds constitute his only important savings.

In June, when his vacation came, he found that he had no ready cash with which to enjoy his vacation. Rather than spoil this time, he cashed one of his bonds. He feels that he took such a little share of his total savings that it made no real difference and that he can make it up again sometime when he doesn't want the money so much.

## Miscellaneous Uses

The situation in which this family found itself represents only one of the many different kinds of miscellaneous reasons people have for cashing bonds.

The family is made up of a father, mother, and one child. Both parents are now working and both are making considerably more money than before the war. The war has brought many new opportunities to Negroes in Detroit.

Even though they resent the increased cost of living, they find that they have quite a bit of money left for savings. This money is going into War Bonds and into the mortgage on their new house "so that we won't lose it if we don't have work after the war". They have bought $400 worth of War Bonds. Aside from the money put into these savings, they have no other reserves.

The Detroit riot came as a severe blow to this family. Although they were not directly involved in the violence, they were greatly intimidated. For two weeks the husband could not get up courage enough to go to work. With this loss of income there developed a temporary financial crisis. It became necessary to get some cash to meet the on-going expenses. Since bonds were the only source available, three $25 bonds were cashed.

III

HOW MANY BONDS HAS EACH REDEEMER CASHED?

Do people who cash bonds do so regularly or only on occasion? Do they cash all of the bonds they own or do they keep part of the bonds that they have purchased?

It is highly significant to find that only eight percent of the bonds redeemed were cashed by people who admit to redeeming regularly.

Thirty-three percent of the bonds were cashed by people who claim to have redeemed on more than one occasion (but not regularly).

The remaining 59 percent of the bonds were cashed by people who claim never to have cashed a bond before.

These figures indicate that the problem of the regular redeemer, the person who cashes just as soon as he is allowed to, has been over-played in rumor. Nor is he always the high-paid war worker, as frequently alleged. Although the number of regular redeemers interviewed is too small to permit accurate estimates of income and occupation, the number of regular redeemers who cash only because of extreme financial pressure seems high. The Italian family described in the preceding section is rather typical of this group.

The great majority of people who have redeemed bonds still own some bonds. Only eight percent of those interviewed report that they have cashed all of their bonds.

Approximately a third of those interviewed report that they still hold from one to five $25 bonds, and about six out of ten state that they own more than five.

It is clear from these results that even among bond redeemers a portion of the sales have "stuck". Even though some of these people may have been "oversold", they keep a fairly large portion of their bonds.

For only a very small proportion of the population is there evidence that bond sales have been pushed too strongly.

# IV

## FINANCIAL RESERVES HELD BY BOND REDEEMERS

Do bond redeemers have other liquid reserves which they could call upon in face of the need for cash or are bonds the only available source of ready money short of borrowing? Do people cash bonds because they have put all their financial reserves into bonds?

The answers to these questions may be seen in the following figures:

79% of the redeemers say that bonds are their only reserve

8% of the redeemers say they also have less liquid reserves

13% of the redeemers say they have other liquid reserves

The one outstanding fact about bond redemptions is that most people who cash bonds have no other source of funds other than borrowing. In formulating policy affecting bond redemptions, this fact should be kept foremost in mind.

The typical picture of bond redemptions appears, thus, to be as follows:

A person finds himself in need of cash for one of the reasons listed in Section I above, his War Bonds are the only reserves which he has, and so he cashes his bonds. Since the reasons for cashing have, for the most part, a great personal urgency and since bonds are the only source of funds easily available, the pressure on these people to redeem their bonds is great.

# V

# FINANCIAL SITUATION OF BOND REDEEMERS

It has been seen above that bond redemptions usually arise out of some financial crisis and that people who redeem ordinarily have no reserves other than bonds. Do bond redeemers come from lower income groups or do they tend to be people at each income level who are having financial difficulty?

The evidence indicates that the second hypothesis is more nearly true. If one compares the income of bond redeemers with a cross-section of bond owners from cities of similar size, only minor differences will be found. In other words, bond redeemers have roughly the same income as people who do not redeem.

Bond redeemers, however, have somewhat larger families than do other bond owners. While 51 percent of the bond redeemers' families contain more than three members, only 41 percent of the bond owners' families are this large. Maintenance costs and susceptibility to emergency both increase with larger families.

Another fact indicates that the income of bond redeemers is not an adequate representation of their financial situation. Although two-thirds of the redeemers are now earning more money than two years ago, only 39 percent of them feel that their total financial situation is better than before the war. Three out of ten actually feel that they are in a more difficult financial situation than before the war.

In summary, the following facts may be cited:

> Among those with incomes under $100 a week, bond redeemers do not tend to fall disproportionately in any particular income group;
>
> As in the total population, approximately three-quarters of the redeemers earn less than $3,000 a year;
>
> Redeemers, by having larger families, are susceptible to greater financial hazards.

# VI

# SPENDING BEHAVIOR OF BOND REDEEMERS

Are bond redeemers people who spend their money without concern for long-term needs, or are they simply overwhelmed by financial pressures which they could not be expected to avoid?

The answer to this question is difficult, and no final answer may be given from this survey. Some suggestive findings, however, are available. On the basis of an extended interview with each redeemer an attempt was made to characterize the spending behavior of each family.

Forty-five percent of the redeemers appear to control their spending by consideration of their total financial situation, taking into account their obligations, their financial prospects, and their long-run needs. These people try to plan and to spend their money conservatively.

An additional 21 percent of the redeemers seem to spend their money as wishes arise. They live "from day to day", as they themselves frequently express it. If they have the money when they think of something they would like to have, they buy it. These people characteristically assert that, were it not for payroll deduction they would not now be saving money.

For another 24 percent of the redeemers, the basic needs of food, clothing, shelter, and medical care take all of the money the wage-earner can bring home. It is not known whether or not these people would plan if they had more money because they have no choice but to spend all they receive.

For 10 percent of the redeemers, no characterization seemed to be clearly correct.

These data suggest two conclusions:

1. The bulk of the people who redeem bonds attempt to handle their finances in a conservative way.

2. There remains, though, a sizeable group who could avoid financial crises much better if they could be induced to take a different approach toward spending.

# VII

# THE BOND BUYING OF BOND REDEEMERS

How do bond redeemers purchase their bonds? Do they buy regularly? Do they feel that they are being forced to buy? How large a portion of their incomes goes into bonds?

Nearly nine out of every ten bonds redeemed were purchased through the payroll deduction plan. This means, of course, that bond redeemers are for the most part regular buyers. Only six percent of the bond redeemers who were interviewed purchase their bonds irregularly, whereas 26 percent of a cross-section of bond owners in cities of similar size buy irregularly.

Considering only regular buyers, it is clear that bond redeemers put a smaller percentage of their income regularly into bonds than does a cross-section of regular buyers. Forty percent of the redeemers regularly invest less than 10 percent of their income in bonds, while only 15 percent of regular buyers invest this small an amount.

In summary, bond redeemers buy more regularly than other bond owners, but they invest a smaller percentage of their income than do other regular buyers.

In an attempt to evaluate whether redeemers were being submitted to too much pressure to buy, each person was asked whether he felt that he was being forced to buy too many bonds. Twenty-two percent of those who have redeemed bonds state that they are being forced to buy too many. Somewhat less than half of these people indicate any resentment about the pressure. The great majority of redeemers feel that they are free to buy the amount they choose or not to buy at all if they wish.

While it is true that "overselling" accounts for some of the redemptions, particularly among the regular redeemers, there is little evidence that selling activities should be diminished. Even among bond redeemers resentment against high-pressure techniques has not become widespread.

# VIII

## FEAR THAT BONDS MAY NOT BE REPAID IN THE FUTURE

How important an influence upon bond redemptions is the fear that bonds may not be redeemed in the future? Does this fear lead any appreciable number of people to redeem their bonds while the war is still going on?

Out of a total of 293 interviews with bond redeemers only one stated specifically that he had redeemed bonds out of a fear of non-redemption. This person stated that he cashed his bonds to make a payment on his mortgage when he heard a rumor that bonds were not going to be any good. The speed and ease with which he was able to cash his bonds, however, served as a demonstration to him that the Government was now able and willing to cash the bonds. After a short time he found that other people were also able to cash their bonds promptly, so he decided that his fear had been unfounded and he has reinvested a considerable sum of money in bonds.

This single case suggests that the present demonstration of the ready redeemability of bonds may, for a large part of the population, allay fears that bonds will not be redeemed eventually.

To test this suggestion, it is possible to see whether bond redeemers have greater confidence in the eventual redeemability of bonds than do other bond owners. While there is no difference between these two groups of people in the number who state directly that they fear that bonds won't be good, there is a significant difference in the number who pass on the report that others express this fear. Only three percent of the redeemers assert that others fear that bonds won't be repaid in contrast to 13 percent of a cross-section of bond owners.

In other words, the situation seems to be as follows: For a very small segment of the population, fear of non-redemption of bonds has lead to cashing of bonds. The concrete demonstration, however, that bonds are now redeemable acts as a convincing counter-argument against those who pass along the rumor that bonds will not be redeemed.

The implication of these findings for bond promotion seems rather clear. Any publicity which puts pressure upon people not to cash their bonds is apt to stir up greater fear that the Government will not redeem the bonds. On the other hand, a feeling that bonds may be cashed whenever it is necessary undoubtedly makes many people more willing to put all of their reserves into bonds.

# IX

# OCCUPATION AND NATIONALITY OF BOND REDEEMERS

Are bond redeemers found disproportionately in any particular groups in the population? Do they tend to concentrate in any single occupational or nationality groups?

It was seen in Section V that, within the range of income under $100 a week, bond redeemers do not come heavily from any single income group. In regard to occupation, however, there are two tendencies worth noting.

Fewer of the bond redeemers than of the non-redeemers come from the professional and managerial groups. While 17 percent of the bond owners fall within this classification, only seven percent of the bond redeemers do so.

More of the bond redeemers than of the non-redeemers are semi-skilled or unskilled workers. Thirty-seven percent of the redeemers are classified this way in comparison to 24 percent of bond owners.

For other occupational groups, the proportion of bond redeemers is that expected from the proportion of bond owners in these groups.

There is no evidence that people of foreign extraction or that people from Axis countries are more likely to redeem bonds than are "old Americans". While evidence is available only for New York, Detroit, and Chicago, it would appear that "old Americans" are much <u>more</u> apt to redeem bonds than are these other nationality groups.

While 16 percent of the bond redeemers come from Axis nationalities, 32 percent of the bond owners do so. This relationship contrasts sharply with that found among "old Americans" where it is found that 53 percent of the bond redeemers are "old American" but that only 32 percent of the bond owners are classified in this way.

Although it is possible that some of the people from Axis nationalities reported their nationality background incorrectly, it is extremely unlikely that enough of them did so to account for these differences. People of foreign extraction seem to feel much greater social pressure upon them to buy and keep bonds. While "old Americans" may be criticized as unpatriotic if they cash bonds, people of Axis nationalities are more likely to be called enemy sympathizers if they do so.

# TECHNICAL APPENDIX

# I

## INTRODUCTION *

The tables in the following pages are based principally upon 293 interviews with people who have redeemed Series E bonds or with close relatives of these redeemers. These interviews were conducted in the following cities: New York, New York (86); Buffalo, New York (66); New Haven, Connecticut (21); Detroit, Michigan (32); Grand Rapids, Michigan (17); Chicago, Illinois (60); and Peoria, Illinois (11).**

The interviews were distributed in such a way as to represent the distribution of the population in all cities whose population is greater than 100,000 in the Federal Reserve districts of New York, Boston, and Chicago.

Respondents were selected randomly from bonds which were being processed by the Federal Reserve Banks from July 6 through 12. The interviews were taken the last two weeks of August and the first two weeks of September.

The implications of this method of sampling should be clearly understood. Strictly speaking, the sample is one of bonds redeemed rather than of bond redeemers. It is a cross-section of bonds redeemed regardless of magnitude and regardless of the number of pieces redeemed by the same individual. Thus, the percentages given in the following tables refer most strictly to the pieces redeemed. In Table 3, for example, it should be stated that 35 percent of the bonds redeemed were redeemed because of illness.

The method of sampling just described tends to load the sample with people who redeem regularly or who redeem larger numbers of bonds more heavily than would be the case in a cross-section of the population.

In some of the tables are presented additional data obtained in May from a national cross-section of bond owner living in cities whose population is greater than 100,000. Although these people were selected as a random selection of bond owners (not weighted by the number of bonds they own), this sample may be taken as a gross basis for comparing bond owners with bond redeemers.

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* This study was conducted for the Treasury Department.

** An additional 80 interviews were made with people whose names were drawn from city directories and telephone books. These names were included in the total sample so that the interviewer wouldn not know in advance whether or not a particular respondent had redeemed bonds. Since names drawn in such a manner do not represent a cross-section of the population, they are not tabulated here.

## II

## FINDING REDEEMERS AND GETTING THEM TO TALK ABOUT REDEMPTION

The basic problem in this survey was to find the person who had redeemed a bond and to get him to talk frankly about the redemption. In discussions with representatives of the Treasury Department prior to the survey, it was agreed that every possible precaution would be taken to conduct the survey in such a way that no feelings of distrust or resentment could be aroused. For this reason it was impossible to insist too strongly upon seeing a particular individual at the given address or to press too strongly about the reasons for redeeming.

Table 1 presents the obtained distribution of respondents by their relation to the redeemer. It will be seen that in the great bulk of cases the interviewer was successful in talking directly to the person who redeemed the bond.

In Table 2 it will be seen that approximately eight out of every ten persons interviewed said that at least one bond had been redeemed by some member of their family.

On the whole, therefore, even though the situation of interviewing was delicate, it was possible in most cases to interview the person who redeemed the bond and to obtain a frank discussion of the redemption from him.

One further difficulty in obtaining a completely adequate sample of bond redeemers lies in the fact that some of the addresses supplied by the Treasury were erroneous or non-exist nt. This problem was not acute in any locality, but in New York City it was impossible to locate a fairly large number of people first chosen from the list. Due to this difficulty the sample probably underestimates transients and people who have reason to disguise their addresses.

Table 1. Relation of the Person Interviewed to the Redeemer

| Relation to Redeemer | Percentage of Interviews |
|---|---|
| Redeemer was interviewed | 77% |
| Wife or husband of redeemer | 13 |
| Other relative of redeemer | 10 |
| | 100% |
| | N=293 |

Table 2. Admission of Redemption by Respondent

| Statement concerning redemption | Percentage of Interviews |
|---|---|
| States that at least one bond has been redeemed | 82% |
| Redeemer not interviewed but other member of family states that no one has redeemed | 7 |
| Redeemer interviewed but he denies that he has redeemed | 11 |
| | 100% |
| | N=293 |

# III

## USE OF MONEY FROM BONDS AND FREQUENCY OF REDEMPTION

For each respondent who stated that bonds had been redeemed the used made of the money were ascertained. These uses are summarized with their frequency of occurrence in Table 3.

Table 4 presents the reported frequency of redemption by the people interviewed. About six out of every ten bonds redeemed are redeemed by people who state that they have cashed their bonds on only one occasion. Somewhat less than one bond in ten is redeemed by people who report cashing regularly.

In attempting to appraise the percentage of bond owners who redeem regularly, two facts should be kept in mind. First, there is probably a slight tendency for people to report fewer redemptions than have actually occurred, leading to an underestimation of the number of bonds which are redeemed regularly. Second, by sampling bonds rather than individuals, the more frequent redeemers have a greater likelihood of being included in the sample, producing an over-estimation of the number of people who redeem regularly

Although there is no quantitative way of evaluating precisely the magnitude of these two counteracting effects, it would appear safe to assert that considerably fewer than ten percent of bond redeemers cash their bonds regularly.

Table 3. Use of Money from Redeemed Bonds as Reported by Bond Redeemers

| Use | Percentage of Interviews | |
|---|---|---|
| Emergency Expenditure | | |
| Expenses caused by illness | 35%) | 49% |
| Expenses brought about by child-birth | 3 ) | |
| Cost of treatment for teeth or eyes | 3 ) | |
| Expenses caused by death and burial | 3 ) | |
| Cost of unexpected and necessary travel | 2 ) | |
| Current expenses during unemployment | 3 ) | |
| Necessary and Predictable Large Expenses | | |
| Income tax payments | 11 ) | 23% |
| Other tax payments | 1 ) | |
| Payments on old debts | 3 ) | |
| Cost of coal | 2 ) | |
| Cost of clothing | 2 ) | |
| Cost of household furnishings | 2 ) | |
| Cost of needed repairs on house | 1 ) | |
| Cost of moving | 1 ) | |
| Current Expenses in Face of Shortage of Cash | 17 | |
| Non-essential Expenditures | 4 | |
| Miscellaneous | | |
| Down payment on house | 2 | |
| Business expenses | 1 | |
| Other personal reasons | 3 | |
| Change ownership of bond | 1 | |
| | 100% | |
| | N=240 | |

Table 4. Frequency of Redemption Reported by Bond Redeemers

| Frequency of Redemption | Percentage of Interviews |
|---|---|
| Reports redeeming only once | 59% |
| Reports redeeming more than once | 33 |
| Reports redeeming regularly | 8 |
| | 100% |
| | N=240 |

# IV

## THE FINANCIAL SITUATION OF BOND REDEEMERS

Tables 5-11 present material descriptive of the financial situation of bond redeemers, comparing them, whenever possible, with a cross-section of bond owners in cities of similar size.

In Table 5 it is seen that there are no significantly consistent differences in the weekly income of bond owners and bond redeemers. There is a possibility, however, that due to the sampling procedure the income of bond redeemers is overestimated. This possible bias would operate in the following way: People who cash larger numbers of bonds are represented more frequently in the sample. People with larger incomes own larger numbers of bonds and, consequently, are in a position to cash larger numbers of bonds if they need to. It is probably due to this fact, for example, that relatively few redeemers earn less than twenty-five dollars a week. They own so few bonds that they cannot cash many.

Two-thirds of the redeemers are earning more money now than two years ago (Table 6). This fact does not mean, however, that two-thirds of the redeemers feel that they are in a better financial situation than at that time. In Table 7, it is seen that only 39 percent of the redeemers feel that their total financial situation is now better than before the war. Three out of ten actually feel that they are in a more difficult financial situation than before the war.

There is no significant difference between bond owners and bond redeemers in the number of members of their families who are employed (Table 8).

The financial hazards of larger families are reflected in the fact that the number of individuals in the families of bond redeemers is slightly larger than in families of bond owners (Table 9). Larger families not only regularly cost more to maintain, but they also increase the family's susceptibility to financial emergencies.

The great bulk of bond redeemers have no financial reserves other than bonds (Table 10). For people in this position the only alternatives in the face of financial crisis are the redemption of bonds or the borrowing of money.

At attempt was made, on the basis of the complete interview with bond redeemers, to describe their spending behavior in terms of the type of considerations which control expenditures. In Table 11 the distribution of bond redeemers along such a dimension is presented.

Table 5. Weekly Income of Bond Owners and of Bond Redeemers

| Weekly Income | Percentage of Bond Owners | Percentage of Bond Redeemers |
|---|---|---|
| $0-25 | 15% | 10% |
| 26-35 | 15 | 16 |
| 36-45 | 20 | 25 |
| 46-55 | 22 | 20 |
| 56-75 | 18 | 22 |
| 76-100 | 5 | 4 |
| Over $100 | 2 | 0 |
| Not ascertained | 3 | 3 |
| | 100% | 100% |
| | N=339 | N=293 |

Table 6. Family Income Now Compared to Two Years Ago as Reported by Bond Redeemers

| Relative Family Income | Percentage of Interviews |
|---|---|
| More now | 67% |
| About same | 17 |
| Less now | 15 |
| Not ascertained | 1 |
| | 100% |
| | N=293 |

Table 7. Financial Condition Now Compared to Before the War as Reported by Bond Redeemer

| Relative Financial Condition | Percentage of Interviews |
|---|---|
| Better now | 39% |
| Same as before | 29 |
| Worse now | 30 |
| Not ascertained | 2 |
| | 100% |
| | N=29 3 |

Table 8. Number of Individuals in Family Gainfully Employed

| Number Employed | Percentage of Bond Owners | Percentage of Bond Redeemers |
|---|---|---|
| One | 63% | 63% |
| Two | 22 | 23 |
| Three | 8 | 9 |
| Four | 4 | 2 |
| Number not ascertained | 3 | 3 |
| | 100% | 100% |
| | N=339 | N=293 |

Table 9. Number of Individuals in Families of Bond Owners and of Bond Redeemers

| Number in Family | Percentage of Bond Owners | Percentage of Bond Redeemers |
|---|---|---|
| Three or less | 59% | 48% |
| Over three | 41 | 51 |
| Not ascertained | 0 | 1 |
| | 100% | 100% |
| | N=339 | N=293 |

Table 10. Financial Reserves Reported by Bond Redeemers

| Reserves | Percentage of Interviews |
|---|---|
| Bonds only | 79% |
| Bonds plus less liquid reserves | 8 |
| Bonds plus other liquid reserves | 13 |
| | 100% |
| | N=293 |

Table 11. Rating of Spending Behavior of Bond Redeemers

| Spending Behavior | Percentage of Interviews |
|---|---|
| Spending controlled by total financial situation, obligations, needs, prospects, etc. | 45% |
| Spending controlled by immediate wishes and desires, little influence of long range prospects | 21 |
| Basic needs of food, clothing, shelter, etc. require entire income | 24 |
| No rating possible | 10 |
| | 100% |
| | N=293 |

V

## OCCUPATION AND NATIONALITY OF BOND REDEEMERS

Comparing the occupation of bond redeemers with bond owners, two differences emerge. Bonds are redeemed somewhat less frequently by professional and managerial people than would be expected, from the number of these people who own bonds. On the other hand, bonds are redeemed more frequently by semi-skilled and unskilled workers than would be expected.

From previous surveys for the Treasury the nationality background of bond owners is know for New York, Detroit, and Chicago. It is possible to compare with these figures the nationality of bond redeemers in the same cities. In Table 13 it is seen that many more of the fathers of bond redeemers were born in the United States than were fathers of bond owners. In other words, considerably fewer of the bonds are being redeemed by first or second generation foreigners than would be expected from the number of them who own bonds.

Table 12. Occupation of Bond Owners and of Bond Redeemers

| Occupation | Percentage of Bond Owners | Percentage of Bond Redeemers |
|---|---|---|
| Professional and managerial | 17% | 7% |
| Clerical and sales | 12 | 15 |
| Service | 8 | 6 |
| Semi-skilled and unskilled | 24 | 37 |
| Skilled | 31 | 29 |
| Retired, students, unemployed | 4 | 5 |
| Not ascertained | 4 | 1 |
| | 100% | 100% |
| | N=339 | N=293 |

Table 13. Father's Birthplace of Bond Owners and of Bond Redeemers in New York, N. Y., Detroit, Mich., and Chicago, Ill.*

| Nationality | Percentage of Bond Owners | Percentage of Bond Redeemers |
|---|---|---|
| United States | 32% | 53% |
| Axis countries | 32 | 16 |
| Allied and occupied countries | 27 | 20 |
| Neutral countries | 6 | 11 |
| Not ascertained | 3 | 0 |
| | 100% | 100% |
| | N=184 | N=178 |

* Only bond redeemers in these three cities are considered here since comparable data are available for bond owners in only these cities.

# VI

## THE BOND BUYING OF BOND REDEEMERS

The great bulk of people who have cashed bonds report that they purchase their bonds through the Payroll Deduction Plan. The percentage of bond redeemers who buy through the Payroll Deduction Plan is significantly larger than the percentage of bond owners who use this method of purchase (Table 14).

Bond redeemers who buy regularly invest a smaller percentage of their income in bonds than do other regular bond buyers.(Table 15).

Each person interviewed concerning the redemption of bonds was asked whether he felt that he was being forced to buy too many bonds. Thirteen percent report that they are compelled to buy, but they appear to accept the compulsion without resentment. Nine percent report that they are compelled to buy and that they resent the compulsion (Table 16). The great majority feel that they are free to buy the amount they choose or not to buy at all if they wish.

Most of the people who have redeemed bonds still own bonds after their last redemption. Only 8 percent report that they have no bonds left (Table 17).

Table 14. Usual Method of Purchase by Bond Owners and by Bond Redeemers

| Method of Purchase | Percentage of Bond Owners | Percentage of Bond Redeemers |
|---|---|---|
| Payroll deduction | 66% | 87% |
| Regular - own system | 6 | 4 |
| Irregular | 27 | 6 |
| Not ascertained | 1 | 3 |
| | 100% | 100% |
| | N=339 | N=293 |

Table 15. Usual Percentage of Income Invested in Bonds by Regular Buyers and by Bond Redeemers Who Buy Regularly

| Percentage of Income Invested | Percentage of Bond Owners | Percentage of Bond Redeemers |
|---|---|---|
| 1 - 5% | 8% | 21% |
| 6 - 9% | 7 | 19 |
| 10% | 65 | 51 |
| Over 10% | 20 | 9 |
| | 100% | 100% |
| | N=240 | N=248 |

Table 16. Felt Compulsion to Buy Bonds as Reported by Bond Redeemers

| Report of Compulsion | Percentage of Interviews |
|---|---|
| Reports that he is compelled to buy, but accepts the compulsion | 13% |
| Reports that he is compelled to buy, and resents the compulsion | 9 |
| Reports that he is not compelled to buy | 70 |
| Not ascertained | 8 |
| | 100% |
| | N=293 |

Table 17. Maturity Value of Bonds Owned by Families of Bond Redeemers After Last Redemption

| Maturity Value of Bonds | Percentage Owning Each Amount |
|---|---|
| Has none left | 8% |
| \$25 - \$149 | 32 |
| \$150 - \$349 | 38 |
| \$350 - \$649 | 13 |
| \$650 and over | 5 |
| Amount not ascertained | 4 |
| | 100% |
| | N=293 |

# VII

## FEAR THAT BONDS WILL NOT BE FULLY REPAID

For a number of months the Division of Program Surveys has recorded in its various surveys for the Treasury Department all spontaneous mentions of the fear that bonds may not be fully repaid.

In Table 18 are presented comparative figures of the frequency of spontaneous mentions of this fear by bond redeemers and by a cross-section of bond owners interviewed last May. While the difference between the two groups of those who state that they, themselves, fear that bonds will not be redeemed is not statistically significant, there is a significantly smaller number of redeemers who mention that other people hold this fear.

Table 18. Fear of Non-Redemption of War Bonds as Spontaneously Expressed by Bond Owners and by Bond Redeemers

| Fear | Percentage of Bond Owners | Percentage of Bond Redeemers |
|---|---|---|
| States that he fears that the Government will not fully repay | 3% | 5% |
| States that others fear that the Government will not fully repay | 13 | 3 |
| Mentions neither | 84 | 92 |
| | 100% | 100% |
| | N=339 | N=293 |

MEMORANDUM FOR THE SECRETARY.

November 26, 1943.

Mail Report

Though heavier than it was last week, fan mail was still a disproportionately small part of the total receipts.

The usually firey subject of taxes hardly drew a spark. One correspondent suggested taxing cigarettes an additional 5¢ a package; several favored business or transaction taxes; 2 wanted a retail sales tax; and so on. A few church officials continued to urge support of the Bill authorizing deduction of anticipated charitable contributions prior to the levying of the withholding tax. There were a number of routine inquiries in regard to collecting withholding taxes, possible refunds, etc.

Increasing interest in the Fourth Bond Drive was evident in the mail toward the end of the week. Slogans, sales ideas, and a few samples of promotional material indicated that both the public and those who will be in charge of local drives are beginning to think about its details. Late replies to the telegram asking about types of securities preferred by business continue to pick one-year certificates almost exclusively. The 70 Bonds submitted directly for redemption came from widely separated communities. Complaints were low, with only 21 reports of delayed Bonds from personnel of the War Department, and a few complaints about interest not yet received.

The miscellaneous mail was dominated by reports of foreign-owned property and questions concerning this census. The Salary Stabilization Amendment and the steel pennies have practically disappeared from the mail.

G. E. Forbush

## General Comments

Reuben A. Nagel, House of Representatives, Commonwealth of Pennsylvania, Harrisburg, Pa. I am enclosing a page from the December 1943 issue of the Farm Journal and Farmer's Wife. I have marked an article on this page that might lead people to think you are not sincere in your advice and statements. * * * I am a Democrat and a loyal supporter of President Roosevelt and will appreciate an explanation on this Dairy Matter. I refuse to believe anything the Farm Journal prints that has to do with the present Administration until I have verified it from other sources. The Farm Journal hates the New Deal. I have been told that Joe Pew of the Sun Oil Company in 1936 acquired a large interest in this farm magazine presumably to poison the minds of rural people against F.D.R. They fear they are doomed to endure another four years of what they are pleased to call dictatorship.

Harry B. Wissmann, Washington, D. C. (In re refund of $7.04 on Tax Notes not properly figured.) I think the action exemplified by this letter is fair and square and certainly shows that not everybody in Washington officialdom is the cartoonist's idea of a bureaucrat. I understand why this check came to me, but did not realize that I had any claim to this sum. Hats off to whoever was responsible for handling the whole business of these Tax Notes, and this aspect of it in particular. I shall be happy to add the necessary cash to this check to buy a War Bond that otherwise would not have been bought.

A. William Emsheimer, The McLure Hotel, Wheeling, W. Va. Was surprised today when I read in the New York Times that Leon Frasher advocated we loan England gold, who defaulted her last War debts. We had our experience with New York Bankers during the Cleveland Administration. Europe was taking our gold, which caused a panic. J. P. Morgan loaned us 100 millions in gold and the panic collapsed. * * *

F. D. Marshbanks, Post Office Clerk, Winston Salem, N. C. At the suggestion of the Wachovia Bank & Trust Co., I am forwarding to you mutilated currency in the amount of $17.00. The denomination of the bills is a ten, five, and two one dollar bills, respectively. I was instructed to state the cause of the mutilation. It happened in this manner: While working around the barnyard, the currency dropped out of my shirt pocket. I placed it in a can of nails I was using, and very soon I noticed that it had disappeared. I observed that a goat was standing by chewing on something. I opened her mouth and recovered the bills before she had swallowed them. It is hoped that I am not to be the GOAT in this instance, and that you will direct that I be reimbursed in the above amount.

Favorable Comments on Bonds

Wm. Hume Logan, President, Logan Company, Louisville, Ky. I congratulate you on reducing the size of the $100 Bond. You, however, made a little error in the width. The length is all right, but it is about a quarter of an inch too wide to fit the standard envelope. Perhaps you can reduce the width as much without considerable expense. It will save marring the looks of the Bond and the inconvenience of folding to fit the envelope.

Unfavorable Comments on Bonds

Copy of letter addressed to the Division of Loans & Currency, Chicago, Ill., by William E. Pimentel for Mrs. Jane MacArthur, Detroit, Michigan. * * * It pains me to write a letter like this, which I am writing on behalf of my daughter, Mrs. Jane MacArthur, but your system of red tape, lack of initiative, unthoughtfulness, and everything else combined, gives the average American citizen who tries to be patriotic and help, the idea of the utter helplessness of the men who are blowing through the radio, newspapers, etc., and preaching to us what to do and what not to do. In the first place, the United States Government sold these Bonds to us, and failed to make delivery. In the second place, the United States Government has agencies in every town, hamlet, village, in these United States. Your issuing agents messed up this entire affair, not Mrs. MacArthur. Therefore, the least thing you can do, after six months' effort, is to determine YOURSELF who is to blame, and not continue to send forms, blanks, directions to run around to the other side of town, (and gas rationing on), and Mrs. MacArthur with two small children that must be fed and taken to school; while, to follow your directions, she is running thirty miles roundtrip to the Anthony Wayne School, or to some branch of the Detroit Bank, (incidentally, you did not mention what Branch), to unravel the mess that it should take one hour's time to straighten out, if it was worked intelligently from your office. * * *

Mrs. Angelina Schanel, Little Ferry, N.J. I have been working in a defense plant for one year - The Isolantite, Incorporated, Belleville, N. J. In May of this year the 11 p.m. to 7 a.m. shift was abolished so I had to give up my job. I could not work days on account of my children. I have been the personal support of them, and have called the office four times on the telephone for three days' pay and also War Bond money the company owes me since May. The only answer I got, "You will get a check shortly, don't worry". Now six months have passed and I did not receive my Bond money or my three days' pay. * * *

Mrs. Alice M. Foss, Trenton, N. J. While a civilian employee of the Federal Government, I signed for a payroll deduction for Bonds on June 15, 1942, in the amount of $5.00 per pay period. On October 15, 1942, I increased this deduction to $6.25 per pay period, and this continued up to, and including January 15, 1943. As yet I have not received any Bonds. About the first of May, I wrote to the Federal Reserve Bank of Philadelphia, and they referred me to my Paymaster at the Tilton General Hospital, Fort Dix, New Jersey, who referred me to the Army War Bond Office, Chicago, Ill. They, in turn, referred me to the Paymaster at Fort Dix, who, in answer to my inquiry, wrote me a letter, a copy of which is enclosed. (The letter reads as follows:) "In reply to your letter dated 13 September 1943, please be advised that no settlement of Bonds or Bond balances for the year 1942 have been received from the Treasury Department. Immediately upon receipt of same, amount due you will be forwarded without further delay." Any advice or assistance you could give me in this matter would be greatly appreciated.

Archibald McMillan, Edward Lowber Stokes & Co., Boston, Mass. On September 16 I ordered directly from you $1,000 2½% Victory Loan of 1964/9 for my sister Mary McMillan, a repatriate on the Gripsholm. The check which I enclosed was cashed on September 25, but I have not received the Bond. Not very good service to say the least. My sister is due home soon and it would be nice if I could show her something for her $1,000.

P. Randolph Harris, Gibboney & Harris, 70 Pine Street, N.Y.C. I wish to call to your attention a ruling of the Amateur Athletic Union of the United States, which controls, or purports to control, amateur sports. The A.A.U. has ruled, as I understand it, that any person who participated in a rifle match in which prizes are offered, consisting of War Bonds or U. S. War Savings Stamps, thereby automatically becomes a professional athlete and consequently ineligible to participate in future amateur competitions, whether rifle shooting or any other sport. Even if the participant refuses to accept the prize which he or she may have won, consisting of a $1.00 U. S. War Savings Stamp, such participation is nevertheless in the eyes of the A.A.U. a professional athlete, because he or she has taken part in a competition in which other participants have received a prize considered by the A.A.U. to be equivalent to cash. This seems to me a rank injustice. If the ruling stands, it will prevent practically every active civilian rifle shooter in the United States from competing in any amateur sport, including participation in the Olympic games. * * * * Several thousand rifle clubs are in existence all over the United States. These clubs promote the shooting game. They train men for entry into the armed forces of the United States. Many of them give regular organized instruction to persons who expect in the near future to be inducted into the Army. * * * The practice of offering War Bonds or U. S. Savings Stamps as prizes in rifle competitions has extended rapidly all over the United States. It has stimulated the financial program of your Department. It has promoted the program of National Defense which is envisioned by the Act of 1920. It should not be hamstrung by the A.A.U. ruling to which I have referred. * * *

B. M. Edwards, President, The South Carolina National Bank, Columbia, S.C. It just seems to me that every time anybody makes a move up in Washington that they get the Treasury Department messed up. The newspapers are carrying big accounts now of the fact that the Army is going to save and return some eighteen billion dollars, and that the Navy is expected to return about five billion, and they have the public all crossed up and we are hearing a lot of gossip to the effect that if all of this money is being returned to the Treasury, that why is there any necessity for another War Loan Drive in the immediate future. If these people had only stated that they were marking off a book transaction and let the people know that the money they are talking about returning had never been borrowed or otherwise provided, I think the public generally would have understood the proposition. These reports are particularly disturbing to the man who carried the bulk of the real work in the Third War Loan Drive, and who expected to do a similar job in the coming drive which I understand will be sometime the latter part of January. * * *

The following letter addressed to the President by Harry Adams, Medina, N.Y., has been forwarded to the Treasury by the White House: I am writing to you relative to a matter that I think should be brought to the attention of the Congress, due to the fact that U. S. War Savings Bonds are still being sold with the understanding the buyer can name any beneficiary he wants, and the entire resources of the U. S. will back such a sale. Well the Supreme Court in Brooklyn recently ruled the opposite in the Deyo-Adams case which involves my mother, a widow 72 years of age. * * * My mother was left $7,000 in U. S. Savings Bonds by her twin brother in September 1940, when he died, and to date she hasn't been able to use the Bonds, due to being sued for the Bonds. Her brother married several months before he died at 69 years of age, and previous to that, my mother had taken care of him and their aged mother for years, while both were ill, and as a result he left these Bonds to her for her old age. This suit will be no doubt carried up to the Appellate

Division, State Court of Appeals, and U. S. Supreme Court, and after paying her attorney and the cost of printing, might as well forget about ever collecting on the Bonds. * * * Both my mother's attorney and my attorney, as I am co-executor of the estate, have received many calls, telegrams and letters from banks, attorneys and others from all over the United States interested in the matter, as the Government is still selling Bonds under the same rules, especially to service men, knowing that the rules won't hold in the State Courts. Here is an example of one case I heard of. A soldier took out Bonds when he first joined the Army, and about a year later married and kept his marriage a secret. He wanted his mother to have the Bonds in case anything happened to him, but after his death, his wife claimed the Bonds and filed suit, which under the New York ruling she can do and collect the proceeds of the Bonds, instead of the Bonds going to the soldier's mother. I think the Government should step in, pay the cost of any suits involving such Bonds, to back up their sales talks so that both mothers and service men's wives, children and others should be protected. * * *

Joe Menges, Cashier, Alta Vista State Bank, Alta Vista, Iowa. On October 7 we sent a number of U.S.A. Treasury Bonds, called for payment October 15, 1943, to the Continental Illinois National Bank and Trust Company for payment on October 15. We wrote them on October 23 asking why we hadn't received remittance for the Bonds, and on October 26 they wrote us that the Federal Reserve Bank of Chicago had advised them that it would be from two to five weeks before payment was received on the Bonds. It is November 20 today, five weeks since the Bonds were called and we still haven't heard from these Bonds, and it certainly isn't making the people that have these Bonds feel very good about it. We have had some Bonds that were sent later, already paid. These people feel, and well they should, that if they owed this money to the United States Government, that they would have had to pay interest, as well as a good stiff penalty, if they waited to pay their obligations, as has been done in this case, or delinquent five weeks, and still only pay interest to October 15. * * *

Representative John J. Cochran, Missouri, sends a letter he has received from Leslie K. Curry, of St. Louis, Mo. This man is a banker but he does not use the letterhead of the institution with which he is connected. I wish you would let me have your reaction to what he has to say. The people are irritated and complain about little things they would never look into at other times. There is no doubt but that there is a scarcity of paper. I rather agree with him that we should not be advertising private corporations. (The following is quoted from Mr. Curry's letter.) This morning I received a franked package from the Treasury Department, War Savings Staff, which weighed 2 1/2 pounds, and on which first class postage would have been from 80¢ to $1.20, depending on whether it would carry the local or out-of-town rate. Multiplied by the thousands of like packages that were probably sent out, the postage alone would have been considerable. Worst of all, the package contained posters and envelope stuffers relating to a War Bond contest. The accompanying letter states that the contest is sponsored by the Missouri War Finance Committee. The posters carried the additional information that these prizes ($1,000) of War Bonds are donated by the Seven-Up Company of St. Louis. * * * I am not opposed to prize contests, but there are more important considerations involved: The abuse of the franking privilege. The needless waste of paper. * * * As a business institution, we are having difficulty in supplying our minimum paper requirements, and newspapers, I understand, are being drastically rationed as to newsprint. St. Louis newspapers in the past have conducted prize contests and were denied the right to send papers through the mails which contained any of the price contests or material. Under what pretense then can the mails be used for this contest? Perhaps most of all, I object to the advertising of a specific private enterprise at public expense. * * *

Miss C. Agnes McHugh, Christodora House, N.Y.C. Can you tell me why you set War Loan Drives on dates which cause savings depositors such great loss in interest if deposits are withdrawn during interest periods? The last drive closed the day before one could withdraw savings without losing three months' interest -- September 30. New York interest dates are January 1, April 1, July 1, and October 1. Drives should be on same days. You lost thousands of purchases by these intermediate date drives.

Mary D. Ellett, Richmond, Va. Five weeks ago my Treasury Bond, 3-1/4 of 1943-45 was sent to Washington for redemption as it was a Registered Bond. I am wondering why it has not been attended to in that length of time, and am anxiously awaiting the check as it should be invested and I am losing interest every day. * * *

## Unfavorable Comments on Taxation

Capt. S. E. Hallagan, Ft. Myers, Fla. Appeal is made to simplify the income tax returns. It is utterly ridiculous the amount of economic Greek one has to wade through to make payments or supplementary payments, as the first figure can never be figured out right. The reason many of us don't buy more Savings Bonds is we're just scared to do business with the Government.

Sarah Schofield, Huntington Station, Long Island, N.Y. May I place my letter of complaint before you for your consideration and action? In March I sent my income tax returns and thought I was exempt. I received a reply stating I had to send $14 and some cents, also stating I could ask for a refund, all of which I did. I waited for a few weeks, hoping for the refund, which did not materialize. After writing several letters to Mr. Pedrick, to which I received no answer, until July, I wrote explaining it would be a hardship for me to go in to New York as it meant an outlay of nearly $8.00, carfare and pay; also asking why I should be called into the city. This letter and several others sent to Mr. Pedrick were ignored until October, when I received the other letter which I am enclosing. (No refund until after March 15, 1944.) I cannot understand their attitude, and having to give up working, I could use the money at this time.

Anonymous -- Postmarked Batesville, Miss. I see in the papers that Congress is contemplating putting a $10 per gallon Revenue Tax on hard liquors. I suggest that they raise this to $50 per quart to "New Dealers", and perchance this might sober them up and curtail their squandering the people's money like drunken sailors (as is their present occupation). * * *

Yale M. Leavy, Certified Public Accountant, A.P.O. 619, Miami, Fla. The undersigned, who has served for the past year and a half as Chief Project Auditor on War Department contract work for overseas construction, would like to call your attention to certain wide-spread abuse of income tax obligations arising from a serious defect of the present Revenue Act. The current Act allows American Nationals residing outside the United States for a full year to have complete exemption from payment of any income tax on income earned in the foreign country. * * * It would seem ridiculous to exempt any United States citizen whose wages were paid either directly or indirectly by our Government. Yet this is exactly what is happening on contracts let by the War and Navy Departments to American contracting firms for projects in foreign countries. On these contracts, notably the cost-plus type, salaries of all contractor employees are reimbursed in full by the Government. Nevertheless, American Nationals who are employed on the foreign contract work for a full year, even though they have been transported to the contract site at Government expense solely for the duration of the contract, and are in reality paid out of U. S. Treasury funds, are permitted complete exemption from income tax. The situation is illogical and the abuses are manifold. Needless prolongation of contract employment is encouraged. In cases where contractor employees are terminated prior to the end of the year, they are tempted to reside outside the United States during the balance of the year in order to avoid payment of income tax. * * * It should be the policy of the State Department not to grant or revalidate passports where the obvious purpose is to complete the year's residence outside the United States in order to avoid payment of income tax.

John M. Caffery, Columbia Store, Franklin, La. When I make a payment of Retail Dealers' Excise Taxes over $10.00, I must swear to the correctness of the return before a Notary Public. In making my return for income taxes, almost a thousand times greater, I am not required to swear to the truth before a Notary. I do that when I sign the return. Is there any law under which we are compelled to go before a Notary in making these returns on Form 728 A? You must realize that these petty annoyances mount up during the course of a year and tend to make a good citizen almost curse at the many petty tyrannies of the Government. The purpose of this letter is to ask if you are compelled by law to require these fool affidavits? The Government seems to insist upon treating its citizens much as if they are Al Capones.
* * *

November 26, 1943.

Dear Mr. Lubell:

On November 15th you forwarded to Secretary Morgenthau a program for the orderly disposal and disposition of surplus government stocks which had been prepared by the Central Council of National Retail Associations.

I am enclosing herewith a copy of a memorandum to me from Clifton E. Mack, Director of Procurement.

Sincerely yours,

(Signed) John L. Sullivan

Mr. Samuel Lubell,
Office of War Mobilization,
323 Washington Building,
Washington, D. C.

JLS:kb

COPY

November 24, 1943.

MEMORANDUM TO MR. JOHN L. SULLIVAN:

SUBJECT: Discussion of A PROGRAM FOR THE ORDERLY DISPOSAL AND DISPOSITION OF SURPLUS GOVERNMENT STOCKS. Presented by The Central Council of National Retail Associations.

The "Program for the Orderly Disposal and Disposition of Surplus Government Stocks", submitted to the Secretary for comments by Mr. Samuel Lubell of Mr. Byrnes' office, is the same document submitted to you by Mr. Rivers Peterson with his letter of November 2. The proposed program represents the recommendations of the Central Council of National Retail Associations, an affiliate of the American Retail Federation.

This proposal represents the thought of responsible businessmen at the "retail" level of business, and in principle is commendable. It is designed to protect the economy of established retail business, through a process of disposal by the Government that will preclude "dumping" stocks of surplus merchandise and equipment on the open market where it may be bought up by unscrupulous individuals and firms for speculative purposes.

In general the proposed program is commendable; however some of the details of arriving at the desired end are worthy of comment and discussion leading to further consideration and clarification. For simplification I will comment on the numbered paragraphs in the proposal.

1. No comments

2. The intent of this paragraph is commendable, i.e., the disposal of all property in the same classification (in this case, consumers goods) should be made the responsibility of one operating Federal agency, to which all other agencies would declare property surplus. This is essential to uniform procedures of disposal and general administration under established policy.

3. The practicality of functionally selling all property from one central level in Washington is doubtful. The magnitude of the inventory to be disposed of ~~/~~ will determine whether or not this plan is practical. However, it is agreed that the policies and methods of sale should be prescribed from central administration. Apparently this recommendation is made to facilitate publication in the Federal Register, notices of all sales, as well as to afford National Trade Associations the opportunity to cooperate at the central level with the selling agency in determining which retail dealers should receive invitations to bid. Cooperation with Trade Associations in the disposal of pertinent items would be possible at the central level, without functionally selling the property at that level. See additional comments under paragraph 11.

4. No comments.

5. That part of this recommendation that has to do with simplifying the condition description of items to be sold is commendable. The Procurement Division is currently considering this same proposition. The recommendation made provides for the following condition descriptions of property available for sale:

(a) New
(b) Used
    (1) Serviceable in present condition.
    (2) Unserviceable in present condition, but repairable.

Under average conditions, these descriptions should suffice for the type of property classed as consumers goods.

That part of the recommendation defining "Serviceable" property available for sale as being either "Surplus" or "Excess", is not understood as having meaning related to the purposes of the proposed program. These terms are the same used in the current War Department Procurement Regulation No. 7, and for the purposes of the War Department, they have understandable meaning.

6. It is believed that recommendation numbered 6 needs clarification. It is the apparent meaning of the opening sentence to prohibit any retailer from offering goods to the public, under a business name such as "Army and Navy Store" which would imply that the prime activity of the store is to dispose of Army or Navy surplus goods. The second sentence would require a retailer to identify goods as being "new government surplus" or "used government surplus". The two sentences are apparently not in common agreement.

It is also believed that after any government surplus consumers type of property has been disposed of to any commercial firm for resale to the public, that such property should no longer be identified as being former government property. A wheelbarrow would be a wheelbarrow.

Other types of property indelibly identified with Government markings, or that is of a type that could have been manufactured originally only for a governmental activity could logically be identified as "Government surplus" by any retailer offering the goods to the public. Such items might include fire-arms, blankets, clothing and similar goods, the identity of which could not be changed.

7. The intent of this paragraph is commendable, i.e., certain items currently owned by the Government should be disposed of at once in the interest of meeting civilian requirements that have suffered due to the acquisition by the Government for war needs, of all of certain types of consumers goods. It is believed that this paragraph would be more appropriate if it applied to "Excess" property as defined in paragraph 5, rather than to "Surplus" property.

Certain types of consumers goods might exist in Government war stocks, as a protection against a reasonable subsequent need that may not be immediately foreseeable. Such items might, for the want of a better term, be considered as "Excess" but not necessarily "Surplus". If the civilian requirements for such items exceed the apparent "stockpile" need in Government, a controlled quantity of the goods could be made available to retailers through an established ~~xxxxx~~ outlet. When this is done, the released goods should never be identified for sales purposes, as former Government property, either surplus or excess.

8 and 9. The subject of these paragraphs is related to the policy to be established by the Congress or other authorized regulatory office. No comments are made relative thereto.

10. The recommendations made in this paragraph are believed to represent good sould practice. Subparagraph (vi), which recommends specification of a minimum unit of measure or quantity in which any item will be sold, is related to paragraph 13.

11. The magnitude of the inventory to be disposed of will determine the practicability of the part of this recommendation proposing that a condensed statement be made in the Federal Register, "that bids are to be received" when property is to be sold. This recommendation assumes that all sales will be arranged for at the central level in Washington, as included in recommendation numbered 3. The recommended practice could not be restricted to "consumers" goods, and if the surplus Federal inventory reaches the estimated postwar magnitude, it is highly probable that it would be impractical to publish notices of all sales in the Federal Register.

That portion of the paragraph recommending that lists of property to be offered for sale be furnished to National Trade Associations is considered an excellent idea, and should produce desired results. This could be done whether or not sales are arranged centrally or in decentralized offices, and whether or not notices of sales are advertised in the Federal Register.

12. No comments necessary.

13. This paragraph presents certain elements believed to be worthy of consideration when surplus inventories reach appreciable proportions. The meaning of this paragraph is connected with the recommendations made in paragraph 10(iv). Advertisements of property for sale would invite bids on the basis of "single items, dozen, hundred, gross, etc.", consistent with the normal packaging of the items. It is proposed that the property be sold on the basis of the price bid, "the highest bidder receiving the first allotment, and so through the list of bidders, and without regards to the quantity bid for so long as it is not less than the minimum specified".

The meaning of the language quoted is not fully understood. If it means that bidders could purchase any quantity in the unit of measure advertised, i.e., dozen, gross, hundred, etc., at the highest price bid, and providing the highest bidder did not desire the full quantity available, the proposal would seem to have merit. Under this method, competitive bidding would be for the purpose of determining a sales price satisfactory to the Government and any retail dealer desiring to purchase any of the property available at the price thus established, could do so.

If this is what the ~~xxxx~~ paragraph intended to recommend, it would require appropriate rewording.

/s/ Clifton E. Mack
Director of Procurement

# OFFICE OF WAR MOBILIZATION

WASHINGTON, D.C.

... F. Byrnes
...rector

November 15, 1943

Dear Mr. Morgenthau:

Mr. Baruch has asked me to send you the enclosed program for disposing of surplus goods which was sent in to us by a group of retailers. He would like to have the thoughts of the Treasury Department, particularly the Procurement Division of the Treasury, on the various suggestions made in this program.

Sincerely yours,

Samuel Lubell

Enc.

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

# A PROGRAM
# FOR THE ORDERLY DISPOSAL AND DISPOSITION
# OF SURPLUS GOVERNMENT STOCKS

Prepared and presented by

The Central Council of National Retail Associations
(Affiliate of the American Retail Federation)

Through its Committee on

"Disposal of Surplus Government Stocks"

At a meeting in New York City on October fifth, this committee (representing eighteen national retail associations covering the country's retail field) after considerable preliminary study presents the following program as its unanimous recommendation for the handling of the problem of distributing surplus United States government stocks, both currently and after the war:

1. These recommendations apply only to those types and kinds of merchandise and equipment which are normally sold through retail establishments to consumers.
2. The power to dispose of all surplus government goods of whatever kind, regardless of which governmental agency purchased and holds them (such as Army, Navy, Reconstruction Finance Corporation, Lend-Lease, etc.) shall be vested in the Procurement Division of the United States Treasury.
3. All offers to sell, invitations to bid, etc., shall be issued from the Treasury Department in Washington and all offers and orders for shipment to a buyer shall be handled from that central office in contrast to the policy of permitting employees in charge of various warehouses, depots, etc., to undertake to offer and dispose of the merchandise under their direct individual supervision.

4. To assist in preparing inventories, lists of offers, and other duties connected with the disposal of such merchandise, the Procurement Division shall employ a staff of assistants who are familiar through actual experience with the kinds of goods to be sold and the general trade practices of the types of distributors who handle them.

5. In compiling inventories and lists of accumulated surpluses there shall be a clear distinction, by using separate lists and by informative headings, between products which have been unused and those which by reason of use, damage or deterioration cannot be offered by the government, or purchasers from the government, as "new". All "used" property shall also be classified in respect of degree of serviceability as serviceable and/unserviceable. Serviceable property is property which is suitable for use in its existing condition. Unserviceable property is property which is unsuitable for use in its existing condition. Unserviceable property shall be devided into repairable property and non-repairable property: - (1) repairable property is unserviceable property which can in the best interests of the government be amended or restored to serviceability; (2) non-repairable property is unserviceable property which cannot in the best interests of the government be mended or restored to serviceability. Non-repairable property includes, but is not limited to, obsolete property. All serviceable property shall be classified in respect of state of supply as authorized, excess and surplus: - (1) authorized is the maximum stock level authorized for a particular organization, supply point, or technical service, and, the amount for which there is an immediate or definitely foreseeable need for use in the function, activity, project or industrial operation in connection with which the property was acquired or accrued; (2) excess is any amount above the authorized amount; (3) surplus is an

amount declared by competent authority to be, or deemed to be, above the amount for which there is an immediate or definitely foreseeable need for use in the War, Navy, or other department or bureau.

6. For the protection of consumers against deception and exploitation, there shall be a definite prohibition against any purchaser of such goods offering them to the consuming public from any establishment which by reason of its name (such as "Army and Navy Store") or other designation or representation implies that its prime activity is that of disposing of Army or Navy, or other government surplus goods. For the further protection of consumers against deception or exploitation and to prevent unfair competition, all Army, Navy or any other United States Government surplus merchandise offered for sale to consumers or other purchasers shall be designated as "new government surplus" or "used government surplus", and such designation shall appear in all advertising, including placards, price tickets and other display advertising within the establishment offering such merchandise for sale.

7. Allocation or disposal of available surplus products shall begin as soon as permissive legislation is enacted and a proper staff of assistants has been employed - instead of waiting until the war has ended.

8. Preliminary to offering any such products through trade channels at any level (manufacturer, wholesaler, retailer, others), the Procurement Division shall allocate the surplus supplies, in varying percentages according to known or estimated requirements, into the following groups:

   (a) To be retained for future use of the armed forces or other governmental agencies.

   (b) To be donated immediately, or held for future use of the American Red Cross in any of its activities throughout the world.

(c) To be given, or sold for use in the rehabilitation of the suffering peoples of the war-torn nations.

(d) The remainder to be disposed of through established channels of trade in a fair and equitable manner which will offer the least possible deterrent to speedy full reemployment of labor as industry converts from war to peace activities.

9. With respect to (a), (b), and (c) in Paragraph 8, particular attention shall be given to surplus supplies which have been used but which are still serviceable with the definite objective of reducing to a minimum the "second-hand" products which will be sold under section (d), Paragraph 8.

NOTE: The remainder of these proposals are directed entirely to disposal of products under section (d) of Paragraph 8.

10. Dispose of all products in section (d) of Paragraph 8 in accordance with the following plan:

The lists prepared by the Disposal Section will in all instances:

(i) Indicate whether or not the products are new or used, serviceable or unserviceable.

(ii) Give location of the warehouse or depot from which shipment will be made.

(iii) Be sufficiently descriptive, through use of the maker's name, product size, or number, or both, or by other means, to enable the prospective buyer to determine the nature and ordinary market value of the product without personal inspection of it.

(iv) Show quantity in the shipping container as it is warehoused, i.e., single item, dozen, hundred, gross, etc., or, if held in bulk, so specify.

(v) Show total quantity of a given product offered from that particular location.

(vi) Specify the minimum quantity of the item on which a bid will be considered. (In the case of products packed in shipping containers ready for reshipment, such minimum quantity should not be less than the amount in such shipping container. In the case of products in single unit shipping cases or cartons, or in bulk, the minimum quantity should not be so large as to preclude the possibility of the average retail establishment submitting a bid for, at least, one minimum unit.)

11. Give the widest possible dissemination to such prepared lists, including a condensed statement in the Federal Register that bids are to be received and that a descriptive list may be obtained upon application for same to the Procurement Division in Washington. Upon written application of any national trade association, such association shall be supplied, as issued, with all lists of items normally distributed by that particular trade. Such lists shall be mailed to the headquarters of such national trade association at the time of filing with the Federal Register.

12. Establish a minimum waiting period of 45 days from date of publication in the Federal Register of the information that the bids are to be received and the acceptance of such bids as may be submitted.

13. Accept bids which are submitted, to the extent that the products remain available, on the basis of the price offered; the highest bidder receiving the first allotment, and so through the list of bidders, and without regards to the quantity bid for so long as it is not less than the minimum specified.

FOREIGN ECONOMIC ADMINISTRATION
~~OFFICE OF LEND-LEASE ADMINISTRATION~~
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

November 26, 1943

MEMORANDUM

To: The Honorable Henry Morgenthau

From: Bernhard Knollenberg
Executive Advisor to the Administrator

Subject: Executive Reports

Transmitted herewith, for your information, are copies of the Executive Reports on lend-lease operations, as of October 31, 1943.

CONFIDENTIAL
Executive Report No. I

# ALLOCATIONS, OBLIGATIONS AND EXPENDITURES
## LEND-LEASE FUNDS APPROPRIATED TO THE PRESIDENT

Report as of October 31, 1943

(Thousands of Dollars)

| Appropriation Category | Adjusted Appropriation | Cumulative to October 31, 1943 | | |
|---|---|---|---|---|
| | | Allocations | Obligations | Expenditures |
| Ordnance and Ordnance Stores | $ 1,692,306 | $ 1,684,048 | $ 1,503,973 | $ 1,245,616 |
| Aircraft and Aero. Material | 2,679,625 | 2,676,283 | 2,497,639 | 2,018,917 |
| Tanks and Other Vehicles | 739,273 | 692,472 | 628,388 | 603,248 |
| Watercraft | 3,871,703 | 2,755,158 | 2,175,560 | 1,921,357 |
| Misc. Military Equipment | 354,288 | 353,733 | 303,336 | 238,190 |
| Production Facilities | 1,104,688 | 1,102,488 | 1,058,003 | 918,059 |
| Agric. and Indust. Commodities | 12,608,929 | 10,413,065 | 8,238,825 | 6,291,607 |
| Servicing, Repair of Ships, etc. | 790,818 | 674,112 | 494,812 | 478,799 |
| Services and Expenses | 800,000 | 409,446 | 305,792 | 241,910 |
| Administrative Expenses | 28,999 | 24,931 | 23,770 | 23,313 |
| Total | 24,670,629 | 20,785,736 | 17,230,098 | 13,981,016 |

| Procuring Agency | Cumulative to October 31, 1943 | | |
|---|---|---|---|
| | Allocations | Obligations | Expenditures |
| War Department | $ 5,746,926 | $ 5,269,767 | $ 4,600,636 |
| Navy Department | 3,248,828 | 2,573,114 | 1,936,883 |
| Maritime Commission and War Shipping Admin. | 2,688,015 | 1,999,266 | 1,977,701 |
| Treasury Department | 3,897,660 | 3,020,548 | 2,139,310 |
| Department of Agriculture | 5,185,586 | 4,351,424 | 3,312,618 |
| Other | 18,721 | 15,979 | 13,868 |
| Total | 20,785,736 | 17,230,098 | 13,981,016 |

CONFIDENTIAL
Executive Report No. 2

# STATEMENT OF LEND-LEASE AID

Report as of October 31, 1943

(Thousands of Dollars)

| Type of Aid | Cumulative to | | Month of | |
|---|---|---|---|---|
| | Oct. 31, 1943 | Sept. 30, 1943 | October | September |
| Goods Transferred | $15,164,930 | $14,136,745 | $ 1,028,185 | $ 1,120,996 |
| Servicing, Repair of Ships, etc. | 383,033 | 359,377 | 23,656 | 31,797 |
| Rental of Ships, Ferrying of Aircraft, etc. | 1,297,765 | 1,251,328 | 46,437 | 42,333 |
| Production Facilities in U. S. | 602,615 | 601,317 | 1,298 | 167 |
| Miscellaneous Expenses | 84,538 | 82,561 | 1,977 | 1,519 |
| Total Services | 2,367,951 | 2,294,583 | 73,368 | 75,816 |
| Total Goods and Services | 17,532,881 | 16,431,328 | 1,101,553 | 1,196,812 |

Data on Goods Transferred include value of goods procured from lend-lease appropriations to the President and to the War and Navy Departments.

| Type of Aid | Cumulative to October 31, 1943 | | | | |
|---|---|---|---|---|---|
| | Br. Empire | China | U.S.S.R. | Other | Total |
| Goods Transferred | 11,694,972 | 157,992 | 3,018,684 | 293,282 | 15,164,930 |
| Servicing, Repair of Ships, etc. | 260,804 | 1,825 | 59,408 | 60,996 | 383,033 |
| Rental of Ships Ferrying of Aircraft, etc. | 972,000 | 12,385 | 187,995 | 125,385 | 1,297,765 |
| Production Facilities in U. S. | - | - | - | - | 602,615 |
| Miscellaneous Expenses | 50,983 | 1,186 | 2,464 | 29,905 | 84,538 |
| Total Goods and Services | - | - | - | - | 17,532,881 |

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CONFIDENTIAL
Executive Report No. 3

# LEND-LEASE GOODS TRANSFERRED

Report as of October 31, 1943

(Thousands of Dollars)

| | Cumulative to October 31, 1943 | | | | |
|---|---|---|---|---|---|
| | Br. Empire | China | U.S.S.R. | Other | Total |
| Ordnance (Excl. Ammunition) | 531,330 | 15,547 | 147,928 | 51,212 | 746,017 |
| Ammunition and Components | 1,130,393 | 22,188 | 324,759 | 26,121 | 1,503,461 |
| Aircraft | 1,341,878 | 54,961 | 662,338 | 70,031 | 2,129,208 |
| Aircraft Engines, Parts, etc. | 739,550 | 6,655 | 22,367 | 5,690 | 774,262 |
| Tanks and Parts | 1,430,344 | 923 | 275,236 | 28,073 | 1,734,576 |
| Motor Vehicles and Parts | 366,264 | 25,505 | 367,242 | 16,025 | 775,036 |
| Watercraft and Parts | 1,485,857 | 4,447 | 156,656 | 23,347 | 1,670,307 |
| Foods | 1,593,950 | - | 246,912 | 8,846 | 1,849,708 |
| Other Agric. Products | 398,019 | 41 | 4,394 | - | 402,454 |
| Machinery | 396,002 | 4,261 | 247,461 | 4,017 | 651,741 |
| Metals | 623,186 | 10,064 | 250,994 | 2,077 | 886,321 |
| Petroleum Products | 644,846 | 2,565 | 30,988 | 1,246 | 679,645 |
| Miscellaneous Materials and Manufactures | 1,013,353 | 10,835 | 281,409 | 56,597 | 1,362,194 |
| Total | 11,694,972 | 157,992 | 3,018,684 | 293,282 | 15,164,930 |

W-8784 PS mobu-final

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

November 26, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended November 17, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

EMB

FEDERAL RESERVE BANK

OF NEW YORK

November 24, 1943.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended November 17, 1943, showing dollar disbursements out of the British and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

COPY

| [illegible] | DEBITS | | | | CREDITS | | | | | | [illegible] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Debits | Govt. Expenditures (a) | Transfers to Official Canadian Account | Other Debits | Total Credits | Proceeds of Sales of: Gold | Securities (Official) (b) | Transfers from Official Australian Account | Other Credits (c) | Net Incr.(+) or Decr.(-) in $ Funds (d) | Total Debits (e) | Total Credits (b) | Net Incr. (+) or Decr. (-) in $ Funds (d) |
| [illegible] | 1,[illegible].2 | [illegible].6 | 20.9 | 1,166.7 | 1,[illegible].2 | 1,396.1 | 52.0 | 3.9 | 416.2 | + 35.0 | 866.3(f) | 1,095.3(f) | +229.0 |
| [illegible] | [illegible] | [illegible] | 29.7 | 1,334.6 | 2,793.1 | 2,109.5 | 108.0 | 14.5 | 561.1 | + 10.8 | 878.3 | 1,098.4 | +220.1 |
| [illegible] | [illegible] | [illegible] | 3.4 | [illegible] | 2,1[illegible].8 | 1,193.7 | 274.0 | 16.7 | 705.4 | - 13.2 | 38.9 | 8.8 | - 30.1 |
| [illegible] | 1,[illegible].6 | 904.8 | 7.7 | 223.1 | 1,360.5 | 21.8 | 5.5 | 37.4 | 1,276.8 | + 125.9 | 18.5 | 4.4 | - 14.1 |
| [illegible] | [illegible].0 | 312.7 | 170.4 | 280.9 | 1,072.3 | - | 0.5 | 155.1 | 916.7 | + 308.3 | 10.3 | 1.0 | - 9.3 |
| 1942 | | | | | | | | | | | | | |
| [illegible] 2 - Sept. 29 | 46.3 | 15.5 | 10.6 | 20.2 | 78.1 | - | - | 14.0 | 64.1 | + 31.8 | - | - | - |
| Sept. 30 - Nov. 3 | 59.5 | 35.3 | 0.1 | 24.1 | 128.4 | - | - | 41.5 | 86.9 | + 68.9 | - | - | - |
| Nov. 4 - Dec. 1 | | | | | | | | | | | | | |
| Dec. 2 - Dec. 29 | | | | | | | | | | | | | |
| Week Ended: | | | | | | | | | | | | | |
| October 27 | 5.8 | 0.8 | - | 5.0 | 32.4 | - | - | - | 32.4 | + 26.6 | - | - | - |
| November 3 | 21.2 | 19.9 | 0.1 | 1.2 | 29.2 | - | - | 17.5 | 11.7 | + 8.0 | - | - | - |
| November 10 | 24.5 | 12.7 | 5.7 | 6.1 | 26.5 | - | - | - | 26.5 | + 2.0 | - | - | - |
| November 17 | 12.6 | 7.4 | - | 5.2 | 21.9(k) | - | - | - | 21.9(k) | + 9.3 | - | - | - |

See attached sheet for footnotes.

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) $19.6 million
England (through June 19, 1940) $27.6 million
England (June 20, 1940 to March 12, 1941) $54.9 million
England (since March 12, 1941) $20.7 million

(a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to $334 million.

(c) Includes about $85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts. See (k) below.

(d) Reflects net change in all dollar holdings payable on demand or maturing in one year.

(e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.

(f) Adjusted to eliminate the effect of $20 million paid out on June 26, 1940 and returned the following day.

(g) For monthly breakdown see tabulations prior to April 23, 1941.

(h) For monthly breakdown see tabulations prior to October 8, 1941.

(i) For monthly breakdown see tabulations prior to October 14, 1942.

(j) For monthly breakdown see tabulations prior to September 29, 1943.

(k) Includes $ 3.3 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports, and $16.5 million to be held for credit of U. S. armed forces abroad.

## [illegible] OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended [illegible]

| PERIOD | BANK OF CANADA (and Canadian Government) DEBITS: Total Debits | Transfers to Official British A/C | Others Debits | CREDITS: Total Credits | Proceeds of Gold Sales | Transfers from Official British A/C: For Own A/C | Transfers from Official British A/C: For French A/C | Other Credits | Net Incr. (+) or Decr. (-) in $ Funds (e) | COMMONWEALTH BANK OF AUSTRALIA (and Australian [illegible]) DEBITS: Total Debits | Transfers to Official British A/C | Other Debits | CREDITS: Total Credits | Proceeds of Gold Sales | Other Credits | Net Incr. (+) or Decr. (-) in $ Funds (e) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| First year of war (a) | 323.0 | 16.6 | 306.4 | 504.7 | 412.7 | 20.9 | 38.7 | 32.4 | + 181.7 | 31.2 | 3.9 | 27.3 | 36.1 | 30.0 | 5.1 | + 4.9 |
| War period through December, 1940 | 477.2 | 16.6 | 460.6 | 707.4 | 534.8 | 20.9 | 110.7 | 41.0 | + 230.2 | 57.9 | 14.5 | 43.4 | 62.4 | 50.1 | 12.3 | + 4.5 |
| Second year of war (b) | 460.4 | - | 460.4 | 462.0 | 246.2 | 3.4 | 123.9 | 88.5 | + 1.6 | 72.2 | 16.7 | 55.5 | 81.2 | 62.9 | 18.3 | + 9.0 |
| Third year of war (c) | 525.8 | 0.3 | 525.5 | 566.3 | 198.6 | 7.7 | - | 360.0 | + 40.5 | 107.2 | 57.4 | 49.8 | 112.2 | 17.2 | 95.0 | + 5.0 |
| Fourth year of war (d) | 723.6 | - | 723.6 | 958.8 | 47.1 | 170.4 | - | 741.3 | + 235.2 | 197.0 | 155.1 | 41.9 | 200.4 | - | 200.4 | + 3.4 |
| 1943 | | | | | | | | | | | | | | | | |
| Sept. 2 - Sept. 29 | 46.4 | - | 46.4 | 65.1 | - | 10.6 | - | 54.5 | + 18.7 | 15.8 | 14.0 | 1.8 | 4.8 | - | 4.8 | - 11.0 |
| Sept. 30 - Nov. 3 | 31.5 | - | 31.5 | 83.9 | - | 0.1 | - | 83.8 | + 52.4 | 44.9 | 41.5 | 3.4 | 41.7 | - | 41.7 | - 3.2 |
| Nov. 4 - Dec. 1 | | | | | | | | | | | | | | | | |
| Dec. 2 - Dec. 29 | | | | | | | | | | | | | | | | |
| [illegible]: | | | | | | | | | | | | | | | | |
| October 27 | 8.0 | - | 8.0 | 21.6 | - | - | - | 21.6 | + 13.6 | - | - | - | 15.5 | - | 15.5 | + 15.5 |
| November 3 | 7.2 | - | 7.2 | 16.8 | - | 0.1 | - | 16.7 | + 9.6 | 19.5 | 17.5 | 2.0 | 0.7 | - | 0.7 | - 18.8 |
| November 10 | 5.0 | - | 5.0 | 47.2 | - | 5.7 | - | 41.5 | + 42.2 | 0.1 | - | 0.1 | 1.0 | - | 1.0 | + 0.9 |
| November 17 | 2.9(f) | 0.1 | 2.8 | 16.1(f) | - | - | - | 16.1(g) | + 13.2 | 1.0 | - | 1.0 | 0.9 | - | 0.9 | - 0.1 |

**Average Weekly Expenditures for**

| | |
|---|---|
| First year of war | 6.2 million. |
| Second year of war | 8.9 million. |
| Third year of war | 10.1 million. |
| Fourth year of war | 13.9 million. |
| Fifth year of war (through November 17, 1943) | 7.8 million. |

(a) For monthly breakdown see tabulations prior to April 23, 1941.
(b) For monthly breakdown see tabulations prior to October 8, 1941.
(c) For monthly breakdown see tabulations prior to October 14, 1942.
(d) For monthly breakdown see tabulations prior to September 29, 1943.
(e) Reflects changes in all dollar holdings payable on demand or maturing in one year.
(f) Does not reflect transactions in short term U. S. securities.
(g) Includes $ 6.9 million deposited by War Supplies, Ltd. and $9.0 million received from New York accounts of Canadian Chartered Banks.

CORRECTION

RCC November 26, 1943

In telegram No. 2235, November 25, 10 a.m., from Chungking.

(FROM ADLER TO SECRETARY TREASURY, ONLY)

Page 2, line 6, delete "currency" insert "dollars".

DIVISION OF COMMUNICATIONS AND RECORDS

NOTE: Correction from Embassy at Chungking

NPL

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NOT TO BE RE-TRANSMITTED

U.S. SECRET

COPY NO 12

BRITISH MOST SECRET

OPTEL No. 387

Information received up to 10 A.M. 26th November, 1943.

1. NAVAL

Anti-Submarine Operations. 25th. 2 of H.M. Frigates probably sank U-Boat N.E. of AZORES.

2. MILITARY

Italy. No reports received.

Russia 25th. Russians held their ground west and north west of KIEV and advanced to upper Dnieper in area S.S.W. MOGILEV.

3. AIR OPERATIONS

Western Front Medium, light and fighter bombers dropped 257 tons on military objectives near GRIS NEZ and on CHERBOURG PENINSULA. 6 squadrons of Thunderbolts (P47) bombed 2 airfields at ST. OMER. 3 Power Stations in NORMANDY and shipping at CHERBOURG were also attacked by a total of 14 Mosquitoes and Whirlwinds. Enemy casualties 6:3:5. Ours 7 fighter-bombers and fighters.

25th/26th. Aircraft Despatched: FRANKFURT 262, BERLIN 3, Sea-Mining 48 (one missing), Leaflets 35, Intruders 32, Anti-shipping 6. Reports on FRANKFURT not yet received but not more than 12 aircraft are missing. 10 enemy aircraft over KENT and EAST ANGLIA. Bombs in scattered places, damage slight, no casualties.

South France 24th. 105 escorted Fortresses (B.17) dropped 315 tons on TOULON submarine base. 15 Fortresses (B.17) dropped 45 tons on ANTHEOR Viaduct

Italy and Sardinia 24th. 184 medium, light and fighter bombers attacked enemy targets in battle area. Light bombers dropped 6 tons on CIVITAVECCHIA docks. 25 enemy aircraft attacked MADDALENA losing 4 A/C but sinking an M.T.B.

Bulgaria 24th. 17 escorted Liberators (B.24) dropped 38 tons on SOFIA railway centre. Enemy casualties 4:2:0. Ours 2 Liberators and 1 Fighter.

November 27, 1943
9:30 a.m.

TAXES

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

H.M.JR: I haven't read the Budget thing.

MR. BELL: It didn't get in the paper today. I tried to get them to put it in the morning paper. After talking it all around over there they decided on tomorrow morning's paper. They thought they would get a better coverage.

MR. GASTON: That is applesauce.

MR. SMITH: Why don't you have a press conference today?

MR. GASTON: I haven't seen the thing.

MR. BELL: I don't think there is any harm as far as we are concerned.

H.M.JR: Why should they stall so long on it?

MR. BELL: They didn't get it out until late yesterday afternoon. They thought that Saturday morning being an important morning for a paper it would be reduced to about half its size. They thought it would give the boys a chance to get a story on it if they put it out forty-eight hours in advance. That is the usual Budget policy.

H.M.JR: It will be buried with the comics.

MR. BELL: Wayne Coy is a newspaper man, so he thought he knew what he was talking about.

H.M.JR: I just read the beginning. Can you sum it up for me, what it says? You have seen it, haven't you?

MR. BELL: Yes. The thirteen billion dollars in reserve has no effect on the expenditures from here out, but it did have an effect on the expenditures revised last August and made public. They have, however, reduced expenditures from here out, but not because of the thirteen billion, but because they haven't reached the levels in expenditures that would have enabled them to reach that hundred and four billion dollar budget. So they have reduced expenditures of the war activities, including Governmental corporations from a hundred billion down to ninety-two, and that makes your deficit fifty-six point eight instead of sixty-seven point seven as it was in the August 1 estimate.

H.M.JR: How much?

MR. BELL: Ten billion, nine hundred million.

H.M.JR: They will say it is ten billion.

MR. BELL: Roughly. With the reduction in your deficit--

H.M.JR: (Intervening) They will say it isn't thirteen, but ten.

MR. BELL: Savings. No, they undertake to explain the thirteen billion dollars and also the Navy end.

H.M.JR: But won't the fellows say that in August the Budget said we had spent how much for this fiscal year?

MR. BELL: A hundred billion.

H.M.JR: And now on the 28th of November they say how much?

MR. BELL: Ninety-two.

H.M.JR: So it is eight billion dollars.

MR. GASTON: By the way, this figure they give us now is exactly what the House Ways and Means Committee used in their report on the tax bill. They said fifty-seven billions. Fifty-seven is the estimated deficit for the current year in the Ways and Means Committee Report on the tax bill, and that is correct according to the Budget's latest figures.

MR. BELL: The House used fifty-seven.

MR. GASTON: They made that calculation before this thirteen billion stuff came out.

MR. BELL: What happened in August is, they reduced the Army expenditures six billion dollars, but they increased the Navy expenditures six billion dollars, so they kept the same figures for expenditures on war activities.

Now they have reduced the over-all expenditures from a hundred billion down to ninety-two. They practically used our figures on war expenditures. We have ninety-two billion six in our financing deficit.

H.M.JR: When did I appear before the House Ways and Means?

MR. BELL: September 4, wasn't it?

MR. GASTON: No, it was October 4.

H.M.JR: What I am trying to get at is this: Since October 4 to November 29, what has happened? Has anything happened which is different from what the Budget said in August? The only thing is they have reduced the expenditures.

MR. BELL: And the revenue has gone up a little bit. They have increased their revenue from thirty-eight billion to forty-one billion. It has gone up two billion nine hundred million.

H.M.JR: This isn't going to help from my standpoint. I am delighted that they are going to spend less money, but for my purpose they will throw it right back at me. They will say that it wasn't thirteen. The Budget says it is how much less? What is the deficit?

MR. BELL: Fifty-six eight.

H.M.JR: Let's call it fifty-seven. And what was it last August?

MR. BELL: Sixty-seven, seven.

H.M.JR: So it is ten and one half instead of thirteen, which is exactly the tax bill. Isn't that lovely? (Laughter) I don't see how it could be any worse.

MR. BELL: I think it is helpful in this respect, it keeps you from discussing Budget figures on which you were going to be asked all kinds of questions on the estimates.

H.M.JR: My dear Mr. Bell, the savings and deficits from August to date is exactly the amount I am asking in the tax bill.

MR. BELL: But you are also saying in here that savings and reductions in expenditures are not equivalent to a tax measure.

H.M.JR: That doesn't get you anywhere. What they have told the country is - and this is what the State chairmen call it - how are we going to face the thing if there are thirteen billion dollars more? This is worse. This is the net deficit figure. The net deficit is reduced by the exact amount I am asking for taxes.

MR. GASTON: Of course, this has been obvious for a couple of months.

H.M.JR: It may be obvious, but all week I have lived in a pleasant atmosphere. We told those Congressmen and Senators - I mean at lunch - you did, too.

MR. BELL: I don't think I did.

MR. GASTON: The thirteen billion figure is entirely false. It doesn't affect the picture at all. But the fact is, the estimates of expenditures have been reduced from the August summation.

H.M.JR: Well, if you didn't - I sat there and I said that the picture hasn't changed any since August.

MR. BELL: I realized that, and I couldn't correct you. I didn't know exactly what you meant when you said the picture hadn't changed. I am sorry if you got that from what I said. I made it plain that the six billion was taken off in August from the Army, but it was added to the Navy. I said there was going to be a further revision of the budget which we hoped to have out Friday.

H.M.JR: But you didn't carry it to this--

MR. BELL: I didn't know. I couldn't get it from the Treasury.

H.M.JR: But you didn't with me, either, Danny Boy.

MR. BELL: No, but I think I have made it plain to you since September that my estimates on war expenditures have been ninety-two and a half billion in financing. We told Stacy May that.

H.M.JR: Yes, but the deficit is going to be ten and a half billion less. You must have Revenue figures, anyway. Oh well - I am in a hell of a spot.

MR. GASTON: Where did the House get their figures, mainly from us?

MR. BELL: No, they didn't get them from us at all. I don't think they got their revenue figures from us nor their expenditure estimate.

H.M.JR: It tallies exactly ten and a half.

MR. GASTON: The House estimated the fifty-seven billion dollar deficit in their report, and that is a very good estimate, very close to the present estimate, within a couple hundred million. This thirteen billion stuff came out after they had put out that estimate.

MR. BELL: I think you would be in a very bad position if you went up now and talked about the budget estimates in August and they didn't get this bill through by January 1, even if they did and the budget came out in January with this ten or eleven billion dollar reduction in the deficit. I think they would be accusing you of giving them wrong figures the first of December.

H.M.JR: Isn't it in there in that statement?

MR. SMITH: It will be out tomorrow, won't it?

MR. BELL: Isn't it much better to go before the Committee with this out than to go before the Committee on the basis of the August 1 estimate and be faced with a budget figure on December 31?

H.M.JR: But who raised hell here all day Tuesday to get these things when I came back? I wanted the figures. Because the figures didn't work out the way I expected them to doesn't make any difference, but I wanted them out.

MR. BELL: I thought you were arguing the other way. I think it is much better to have them out.

H.M.JR: No, I mean all week I have been going on the assumption that there was no change.

MR. GASTON: We knew they were off.

H.M.JR: Did you, Fred?

MR. SMITH: I didn't know it. I knew there was some change because Wes had said something about it, but I didn't follow at all.

H.M.JR: I didn't know--

MR. BELL: I didn't know they were going to accept the ninety-two. You knew I was using ninety-two and a half, and they knew it. They first had this figure in a changing rate from ninety to ninety-five. When I saw that on paper yesterday, I said, "That just won't do. You are going to take a terrible risk if you put the revenue from forty to forty-two and the expenditures from ninety to ninety-five. It seems to me you ought to hit some round figure, say it is a rough estimate."

Yesterday afternoon they called me and said that they were going to accept the ninety-two.

H.M.JR: Let me think out loud a minute. This has completely thrown me off my feet. If you don't mind, don't interrupt me for a minute, just let me talk. It seems to me the way to start this thing out is to take the wind out of their sails and simply say that the Budget figures - we will use the Al Smith technique, and instead of saying, "Let's look at the record," say, "Let's look at our balance sheet and see where we stand as of today. Through the Budget figures released yesterday, we are going to spend at the rate of ninety-two billion dollars. Our receipts will be so much, which will give us a deficit of fifty-seven billion dollars, which is ten and a half billion dollars less than it was estimated last August." Let's just throw that right at them. "Now, before coming up here we in the Treasury have given this thing very, very careful consideration as to whether or not due to this reduction in deficit we should ask for less taxes than before I appeared before the Ways and Means Committee. We have come to the conclusion we should ask for the same amount for the following reasons," see? I am going to be brutally frank. I am not going to let them squeeze this thing out of me.

Facing a fifty-seven billion dollar deficit, we have to borrow so many hundred million dollars a day. You will have to use some tax figures. Let's decide whether the present one or the one that passed the House or the one we are going to forecast - take the worse one, which will end us up on June 30, 1944 with a two hundred million dollar debt. Every billion dollars extra that Congress votes in the form of taxes means that the debt will be reduced by that amount. And I think it is very important that we keep the debt as small as possible, in the first place so that we have to borrow less, and in the second place so that we hand on to the next generation and to the soldiers who fought this war a minimum debt, and so forth, and so on. Emphasize the soldiers.

"Now, I have another reason why I would like to see it ten and a half billion dollars, and that is this question of inflation." Incidentally, all through here - this fellow Lee Wiggins, I thought, made an excellent suggestion. He said he thought our whole psychological approach had been wrong. Every time we asked for increased taxes instead of talking excess profits, and so forth - every time use war taxes. I want ten and a half billion dollars of additional war taxes. Keep driving that thing home to the people. You say that you don't want to pay war taxes? Say it is only for the war. All the way through say war taxes.

MR. GASTON: That is pretty close to what Dave Lawrence told me, that if they could have some assurance that these taxes were only for the duration of the war it would be very reassuring.

H.M.JR: Right. I ought to say about a hundred times, "war taxes."

Then I want to say that unfortunately for the country I want to get in the inflation business. I didn't like, frankly, the way you handled the inflationary gap. I didn't understand it when you got through. You were condensing too much in too little space.

MR. SMITH: I thought we should talk about it even though the deficit was reduced by ten and a half billion dollars. There is no indication that the amount of goods available for civilian people will be increased, and it still looks as though the figure is eighty billion dollars. I don't know whether that is right. That is the figure you used. Reducing the deficit by ten and a half or twenty - still there is no indication for the balance of this year that by and large there will be more than eighty billion dollars; going from the ultimate deficit to the private deficit of civilian goods, no one has reduced the amount of the national income. In fact, they constantly revise it upward, and nobody has increased the amount, the estimate of the amount that is going to civilians. So that figure has remained practically static on the private side, and the shortage of goods and extra amount of money; that is just where it always was.

So the pressure to buy the amount of goods will be just the same whether the Government deficit is ten and a half or twenty and a half. If I am correct--

MR. BELL: That may be changed a little.

H.M.JR: If I am correct, here you have a Governmental picture. Fine. I am delighted that the deficit is ten and a half, but let's look at the thing from the standpoint of civilians. Has that changed? The national income will be about the same, won't it?

MR. BELL: It might go down a little as a result of this reduction in expenditures.

MR. GASTON: If it does, your tax receipts will go down.

H.M.JR: Just a minute, though. I think you paint here the picture of the Governmental thing, and here is the picture on the other side, the private thing. Now, how much does the ten and a half deficit release the pressure to buy scarce goods? We ought to get an argument on that to show.

MR. SMITH: Four billion dollars, from one hundred fifty-two billion to one hundred forty-eight billion.

H.M.JR: But how about the tax receipts?

MR. BELL: Well, they won't go down. They would be a very small part. Let's say some people - the extreme estimate that we can get is, it will go down four billion dollars; and what is four billion dollars as between eighty billion or seventy-six billion?

MR. SMITH: Actually excess income will go from forty-two down to thirty-six billions according to our figures.

H.M.JR: How is anybody going to estimate that as to results it is going to have? Now, since I appeared on October 4 to date the cost of living has gone up one and one half percent, and so forth.

I am going to stop in a minute and review what I have said. It seems to me the only way is to go up and hit it and say, "Sure, it is this much." Don't let them drag it out of me. And so what! In what way does this affect us? Why should we take less tax money? What do you think?

MR. GASTON: I wouldn't start with it.

MR. SMITH: I wouldn't.

MR. GASTON: I would use these figures, as much as you have in the speech, but I wouldn't make that your appeal. You have a negative start there, and they will interpret it as the Secretary practically concedes that there has been sufficient reduction so that the House is right, we don't need new taxes. But I would make the general appeal first before I went into the figures. We are talking about forty-two billion in tax receipts now without the House bill. Why don't we make it forty-one?

MR. BELL: It is forty-one.

MR. GASTON: That is the safer figure. You add the two of the House figures, which brings it out to an even one hundred.

MR. BELL: It is forty-one in the budget.

MR. GASTON: That would make a total of forty-three percent. If we asked for fifty percent it would be seven billions. The point is, it seems to me, general appeal for higher taxes and that seven billions, bringing it up to fifty percent ought to be the very minimum.

H.M.JR: Say it again.

MR. GASTON: The present appearance is about an even hundred billion dollar budget with four billions in taxes, including the House two billions; forty-two billion on the present basis, and two billion added by the House, making it forty-three and fifty-seven of deficit. Now to get the fifty percent you would have to have seven billions, but I would make a general appeal for all the taxes that we can stand. It doesn't change our belief. Lay the fact before them. To get to fifty percent, if they think that is a proper percentage, we have still got to have seven billions more than the House has voted, which would make a nine billion dollar total. But laying that aside - that is an arbitrary figure - we still think we ought to pay now in justice to the future, to prevent inflation, and in justice to the soldiers, all we possibly can. We believe that we can safely bear the amount of taxes which we propose, which is in the neighborhood of ten billions.

H.M.JR: Let me see if I understand.

MR. GASTON: Actually to bring it to fifty percent, there is only a difference of one billion or a billion and a half between what we propose and the present situation, forty-one billion of revenue without the House bill, forty-one billion in revenue on a hundred billion dollar budget. To bring that to fifty billions or fifty percent you would have to have nine billions, of which the House voted two. We should stand out for an additional seven billion; a total of nine is the very minimum which in our opinion the Congress ought to give us. And we still think that we could stand the full schedules that we proposed without danger to the Army, and that we ought to do that in justice to our immediate and our distant future.

H.M.JR: I think your approach is better than mine.

MR. SMITH: I think you are making a mistake by getting all tangled up in figures, because these guys are going to turn around and get a whole new batch of figures, even if they pull them out of the air, and get things all tangled up.

H.M.JR: No, you are wrong. I was so happy when I left here. I don't want to go over it again. I got the wrong impression; I thought this thing was all right and now this is like a piece of ice down my back.

I am willing to withdraw my suggestions, I think Herbert's is much better. We stick on the fifty percent line, and instead of asking for ten and a half, which is the same as reduction, we reduce our request to nine. We make that much concession.

MR. GASTON: You see, in our original figuring of ten and a half to make fifty percent, we discounted the Budget summation of September. We discounted it to win a billion and a half.

MR. BELL: You had forty-eight or forty-nine billion taxes.

MR. GASTON: We didn't say it was fifty percent, but we did, in effect, arrive at what we then thought was fifty percent, and we came within a billion and a half of the present estimate.

MR. BELL: I think your figures are a little off, Herbert, but your argument is good. It is only ninety-eight billion now, as a total, instead of a hundred; so you need forty-nine billion in taxes.

MR. GASTON: I don't get your fifty-seven billion deficit. Oh, that is without including the House bill. You are taking forty-one and fifty-seven for ninety-eight - right?

MR. BELL: To make fifty--

H.M.JR: (Over the inter-phone to Fitzgerald) From Mr. Bell's desk, get me a couple of copies of the Budget release.

MR. FITZGERALD: Yes, sir.

MR. GASTON: That would make seven billion as the minimum instead of nine.

H.M.JR: You mean seven more?

MR. BELL: To make fifty percent you would have to have eight billion of which the House has provided two.

MR. GASTON: Yes.

MR. BELL: That is two and a half instead of the billion and a half. You see, the total Budget estimate of expenditures now is ninety-eight, and the revenue is forty-one, so that you would need forty-nine to get fifty percent; forty-nine of revenue would be eight billion dollars additional revenue instead of the ten and a half. Now, the House has provided two, so the Senate would have to find six billion more in order to make fifty percent.

I think the additional sentence you made is very important, that even to get the fifty percent, they would have to provide six more; but the ten and a half is still important.

MR. GASTON: All we can stand is - should be - the goal, not fifty percent.

MR. BELL: Nothing is sacred about the fifty percent.

(Document entitled "Budget Director Reports on Reserves and Announces Revised Budget Estimates" handed to the Secretary, copy attached.)

H.M.JR: Rather than looking at this thing-- Boy! This is something to come home to! Gentlemen, certainly the President, or Jimmy Byrnes, or Vinson - I will leave Vinson out - the Budget isn't going to come up and help me.

Now, let me just see if I have got this thing straight. Boy, oh boy, oh boy! Wiggins said we made a mistake. We have not called this thing war taxes instead of excess. I want to make a note on this: "No man should make any money out of this war." Let's find out what I have said about this thing previously. I have said it before and I want to say it again.

Will you (Bell) make a note of F and G Bonds? He brought that question up.

But this question - I have said it before and I will again; when the thing is over - when the war is over - nobody should be any richer due to the war. I would like to say it about three times.

MR. GASTON: Of course, that isn't going to happen. A lot of people are going to be a lot richer as a result of the war, and there is nothing we can do to stop it.

H.M.JR: Let me be a little demagogic about it; may I, Herbert? I want to throw this thing down the peoples' throats.

MR. SMITH: I think you could treat this whole Budget operation back in the part of the speech where you are talking about saving money, because there you have a chance to explain that no matter how much you save, it still isn't going to have any perceptible effect on inflation. I think you cover it and let yourself out. I just don't think it is smart to alibi it.

H.M.JR: I am not going to alibi it. You don't know what I am going to do. What are the expenditures?

MR. GASTON: Total budget of ninety-eight billions; an estimated revenue under present law of forty-one billions, leaving a deficit - present estimated deficit on the basis of present tax laws - of fifty-seven billions.

H.M.JR: Right. And that is fifty-seven.

MR. GASTON: Then, to make that a fifty-fifty proposition, you should have forty-nine of revenue, and that would leave you forty-nine of deficit to make the ninety-eight. That would make it necessary to add a total of eight billiors in new taxes instead of the two billions which the House has proposed.

H.M.JR: Present revenue is how much?

MR. GASTON: Forty-one.

H.M.JR: With an additional eight, makes forty-nine; plus forty-nine, equals ninety-eight. Now, the House passed two. An additional six--

MR. GASTON: I don't think we should treat it on the basis of adding six to the House bill. I think the old House bill should be scrapped and give us a bill yielding eight billions.

H.M.JR: Instead of asking for ten and a half, I would say eight? I would retreat to eight?

MR. GASTON: I wouldn't retreat altogether. I would argue generally for all the taxation we can stand and safely pay. We still feel that we could safely pay the full schedule as presented to the House. "If you want to take the arbitrary basis of fifty percent, then you certainly should give us not less than a total of eight billions in this bill."

H.M.JR: I am willing to say it that way, but they will cut out everything you have said except that the Administration asks for eight instead of ten and a half.

MR. GASTON: That is pretty realistic, because we are not going to get the eight.

H.M.JR: Well, I am thinking; I am not going to go off half-cocked on this thing - "The Administration reduces its request from ten and a half to eight."

MR. BELL: "In spite of this reduction in expenditures, I strongly recommend a ten and a half billion dollar program. And that is still the Administration's recommendation."

MR. GASTON: Yes.

MR. SMITH: I think you either have to focus on this year, or on the two hundred billion dollar debt. If you focus on the two hundred billion dollar debt, then you can go right back and get your ten and a half. If you focus on your cut in expenditures this year, then aren't you up against the possibility that maybe the Navy or somebody will decide, even on a piece of newspaper, that they can cut their expenditures another five billion dollars, or something? They will say, "Well, that brings you down so we only have to do two."

MR. BELL: You could say, "This deficit is on the basis of the programs of the military authorities today; that program may change within a month, which will cause your expenditures to increase."

MR. SMITH: Yes, but they may also decrease.

H.M.JR: Now look, Fred--

MR. BELL: They are not going to decrease very much, because they are on a level today which will pretty nearly make that ninety-eight billion. They are going to be the highest this month of any time, probably.

MR. SMITH: If we had this situation before the House, they would have subtracted that thirteen billion dollars right then and there, and gotten away with it.

H.M.JR: Why not let me once be a little popular? I am not addressing it to you. The fact remains - let's be practical - we are not going to get the eight, are we?

MR. SMITH: No.

H.M.JR: Then why should I always be the S.O.B. in this thing? The picture has changed and I have said I want fifty percent revenue; supposing I go up and ask ten and a half - let's take that angle. And Barkley, who I notice was the fellow who said, "All right" - he is smart - somebody figures it out for him, he is not that smart - he says, "You ask for ten and a half; that means you are going to get more than fifty percent; have you changed your position? Wouldn't you be satisfied with fifty percent, Mr. Morgenthau?"

"Yes, I would."

"Then why don't you only ask for eight?"

MR. GASTON: I don't think fifty percent was ever a sound position, and I don't think that was the position you took. We compared ourselves with the British, at some times, and said, "We ought to do as well as they," which was fifty percent. But we called for what people were able to pay and could pay, without the economy suffering. I think that should be your position.

You could call attention to the fact that even on the basis of fifty percent, which many people think is a desirable ratio, we are still six billions under it - on the basis of the House bill - and we need a total of eight billions.

H.M.JR: Why make me go through the motions of asking for ten and a half and then say out of the side of my mouth that I am willing to take eight?

MR. GASTON: Well, of course, you are willing to take what you can get. You won't get, probably, over five - at the most optimistic--

H.M.JR: Would you mind bringing in some of the boys? I will try to be as neutral as I can, and let's see how it hits them.

MR. SMITH: I think you are wrong in thinking you are being more popular asking for eight instead of ten. I don't think it will make a damned bit of difference. I think the newspapers will sock you, because they are going along with the ten and a half.

H.M.JR: They haven't seen these figures.

MR. SMITH: But they like the idea of your fighting for it. They know and you know you are not going to get it, but a least you are putting up a good story and trying to get as much out of it as you can.

H.M.JR: That was the thing I was sold on all week, and then this thing comes along.

MR. SMITH: If you are still focused on the two hundred billion dollars. If you focus on this, then you are caught, because any way the wind blows between now and the tax bill is voted on, is subject to change. Your two hundred billion dollars isn't.

MR. GASTON: Incidentally, that two hundred billion dollars which you may have gotten from me is based on a scaling down to about this point of the deficit.

MR. BELL: One hundred and ninety-seven, isn't it?

H.M.JR: You keep saying in the speech that I recommend a saving of two billion dollars; I didn't. It was one billion.

MR. BELL: The whole approach to this problem is really to make a record. You know you are not going to get anything.

MR. GASTON: To make the argument for much more drastic taxation than the House has proposed.

MR. BELL: You are laying before the country, really, your reasons for asking for more revenue.

MR. SMITH: Make it just as hard as possible for them to alibi out. I think that is the real basis of the speech.

MR. BELL: Even the forty-nine billion dollars deficit - fifty-seven billion dollars deficit - even if you got eight billion in taxes, the forty-nine billion dollars deficit would still be a big figure to borrow.

MR. SMITH: There is another thing to think of.

MR. GASTON: We are talking about this fiscal year, aren't we? How much was the net increase in the debt over the fiscal year?

MR. BELL: It has been about thirty-five or thirty-two billion.

MR. GASTON: Twenty-five billion more to go.

MR. SMITH: There is another whole factor in this, psychologically; if we go out too much on this saving, that eight billion dollars is going to look so big they will forget the one hundred and fifty billion, and everything else. Seven billion is an awful lot of money to save. It is much better to think of saving seven billion.

MR. GASTON: Of course, "saving" is a bad word. You want to make the most approximate estimate of expenditure.

(Mr. Paul, Mr. Haas, Mr. Sullivan, Mr. White, Mr. Surrey, and Mr. Blough enter the conference.)

H.M.JR: Good morning, everybody. It is a lovely morning - for somebody!

The way the Budget figures boil down this morning - I haven't a copy of the budget - the total expenditure for the rest of this fiscal year will be at the rate of ninety-eight billions; revenue forty-one and deficit fifty-seven.

MR. PAUL: What is the total?

MR. GASTON: Ninety-eight.

MR. PAUL: You said at the rate of - for the rest of the year.

H.M.JR: That is correct, what I said.

MR. PAUL: All right, I don't want to argue about that.

MR. GASTON: The estimate of total expenditures for fiscal '44 is ninety-eight billion. The estimate of revenue is forty-one; the estimated deficit is fifty-seven billion.

MR. PAUL: Practically up to the hundred, then.

H.M.JR: The point is, it changes the picture. The deficit is now fifty-seven as opposed to - what was it before?

MR. BELL: Sixty-eight in round figures.

H.M.JR: It works out that the deficit has increased approximately by ten and a half billion dollars.

MR. PAUL: I still don't understand one point. The total expenditures for the year, instead of being a hundred billion,will be what?

MR. BELL: Ninety-eight - no, you are talking about war expenditures. The total expenditures for the year will be ninety-eight billion as opposed to one hundred and six billion.

MR. PAUL: The war expenditures have been dropped from a hundred to ninety-two.

MR. BLOUGH: At what rate will we be spending toward the end of the year?

MR. BELL: For war, probably at a rate of somewhere around eight billion dollars.

MR. BLOUGH: So that the calendar '44 would run substantially over a hundred billion dollars at this rate.

MR. BELL: No, I shouldn't think so. It might run well above ninety-two, but not over the hundred, I don't think.

MR. BLOUGH: I don't mean war, but total expenditures.

MR. BELL: Might, for the calendar year.

MR. PAUL: It would run at about ninety-six, if it is eight billion a year.

MR. BELL: It might, but I doubt it would average more than that. We don't know what the program will be next year.

MR. PAUL: Where does the rest of the Secretary's ten billion, and dropping the deficit, come in? That is only a drop of war expenditures of eight.

MR. BELL: There is an increase in revenue from thirty-eight to forty-one - three billion.

H.M.JR: Instead of wrestling with the thirteen billion dollar figure - we are faced with the cold fact that the Bureau of the Budget thinks the deficit will be ten and a half billion dollars less than they said in August.

MR. PAUL: We have got to meet that argument squarely, because you can't pass that off.

H.M.JR: It is a fact.

MR. PAUL: We have got to face it.

H.M.JR: The fact we have been talking about here is--

MR. PAUL: The only argument left is that the ten and a half billion is necessary for safe financing, even with that reduction.

MR. BLOUGH: Fifty-seven billion is a lot of money.

H.M.JR: Let me throw you another figure: If we wanted to keep the thing fifty-fifty, take forty-nine billion dollars' worth of revenue, or an increase of eight over the present. We need eight billion dollars.

MR. PAUL: That is fifty-fifty on the total, not the war.

MR. BLOUGH: That is fiscal '44.

H.M.JR: Forget the war; we are talking total expenditures, total revenue, deficit.

I want to sink in the figure; if we wanted to get it on a fifty-fifty basis, we needed another eight billion dollars.

MR. PAUL: But just talking of war expenditures, which we have estimates of in the past, it would only be half of ninety-two.

MR. BLOUGH: Plus all of the rest.

H.M.JR: But that doesn't help us any right now, not with the Budget figures all being out in tomorrow's papers.

MR. GASTON: If you figured it on that basis, that we should have half of the war expenditures, plus all the normal, that would be forty-six plus six, which would be fifty-two, which would require eleven billion dollars more revenue.

MR. PAUL: Yes.

H.M.JR: I can't talk war. I have got to talk total receipts and expenditures. That is the only thing I can talk. The point I wanted to get is that the net deficit as forecast by the Budget now is ten and a half billion dollars less; and the other figures I want to get over to you is that if we wanted to ask to keep the thing on a fifty-fifty basis I need an additional eight billion dollars revenue and not an additional ten and a half.

Now, what I want is some advice without trying to plant any seeds.

MR. WHITE: I think the approach might be a little different. Certainly the emphasis has to be different, in view of the fact that the original request was based on figures which were eight billion larger, and you have to justify, now, asking for approximately the same amount or a billion or two less, even though you are informed that the figure will be eight billion less. Either you didn't ask for enough before, or you should ask for less now, unless there is a shift in emphasis. And I think that shift in emphasis can take place and you can keep some of the best paragraphs here; namely, that to do with the public finance aspects of paying off the debt, and not the inflationary aspects. The more emphasis you place on inflationary aspects, the more you place yourself either in the position of not having asked enough before or being on weak ground now, because you have a reduction of eight billion in expenditures.

On the other hand, if you took the position--if you maintain the position--that what you asked for was as much taxes as you thought they could pay in order to keep the public debt from rising or to pay as much of the debt off at the very time when it is most easy to do so, then you can take the position that the reduction in expenditures is a very welcome assistance in the fight against inflation, but it is of no assistance in your demand that the proper fiscal procedure--or as close to it as possible--should be pursued; namely, that you want to get as much taxes as you can in order to maintain the fiscal position.

In the first place, I think those are the soundest paragraphs. I think the paragraphs on inflation are theoretical and exaggerated, in order to bring your point home. And I wonder whether you aren't placing yourself in that kind of a bungled position; because if you claim that there is just as much danger of inflation now as there was before, even though there is eight billion dollars less expenditure, how do you justify your not having asked for more before? How do you justify more drastic action? You can say something about inflation; I don't mean to say you can ignore it. But you have to soft-pedal that and increase the emphasis on the other.

H.M.JR: Let me just take that line for a minute.

All right, White, you feel you want another ten and a half billion dollars so that the debt on June 30 won't be two hundred billion dollars. If you don't get it, what do you think will happen?

MR. WHITE: Nothing serious. I think those are the facts of the case.

H.M.JR: All right, Mr. White, and you think nothing will happen. Then why put this extra strain on the people?

MR. WHITE: Because they can bear it best now, and because it is fairest to the soldiers.

I think there are some excellent paragraphs on that. In other words, I don't think you can expect to get ten bill dollars because you can show the people that unless they pay that extra ten billion there will be disaster. I personally don't think there will be disaster, and I don't think any reasonable-minded person would feel that it makes any difference whether your public debt is two hundred and fifty billion or two hundred billion from the point of view of disaster.

H.M.JR: I happen to agree with you, see? But I can get quite alarmed about the inflationary aspect; but

I can't get very much excited when the public debt is one hundred and ninety or two hundred or two hundred and twenty-five billion.

MR. GASTON: I just wanted to say, Harry says there won't be any disaster. That is right. You might put it this way: If ten million soldiers are preparing to go to the battle-fronts, you have just taken a thousand dollars out of each one's pockets. It won't cause any disaster, but if you are happy about that, all right.

MR. WHITE: I agree with you that you have a lot of good arguments, whether you put it in that form or not. There are a lot of good arguments for expecting the ten billion dollars or more. But there is many a governmental policy that you defend strongly because it is wiser policy of which the alternative is not disaster, merely that it is much wiser fiscal policy. You have enough good arguments. There are many good ones here.

H.M.JR: A disaster happened this morning. When I was up there for lunch--before the Senate--I told them that I felt the situation, as far as the deficit having changed any, wouldn't change any; that would be cleared up. I went away very happy.

MR. PAUL: That is what you were told, wasn't it?

H.M.JR: That is the impression I had. Bell said I had the wrong impression. Anyway, that is the impression and nobody contradicted me.

MR. WHITE: That is the impression I had, merely from the last meeting. I haven't heard anything between then and now, but in the last meeting I thought that the change which was made was merely one involving certain bookkeeping transactions which had been done before, and you were merely going to check up on that.

MR. SULLIVAN: That is true about the thirteen billion.

MR. PAUL: Budget has been telling me for the last two months there wouldn't be any reduction to any extent in that hundred billion.

MR. GASTON: They haven't been telling you the truth.

MR. HAAS: Dan has been using that ninety-two for months.

MR. GASTON: They all knew that the estimates had been scaled down.

MR. PAUL: I have had at least five sessions with Colm in which he has assured me - -

MR. WHITE: I don't know whether that should bother you very much. You are not responsible for that estimate.

H.M.JR: You know, all of these things are emotional. You go before eleven Senators. I told them, "By Thursday night you are going to get this statement that this thing isn't changed one bit." And now the thing is changed. I don't mind being made a monkey of; I'm used to that. But the fact remains, I was all set to go up there and say the thing hasn't changed. I have told it here. I am glad Paul and White were under that impression; and now suddenly it has changed to the exact amount I am asking. I'm in the damndest spot I have been in in years. I am not going to get sick over it, though.

MR. PAUL: One part of Harry's argument I don't understand.

MR. WHITE: Is there another way out of this, Mr. Secretary? I understand how you feel.

H.M.JR: Now, may I say what I wanted to do? The boys (Gaston, Bell, Smith) aren't with me. I wanted to do this thing differently. You are not going to kid anybody, and before they get through they are going to have the facts. I mean, they are going to know just what the facts are.

Now, what I want to say is this, and the first group don't agree with me: "Look, gentlemen, the Bureau of the Budget has just announced a new series of figures, which, frankly, were just as much of a surprise to me as they were to everybody else. Now we find that the deficit is reduced by ten and a half billion dollars, which is most pleasing to me. I am delighted. On the governmental side we find--now get this thing!--that there are ninety-eight billion dollars of total expenditures, estimated revenue of forty-one billion dollars--that is before you take in the House."

MR. GASTON: Yes.

H.M.JR: "Leaving a deficit of fifty-seven billion dollars, which is a reduction in the deficit as estimated between now and last August of ten, nine--practically eleven billion. I think that is fine. That will make my job very much easier.

"Now, that is on the governmental side. Let's look on the civilian side and see what has happened. On the civilian side the national income will possibly go down, maybe four billion dollars. Now, how about the production of goods? We are going on an estimate of eighty billion dollars, and so far I haven't been able to get any estimate of increase in civilian goods; so the amount of money in the hands of the people, instead of being one hundred and forty-three--don't check my figures, it may be one hundred and thirty-nine--billion dollars, when you get into those astronomical figures, how can you tell how much difference four billion dollars make? But the fact remains, there is going to be practically no more civilian goods. So the pressure is going to be practically the same on the civilian side from now on. Therefore, I say that the need for taxes to relieve that pressure is just as important as when I appeared before the Ways and Means. And I say to you that the people of this country can stand another additional ten and a half war taxes."

MR. PAUL: I think that is a good argument.

H.M.JR: Now, my consumer goods--maybe there will be one or two. But when you are talking in figures, whether the pressure is thirty-six billion dollars or forty billion dollars, what the hell! Nobody can figure them in those figures. But we know, and I think I am correct--George, have you heard of increase in civilian goods for the rest of this fiscal year?

MR. HAAS: We have revised it since July.

H.M.JR: Since October 4, when I appeared before Ways and Means?

MR. HAAS: I don't think so.

MR. WHITE: What is going to happen to this eight billion dollars that is being saved? Are they to be unemployed or producing civilian goods?

H.M.JR: Those are two different arguments.

And then I want to go into this whole talk. "I agree. I don't think that the inflation thing has been done as well as it could be done, but I want to talk about this thing that creeps up on you and nobody recognizes it until it is too late; that is the history of inflation. This thing is increasing. Last month the cost of living went up one and a half percent. In the rest of the world, some places, it went up five percent a month. And this, gentlemen, is the thing that I am worried about, and it is the only thing I am worried about in the economy picture."

MR. PAUL: What was the objection to that argument? It sounds good to me.

MR. SULLIVAN: You had another first paragraph about how this was all to the good, and you were surprised but delighted. I think you can amplify that a little bit and attract a lot of support you haven't had. In other words, you have been just as much concerned as everybody else. You didn't know what this debt was going to be, but you knew that it would get into pretty nearly unmanageable figures. And here is the first break we have had since Pearl Harbor, and here is a saving. That is fine. Now, let's make another savings in that national debt of ten and a half, and we have started on the road to get that back where we can handle it and where the annual financing charge will not be so large. And when you went up there and recommended the ten and a half, you didn't recommend that because you felt that that was what you needed to keep the debt down as low as it should be; you recommended that because that was the amount the American people could afford to pay in additional wartime taxes, and they can still afford to pay that amount.

MR. PAUL: That is right.

H.M.JR: Personally, I am just one in fifteen, but I think on that front there is something--on the front that Harry is talking about and Fred Smith is talking about, that I could just stand up there and beg for another ten and a half to keep the public debt from going up that much--oh, no.

MR. WHITE: Why approach it that way? Why not approach it from the point of view, not of making a dramatic plea or anything bordering on it. It is the Secretary of the Treasury coming up and saying what he regards as wise policy, what he regards as important policy, and the wisdom and the importance lie in the fiscal field of collecting ten billion more, because they can afford it, because it is desirable on fiscal ground, and because it is fair to those who are in the Services. Those are three important arguments.

Then you can also say that from the point of view of the inflation, nobody knows what is going to happen to prices. We know only one thing, that the less money people have in their pockets to spend, the less danger there is of inflation.

Your first introductory paragraph about what you are very happy to have heard, that is fine. I certainly wouldn't say I was afraid the debt would become unmanageable in proportion, because it certainly wasn't going to. I wouldn't say it was excellent news they were curtailing expenditure, because that may not be good news--but that they have bungled the production. I would say on the inflation front that we expect there will be more consumers' goods produced, otherwise you will have more unemployment, in which case you have got to take that into consideration. You can make a good argument and be restrained.

H.M.JR: You are trying to rationalize the consumer goods thing, when it isn't happening.

MR. WHITE: The point I am making is when you say they are going to spend ten or eight billion less on war goods in the next year, there is one of two things which must follow: Either you are going to have more unemployment than you expected, or they are going to produce more consumers goods. The reasonable assumption is you will have a little of each.

MR. BLOUGH: There is a third. The real thing is that the economists just didn't come through with the amount they thought they could get.

MR. WHITE: I doubt that.

MR. BLOUGH: That is what Nelson said last fall--it was going to go up about twenty billion dollars.

H.M.JR: Wait a minute, Harry, let's explore that a little bit further.

MR. BLOUGH: Harry says there are two alternatives: First we have more unemployment; second, more consumers goods. I think the more probable thing is that they expected the economy to produce more than the manpower, materials, and so forth, have been there to produce, and that is the reason we have a lower expenditure and that is the reason for the deficit.

MR. WHITE: Are you aware of the plants they are shutting down?

H.M.JR: I think he is talking facts.

Harry, you say very wisely this: Less for war, more for civilians or unemployment. Now, what is the answer. I think he (Blough ) has got the answer.

MR. WHITE: Let's examine the answer and the premise--

MR. HAAS: I have something, Harry, that might add to the discussion. Colm called me, and he has called me several times about it. This figure that was in the August revision was an estimate of what they thought the country's potential was, production potential. In other words, it would be a hundred percent war, and that was their estimate of what a hundred percent war meant to the country. You had this conference over here, and Harold Smith was over, about a month ago. Somebody asked him, "Do you think you are going to make those expenditure figures? He frankly admitted, "No," and he just got through issuing the budget.

H.M.JR: That got back to the President, and the President was angry. But the fact remains that Harold Smith was right.

MR. HAAS: They were estimating the potentials. Colm was to come over Wednesday, and got tied up with the revision. He was all disturbed about it, because we have to use another basis for estimating expenditure. I want to know what their expenditure estimate was to be, because I couldn't estimate the receipts, otherwise.

We in the Treasury, in our Sources of Funds and all the material we had and Dan's estimating for the Drive and financial requirements have used the exact figure which they put out--ninety-two.

H.M.JR: I know that, and I am not, also, going to say--because it makes me look stumped--that it comes as a surprise.

MR. GASTON: And I think you had better look at your statement before the Ways and Means to see whether a change in front is necessary. I doubt it very seriously.

MR. HAAS: You take Fred's statement. When he wrote that statement he knew these new figures.

H.M.JR: No, he did not.

MR. HAAS: I thought he did. It sounded like it.

H.M.JR: No, no more than White or Paul or I knew it.

MR. HAAS: That is funny. I read it, and thought he did. Except for some of the theatricals--you ought to cut down the inflation part, and you have a good statement.

MR. PAUL: You have the whole problem of post-war inflation in your shift of emphasis. No figure has cut down the individual savings, has approached that; you still have that problem in addition to the one you made about only a small reduction in national income.

H.M.JR: What I wanted to throw in as a suggestion, in order to make this thing on a fifty-fifty basis--fifty revenue, fifty borrowing--I have got to get forty-nine billion, which means I have to get eight billion more. What do you gentlemen think--instead of saying, "All right, in view of this estimate, instead of asking for ten and a half, I am asking for eight"?

MR. GASTON: I am not. I would use both ends, but I would center on the capacity to pay, in justice to our own future.

MR. PAUL: One more thing is the fact that we couldn't go above ten on account of all the statinnary incomes.

MR. GASTON: That is right. It is a question of capacity.

H.M.JR: What Hamilton Fish could have said about me if we had gone the original eight, eight.

MR. PAUL: That was the individual.

MR. GASTON: What I say about the Secretary's proposal to start with the statement that there has been a new savings--the new budget summation--and this changes the situation; I say it doesn't change the situation. You ought not to dignify it by giving it that importance. You still ought to concentrate on your main arguments and review the Budget figures later in the speech; but to start out by saying, "Here is a totally different situation, here are the new Budget figures,"--it is ruinous to our hopes of getting any additional revenue.

MR. WHITE: It is all in how you say it. I certainly think he ought to say that this news about a reduced budget is good news to him. How can he say other than that, when you are cutting the deficit eight billion?

Now, you can, however, then go along the line you have proposed. I don't think there is any disagreement on where we are. But I do think you have got to play down inflation, because how can you take the position that you have taken, namely, an eight billion dollar cut in consumers' expenditures, practically, or a large part of that, and say that even now the situation is as dramatic as this?

MR. PAUL: What is going to be the national income?

MR. WHITE: That relates to the capacity to pay.

MR. PAUL: It relates to inflation, too. It relates to the amount in excess of available goods, civilian goods.

MR. PAUL: I wouldn't do it.

MR. HAAS: I wouldn't.

MR. WHITE: I think you have to come down, if you make the argument on inflation, because I don't understand this. If there is more purchasing power that worried you--the potential was larger--, you have been informed that it is eight billion dollars less and you still asked for more, I can't understand why either you didn't ask for enough before or you ought to ask for less now. I don't think you ought to ask for the same amount.

MR. PAUL: You know why we didn't ask for enough before.

MR. WHITE: How is he going to answer the question that there are ten billions less spent than you knew when you presented us this tax bill? You now tell us there is going to be eight billion less spent than when you were going to ask for the other.

MR. GASTON: That argument is very easy to answer, Harry. We didn't base this on any arbitrary percentage. We based it on the moral ground and the prudent fiscal ground that we ought to levy in taxes now all that we can afford to pay without disturbing the economy, in justice to the returning soldier, in justice to our own future, in justice to the inflationary dangers, the huge amount of excess money that is about. We ought to levy all we can possibly levy.

We said plainly that we first considered income tax schedules of eight point eight billions. Then we examined the impact of those and thought they would be too heavy. We have adjusted our taxes on the level of what we thought was the reasonable capacity to pay and the minimum amount of what our people should now pay in justice to their future and the future of the soldiers. And that hasn't changed.

MR. WHITE: You haven't said a word that I wouldn't accept, and I didn't think we wouldn't agree with you on. But you are introducing, and the Secretary has in mind introducing, something beyond that, and that is to make the big play on the inflationary prospects.

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MR. WHITE: Then I maintain your figures before were wrong; your national income figures should have been ten billion larger.

MR. BLOUGH: The figures on the amount needed never were expected to be ten and a half billion. The President approved temporarily, and then changed a budget request which would have called for over twenty billion dollars of taxes in enforced savings.

MR. WHITE: I still don't see. Either your national income would have been eight or ten billion in August - let's assume they didn't make this mistake in potential, which is doubtless part of it - then, either there would have been a greater inflationary pressure, and your national income should have been larger, or the national income should have been the same and your consumer goods produced should have been lower.

MR. BLOUGH: George said he was using figures like the Budget was using.

MR. BELL: We have been using ninety-two to ninety-four.

MR. WHITE: Then you shouldn't have been using it. You can't have an eight billion dollar change and have your figures the same.

MR. PAUL: That is what George did. He suspected the figure.

H.M.JR: He suspected it, and ever since Tuesday we have been working on something without suspicion.

MR. WHITE: How could he do that without being informed?

MR. HAAS: Evidently we weren't careful enough to tell him that was changed.

H.M.JR: It isn't only me; leave me out. Paul has been working on his statement for two weeks.

MR. PAUL: That didn't come into my statement, but I have had many conferences with Colm going over these figures.

MR. HAAS: Colm always maintained the other. He called us up and didn't like our using something new.

H.M.JR: You fellows remind me of a lot of chefs who are going to prepare the dinner and fatten the ox before the dinner. I am the ox. I don't think it tastes as good, but let's hear it.

MR. WHITE: If I understand the discussion, and what you have said, I think there is substantially enough agreement so that Fred could now go and draft this thing, and with another conference among ourselves, we could draft something that could meet with your requirements and agree with us.

MR. SMITH: I say you have got to emphasize the two hundred billion dollars for mechanical reasons. If you shift the emphasis to what is going to happen this year, then they can pull something out of a hat and throw the whole business into a tailspin.

MR. WHITE: I certainly would never emphasize the two hundred billion, because it doesn't make one iota of difference.

MR. SMITH: I mean from the standpoint of paying off; not leaving it for the soldiers.

MR. GASTON: It is something to stick up there to look at.

MR. BLOUGH: I think it makes a substantial difference, incidentally.

MR. PAUL: I am assuming it doesn't; but it still goes big with Congress.

MR. WHITE: It seems to me the Secretary can be sound, conservative.

H.M.JR: You say ninety-eight percent in a very quiet kind of melodious voice. Now tell me what you think it is.

MR. WHITE: Yes, I will tell you. I can't state it better than Herbert stated it, which is, I gather, a little less spectacular - emphasis on inflation by elimination of some of the paragraphs; an introductory statement somewhat along the lines that you stated; the emphasis upon the necessity to get as much as you can, that you would have asked for more before, because you knew it wasn't enough in view of both your alternatives, except that you recognized certain practical limits of what you can get, and that that was the practical limit; and that the cut in the budgetary expenditures, being desirable, doesn't alter what the American people can pay and what they should pay under present circumstances, because of these various reasons.

H.M.JR: Well, let's see how Herbert would state it.

MR. GASTON: Well, I think I went over the main lines. I would go up and make the strong appeal for drastic additional taxation. "We presented detailed estimates to the House Committee calling for revenue of ten and a half billions; it is still our opinion that the American people can and should pay that amount."

I would use the two hundred billion dollar debt figure that we are facing at the end of this next year, a debt of two hundred billion dollars. "It is our moral duty to keep that debt to the lowest possible limits. It is our debt to our own future, to the future of the men who come back from the war, to keep the debt to the lowest; to pay every cent we possibly can without interfering with the functioning of our economy. The proposals we make, while they would pinch some people, will not cause suffering; they will not lessen the supply of goods available to the people of the United States."

Then I would use a little of the inflationary argument, which I think is still valid, but not to the extent that it is used in this draft.

I would revert to the figures after laying out our general position. Then I would allude to the figures brought out by the Budget and explain that this, being lower than

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Then I would use a little of the inflationary argument, which I think is still valid, but not to the extent that it is used in this draft.

I would revert to the figures after laying out our general position. Then I would allude to the figures brought out by the Budget and explain that this, being lower than we estimated, doesn't affect our capacity to pay, and it doesn't affect our obligation to pay all that we can possibly pay, and we still have a great inflationary pressure which has been held in check by a variety of controls, but which needs to be; there is still some inflationary effect, and we need to apply all the tax pressure that we can to reduce it."

MR. PAUL: I wouldn't even weaken too much on inflationary pressure, either; it is still there.

H.M.JR: Blough, where do you differ?

MR. BLOUGH: I am right with Herbert on that.

MR. BELL: I like that approach, too. I was wondering when you come to the Budget figures if you couldn't say that this ten and a half billion dollar reduction only affects one fiscal year, that you still have a large deficit of fifty-seven billion dollars, and when you go into the next year, you are going to have almost equally as large a deficit, and what you are doing is piling up inflationary figures which, if they are not effective now, will be.

MR. PAUL: That is very important - savings figures.

H.M.JR: Here is about where I stand now. Do you (Smith) want to get out your pencil?

. I think the important thing is this, that the Treasury has continuously been studying what they feel is the maximum amount that the economy of this country can stand during the war of war taxes; and that we came to the conclusion, after very careful study, that they could stand an additional ten and a half billion dollars, and nothing has happened in the picture to make us change that estimate.

Then go on and answer that; explain the benefits that come to the economy from having additional ten and a half; add inflationary, reduction of public debt, so forth and so on.

Now, where do we differ?

MR. PAUL: I think that is all right.

MR. SULLIVAN: There is no difference at all.

H.M.JR: Do you have anything?

MR. BELL: No.

MRS. KLOTZ: No.

H.M.JR: Surrey?

MR. SURREY: I want to add one thing. I think part of the difficulty we have gotten into here is due to the fact - I mean, I would recognize that the House has turned down the Treasury in a very startling fashion. I don't think we are going to get very far in the Senate. I think the document before the Senate should be a sound fiscal document, and not a theatrical document. I would give them a statement which I think would stand scrutiny next year as a true picture of why we need this money. I would leave out the theatrical, and so forth, and just say we have been called upon to reexamine this because of what the House did to our program, and then go on to that in a sober statement of what the situation is, because I think that will be the only effect of this statement.

H.M.JR: Well, some of the theatrical will be good. I like, for instance, the part where they quote President Coolidge, the three months before the crash.

MR. PAUL: I don't like that; I think you will be accused of politics. It was a different sort of economic picture in the '20's, it wasn't inflation.

MR. WHITE: You didn't have inflation in the '20's. It depends upon a very erudite and technical definition of inflation, which is not the kind of inflation you are talking about now. You didn't have rising prices.

MR. SURREY: I think the tone of the document is very important.

MR. PAUL: But it is all wrong from beginning to end. Certain ideas, I think, are very good, but I don't like the way they are expressed. I think the document is full of tactless statements which will be seriously resented in Congress. I think it is too theatrical.

MR. WHITE: I don't want to be with you on that. I think there are more good things in there than there are the others.

MR. GASTON: I agree with Randolph. There are some things that need to be changed. We make some direct slaps at the Ways and Means Committee.

H.M.JR: We tweak their noses too much.

MR. GASTON: They gave no consideration to the fact we are going to have that two hundred billion dollars, and so forth. They are accusing them of not looking at any of the essential facts in the picture. I don't think we can do that, but say we think they gave inadequate attention.

H.M.JR: Well, let Fred go into his huddle. Then let Blough and Surrey go in by themselves and see what they can do, you see, separately. Do you two work together?

MR. BLOUGH: Fine. Haven't scratched yet.

H.M.JR: I don't need a finished document. Could I have an outline right after lunch again, rather than giving me something you are not satisfied with?

MR. BLOUGH: We will be ready for you.

H.M.JR: I will wait. You people want one kind of tone. I take it Paul wants - I am not excluding you, but I want somebody to go to drafting. Let Fred and Herbert - do you want to give Fred some talk, or maybe Fred wants to consult with you - will you be available?

MR. GASTON: Yes, I will be available.

H.M.JR: Fred, you consult with Gaston and go ahead. Then we will have you fellows.

MR. BLOUGH: We can consult with Gaston, too.

H.M.JR: You might even consult with me.

MR. BLOUGH: He is a neutral observer.

MR. GASTON: I will be available.

MR. PAUL: The great white father.

H.M.JR: It is a terrific shock. I came back in the grandest humor. I was never happier than when I left the Hill. Then George coming out with his statement was very nice.

MR. HAAS: That is why I think it is important that you go Surrey's way.

H.M.JR: I don't know, but there is enough talent here. Let's approach it. Then after lunch if you boys aren't ready I will go for a walk and come back. I warned you all. I didn't know it would be as bad as this, but I can now see where it will be two o'clock Sunday morning before we put the thing to bed.

You (Mrs. Klotz) had better speak to Norman Thompson. Who does that mimeographing?

MR. SMITH: Public Relations.

MR. PAUL: They are all on notice.

MR. SMITH: They will be here all day Sunday.

MR. HAAS: Could I tell you something about this fifty percent, that rule of thumb you mentioned up here? These figures which the Budget put out applied to the fiscal year ending June 30. When you are considering expenditures from an inflationary standpoint, you consider what is ahead of you, rather than behind. Roy mentioned, what is the situation going to be by the end of the year? You can have a budget by day or year. At the end of the year the war will be about six; then add to that - it will be one hundred ninety-two. I would keep away from it. But the Secretary doesn't have to be stuck on the thing.

MR. PAUL: That is very true, George. It is the post-war emphasis.

H.M.JR: One thing, in writing the thing, when we talk about increased taxes, let's call them increased war taxes. You don't call that theatrical, do you?

MR. SURREY: No, that is right.

H.M.JR: All right, boys.

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET

For release, all newspapers,
Sunday morning, November 28, 1943

FD
No. 1

Budget Director Reports on Reserves and
Announces Revised Budget Estimates

Harold D. Smith, Director of the Bureau of the Budget, last night issued a clarifying statement on the relationship between current war expenditures and the $13 billion of reserves which have been set up for the War Department. The estimate of war expenditures for the fiscal year 1944 is being revised at the present time, but this revision is neither due to nor measured by the reserves which have been set up against appropriations.

"The $13 billion of reserves which have recently been set up against appropriations for the War Department do not reduce estimated War Department expenditures for the fiscal year 1944, as announced in the President's Budget Summation of August 1, 1943," the Budget Director stated. He added, however, that "revisions of the over-all war program since August now indicate that the $100 billion estimate of war expenditures for all Federal agencies in the current fiscal year should be reduced to $92 billion. Such revisions, as they occur, may make possible the placing of additional appropriations in reserve.

"Recent statements about the $13 billion of War Department reserves have been very misleading. The original January estimate of War Department expenditures for this fiscal year was $62 billion; after program revision it was reduced to $56 billion as announced in the President's Budget Summation. Thus, $6 billion of these reserves resulted from a decrease in the War Department program for the current fiscal year which was reflected in the revised expenditure estimates announced by the President on August 1.

"Another $4.5 billion of these reserves has been set up against 1944 appropriations which were intended for expenditure in the fiscal year 1945 or thereafter.

"The final $2.5 billion in reserves was due to an increase in the estimated amount of unobligated appropriations carried over from the fiscal year 1943. In acting upon the War Department appropriation bill for the fiscal year 1944, the Congress made available unobligated 1943 appropriations. These appropriations thus carried forward for use this year were then estimated at $12.5 billion. Amounts by which these appropriations carried over from 1943 exceeded the estimate used in formulating the appropriation bill for 1944 can be put in reserve.

"Thus, these reserves reflect savings which have already been taken into account in the August revision of estimated expenditures for the fiscal year 1944, or they reflect a reduction in expenditures of previous or future fiscal years. It would be erroneous to deduct these reserves from present expenditure estimates for the current fiscal year.

"In addition to these aggregate reserves of $13 billion against appropriations of the War Department, the question has been raised as to similar reserves for the Navy Department. The answer is that the program for the Army has been curtailed while the program for the Navy has been expanded. As a matter of fact, the Navy Department will require additional appropriations in 1944. Although very substantial cuts have been made in certain items of the Navy program, such as escort vessel construction, these cuts have been more than offset by additions in other items, such as additions to the authorized personnel and expansion of the landing craft program.

Revised Estimates of Total 1944 Expenditures and Receipts

"Careful reexamination of the war program has been continued since August 1. A special Joint Production Survey Committee under the Joint Chiefs of Staff has been established to review the program in close collaboration with the Director of War Mobilization and the procurement agencies. As a result, the war program is being continually revised. Additional reserves will be established whenever downward revisions make it possible.

"In the original Budget of January, total war expenditures for the fiscal year 1944, including net outlays of Government corporations, were estimated at $100 billion. In the subsequent Budget Summation of August, expenditure estimates for the Army were revised downward and estimates for the Navy and other war activities were revised upward, although the $100 billion total was left unchanged.

"During the first four months of the current fiscal year starting July 1, 1943, total war expenditures were running at an annual rate of about $87 billion. During this month they have been running at an annual rate substantially above $90 billion. They are likely to increase still further as the strength of the armed forces increases and as aircraft and shipbuilding production is further expanded.

"Because the reexamination of the war program is still in process, it is difficult to give a definite revised figure of war expenditures at the present time. It appears likely, however, that total 1944 war expenditures will approximate $92 billion, or about 8 percent below the last estimate of $100 billion. A revised estimate will be included in the President's Budget to be transmitted early next January.

"Estimates of expenditures for interest on the public debt and all other expenditures are not being revised at this time since little change is indicated from August estimates shown in the following table.

"Net receipts for the fiscal year 1944 were estimated at $38.1 billion in the Budget Summation of August 1. Recent estimates of 1944 receipts amount to $41 billion.

"The following table compares the deficit computation resulting from Federal receipts and expenditures as now estimated, and those presented in the Budget Summation (in billions):

| | Fiscal Year 1944 | |
|---|---|---|
| | Revised Estimate, Nov. 26, 1943 | Budget Summation Estimate, Aug. 1, 1943 |
| NET RECEIPTS | $41.0 | $38.1 |
| EXPENDITURES: | | |
| War (incl. net outlays of Government corporations) | 92.0 | 100.0 |
| Interest on the public debt | 2.7 | 2.7 |
| Other: | | |
| General and special accounts | 4.3 | 4.3 |
| Govt. corp'ns (excess of receipts) | -1.2 | -1.2 |
| Total expenditures | 97.8 | 105.8 |
| Excess of expenditures over receipts | 56.8 | 67.7 |

"Summarizing income and outgo developments," the Director of the Bureau of the Budget stated, "the prospective deficit from operations for the current fiscal year has decreased from an August estimate of $68 billion to an estimate of about $57 billion.

"As a result of these operations, the outstanding public debt, which amounted to $72.4 billion at the close of the fiscal year 1942 and $136.7 billion a year later, will rise to about $194 billion at the end of the fiscal year 1944. Another $3 billion of direct debt is required for the refunding of guaranteed obligations of Government corporations during the current fiscal year."

**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

DATE Nov. 27, 1943

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Revised Outlook on Excess Income of Individuals for the Fiscal Year 1944.

A revised statement on the 1944 Budget will be released tomorrow. With confidential advance figures from the Budget Bureau, we have made new estimates of income payments to individuals for the fiscal year 1944 and of the amount of excess funds expected to be in their hands.

The new revised budget estimates call for total Federal expenditures (including corporations) of $98 billions, $8 billions less than in the August summation. The total is divided between $92 billions of war expenditures and $6 billions of non-war expenditures (including interest). The whole reduction is thus applicable to war expenditures. Net revenues are now estimated at $41 billions, up $3 billions from the August estimate. The deficit for the fiscal year is now estimated at $57 billions, down $11 billions from the August summation. We have been anticipating such a reduction in the deficit for some time, and allowed for it in preparing our sources of funds material for the Fourth War Loan.

Using this new information we now estimate ~~that~~ income payments to individuals will amount to $148 billions for the fiscal year. This compares with the $152 billions estimate we provided for your use in the House hearings on the tax bill. The reduction reflects the decrease in anticipated war expenditures brought out in the new budget statement. In making the new estimate, it has been assumed that the stabilization front will hold.

There have also been changes in the estimates of the disposition of income payments, as is shown in the following table:

| | Estimates for House hearings | Revised estimates |
|---|---|---|
| | (In billions of | dollars) |
| Income payments to individuals...... | $ 152 | $ 148 |
| Less: Direct taxes on individuals (present law, Federal, State and local)............ | 21 | 22 |
| Equals: Disposable incomes......... | 131 | 126 |
| Less: Available goods and services. | 89 | 90 |
| Equals: Excess incomes (or liquid savings of individuals).... | 42 | 36 |

The reduction in estimated excess incomes from $42 billions to $36 billions would indicate some alleviation of the problem of controlling excess funds. The amount of these funds is still so large, however, that this reduction is of little significance. Current excess incomes to the extent of something like $36 billions must be immobilized and this immobilization is made more difficult by the fact that past accumulations exist in huge amounts. While we have been relatively successful in immobilizing excess funds during the war period, the funds have been placed to an unhappy extent in money forms of savings. This tends to indicate that the intention of the holders to really save is none too firm.

As you know, we have consistently urged that the concept known as the "inflationary gap" be abandoned. The term is widely misunderstood and it is extremely difficult to make satisfactory estimates of the amounts involved. One method consists of comparing the rate of liquid savings of individuals during a period in the recent past with the total of excess incomes in a future period and labeling the difference as "inflationary gap". For example, liquid savings of individuals at an annual rate of $32 billions during the fiscal year 1943 would be considered as "normal" and would be compared with $36 billions of excess incomes for the fiscal year 1944; the difference of $4 billions would represent the "inflationary gap". We believe this to be a misleading statement of the problem. The level of new liquid savings of individuals in a past period is hardly normal when it includes a large amount of impermanent savings in the form of currency and checking accounts which may break loose at any time. In other words, there is no assurance that the past level of savings will continue on an even keel in the future, let alone increase, without new measures of control.

Secretary Morgenthau - 3

The following table compares our new estimate of income payments to individuals for the fiscal year with tabulations for the last few years. The totals are broken down according to the three principal categories of uses to which income payments are put.

Uses of Income Payments to Individuals
Calendar Years 1939-1943 and Fiscal Years 1943-1944

(In billions of dollars)

| | Calendar years | | | | | Fiscal years | |
|---|---|---|---|---|---|---|---|
| | 1939 | 1940 | 1941 | 1942 | 1943 | 1943 | 1944 1/ |
| Income payments to individuals.......... | 71 | 76 | 92 | 116 | 142 | 130 | 148 |
| Less: Direct taxes on individuals (Federal, State and local)..... | 3 | 3 | 4 | 7 | 18 | 10 | 22 |
| Equals: Disposable incomes.............. | 68 | 73 | 88 | 109 | 124 | 120 | 126 |
| Less: Available goods and services......... | 64 | 68 | 77 | 84 | 90 | 88 | 90 |
| Equals: | | | | | | | |
| Liquid savings of individuals, or.... | 4 | 5 | 11 | 25 | 34 | 32 | ... |
| Excess incomes....... | ... | ... | ... | ... | ... | ... | 36 |

1/ Estimates based on the Budget statement of November 26, 1943, and on the usual assumption that the stabilization front will hold.

cc-Dr. White.



November 27, 1943
11:14 a.m.

HMJr: Hello.

George L. Harrison: Hello, Henry.

HMJr: Good morning.

H: How are you, sir?

HMJr: Pretty well. George, GitzGerald says you are going to be in New York Tuesday.

H: That's right. I have to go back. I had planned to go back Monday, then I changed on that, hoping I might see you then, but I understand....

HMJr: Well, I've got to make an appearance on the Hill Monday. How urgent is this?

H: Well, I'll tell you. They've got to make this appointment of this fiscal advisor on the Civil Affairs Group there in London.

HMJr: Yeah, they've been fussing with us over three months.

H: Well, I know they have and McCloy is away.

HMJr: Yeah.

H: And they are getting cables now from London: "For goodness sakes send us somebody."

HMJr: Yeah.

H: So, I don't like to stall on it any longer than is necessary.

HMJr: Yeah. Well, couldn't Hilldring come over Tuesday?

H: Well, the difficulty is that I con't think he knows the personnel or the personalities as well as I do. That was all. What we want to do -- may I talk just a half a minute now?

HMJr: Surely.

H: They -- of course, they tried Frazier. Frazier can't do it. I, personally, explored just on a purely tentative basis Charlie Spencer, thinking that he would be agreeable to you and I think he'd

H: Cont'd. do a good job, but he's got a situation which apparently makes it impossible for him to do it. Sproul was one of our first thoughts on it, and I think Sproul would be "tops" at it. The only difficulty is whether he could be spared in New York. That I don't know. Another name, and all of these are pretty much in one bracket, is Jay Crane, whom you used to know....

HMJr: Yeah.

H: ....and who probably is one of the ablest and best behaved and best negotiative and who was able to get more with the British and the French than anybody I know that's gone over there for a long while.

HMJr: Yeah.

H: I have great regard and respect for him and I think he's a terribly able fellow.

HMJr: Yeah.

H: So, if Sproul were out, I think that the next best bet would be to try Crane, but I think the important thing is to get somebody over pretty soon,

HMJr: Yeah. Well, I've -- I've been waiting to hear from McCloy. He never came back.

H: Oh, well, I didn't know. You see I -- it was all left high and dry when I got here.

HMJr: Well, he never came back on this thing.

H: Yes.

HMJr: Well, I frankly can't put my mind on it now. I've got this very difficult statement to prepare.

H: Yes. Well, I know you have.

HMJr: And I can't hit it, George, much before Tuesday.

H: I see.

HMJr: I'm sorry.

H: Well....

HMJr: But I mean, they have been actually -- it's somewhere between two and three months.

H: I know.

HMJr: Yeah.

H: And then there's one -- you went away and then McCloy went away and the thing is just hanging fire....

HMJr: Yeah.

H: And it's one of the things that I'd like to get cleaned up if I can.

HMJr: Yeah. Well, I've got -- I can't do more. I did my financing last week and there's taxes this weel....

H: Yeah.

HMJr: ....and after Monday I can talk about this.

H: All right. Well, now, I'll talk to Hilldring again and then call FitzGerald back as to....

HMJr: Yeah.

H: ....whether he'll come over alone on Tuesday or not.

HMJr: Okay.

H: If that's all right.

HMJr: Right.

H: First rate.

HMJr: Thank you.

H: Bye.

November 27, 1943
11:19 a.m.

HMJr: Hello.

Clarence LeHan: Hello.

HMJr: Morgenthau speaking.

L: Yes, sir. Good morning.

HMJr: How are you?

L: Fine, thank you. And you?

HMJr: Very well.

L: That's good.

HMJr: Look, LeHan, in the first place, thanks for cleaning up the Hickman place for me.

L: Yes.

HMJr: Now, I've got another deal on with a neighbor of mine by the name of Orme. I think you spell it O-r-m-e.

L: O-r-m-e?

HMJr: Yes.

L: Yes.

HMJr: Have you got a pencil?

L: Yes, sir. I have it right here, Mr. Morgenthau.

HMJr: Well, this is the thing: He has decided that he wants to rent my dairy.

L: Yes.

HMJr: And he will take the cow-barn and the house that Hoose lives in. Hello?

L: Yes.

HMJr: Plus the same fields, with the exception that I've taken out about 75 acres which I've plowed up for an orchard. You may have read about that.

L: Yes.

HMJr: Now, he wants to start April 1st.

L: Yes.

HMJr: And he has agreed to pay me $800....

L: Yes.

HMJr: ....and he wants two options of two years each, so he could take it for three years if he wanted it.

L: Two options?

HMJr: Yeah, of one year each.

L: Oh. One year each.

HMJr: One year each.

L: Yes.

HMJr: He has agreed to keep up the house and the cow-barn in as good repair as it is now....

L: Yes.

HMJr: ....which isn't very good. He also agreed to keep the hedge rows -- fence rows in as good condition as they are now.

L: Yes.

HMJr: Now, the important thing from my standpoint in this deal is that I can take all of the manure if I want to and put it on the orchard. I have an option on all of it....

L: Yes.

HMJr: ....if I want it. If I don't take it all, why, he will spread it on the farm.

L: Yes.

HMJr: But I have the right to all of it if I want it.

L: Yes.

HMJr: Now the other thing -- I didn't mention this to him, but I think I should -- I think I should put a limit on how much land he could plow up in any one year.

L: Yes.

HMJr: And I think that Hoose used to plow forty so I think if I said fifty acres, that would be the limit.

L: Yes.

HMJr: And that before he plows another fifty acres, say the second year, he would have to seed down what he had plowed up the previous year. You see? In other words, I don't want him to plow up my whole farm and not seed it down.

L: Not seed it down -- surely. Yes.

HMJr: I think that that is, very roughly, the deal. He's a contractor. He's a man of outside means. He's got two dairies that he's going to combine and put them in mine.

L: Yes.

HMJr: Frankly, I'm very anxious to have this cleaned up before the 11th of December when I have my sale....

L: Yes.

HMJr: ....so that when they say that -- I could announce it at that time that while I am selling these cows off, another 50 cows are coming in to take their place.

L: Yes.

HMJr: See?

L: Yes.

HMJr: And from my standpoint it's very important.

L: Well, I can certainly have it ready, Mr. Morgenthau.

HMJr: Right. Now, the other thing is that I told him he could have access to the premise any time he wanted it.

L: Access to what?

HMJr: The premises.

L: Yes.

HMJr: I mean any -- he doesn't -- I mean if he wants to move in part of it before the first of April, he can.

L: Yes.

HMJr: But he wants the lease to run from April to April.

L: Yes.

HMJr: Now, I think what you'll have to do when you get ready -- get it drafted -- would be to send for him and Bailey -- James Bailey.

L: Uh huh. Where?

HMJr: Bailey -- Bailey is my -- looks after my orchard.

L: Oh, yes.

HMJr: Do you know James Bailey?

L: No, I don't.

HMJr: Well, he's been present at all of the talks that I've had with Orme and he knows all about it.

L: Yes, and his address is just Fishkill?

HMJr: Well, it's Hopewell Junction.

L: Hopewell Junction?

HMJr: That is, Orme's is. I mean if you want to get hold of them....

L: Yes.

HMJr: Bailey's number is 3-4-3....

L: 3-4-3.

HMJr: Party F-2-3.

L: F-2-3.

HMJr: Yeah.

L: Yeah, that's Hopewell Junction?

HMJr: That's Beacon.

L: Beacon?

HMJr: Yeah. And it's best to get -- call Bailey between 12 and 12:30. That's the best time to get him.

L: All right.

HMJr: Or after 5 o'clock.

L: Yeah.

HMJr: But if you could rush this thing through, I just -- I don't want anything very complicated, but I -- I thought we ought to....

L: Now, what description am I going to use, Mr. Morgenthau?

HMJr: Gee, I don't know. The only thing I thought -- it's the same fields that have been turned over to the tenant before with the exception of this block....

L: Except the 75 acres that you have plowed?

HMJr: Which we have plowed.

L: Yeah, that was the same one that you had in the other lease.

HMJr: Yep.

L: All right. And then I can use that description and then say, "except that," and he'd have the cow -- he'd get the cow-barn and the house.

HMJr: Yeah. He gets -- there are other houses which he doesn't get, you see?

L: Yeah.

HMJr: He just gets the cow-barn and the house at the cow-barn.

L: At the cow-barn?

HMJr: Yeah.

L: Yes. All right. I think I can get it out for you. I can -- we're very short today. There's only about two of us in.

HMJr: Well, you've got until the 11th of December.

L: Oh, well, I'll have it out then -- I'll have it out before that.

HMJr: Well, I'll....

L: I'll get it out next week.

HMJr: Yeah, and so I could sign it, too.

L: Oh, yes, I'll have it down there and -- do you want me to send you a draft down below?

HMJr: Yeah.

L: I'll do that.

HMJr: And listen, young fellow, when are you going to -- when you going to -- I want to see it before he signs it.

L: Oh, by all means. I'll send it down to you.

HMJr: And when are you going to send me a bill for all this you've been doing this year?

L: Oh, I'll -- we'll get around to that, a little later.

HMJr: Well, don't wait too long.

L: All right.

HMJr: There may not be any money left.

L: (Laughs) All right, we won't worry about that.

HMJr: Well, incidentally, when this bill -- I'd like to get it into this year's -- uh -- I'd like to pay it out of this year's income.

L: All right. I'll talk to Judge Mack about it.

HMJr: I may not have any money next year, but I've got a little left this year.

L: All right, Mr. Morgenthau, I'll talk to Judge Mack.

HMJr: Thank you.

L: Thank you.

HMJr: Give him my best regards.

November 27, 1943
11:54 a.m.

Operator: Go ahead.

HMJr: Hello.

Dan Bell: Yes.

HMJr: Dan?

B: Yes, sir.

HMJr: I didn't understand -- did you call up Lee Wiggins or did he call you?

B: He called me, after he had talked to you.

HMJr: I see.

B: Yeah.

HMJr: Well, at the right time we can take this up?

B: Oh, I think so. There really doesn't -- we didn't put it in our statement as F and G and we've discussed it here with our own boys and we thought we'd let them stand, but it really doesn't make any difference. If they want F and G, I don't see that....

HMJr: Well, would you....

B: ....we should quarrel about it.

HMJr: ....talk to me about it sometime Tuesday?

B: Yeah. When we get ready to put out our circulars, why then we should make a decision on both of those points.

HMJr: Okay.

B: What they should get and also the formula. I told him that I didn't agree with his formula at all on the savings accounts.

HMJr: Yeah.

B: From which we can get a potential billion and six or seven hundred million.

HMJr: I can forget about it?

B: Yep. For the moment.

HMJr: You will remind me Tuesday?

B: Yes, sir, I will.

HMJr: I thank you.

B: All right.

November 27, 1943
2:30 p.m.

TAXES

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

H.M.JR: This is a terrible situation. All of Gamble's chairmen keep calling up wanting to have a bond drive.

MR. SMITH: The United Press man was in and says he has already written a story and says we can't possibly ask for more than five billion on this fifty percent operation. He said that you made it clear and the President made it clear that you were talking about war expenses. Three billion more than the House gave us is all we can ask for.

MR. BLOUGH: Just don't pay any of the other expenses?

H.M.JR: Who has a draft that is ready?

MR. SMITH: I have some stuff that is reorganized that would be pretty jittery yet, if anybody wants to hear it, and I think Roy has one.

MR. GASTON: I dictated a draft before lunch. My secretary has not quite finished writing it. It is about ten pages triple-spaced.

MR. PAUL: There are eight pages in yours?

MR. BLOUGH: I cannot tell a lie. I wrote a draft yesterday, and this morning after this meeting Stanley and I put some more in it.

H.M.JR: Let's do this, if you don't mind, anybody - I am familiar with yours (Smith's) as it was; I am not familiar with theirs.

You have asked them to bring yours in as soon as possible?

MR. GASTON: Yes.

MR. BLOUGH: Could we have that ribbon copy for the Secretary?

H.M.JR: I would like you to read it out loud.

MR. BLOUGH: All right, if I can still read.

H.M.JR: You wrote it yesterday, knowing what was in the budget?

MR. BLOUGH: No, no, but I wrote a draft yesterday. (Distributes copy of draft entitled "Proposed Statement of Secretary Morgenthau before the Senate Finance Committee," copy attached.)

H.M.JR: I was going to say, I wish you had taken Paul and me into your confidence.

I called up Gamble and said, "The Budget is getting out a swell thing. Five State chairmen have called up." I said, "You get hold of that Budget statement as soon as you can. That will take care of you."

MR. BLOUGH: This is the first half, just about. The last half will be in before I am through with the first half. Let me indicate the point of view from which it was written first. It was written from the point of view of a statement largely for the record. We hope it is readable, but largely it is a statement for the record.

We made some changes since this morning's meeting.

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

"A vital part of fighting a war is paying for it in the right way. That is the fiscal sector of the war. How well we are doing in the fiscal sector is measured in part by how much we are paying through taxes, how large is the deficit and how big a debt we are accumulating. It is our duty to the returning soldiers and to future generations to keep the deficit and the debt to a minimum. In doing so we not only help ourselves and our children after the war but we help stabilize the cost of living today.

"Let me present the reasons why sound fiscal policy requires much higher wartime taxes than are provided under existing law. One reason is a matter of simple arithmetic. Last month (October, 1943) the Federal Government spent ___ dollars more than it collected in revenue. In the fiscal year 1943 it spent over $55 billion more than the revenues. In the fiscal year 1944, under present law and the most recent budget estimates, we shall spend $57 billion more than we receive in revenue.

"The need for revenue is seen also in our mounting public debt. On October 31 the outstanding public debt was ___ billion dollars. On June 30, 1944, the outstanding public debt is expected to be ___ billion dollars. The annual interest on that debt is about ___ billion dollars. As the war continues, the debt, the interest, and the problems of repayment will grow larger and larger.

"Paying now through taxes a much larger part of the financial cost of the war will reduce the deficit and hold down the debt. It will do more; it will also help now to protect us against rapid and burdensome increases in the cost of living. About half of American productive effort is going into war equipment and supplies for our armed forces. These products are not available for civilian consumption. Yet our people are being paid for all they produce. They thus have far more money to spend than there are goods on which to spend it. There is a large surplus of income over goods. In 1944 it is expected to amount to $___ billion. If this surplus income should be spent the necessary and inevitable results would be black markets, ruptured price ceilings, substantial increases in prices and the cost of living, followed by tremendous pressures for high wages and farm prices, which would set in motion further forces in the spiral of inflation.

"Thus far, through admirable self-restraint and by price ceilings, rationing, credit controls, wage stabilization, war bond drives, and other measures, as well as by taxes already imposed, spending has been held down and prices have risen only gradually. But the continued and growing surplus of income over goods, to which might be added at any time some of the $___ billion of private savings accumulated over the past three years, is fire under the boilers of inflation."

H.M.JR: Make it "fuel" instead of what it is.

MR. GASTON: Make it "fuel for the fires of inflation."

MR. BLOUGH: "Day after day the continued pressure of surplus income has been cracking our price controls a little here and a little there and threatens to produce a major explosion. Our stabilization program is threatened at its foundations."

H.M.JR: What is the difference between the first and second paragraphs?

MR. BLOUGH: One is income, the other accumulated savings.

(Mr. Blough completes the reading of the first section of his draft through page 8.)

MR. BLOUGH: I have the rest here.

H.M.JR: It is a very good job.

MR. GASTON: Yes, a very good job.

(Mr. Bell entered the conference.)

MR. GASTON: I have some "purple passages" in mind that I like, but as a whole I think this is much better.

H.M.JR: (To Mr. Bell) Blough has read the first half of his.

MR. BLOUGH: I am sorry, I have given out all the copies.

(Commences reading of second section, page 9) "Another argument against higher taxes is that the American people do not believe in the dangers of inflation. If by inflation is meant the type where money becomes worthless, I agree that only a much harder, longer war than is commonly expected would bring us to that cataclysm. The danger now is not of that character. It is rather the danger of substantial and continuous and, at least in part, permanent rises in prices that would undermine standards of living and reduce the value of investments. Unwillingness to believe in the danger of inflation does not remove that danger. There are few indeed who have followed with care the developments of the recent past who are not concerned over the possible breakdown of the stabilization program. Much higher taxes are a requirement for meeting that danger. Taxes obviously cannot win the game alone, but they are a prominent member of the team.

"At another extreme the curious argument has been made that the deficit is so large, the Government debt so huge, and the inflationary possibilities of surplus income and accumulated private savings so great, that $10.5 billion would not help much and that therefore we might as well avoid the unpopularity of imposing additional taxes. If this point of view were seriously entertained by a majority, we would indeed be lost to the ravages of inflation. It would mean that we had given up even trying. But $10.5 billion is large enough to have very important effects on the deficit, the debt, and the inflationary pressure. It is almost exactly the total of all the reductions that took place in the Federal public debt over a 12-year period after World War I. In its direct effects on spending, in the assurance it gives that the Government takes its debt seriously, and in the sobering influence it will have on public understanding of the true cost of the war, the $10.5 billion increase will be immensely beneficial.

"It has been said that the American people cannot bear this additional tax burden because our per capita taxes are above those of our allies, Canada and Great Britain. The conclusion does not follow in any event, but the statement itself is misleading. It is the amount of income from which the tax is paid that determines how burdensome the tax will be and personal incomes here are larger than in Canada or Great Britain. If practically any citizen of the United States lived in Canada or Great Britain and had the same income there, his taxes would be substantially higher.

"I hope you agree with me that the excuses given for not raising taxes are not worthy of serious consideration in the face of the serious needs for increased revenue.

"I shall not go into the details regarding the Treasury proposal or the House Bill. I shall leave such matters for Mr. Paul to bring to your attention. There are, however, a few basic points that I wish to emphasize here.

"The first point concerns the distribution of the burden of additional taxes. Under the Treasury income tax proposals about one-half (ck.) of the proposed increase would fall on persons with incomes of less than $5,000 and about one-fourth (ck.) would fall on persons with less than $3,000. For all the tax proposals combined, the distribution among these income groups of the increased burden would be approximately the same."

H.M.JR: All tax proposals combined?

MR. PAUL: Including the corporate and the excises.

MR. BLOUGH: It makes the ten and one-half billion.

"This proposed distribution of tax increases was determined on after studying the problems of equity and of inflation. Basic minimum standards of living are necessary if morale and production are to be maintained. Tax policy must seek to protect these minimum standards. It is the surpluses of spending power above the basic minimum that present the inflationary problem and the possibility of its solution. The income tax exemptions suggested by the Treasury represent this minimum on the average: if anything they may be too low. Although about four-fifths (ck.) of the total income is received by persons with incomes under $5,000, less than two-thirds (ck.) of the income above exemptions is received by this group. Likewise, although about 60 percent (ck.) of total income is received by persons with incomes under $3,000, only about 40 percent (ck.) of the income above exemptions is received by this group. When it is considered that the higher incomes represent greater ability to pay and give rise to less important spending, the proportions of burden distribution proposed under the Treasury proposals are, we believe, reasonable and sound."

H.M.JR: Just one thing, what were the exemptions under the Victory Tax?

MR. BLOUGH: Six hundred twenty-four.

MR. GASTON: For everybody, married or single.

H.M.JR: What did we recommend in this bill?

MR. BLOUGH: Eleven hundred - five hundred for individuals, and eleven hundred for married couples. It was three hundred for dependents.

H.M.JR: What was that before?

MR. BLOUGH: Twelve hundred. We raised it from six hundred twenty-four to eleven hundred.

MR. GASTON: Twelve hundred and three-fifty. We could cut it to eleven hundred and three hundred.

H.M.JR: What?

MR. BLOUGH: Individuals were left the same at five hundred. Married couples were previously twelve hundred under the income tax, and we made it eleven hundred. Dependents were previously three hundred and fifty, and we made that three hundred. The effect, of course, was not the way it sounds, because the effect was--

H.M.JR: Are we going to do that again?

MR. BLOUGH: I certainly think we must if we expect to get the Victory Tax and minimum tax out of the law. As a matter of fact, it does not raise taxes for people under eleven hundred seventy-five dollars even with all our tax increases, which we won't get. Married couples begin to pay higher taxes even with our increases only at eleven hundred seventy-five. Married couples with two dependents would begin to pay taxes only at about sixteen hundred and fifty dollars, so it is not what it looks like.

H.M.JR: Are the tables coming along?

MR. BLOUGH: Yes.

MR. SURREY: We are going down on the income tax, but coming up on the Victory Tax, and that about meets the eleven hundred.

MR. PAUL: There are only two alternatives now.

MR. BLOUGH: We have the original, two alternatives, the charts the Secretary asked for, and so forth.

MR. PAUL: The Secretary spoke of several plans at lunch. That would make a total of three. You really can't have much more than three and make the variation significant.

MR. BLOUGH: (Reading) "The second point I would like to discuss about the Treasury proposals is the fact that they do not include a general sales tax. The sales tax has been held out to the American people as the great panacea, the one source from which the war can be financed. Let us see what the facts are."

I have some misgiving about having this, or as much as this, but I will go through it if you wish.

H.M.JR: Yes, let's do.

(Mr. Blough continues reading from page 13 through 17.)

MR. GASTON: Not repealed.

MR. BLOUGH: Well, eliminated.

(Mr. Blough finishes reading of his draft.)

H.M.JR: Well, I think it is very good. This is my first impression: I would go through page 8 and then I would skip to 18. I would leave out from 9 through 17.

MR. GASTON: You would leave out the sales tax?

H.M.JR: Leave out everything.

MR. PAUL: Let me say this--

H.M.JR: Leave out everything from page 8 to 18.

MR. PAUL: There are several things on those pages that I can cover if you don't want to.

MR. WHITE: I would like to make a plea for not doing that for this reason: This is not a speech, and therefore the time factor is not as importent as it is in a speech. It is what the last paragraph has indicated, a sober, restrained statement by the Secretary of the Treasury on an extremely important matter. For the record, I think that the Senate will study it. I think they will read it. I think others will read it. I don't think there is the same necessity for cutting as there would be usually in your statements. I think it can be cut in part, but I think there would be some loss in deleting it.

H.M.JR: I don't know whether I am right, but my thought is that what I am doing in nine pages here is to make a plea for ten and a half billion dollars and giving them good reasons. Then the rest of the thing goes into questions and methods. I just question as to whether I should go into the methods.

MR. PAUL: I would like to make two suggestions. I would like to see you on record on that simplification issue, a short statement, perhaps even shorter than the one there. On the part in between simplification and page eight, I think those things ought to be said. They ought to be on the record. I don't think it is vital that you say them.

H.M.JR: I am willing to say that or anything else.

MR. WHITE: I would go further, Mr. Secretary; I think not only is it important that you stress the total magnitude as you do up to page eleven, but it is also important as to what tactics, or at least important as to the amount. I think the argument begins here against a sales tax with certain minor changes. The argument that is given here of simplification is simply stated. There are parts in which it drags, because the minute you begin to get into figures - but again, I don't think that is important in this kind of a statement as it would be in a speech. I think that the additional time which is called for for these four or five pages - I think the content is worth it with some polishing and fixing up. I think that not only is it all right in here, but I think it is your responsibility to take the position on major matters like a tax of the character of the sales tax which is in the forefront of everybody's mind, and also in favor of simplification.

MR. PAUL: I am inclined to agree with Harry about the sales tax. I was thinking of some of those other rebuttal arguments.

MR. BLOUGH: The distribution of four out of five.

MR. PAUL: I was first inclined the other way, but here is the way my mind is working on the sales tax: You are going to get asked anyway. You might just as well put it in your statement and have it in mature form so you don't have to pull it all together at the last minute.

H.M.JR: Of course the advantage to reading a statement is, they always let me read it without interrupting me. Chances are, papers like the Times and Tribune are very apt to run this thing in full, but when you begin to get into arguments--

MR. PAUL: That is another argument with the same effect.

H.M.JR: The chances are, whatever I say will be run in full by papers like the Times and Tribune.

MR. WHITE: There were a couple of points in which this could be improved. It drags because the material is more difficult, particularly when you get to the distribution of the various taxes, and I am sure that Fred and Herbert could improve that. I would be sorry to see much of this left out.

MR. PAUL: I agree with you about the sales tax, which is the long part of that.

H.M.JR: Well, you have changed then, haven't you? You were opposed to my saying anything on the sales tax.

MR. PAUL: I wasn't too much opposed, but I am inclined to think you should now. Clark told me the other day - Senator Clark was sitting next to me at the luncheon - he said, "He is going to get the questions; he might just as well say it." He has strongly emphasized that you bring out that argument which is set forth there, about how you whittle away with exemptions and have nothing left.

MR. WHITE: Isn't the decisive argument the fact that that is apt to get before the public, whereas if it isn't in this speech it has the less chance of getting before the public?

MR. PAUL: That is a good reason for putting it in. The only question in my mind is whether the Secretary should answer arguments which have been made against it; and I don't think that is very important. If we can get it in there, I can put it in, or we can.

MR. SURREY: I think that is part of the picture, Randolph. I think the statement of his reasons and turning around and answering the objections that the Congress has raised and that part of the press has raised should all be in one document.

MR. WHITE: This isn't too long. For a task of this kind, appearing before the Senate on an important issue of this character, I don't feel that eighteen or twenty pages is too long. It needs a few "purple passages" somewhere along in there to kind of lift them up.

MR. GASTON: I like it very well as it stands.

H.M.JR: John, you have raised your finger three times, I am nervous.

MR. SULLIVAN: I am not. I have a suggestion; I don't know whether it is any good or not. When it was first read, I thought it would be a good idea to take out the sales tax discussion, and the reason I thought so was because the rest of it flows along so well; and the rest of it, as you suggested deleted, makes one of the most effective short pleas for additional revenue that I have ever heard. I think it is a perfectly grand job. Now I am more or less inclined to agree with Randolph, that one of the purposes of this talk is to lay the ghost of the sales tax and get it before the people. Now, I wonder if you can accomplish both of those things by having a deleted talk as you suggested and then also have another statement already mimeographed.

H.M.JR: No, no good, John.

MR. PAUL: That won't get in the papers.

MR. GASTON: I don't think so.

H.M.JR: Whatever they want to put in from the mouth of the Secretary of the Treasury, it had better be in one statement.

MR. SULLIVAN: Then I would have to vote to include it in there, Mr. Secretary. The people of the country still think this is the white rabbit, the sales tax. I assume though you have checked those figures, but I don't see how you get down to eight hundred million.

MR. SURREY: You get down there all right.

MR. SULLIVAN: It is too good to be true.

H.M.JR: Have you something about this? Do you like it the way it is?

MR. SURREY: Oh, yes.

MR. PAUL: He helped write it.

MR. SURREY: I think it is the right tone and the right approach at this time.

MR. HAAS: I like it, Mr. Secretary. I feel strongly that the sales tax element should be in. There are many thinking people, not politically minded at all, that think the Administration isn't serious about this tax question, because why are they opposed to sales tax. Many an economist used to advocate that. I think we have to dispose of it, and it is done very well in there.

H.M.JR: There is one argument I am surprised nobody used, overlapping with municipalities on the sales tax.

MR. PAUL: That isn't too good an argument. It is rather an effective argument with Congress, though. We have used it when we were up against the wall.

H.M.JR: I am just throwing it out.

MR. WHITE: It doesn't imply they couldn't use the sales tax.

MR. SULLIVAN: It means you get unequal treatment in different States.

MR. PAUL: You do, without a sales tax.

MR. SULLIVAN: But I mean that disparity is handled there.

MR. PAUL: You might have a sentence there that it is hard to integrate, because it appeals to some of those people.

MR. GASTON: We do overlap on other taxes.

MR. PAUL: You get the right answer to the wrong reason sometimes.

MR. GASTON: We overlap on excise taxes.

H.M.JR: You haven't said anything.

MR. WHITE: I think it is fine. I think it does an entirely different job from the job we were talking about three days ago; and as such, I think it is a good document. It is a good document for the record. I don't think there is anything in it that will be picked up by newspapers for propaganda value, but probably it won't do you any good, anyhow.

H.M.JR: Let's put it another way, Fred. Let's put it on the straight basis of trying to get something done, see? We think that this approach has a chance of impressing.

MR. SMITH: Honestly, no. I tell you why: I think the only possibility of getting anything done is to crowd the newspapers up around the Senate. I mean, you have to talk right over their heads and talk to the newspapers and make it as embarrassing for them as possible to alibi out. In order to do that, you have to talk very straight, and I think - it is just my impression - you have to make a statement that is calculated to do that, a propaganda statement purely and simply, which this isn't. But I don't think you are going to get anywhere anyway, so you might just as well have a good record. I mean you might as well make a solem document.

MR. WHITE: Don't you think this would impress the editors?

MR. GASTON: I think so.

MR. SMITH: I think it would impress a lot of editors of the New York Times caliber, but nobody would read it after it got in the papers. Having it appear is one thing, but having anybody read it after it appears is something else again. That is the big catch in this whole business.

MR. WHITE: Is it your thought that there ought to be a few paragraphs they could pick out?

MR. SMITH: It is my thought that if you are going to aim at that you might as well do a good job and make a propaganda speech and not a document. I don't think you can mix the two.

MR. WHITE: Then I certainly would vote in favor of this kind.

MR. PAUL: I think we can get some of the things in your speech, Fred.

MR. SMITH: I am talking about the whole approach, not my speech.

MR. PAUL: You are talking about no compromise between the two, but there is.

MR. SMITH: You won't do either job very well when you are through.

H.M.JR: I agree with Fred. It ought to be one or the other, and I won't mix it. I would either have it a document, a statesman-like document in the character of the form of Secretary of the Treasury, or I would give a straight propaganda speech directed to the public.

MR. SULLIVAN: This is a sound, dignified, serious, considered statement. I think a "purple paragraph" will spoil it.

MR. GASTON: In the spot you are in now I think this is the kind of statement that is called for.

H.M.JR: I don't want to impress, but I think Fred is being a good sport; I don't know whether I would be as good. I have been calling you up three times a day to do the kind of thing you did, and it was a swell job. Fred is only doing what I have asked him to do. I have been calling him up all hours of the night giving him suggestions, and the Coolidge business and all that was my idea.

But in view of all of this change in the Budget picture, I would like advice as to which approach to take.

MR. SMITH: My advice on that isn't very good, because I am a publicity man and I would normally choose the other way, the same as Roy would choose this way. But I am outvoted, and this is a democracy so I certainly will go along with the crowd. As a matter of fact, as I say, it doesn't make a hell of a lot of difference anyway, because you are not going to get it. So you can make up your mind in a democratic sphere which way you want to do and do it.

H.M.JR: The only thing that bothers me is, it takes courage to write the one you wrote at my instigation and I feel I am running away from it when I do the one that Roy has written.

MR. SMITH: The one that I wrote was overdone. It very much overdid the business of tweaking the tail of the House. I wouldn't recommend that you do that, either. But at the same time it is a question, as I say, of taking your choice.

MR. WHITE: I don't regard this speech as in any way running away from a problem. On the contrary I think you are meeting it squarely and making the kind of statement which I feel - I am not as good a judge as you, but it seems to me this kind of a statement has a better chance of stirring the Senators up to a realization of what they are confronted with. It is a kind of sober statement, and I would like to put in a few caveats about some of these things. It is even an understatement, which is very effective, and it is the sort of thing which it appears to me a Senator reading after he gets through listening would shake his head over; and it gives them pause. I think the kind of spectacular speech which is good over the radio to the public goes over their heads like a tent. They are used to that stuff. They discount it.

MR. SMITH: They are talking to the public, and that is the only think that they are afraid of. You can't convince these Senators, because they have to be elected and be popular, and they won't want a raise in taxes. The only thing you can do is put them in a corner.

MR. SURREY: If you want to go on the air and make your kind of speech, that is the place for it. There is a place for your kind of statement and a place for Roy's. Your statement is the kind you make over the air.

MR. SULLIVAN: This statement has more simplicity and will be more readily understood and appreciated by the man on the street than any Treasury statement I have ever read. You don't have to know anything about taxes.

MR. WHITE: The point is, nobody will read it.

MR. SMITH: That is my point. The only other thing that occurs to me is that our basic signals on this were that we weren't going to make any - you weren't to make any specific proposal. You were going to ask for ten billion dollars and leave it up to the Committee. I think if you are going to leave it up to them you ought to leave it up to them or change your mind. That was the last time we had any signals.

H.M.JR: I think I ought to call up Colonel Halsey; if he isn't there, I'll tell him, Biffle, that when I met with them for lunch this week and told them I thought the Budget was going to come out with these figures that is what I thought, and I am terribly embarrassed because I told them this and I wish he would get word to them before I meet with them Monday.

MR. WHITE: I wouldn't say I was embarrassed, Mr. Secretary, because that sounds as though--

H.M.JR: I am embarrassed.

MR. SULLIVAN: There is no use of saying that, but you have to get to every one of them, because if you don't, the minute you finish the statement they are going to ask you about the same thing and think they are being helpful, following up the conversation you had with them.

MR. WHITE: Are you going to talk to each one personally?

H.M.JR: I will ask Halsey to do it briefly.

MR. WHITE: How many did you talk to?

H.M.JR: Eleven.

MR. WHITE: You don't think you could tell them personally?

H.M.JR: That is Biffle's job, anyway. They have a good organization up there.

MR. WHITE: I think it is a good suggestion.

MR. SULLIVAN: They will be caught flat-footed and will ask you questions, thinking they are helpful.

H.M.JR: I called up Ted Gamble and said, "Ted, be sure to get hold of the Budget statement; it will answer all your State chairmen." There are fifty-one State chairmen. Heavens, you couldn't get anything between him and a floor today, he was so flat. I have to do something for him, but I don't know what.

MR. BELL: I don't see how you got the impression there wasn't to be any change.

MR. PAUL: I got that impression, Dan.

MR. BELL: I mean in our conversations here. I don't see how any impression could have gone around here that there had been no change.

MR. PAUL: A very insignificant change.

MR. BELL: I don't know how we could put out a Budget summation like the last one.

MR. WHITE: We said, "Has it been done before?"

You said, "I don't think it was the same amount," that "that was almost a regular practice."

MR. BELL: There is no change in the Budget situation as a result of the thirteen billion. That statement still stands.

MR. WHITE: There was nothing else to my knowledge that entered in.

MR. SULLIVAN: I think we thought the thirteen was an addition to the other thing we knew about.

MR. BLOUGH: My impression was this: Up until the last time we met here I thought there was going to be a substantial change. At this meeting I got the impression that I was mistaken and that the Budget had already made the change last August.

MR. BELL: So far as the thirteen billion was concerned.

MR. BLOUGH: That probably carried over, because I did have the impression. I was mistaken.

(The Secretary placed a call for Colonel Halsey.)

(The Secretary placed a call for Mr. Biffle.)

MR. WHITE: I think there is something else, Mr. Secretary, I might mention about this speech.

H.M.JR: Let me wait a second, will you.

Where is yours, Herbert?

MR. GASTON: It is here.

MR. PAUL: Some parts of yours could be worked in here.

MR. GASTON: As I say, mine is not a complete job. I did it in less than an hour. I wouldn't suggest it as a substitute for Roy's. I think his is a good, thorough, comprehensive job, and the kind of statement you ought to make. I think further Roy's statement as a long-run job of public relations will be better for you than a statement which uses words and phrases which might hit the headlines tomorrow.

Do you want me to read this?

H.M.JR: Yes, but before you do it I want to say one thing. Now, talking there, Paul sitting next to Clark, changed Paul over to the importance of my saying something about sales tax. You see? It converted you. What was going through my mind is, I think it would be terribly helpful if somehow or other we could show this to one or two Senators tomorrow before I read it. They are always so friendly; and there is no use showing it to George. He always agrees, anyway.

Has anybody ever shown anything to Biffle before we went on the Hill?

MR. SURREY: No, not that I know of.

H.M.JR: How intelligent is Biffle?

MR. SURREY: I don't know him very well.

MR. GASTON: He is a very able fellow.

MR. SULLIVAN: If you show it to anybody, you have to show it to Senator George.

H.M.JR: But you could show it to Biffle.

MR. SULLIVAN: I agree with Herb, he is a very able fellow, and I am very fond of him. But I doubt if he would be helpful.

H.M.JR: Well, I don't know. I don't agree with you. This experience I had up there at lunch today - if you could go into the Judge's Chamber before you appear before him and have a little talk--

MR. SULLIVAN: But the judge is those eleven Senators, not Les.

MR. BLOUGH: But Mr. Biffle between now and Monday morning at eleven, or whatever it is, will not have a chance to talk with the eleven Senators. If you want to get it to them, you have to take it to them.

MR. GASTON: The only one you can take it to is George.

MR. BLOUGH: Barkley, perhaps.

MR. SULLIVAN: He is in Kentucky today.

H.M.JR: Go ahead, Herbert. Did you want to say something, Harry?

MR. WHITE: I have one further addition as to why I think this is the type of statement - it seems to me that you are responsible in a discussion of this kind to the Senators, and I don't think it is in your province to talk over the heads of the Senators at this stage. If you want to talk to the people, you go on the air; but this message is one from an administrative Cabinet Officer to the Senate; that is in defense of this type.

H.M.JR: May I have the last word? I agree with you, but if you want to get something done, see, on this front, then you have to go over their heads. Mind you, it would make them sore and most likely ruin my effectiveness, but if you really wanted to get something done you have to go over their heads. Now, I asked yesterday - I was asking this fellow, Lee Wiggins - a small town fellow - about a seventy-five thousand dollar capitalist - a damned shrewd fellow - I said, "How do they feel, the constituents?" He said, "Everybody is for higher taxes as long as it doesn't hit him."

MR. PAUL: That is a cross-section of America.

MR. BLOUGH: Do you consider going on the air at all?

H.M.JR: I haven't considered doing anything beyond making my appearance. I haven't seen Paul's statement. I take it Paul will dovetail his in with mine.

MR. PAUL: Certainly. That is one reason why I want to find out what you are going to cover. I can take out some things, or--

H.M.JR: Let's go ahead with Gaston before we break up this afternoon.

(Mr. Gaston commences reading of draft of statement, attached)

(The Secretary held a telephone conversation with Colonel Halsey, as follows:)

November 27, 1943
3:08 p.m.

HMJr: Hello.

Operator: No one answers in Colonel Halsey's office.

HMJr: Well, now, see if you can locate Mr.. Biffle.

Operator: Mr. Biffle? All right.

HMJr: He is....

Operator: Yes, I know him.

HMJr: You know who he is?

Operator: Uh huh.

HMJr: It's quite important and even if he's at home I want to talk to him.

Operator: All right. I'll get him.

HMJr: Biffle.

3:17 p.m.

Operator: Go ahead.

HMJr: Hello.

Edwin A. Halsey: Hello.

HMJr: Halsey?

H: Yes.

HMJr: Morgenthau.

H: Yes, sir.

HMJr: I hope I haven't disturbed you.

H: Not at all.

HMJr: Are you at home?

H: Yes, sir.

HMJr: Look, when I came up there the other day at that luncheon which you were kind enough to arrange, I told the Senators that I was under the impression that the net result of the change in this Army $13 billion would be that we would be just where we were before. In other words, that we were going to go ahead and spend just as much.

H: Yes, sir.

HMJr: Now, the Budget late last night got out a revised estimate of their expenditures....

H: Yes.

HMJr: ....which will be released in tomorrow morning's papers.

H: That's right.

HMJr: And we now find that -- I'm afraid the impression I gave them was wrong and that the deficit is going to be reduced by about $11 billion.

H: Uh huh.

HMJr: Now, I want your advice....

H: Yes, sir.

HMJr: ....because I don't want those people to feel that I willfully misled them.

H: No.

HMJr: Because I never was treated nicer.

H: Well....

HMJr: And on the other hand, how can I get that to them before I have to appear before them on Monday at ten o'clock?

H: Well, this -- this happens to be Saturday at "four twenty".

HMJr: Yeah, I know.

H: I'm taking into consideration the exact time.

HMJr: Yeah.

H: That's Monday.

HMJr: Yeah.

H: I don't know.

HMJr: Could Biffle do something bright and early Monday morning?

H: Who?

HMJr: Biffle.

H: No.

HMJr: No?

H: Forget it.

HMJr: Forget it? Well, think it over, will you?

H: Where are you?

HMJr: I'm at the Treasury.

H: Where are you going to be all evening?

HMJr: Home.

H: Well, give me your number.

HMJr: North 8-8-9-8.

H: North 8-8-9-8?

HMJr: Yeah.

H: 8-8-9-8?

HMJr: Yeah.

H: Let me call you a little later.

HMJr: Right.

H: Right.

HMJr: Thank you.

MR. GASTON: When he (Halsey) said "evening" he meant the way the Southerner did. Evening begins at one o'clock.

H.M.JR: He is tight.

MR. SURREY: He said it was four-twenty, didn't he? (Laughter)

H.M.JR: He says, "Where are you?"

(To Gaston) Go ahead.

(Mr. Gaston continues reading of paper)

(The following interpolation occurs on Page 3, line 6.)

H.M.JR: You (Blough) didn't say anything about the debt.

MR. BLOUGH: I had to use blanks; that is why it didn't sound like anything.

(Mr. Gaston completes reading of paper)

MR. SULLIVAN: Very good, Herbert.

MR. PAUL: Certain parts of that I think could be worked in.

MR. WHITE: Certain sentences I think should be included.

MR. GASTON: This is not a complete statement.

MR. BLOUGH: There is a lot in there that is better than in mine.

H.M.JR: How can we meld this thing?

MR. BLOUGH: Turn it over to Herbert.

MR. GASTON: I would turn it over to Roy. He has a good sound foundation there.

MR. BLOUGH: But you can put some life into it.

MR. SMITH: I wouldn't. I would turn it the other way. I like that one better. If he has the time - I have done the best I can. I would like to see him put some life into it. I recognize I write stuff pretty dead, and he has some lovely material.

MR. SURREY: Yours has an orderly arrangement which is easier to follow, but I think Herbert's way of putting things is better.

H.M.JR: As people seem to like the way Roy handled it, why not take Blough and Stanley and let them take Gaston's, you see? After all, what we are trying to do is take some of the good things and meld into your statement. Right?

MR. BLOUGH: May we not use some of Fred Smith's, too? There is some very good stuff in that statement which I would like to use.

MR. SMITH: I would keep it documentary.

H.M.JR: What I would do is this, Roy: When do you think you would be available again? When do you want to see me again? It is half past three, now. Half past eight?

MR. BLOUGH: I think we ought to be in position by that time, surely - perhaps sooner.

MR. PAUL: I would like to ask you two things.

MR. GASTON: Then you fellows want to come in and show it to me?

MR. BLOUGH: Yes.

MR. PAUL: May I ask two questions?

H.M.JR: They will show it to you before eight-thirty?

MR. GASTON: I was thinking, if they got ready with some of this amalgamation by five or five-thirty, they might want to show me something.

MR. BLOUGH: Yes.

MR. PAUL: I wanted to ask you whether your decision is to keep in two items, because I don't know whether to cover them or not. There is one item on page--

H.M.JR: I think, Herbert, when they come to see you I think it would be nice if Smith would sit in. I would like him to sit in on that conference.

MR. PAUL: There is an argument on page ten based on the per capita taxes, Great Britain, Canada, and this country (referring to rough draft of Mr. Blough's).

MR. BLOUGH: I would gladly drop that paragraph.

MR. PAUL: I think it ought to be said.

MR. SULLIVAN: I had marked that to take it out.

MR. PAUL: I can cover it if you want to.

MR. BLOUGH: I would much prefer to leave it out.

MR. SULLIVAN: You just start a fight and you are not going to get anywhere with it.

MR. PAUL: Do you think I ought to do it? It is in the Committee report.

MR. BELL: What is the difference?

MR. WHITE: They should follow us.

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

MR. BELL: I would like it out altogether. I don't know why we keep saying what Great Britain and Canada does.

MR. WHITE: I agree with that. We ought to set our own standards.

MR. PAUL: Well, it will be out of yours. I haven't got the answer as to whether I should take it up.

MR. BELL: I would leave it out of both.

MR. SULLIVAN: I would, too, Randolph.

MR. PAUL: I don't think so, where you can ignore something of which a great point is made from the Committee's report.

The other part is the part on page eleven about the five thousand dollars and how much impact there is on incomes below five thousand, which has been one of the criticisms.

MR. WHITE: It is not good as it is here. If it can't be improved - it drags here, and it had better be taken out and put in yours.

MR. PAUL: I have something prepared on it.

MR. BLOUGH: The answer is, we are not in too strong a position. We have a much better answer than the public knows about.

MR. WHITE: This is the place where it drags the most. Unless it can be simplified and heightened, it ought to be left out.

MR. BLOUGH: The question is, does the Secretary want to say something about the distribution of the burden of the program.

MR. BELL: I think Herbert's general statement - make it general.

MR. GASTON: But I think we might include in there a statement that fifty-three percent of the additional income that we proposed - additional income tax - was in the brackets below five thousand dollars.

H.M.JR: If you say that, Herbert, that fifty-three percent is below the five thousand, then I would like to break the fifty-three down into one other figure. If, roughly, five and a half or six billion out of ten and a half we are asking for below five thousand, then--

MR. GASTON: Yes, and then you want to say how much is below three thousand.

MR. SULLIVAN: Part of your ten and a half is corporation taxes.

H.M.JR: You are right. Anyway, if the fifty-three percent is below five, then make one more for me from three to five, or two to five. I don't care which.

MR. BLOUGH: Why not zero up to two or three? That is what I have got here - three.

MR. GASTON: Below five thousand and below three thousand.

H.M.JR: Couldn't you say, instead of from zero to three, from one to three? Where would it be?

MR. BLOUGH: Just say, "...up to three."

MR. GASTON: Incomes up to three thousand or below three thousand.

MR. BLOUGH: If you want to emphasize how little below, we can do it. But I think that might not be emphasized.

H.M.JR: Which is the one they are levelling criticisms at me all the time.

MR. BLOUGH: Four out of five is below five thousand dollars. You have forgotten that entirely.

MR. GASTON: Instead of taxes in the group below five thousand, you are letting nine million people out without paying anything.

H.M.JR: How are you going to hit that?

MR. GASTON: Simply by saying that these taxes we have proposed, we have proposed more than half - fifty-three percent, in fact, was in the group below five thousand dollars.

MR. SMITH: That isn't much of the argument, because eighty percent of the money is under five thousand, and fifty percent of the taxes. Wouldn't you do better to raise that to, say, seven or eight thousand dollars?

MR. GASTON: I think you had better deal with that group.

H.M.JR: Aren't you having a chart prepared to show this thing?

MR. BLOUGH: I have a chart, but it is too complicated in its present form.

H.M.JR: I am going to do charts tomorrow morning. Why don't we do it this way? These people I would like to see at eight-thirty: I would like to see Blough, Surrey, and Smith and Gaston, and Paul, unless you have some social date.

MR. PAUL: I have no social date. I only have to work.

H.M.JR: I don't have to see you.

MR. PAUL: Let's see if I can get enough progress on the other, then I will be in.

MR. BLOUGH: Here?

H.M.JR: At the house. And John, if you want to volunteer, you will be welcome.

MR. SULLIVAN: I would be perfectly glad to come.

H.M.JR: You would have a better chance tomorrow morning. I will be honest; you be honest.

MR. SULLIVAN: Frankly, I think the shape this thing is in now, I go along with everything Roy and Herbert had to say. I will be glad to come if you want me. I don't think I will be able to make much of a contribution.

H.M.JR: I would like to have you here tomorrow morning, too, at ten o'clock. That goes for you, and you (Mrs. Klotz and Mrs. Dickinson), and George. What I want to do, if the speech is finished, then I want to fire questions. I want a seminar here, particularly on the sales tax, with these charts and what-have-you. I mean, I have got some questions I want to ask. I would like to get this thing down. I think it is all right. What do you think, Herbert? Is that all right?

MR. GASTON: Yes.

H.M.JR: Do you go to early Mass?

MR. SULLIVAN: Late. I used to go at seven o'clock to play golf; now I don't have to go until nine.

H.M.JR: I called up George Haas Sunday and said, "If you could come to the house about a quarter of twelve, would that interfer with church?" He said, "Well, I was going to go to early Mass, anyway." The net result was, George had to get up and go to eleven o'clock Mass.

MR. HAAS: It turned out to be High Mass.

H.M.JR: Can you all do that tomorrow, then? You (White) don't have to come tonight. Can you come tomorrow?

MR. WHITE: Do you want me here tomorrow?

H.M.JR: No.

MR. WHITE: I don't think I can make any contribution, but if you want me, I will be glad to.

MR. PAUL: Too early in the day to provide you with proper stimulants.

H.M.JR: Are you going to see this thing again?

MR. WHITE: I would like to. There are a few points here that trouble me. I will tell Roy what they are this afternoon.

H.M.JR: Let me just ask Mr. Paul a question. I read a statement by A.F. of L. last night in which they say there is a joker in this bill in which the Treasury would be permitted to examine their books. And I am asking you - I am Senator Barkley, Mr. Paul - "Are you in favor of the Treasury Department having this power to examine the books of the A.F. of L?"

MR. PAUL: I would first say that that provision of the bill did not apply only to the A.F. of L. or even only to labor organizations, but it applies to all corporations exempt under Section 101 from paying tax, except religious, educational, charitable, and scientific - even scientific are excluded.

MR. BLOUGH: Isn't it true you now have the power to do this?

H.M.JR: Yes. But, Mr. Paul, you didn't answer my question.

MR. PAUL: I wanted to make any answer in the proper framework.

(The Secretary held a telephone conversation with Colonel Halsey, as follows:)

November 27, 1943
3:40 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Edwin A. Halsey: Ed Halsey.

HMJr: Morgenthau.

H: Yes, sir. Would you be available Monday to come up for luncheon?

HMJr: Yes, but that will be after I testify.

H: Well, what can I do to help you then?

HMJr: I see. You think between now and ten we can't help, huh?

H: I don't know. It looks awful -- awful short time.

HMJr: Yeah. Well, I guess -- I'll -- I guess the thing that I -- all I can do is: I'll drop in and see Walter George a little bit before I go on the Hill.

H: Well, I was thinking, if you could postpone your real testimony until afternoon....

HMJr: No.

H: ....that you could come in for lunch and I could have a group there....

HMJr: No.

H: ....and we could sort of work the thing out and then you could make your real testimony on the afternoon....

HMJr: No. I -- I appreciate your suggestion but I'm afraid it wouldn't work.

H: It would not?

HMJr: No.

H: Uh huh.

HMJr: I know this is tough but I -- I'll drop in -- I guess the best thing is to go in and -- a little early and see Walter George.

H: Well, I could get him over the week-end, for that matter. He lives at the Mayflower. I could get him if you....

HMJr: Oh, I don't want to upset him and -- I -- I'll just call up and say that I'll get there a little early.

H: Uh huh. Well, but if you reconsider and would like to drop in Monday....

HMJr: Uh....

H: ....it will be perfectly agreeable.

HMJr: Well, I'm afraid after -- I don't think so, but if I change my mind, I'll call you up.

H: If you could stall off -- now, we all have tricks of the trade -- if you could just sort of make a non compos mentis or just a -- a -- an answer of nothing in the morning and then give the real facts in the afternoon.

HMJr: Yeah. Well, I'm afraid that isn't going to be possible. I'm afraid I'm going to have to give them the works in the morning.

H: Uh huh. Well, let me know if I can help.

HMJr: Thank you so much.

H: Righto.

MR. SULLIVAN: Rigor mortis, not non compos mentis. (Laughter)

H.M.JR: What is non compos mentis?

MR. SULLIVAN: That means you are a little bit "whacky," boss. (Laughter)

MR. PAUL: Well, the Treasury did not recommend this provision, was never consulted about the provision, and expressed no opinion; so this that I say now, is the first time the Treasury has ever said anything about that provision. It is this: That we see no particular need of the provision, but whether the information is called for is really a question for the Committee to determine. It is not a--

H.M.JR: But, Mr. Paul, I am asking your advice.

MR. PAUL: The reason I am being a little cagey is this - remember, we have called for information before--

MR. SURREY: Not from Labor.

MR. PAUL: But from other organizations under that section. I don't want to say that we think that such organizations never should be asked for information about their income, because we have already done it.

H.M.JR: Are you willing, when they ask me that question that I refer them to you?

MR. PAUL: Sure.

MR. SULLIVAN: I think you better know what your answer is before tomorrow morning.

MR. GASTON: I think the answer is that the powers of the Secretary and the Commissioner of Internal Revenue are adequate to require such reports as are necessary to establish the non-profit character of these exempt organizations, and that no additional legislation is necessary.

H.M.JR: This is awfully important.

MR. SURREY: Mr. Gaston, when we wrote our original regulations requiring returns from 101 corporations, we required it from a great number of the doubtful cases - the business leagues and social clubs. We did not include labor organizations, or farm organizations, or religious, or, in the main, educational or charitable. Now, this bill was written for a slightly different purpose in the House. It was written ostensibly to get information as to the amount of income they have, not as to whether they are probably exempt or not. Therefore our reason, necessarily, doesn't hold.

We wrote to Congressman Robertson that the reason we did not include labor organizations was because it was not necessary for our purposes at that time, because labor organizations are exempt, and you don't have to know their income to find out whether they are exempt. This is a slightly different question. The Congress wanted to know the financial status of labor organizations.

MR. WHITE: For what purpose?

MR. SURREY: To see whether they should levy a tax on the income of labor organizations and farm co-ops, and that is it.

MR. PAUL: They put up the proposal - ten percent tax. We said he could have it.

H.M.JR: Whom did you put it up to?

MR. PAUL: Stam put it up to us: "Will you take a ten percent tax on all these corporations?"

We said, "No, you can have it. You can make that proposal. We are not going to join with you in any such proposal as that.

MR. SURREY: I think you can make this statement: "I think the question of returns from the labor organizations is not properly a tax question. It is a political question with over-all relationship to labor organizations, and is going to be decided in that field and not the tax field."

H.M.JR: Now, listen, boys; come a little cleaner, see? That goes for you both. In the family, here - don't spar with me.

MR. SURREY: I am not sparring.

MR. GASTON: Can I clean that statement up a little bit? If the information is wanted to establish the exempt character under the law of the organization, then it is not necessary. We have adequate powers to get that information.

Now, if it is for some other purpose, we can express no opinion, because we don't know what is in the Congressional mind.

MR. SURREY: Of course, I wasn't sparring, but I still would go further and say that it is a question of labor unions submitting financial statements, and has been up before in the non-tax field. It has been in most of the labor bills that have been up in the last Congress. It has been a political labor question, not a tax question. The fact that it happens to come up in a tax bill doesn't authorize the real basic question.

MR. WHITE: Am I correct, Mr. Secretary, that the Treasury took a very definite stand on this, maybe two years back? I don't see that the situation resulted.

I, personally, don't see much of a distinction between a fraternal organization getting together for certain social purposes, and organizations getting together for religious purposes. And why be maneuvered into a position of making a distinction between charitable organizations, labor unions, or religious organizations.

I like Herbert's answer. Tell them what you want it for, and then you will be in a position to judge. Until you know, you can't.

MR. SURREY: They told you. They want to get information as to the income status of these exempt organizations to see whether it would be advisable to place a tax on them.

MR. WHITE: Then why are they asking the Secretary whether it is desirable to get information or tax them? What do they want to know from the Secretary?

MR. SURREY: That is right.

MR. SULLIVAN: The real question is, do you object to the people of the country finding out how much of a surplus the labor unions have built up.

MR. PAUL: The real point that is behind it, the real question is, do you think we ought to find out how much income these people have, so we will know whether to tax. That is their answer.

H.M.JR: No. Now, if the C.I.O. can raise seven hundred thousand dollars to devote for political purposes, can we stop them?

MR. SULLIVAN: Yes, just how much of a surplus have they got?

H.M.JR: It is straight politics, and how can we keep them from spending seven hundred thousand dollars on re-electing Roosevelt?

MR. WHITE: Let them say that.

H.M.JR: No, but Harry, you see, I started with Paul. After all, whether he does it or I do it, I think we ought to be forthright on this thing. It was on the front page of the Star last night.

MR. PAUL: They put that proposition of a tax.

H.M.JR: I think Gaston's answer is this, that for the moment we have all the powers and all the authority we need to determine whether a labor union is entitled to be exempt or whether it isn't.

Now, if you want to find out as to the financial status of a labor union, that is something else; and that isn't my job.

MR. WHITE: How can you pass judgment unless you know they have the information?

(The Secretary held a telephone conversation with Colonel Halsey, as follows:)

November 27, 1943
3:50 p.m.

HMJr: Hello.

Edwin A. Halsey: This is Halsey again.

HMJr: Yeah.

H: I just talked to Senator George.

HMJr: Yes.

H: And he's at his phone....

HMJr: Yes.

H: ....Metropolitan 3-2-9-2....

HMJr: Yes.

H: ....or District 3000, and he'd be most happy to hear from you and he thinks it would be very advisable to talk before you come before him on Monday.

HMJr: Just give me those numbers again, please.

H: Just a second, now, I've put the book up. Just a second. Metro -- it's Metropolitan....

HMJr: Yeah.

H: 3-2-9-2.

HMJr: Yeah.

H: Or District 3000.

HMJr: Well, I'll call him right away.

H: Will you, right away?

HMJr: Yeah.

H: I talked to him and I told him that it was just one of those things that you'd like to clear up before you come up before him, and he said he'd be very happy. Most -- he thought it was most advisable to -- in fact -- to have the chance to talk to you.

HMJr: Well, I'm ever so much obliged and I'll call him right away.

H: Righto.

HMJr: Thank you.

(The Secretary placed a call to Senator George.)

MR. PAUL: Vinson, I wanted you to know, was present at one occasion when Stam put up that ten percent tax proposition. He agrees with us.

MR. HAAS: It is not a tax matter, then.

MR. WHITE: I think Herbert's answer is perfect. As you say, how can you answer them, whether the information is necessary, unless you know what they want it for?

H.M.JR: Then let's stick to that rather than the first way you put it up to me, Paul.

MR. WHITE: And it isn't a tricky answer, Randolph. It is the answer. They are asking his judgment whether he should get certain information. If anybody asks you that question, "Why gentlemen, what do you want the information for?"

MR. SULLIVAN: So far as the Treasury is concerned, we can always get it. If it is meant for something else, that is different.

MR. BELL: Supposing they ask you, do you get it?

MR. SULLIVAN: We got the C.I.O., didn't we, within the last year? We went all through them on that Illinois case.

MR. PAUL: No, you didn't go through the C.I.O. income account.

MR. SULLIVAN: We went all through their books.

H.M.JR: We understand it clearly.

We will meet here. White will be excused tomorrow.

MR. WHITE: I haven't the slightest hesitation of being here.

H.M.JR: I haven't the slightest hesitation to ask you. I know what Sunday means to you. And George, you get here. But you (White) are going to make the suggestions?

MR. WHITE: Several things I would like to talk over with Roy.

H.M.JR: I guess we are all clear.

Mr. Blough

Draft A

November 27, 1943

PROPOSED STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE SENATE FINANCE COMMITTEE

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

A vital part of fighting a war is paying for it in the right way. That is the fiscal sector of the war. How well we are doing in the fiscal sector is measured in part by how much we are paying through taxes, how large is the deficit and how big a debt we are accumulating. It is our duty to the returning soldiers and to future generations to keep the deficit and the debt to a minimum. In doing so we not only help ourselves and our children after the war but we help stabilize the cost of living today.

Let me present the reasons why sound fiscal policy requires much higher wartime taxes than are provided under existing law. One reason is a matter of simple arithmetic. Last month (October, 1943) the Federal Government spent ___ dollars more than it collected in revenue. In the fiscal year 1943 it spent over $55 billion more than the revenues. In the fiscal year 1944, under present law and the most recent budget estimates, we shall spend $57 billion more than we receive in revenue.

The need for revenue is seen also in our mounting public debt. On October 31 the outstanding public debt was ___ billion dollars. On June 30, 1944, the outstanding public debt is expected to be ___ billion dollars. The annual interest on that debt is about ___ billion dollars. As the war continues, the debt, the interest, and the problems of repayment will grow larger and larger.

Paying now through taxes a much larger part of the financial cost of the war will reduce the deficit and hold down the debt. It will do more; it will also help now to protect us against rapid and burdensome increases in the cost of living. About half of American productive effort is going into war equipment and supplies for our armed forces. These products are not available for civilian consumption. Yet our people are being paid for all they produce. They thus have far more money to spend than there are goods on which to spend it. There is a large surplus of income over goods. In 1944 it is expected to amount to $___ billion. If this surplus income should be spent the necessary and inevitable results would be black markets, ruptured price ceilings, substantial increases in prices and the cost of living, followed by tremendous pressures for higher wages and farm prices, which would set in motion further forces in the spiral of inflation.

Thus far, through admirable self-restraint and by price ceilings, rationing, credit controls, wage stabilization, war bond drives, and other measures, as well as by taxes already imposed, spending has been held down and prices have risen only gradually. But the continued and growing surplus of income over goods, to which might be added at any time some of the $___ billion of private savings accumulated over the past three years, is fire under the boilers of inflation. Day after day the continued pressure of surplus income has been cracking our price controls a little here and a little there and threatens to produce a major explosion. Our stabilization program is threatened at its foundations.

The presence of this surplus of spending power means not only that the people as a whole can afford to pay now much more of our huge war bill, but also that in paying more now they will be benefiting the country and themselves by helping to hold down the cost of living.

There is another important reason for paying much higher taxes during the war, that of fairness and equity. The postponement of payment of any part of the war bill that can be borne through war taxes now means an unfair distribution of the burden of the war. It means that the members of the armed forces are giving several years of their lives to fight the war and then will come back and help pay what we should and could have paid while they were gone. That is not equitable war finance.

These are the reasons that sound fiscal policy requires much higher wartime taxes. The other half of the picture concerns how much additional wartime taxes should be raised at this time. Here a limiting factor is the capacity of the people to pay increased taxes.

This ability of the taxpayer to pay additional war taxes must be considered in the light of the outstanding fact that we are at war.

It is a great fallacy to suppose that we can fight history's greatest war to save what we hold most dear without financial sacrifice. Inevitably we shall have financial sacrifice. Taxation now, during the war, is the easiest way to make that sacrifice.

We are not now fighting an all-out war on the fiscal front. The ability of the American people to pay increased taxes is far from being exhausted. The income of the people as a whole, after taxes, is at its highest point in the history of the country. Goods are scarce. Personal economy is expected. Wearing last year's clothes is fashionable. This is the ideal time to pay, once and for all, up to the limit for this war.

There is no escape from the costs of war. The American people today are paying for the war in taxes, in loans, and in rising prices. The total burden of the war on the people as a whole is not made less by holding down taxes. Higher war taxes will not decrease the goods and services which we can have during the war.

Moreover, simple arithmetic makes clear that the people have the ability to pay additional taxes. Consider their incomes. In 1939 individuals had incomes, after personal taxes, of ___ billion. In 1944, under existing law, it is estimated that individuals will have incomes, after personal taxes, of ___ billion. That is, after paying taxes, incomes after taxes of individuals in the United States will have increased ___ billion since 1939.

Again, consider the savings of individuals. In 1943 individual savings are expected to amount to ___ billion. In the past ___ years accumulated individual savings have increased ___ dollars.

Obviously the people of the United States have the means to pay an additional $10.5 billion in wartime taxes, particularly if measures are taken to protect those who have not shared in the increased incomes.

These are the reasons why the Treasury suggested to the Ways and Means Committee proposals to raise an additional $10.5 billion of wartime revenue. They are the reasons why I am profoundly disappointed in the fact that the House Bill before you raises only $2 billion. They are the reasons why I renew my recommendations to your Committee.

Many excuses have been given for not passing an adequate tax bill.

It is said that governmental economy is a substitute for higher taxes. Economy is always an important objective and a tax bill makes it neither more nor less desirable. But if we are to fight the war to a speedy conclusion we cannot relax our fighting or our production. That means we cannot significantly relax our spending.

In the revised estimates for the fiscal year 1944, issued yesterday by the Bureau of the Budget, the expenditures are estimated at $98 billion, revenues at $41 billion, and the deficit at $57 billion. That deficit is more than $400 for every person in the country.

Yet this figure represents a decrease in estimated expenditures of $8 billion from the estimates issued last August. It is understood that this decrease in expenditures represents a combination of changes in the war program and a delay in reaching the production goals of some items. The estimated increase in revenues takes into account the decrease in expenditures and in the main reflects an expectation of larger profits and income payments than were anticipated earlier.

If no one had expected more than a $57 billion deficit it would appear tremendous, which it truly is. It is no less so by representing a reduction from a higher figure. The decrease in expected deficit of $11 billion will, of course, make the problem of raising the money for this year's budgetary requirements substantially less than anticipated. However, $57 billion is greater than last year's record deficit, and is three times the deficit of 1942. Moreover, the rate of war spending is still expected to rise beyond the present level.

There is nothing in the new budget figures to cause a reduction in the goal below $10.5 billion. That goal, as I pointed out to the Ways and Means Committee, was the amount that we believed could be fairly distributed without undue sacrifice and hardship. The changed budget estimates do not affect that amount. From every point of view it was a minimum. It was never considered to be an adequate fiscal program in the light of the deficit, the accumulated debt, and the inflationary pressure. The reduced budget estimates will make $10.5 billion more nearly adequate, but that is all.

Another argument against higher taxes is that the American people do not believe in the dangers of inflation. If by inflation is meant the type where money becomes worthless, I agree that only a much harder, longer war than is commonly expected would bring us to that cataclysm. The danger now is not of that character. It is rather the danger of substantial and continuous and, at least in part, permanent rises in prices that would undermine standards of living and reduce the value of investments. Unwillingness to believe in the danger of inflation does not remove that danger. There are few indeed who have followed with care the developments of the recent past who are not concerned over the possible breakdown of the stabilization program. Much higher taxes are a requirement for meeting that danger. Taxes obviously cannot win the game alone but they are a prominent member of the team. ?

At another extreme the curious argument has been made that the deficit is so large, the Government debt so huge, and the inflationary possibilities of surplus income and accumulated private savings so great, that $10.5 billion would not help much and that therefore we might as well avoid the unpopularity of imposing additional taxes. If this point of view were seriously entertained by a majority, we would indeed be lost to the ravages of inflation. It would mean that we had given up even trying. But $10.5 billion is large enough to have very important effects on the deficit, the debt, and the inflationary pressure. It is almost exactly the total of all the reductions that took place in the Federal public debt over a 12-year period after World War I. In its direct effects on spending, in the assurance it gives that the Government takes its debt seriously, and in the sobering influence it will have on public understanding of the true cost of the war, the $10.5 billion increase will be immensely beneficial.

It has been said that the American people cannot bear this additional tax burden because our per capita taxes are above those of our allies, Canada and Great Britain. The conclusion does not follow in any event, but the statement itself is misleading. It is the amount of income from which the tax is paid that determines how burdensome the tax will be and personal incomes here are larger than in Canada or Great Britain. If practically any citizen of the United States lived in Canada or Great Britain and had the same income there, his taxes would be substantially higher.

I hope you agree with me that the excuses given for not raising taxes are not worthy of serious consideration in the face of the serious needs for increased revenue.

I shall not go into the details regarding the Treasury proposal or the House Bill. I shall leave such matters for Mr. Paul to bring to your attention. There are, however, a few basic points that I wish to emphasize here.

The first point concerns the distribution of the burden of additional taxes. Under the Treasury income tax proposals about one-half (ck.) of the proposed increase would fall on persons with incomes of less than $5,000 and about one-fourth (ck.) would fall on persons with less than $3,000. For all the tax proposals combined, the distribution among these income groups of the increased burden would be approximately the same. This proposed distribution of tax increases was determined on after studying the problems of equity and of inflation.

Basic minimum standards of living are necessary if morale and production are to be maintained. Tax policy must seek to protect these minimum standards. It is the surpluses of spending power above the basic minimum that present the inflationary problem and the possibility of its solution. The income tax exemptions suggested by the Treasury represent this minimum on the average; if anything they may be too low. Although about four-fifths (ck.) of the total income is received by persons with incomes under $5,000, less than two-thirds (ck.) of the income above exemptions is received by this group. Likewise, although about 60 percent (ck.) of total income is received by persons with incomes under $3,000, only about 40 percent (ck.) of the income above exemptions is received by this group. When it is considered that the higher incomes represent greater ability to pay and give rise to less important spending, the proportions of burden distribution proposed under the Treasury proposals are, we believe, reasonable and sound.

The second point I would like to discuss about the Treasury proposals is the fact that they do not include a general sales tax. The sales tax has been held out to the American people as the great panacea, the one source from which the war can be financed. Let us see what the facts are.

The form of sales tax which would produce the most revenue and cause the least rupturing of price ceilings is the retail sales tax. The highest rate I have heard mentioned is 10 percent. That is over three times ~~XXX~~ as high as the rate now in force in any State.

A 10 percent sales tax with no exemptions for necessities of life would raise at current sales levels about $6 billion, or about one-tenth of this year's estimated deficit.

Such a tax would be very harsh, especially on low income families with children. It is completely lacking in any relation to ability to pay because it hits families much harder than single individuals at the same income levels and it hits people with small incomes much harder than people with larger ones. Such a tax would be opposed to every principle of tax equity and would in my opinion interfere with the war effort.

There are many proponents of the sales tax who would agree with criticisms and who propose to meet them by allowing exemptions of the necessities of life. Such exemptions would indeed improve the character of the tax although they would still leave the discrimination against large families. However, the exemptions would quickly remove so much of the tax base as to leave little more than an empty shell. Thus, the exemption of food would reduce the yield by $2.4 billion; the exemption of medicine would reduce the yield another $200 million; the exemption of clothing would reduce the yield by another $1.1 billion. Those exemptions do not include all of the necessities of life, but let us stop at that point. A sales tax with such exemptions would yield about $2.6 billion. However, of that amount about $1.2 billion would come from goods and services already subject to Federal excise taxes. The tax yields from the sale of these commodities can be increased or decreased by adjusting the excise tax rates. No sales tax is needed to produce revenue from them. All that is left after excluding such commodities is $1.4 billion. Nearly

$600 million of the $1.4 billion would come from equipment, chemicals, and materials used in business and thus entering into the costs of doing business, with resultant increases in the costs of doing business and in prices to the Government and to the public.

Most of the remaining $800 million tax would be on items that might properly be subject to sales taxation. It is hardly necessary to point out that the expenses to 2½ million businessmen and increased costs to Government, as well as the use of precious manpower, would not be justified by yields of this kind when there are other methods of raising money at hand which do not call for heavy increases in costs of administration and compliance.

It is very doubtful if a general sales tax without the exemption of necessities of life would really be helpful in financing the war or restraining inflationary price rises. The imposition of a substantial sales tax would almost surely be the signal for widespread demands for higher wages and farm prices which, if allowed, would result in large additional costs to Government and increases in the cost of living over and beyond the amount of the tax.

These dangers are much greater in the sales tax than in excise taxes or income taxes. Excise taxes touch in only minor respects commodities that are necessities of life, while income taxes have personal exemptions which protect minimum living standards.

Personal exemptions could be introduced into the sales tax, but the inconvenience of distributing and using exemption coupons and the resultant reduction in revenue would be serious factors. Even the most simple sales tax would require the use of much precious manpower and machines by Government and business. I do not know how that manpower and those machines could be secured without interfering with the war effort.

After all, the sales tax is just another way to tax incomes. We have a good income tax with a current payment system. Why not use it instead of turning to a new and unsatisfactory form of tax?

The other point that I wish to stress concerns the simplification of the income tax. It is generally agreed that the Victory tax has proved to be too complicated in practice. While the House Bill repeals the Victory tax, it fails to remove the complications inherent in that tax.

In order to preserve about 1 percent of the individual income tax revenue and to maintain on 9,000,000 taxpayers an income tax burden ranging from a few cents up to about $30 and averaging less than $18 each, the House Bill maintains annoying and entirely unnecessary complications for the other 35,000,000 taxpayers and for the hard-pressed staff of the Bureau of Internal Revenue.

These 9,000,000 people are already paying substantial Federal taxes in addition to State and local taxes. It is estimated that, exclusive of the Victory tax, they now pay $______ or an average of $____ each. Under the Treasury proposals they would pay an average of $____ each while under the House Bill they would pay an average of $_____ each.

Since the revenue involved is of minor amount and since these people are paying a substantial amount in other Federal taxes in addition to State and local taxes, the possibility of achieving greater simplicity seems to me to be the compelling consideration. I feel strongly that the minimum tax of the House Bill should be repealed.

In conclusion I should like to make it clear that I am not here either to demand that you increase taxes or to beg you to increase taxes. I have endeavored to perform the duty placed on the Secretary of the Treasury by law and tradition. I have endeavored to show you as soberly and as clearly as I can that a tax program of the magnitude of $10.5 billion is necessary to protect the financial and economic future of this country during the war and after the war. It is my conviction that the provision at this time of additional wartime taxes of that magnitude will promote the general welfare of the people of the United States.

In placing the need before you I have done all I can do. The responsibility is yours. The House of Representatives initiates revenue legislation but the Senate has equal responsibility for the laws finally passed.

There is time to do this job right. It would be far better to pass an adequate bill, even if its consideration should extend into next year, than to accept the bill as it passed the House.

11-27-43

Mr. Gaston

Proposed draft of Statement by Secretary Morgenthau to the Senate Finance Committee.

I come before you today to recommend on behalf of the Administration, as I did when I appeared before the Ways and Means Committee of the House of Representatives on October 4, additional taxes to pay a substantially higher proportion of the costs of the war than we are now paying out of revenue. In my appearance before the Ways and Means Committee I made detailed proposals on behalf of the Administration which would have yielded in a full year, according to our estimates, a total of 10½ billions of dollars in addition to present taxes. My proposals included increased income taxes to yield a total of 6½ billion dollars, additional estate and gift taxes to yield 400 million dollars, additional corporation taxes to yield 1.1 billion dollars and excise taxes to yield 2½ billion dollars. The House of Representatives has enacted a bill carrying only $2,139,000,000 of additional revenue, of which less than 155 million dollars is in individual income taxes.

The House bill in my opinion falls far short of even an attempt to meet our fiscal needs in anything like a realistic or courageous way. Nothing has occurred since I appeared before the Ways and Means Committee to cause me to revise my estimate of the amount of new wartime revenue we ought to raise in justice to ourselves and in justice to the men who are fighting our battles on foreign soil. A measure of what we should pay in wartime taxation is in my opinion the measure of what we are able to pay. If we pay in taxes any less than we can afford to pay without interfering with our capacity to produce, we shall be doing a gross injustice to those who must face the accumulated bill after the war has been fought and won.

That bill will be stupendous. On that point there can be no quibbling. We are accumulating debt right now at the rate of close to 200 million dollars a day. On the basis of any estimates we can now make we cannot foresee a public debt at the end of the present fiscal year of much less than 200 billion dollars. (Interpolation:) On such a debt the interest charges alone, even at the extremely low rates we now enjoy in Government borrowing, cannot be much less than 4 billion dollars a year. It may be said by some that a few billions of dollars more or less in the debt accumulated for this year will not make a great deal of difference, that the debt will be huge anyway, but I think that a poor explanation to give to the returning soldier who will be interested in knowing what sacrifices we incurred here at home to protect his future.

We have the ability to pay more. There can be no doubt of that. All the estimates of national income, by whomever made, bear eloquent testimony to that fact. There is a huge discrepancy between the amount of income available for expenditure by individuals and the amount they need to spend and can spend for current living. The evidence is before us not only in the statistics but in what we see about us every day. Expenditures not merely for necessities of living but particularly for luxuries are running at a higher rate than at any peacetime period. I do not know by what species of logic we can avoid in such a situation the conclusion that we have no right not to tax ourselves far more heavily than we are paying today. The problem which I think we should face is not the problem of whether we need and should impose, and are morally obligated to impose, far heavier taxation but the problem instead of how to distribute that taxation by the fairest possible method. It was that problem to which we in the Treasury, with the assistance and counsel of other officers of the Government, addressed ourselves in preparing the proposals which, with the President's approval, we submitted to the Ways and Means Committee.

In making my plea to this Committee today I don't limit myself to the exact amounts, or the exact proposals we presented before the Ways and Means Committee. I ask you candidly and earnestly to examine our capacity to pay as a people and to revise the bill which is before you so that it will yield far greater revenue, an amount of wartime revenue limited only by the ability of the people to pay it without sacrifice that goes to the point of suffering, but without disturbing or impairing our wartime productive effort.

I believe it entirely possible that after such an examination of the capacity of the American people to pay it may be possible for you to devise a system of additional wartime taxes which will substantially exceed in total the Administration's recommendations. I sincerely hope you will be able to do that. I believe you could do that without imposing on the American people any hardships that they will not willingly bear as a part of their war effort. I do not say that it would not require some sacrifice, but are we to win a victory in the greatest war in which we have ever engaged, the most crucial war for all humanity, without some slight sacrifice as a token to offer to those who are making supreme sacrifices?

There are two principal considerations that urge upon us the necessity for much higher wartime taxes. I have touched upon the first of them - the need for heavy additional taxes as a matter of ordinary fiscal prudence and as a matter of justice to those who will have to face and deal with the debt which we are accumulating. The other is the problem of inflation and it is not less urgent. In this field we deal both with estimates and with proven facts. If we look at the best estimates of national income paid out and to be paid out during this calendar year they come to an amount in excess of 140 billion dollars and it is calculated that income paid out in the calendar year 1944 will be considerably in excess of 150 billion dollars. It is not necessary, nor is it particularly useful, to indulge in any arguments about a so-called inflationary gap, but what we do know is that income after taxes and after all allowances for planned and secure savings will exceed by many billions the amount of goods and services which will be available for purchase at anything like present prices. We have had increases in prices, but not at a dangerously inflationary rate. We are not adequately protected in the light of the excess income in prospect against increases in prices that will be genuinely inflationary, that will be dangerous, that will interfere with our productive effort and that will leave a dire heritage to the postwar period.

Up to this point we have avoided disastrous increases through a variety of controls. Taxes have had their effect, rationing and price ceilings have had their effect, wage and salary controls have had their effect. The campaigns for the sale of Government securities through their emphasis on the need for saving have had an important effect, but we can not expect these controls to hold indefinitely. There is plenty of evidence that here and there the effect of the controls is weakening. We can strengthen these controls by adequate taxation, taxation that is within our capacity to pay. We are deliberately courting danger if we do not do all that is possible through the tax mechanism to strengthen these controls.

In my appearance before the Ways and Means Committee I said that we had not arbitrarily set down a figure as to the amount of additional wartime taxation that we should propose, but that we had attempted to measure very carefully needs against capacity to pay. I am not now of any different opinion on this point. At the time I appeared before the Ways and Means Committee we had access to figures which indicated that total expenditures for the fiscal year 1944 might be something less than the 106 billions contained in the most recent budget estimate. I was compelled then to rely on the last budget figures available. I said then that "while it may be possible, and I hope it is, to curtail some Governmental expenditures even that will not lessen our need for getting at this time all that the American people can possibly give us in additional taxes." That is still my position. Confirming our expectations the Bureau of the Budget has just released estimates that total expenditures for the fiscal year 1944, which ends next June 30, will amount to 98 billion dollars instead of the 106 billions in the last prior budget estimate, that the present revision is the result of some changes in the character and quantity of war materials under contract and in part to the inability of the entire national productive machine to supply the full quantities and kinds of material contemplated in the prior budget estimates. These revisions do not in any degree affect our capacity to pay; they do not in any degree affect our moral obligation to meet now all of the costs of the war that can be met by current taxation and they do not affect in any significant degree the serious inflationary danger that faces us for the balance of this fiscal year, for succeeding fiscal years as long as the war shall last and the inflationary danger in the post-war period.

There has been a great deal of talk, and I fear at times irresponsible talk, about economy in Governmental expenditures as a substitute for taxation. I am in full and complete and hearty sympathy with any measure that can be adopted to reduce Governmental costs, to reduce even war costs, so long as the reductions do not impair our war effort. I am not in sympathy with any measure, or any proposal, to cut expenditures in any way that will make our war production anything less than an all out effort, but economy - savings in any degree or amount - does not lessen by one nickel, or one red cent, our obligation to do all that we can now to pay for this war and to avert the dangers of inflation.

Nov 27, 1943

Gentlemen: Pvt. draft

At the time I presented to the House Ways and Means Committee the Administration's suggestions in connection with the new tax bill, I made it clear that the Administration felt we should ask for an additional 10.5 billion dollars in taxes next year.

Our basic reason for making this suggestion arose out of the obvious fact that the war is costing two hundred million dollars a day more than our present tax receipts. We are piling up a debt of two hundred million dollars a day which some day must be paid. By the end of this fiscal year -- and between now and then, there is no indication that either the Army or the Navy contemplates any reduction in expenditures -- we will have accumulated a bill of two hundred billion dollars.

I hope you will keep that two hundred billion dollars in the forefront of your minds.

When the House passed a bill calling for two billion dollars in increased revenue, and when they provided minority and majority reports attempting to prove that we don't need 10.5 billions in taxes because of contemplated economies, they gave no consideration to the fact that we are going to have that two hundred billion dollars to pay no matter what happens. They gave no thought to the fact that in future years the United States Government will have to set aside four billion dollars every year for interest payments alone on that debt. If the Senate fails to take the responsibility of voting a sizable tax bill now, we will have to add four billions to the cost of Government every year after next July. And this does not contemplate paying off the debt, which of course must be done, and will be done, and will add many more billions each year.

That is why I have come here today to renew the Administration's request for a tax bill that will help pay off that two hundred billion dollar war debt at the rate of an extra 10.5 billion dollars a year.

I don't believe this is an unreasonable request.

It seems to me that such a proposal is much easier to justify than the proposal that we decline to pay off a more sizable proportion of our debt at the very same time that our aggregate earnings are higher than they have ever been in all history.

It seems to me that in the eyes of future generations it will be much easier to justify such a request than it is to justify the hollow argument that this 10.5 billion dollars will ham-string business and throttle the public, when it is common knowledge that the people are saving money at a phenomenal rate and corporation earnings are up over 26 billions. The public's savings in the banks today are five times as large as this 10.5 billion dollars that we are asking for.

It certainly is much easier to justify asking for 10.5 billion dollars than it is to justify passing this debt along to the returning soldiers, and their children and ours, and ask them to pay it when they may be far less able to meet tax bills than we are today.

Does anyone doubt that it is vital to the maintenance of a sound Government fiscal policy that we finance a much greater portion of the war through taxation than at present? The huge cost of guns, ammunition, war equipment, training our soldiers, sending them abroad and taking care of them -- this bill must be met either by taxation or by borrowing. And every dollar that we raise through taxation is a dollar less that will have to be returned, with interest, when the war is over. Therefore, securing additional taxes at this time would not only improve our present position, but would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems in connection with reconstruction and readjustment of our economic system.

Since making the presentation to the Ways and Means Committee I have talked to many of our soldiers overseas -- to the men who are actually fighting the war -- men who for the most part are trying to live on a base pay of $50 a month and hold together their families and as many of their possession as possible until they can get back, get jobs, and pick up the broken threads of their lives.

I can tell you that if they had the power to pass a tax bill, this 10.5 billion dollars would whizz through without question. And I think they have earned the right to have their feelings in the matter considered seriously.

To the extent that we fail to raise this 10.5 billion dollars, these returning soldiers will inherit an unnecessary portion of the bill for the war they risked their lives to fight. That is a fact that will live as long as the memory of this war. And the memory of our excuses may live as long.

If I know soldiers, they will not be too happy about receiving a glib explanation that instead of raising taxes in the midst of plenty to ~~help~~ pay off a two hundred billion dollar debt, we asked the Army to revise its estimates of the amount of money it needed. I can assure you that we will have a job on our hands if we attempt to explain how projected economies in war expenditures can substitute for the collection of taxes. If these returning soldiers should be faced with inflation-bloated prices, or if their mail from home tells how difficult it is to live in the midst of rising prices on soldier's pay, we will have a hard time demonstrating how we are fighting inflation by asking bookkeepers to change some figures, perhaps only temporarily, on the books for 1944 and 1945, instead of raising taxes.

The futility of this dodge should be self-evident. Certainly it is evident to the Washington Post. A few days ago the Post exploded the myth in an editorial. It said: "the fact that the Army over-estimated the amount of funds it would require this year does not mean that we can regard its unexpended appropriation as 'savings' warranting a relaxation in our efforts to cover more of our war costs from tax revenues." The Post then continues, "If Congress wants to make such excess appropriations an excuse for inadequate taxation, all it need do is to approve over-liberal appropriations and recapture them at the end of the year. By such means 'savings' could easily be boosted so high that we might conclude that we don't need to collect any taxes at all."

When I presented the Administration's suggestions to the House Ways and Means Committee, I pointed out that the tax bill this year has two purposes. First, to increase revenue so we can pay off a larger part of the huge war costs while we have the money. Second, to combat inflationary trends which have threatened ever since we launched upon our huge war production program.

Let's discuss this inflation threat on a strictly common-sense basis.

First of all, let's dispose of the troublesome term, "inflationary gap". That is a very difficult term to define to the satisfaction of everybody, and I think we can do very well without it. The fact remains, however, that our National income for 1943 is going to be 145 billion dollars, and the supply of oods and services upon which this money can be spent is severely limited, as you well know. A safe estimate of the value of these goods and services might be 80 billion dollars. The difference between these two figures is 65 billion dollars. Some of that 65 billion dollars is in war bonds -- 21 billions of it. Some of it is in the banks. Some of it is under the mattress. Much of it is in life insurance and other such investmen.

There seems to be a great deal of confusion as to the inflationary potentialities of all these repositories of the people's funds. But the common-sense facts of the matter are that any or all of these repositories are as inflationary and as non-inflationary, as the people want them to be.

Up to this point, the American people have handled this extra money with a great deal of intelligence. They have put it into war bonds and left it there. They have put it into banks and insurance, and left it there. If they continue in this course, we arefairly safe, because money that people do not choose to spend is certainly non-inflationary money, even if they have it jingling in their pockets.

On the other hand, we would be shirking our duties, I am very sure of that, if we calmly supposed that this thin framework of public psychology is sufficient bulwark against inflation -- an inflation which, with 65 billions let loose, could uproot our economic system and tear it to shreds -- and could do it, under certain circumstances, with all the shock and suddenness of the 1929 crash.

We have tried to set up inflation controls to fortify ourselves against a possible reversal of this public psychology, a reversal like that which came a few years ago when lifelong bank depositors suddenly turned on the strongest banks in the Nation and demanded their funds. That is why we stress the importance of this 10.5 billion dollars tax proposal as an anti-inflationary measure. It would be more accurate to describe it as potentially an anti-inflationary factor, for its value would become most evident only if we were to need the extra precaution it represents.

Some time ago, when I mentioned that the purpose of this bill was to raise revenue and to combat inflation, a gentleman promptly asked me how much of the bill was for one, and how much for the other, as though he expected me to say that the proposal is divisible by two, and a certain number of dollars are allotted to revenue, and a certain number to avoid inflation.

Obviously, when we say this bill does a double-headed job, we don't mean to infer that it can be divided into two parts. It is all one bill. It is big -- 10.5 billion dollars -- because there is every indication that people can pay that much under an economy that will bring them 145 billion dollars during this year. Purely as a corollary advantage, is the fact that ten and a half billion dollars deducted from spendable income automatically puts us on safer ground as far as inflation is concerned. 10.5 billion dollars won't stop inflation. We cannot collect 10.5 billion dollars in taxes, and then calmly walk away and leave the barn door open and expect the horses not to run wild. But it definitely is a step in the right direction. And it is perhaps the one step that will be left to take by the time we have finished breaking down all the other barricades we have thrown up against the wild horses of inflation.

I am well aware that many American people, as well as many legislators, are not concerned about the possibility of inflation overtaking us before the end of the war, and staying with us to make doubly difficult the job of reconstruction.

There seems to be some feeling that we are very wise these days, and because of our wisdom we will avoid, by some magic, any such situation as we suffered during and after the last war. There seems to be a strong feeling that inflation is out of date, like the term we used to use to explain it -- the high cost of living.

Let me assure you that this is not the fact, and that Congress is shirking its responsibility to the American people and to the future of the American Nation by hiding its head in the sand.

I talked to an officer of the Quartermaster Corps in French Morocco about three weeks ago. I asked him about food supplies -- where he got them, and whether he was having any trouble supplying his needs.

The officer said: "Well, of course Mr. Secretary, we don't buy any food here at all. The prices are too high. The troops around here have bid the prices up. So the Quartermaster Corps ships in the food we need. It would break the Army's treasury to buy anything at the prices they ask around here."

Three or four days ago I read an Associated Press report from Bari, Italy. This report said that a suit of clothes in the cheapest quality had risen to about 3,000 lire during the war and in the last two months had increased in cost to twice that amount. A couple of months ago you could get a pair of shoes for 500 lire, but now they cost 1,800 lire. Not long ago you could buy shirts for 100 lire but now they cost 350 lire.

Yesterday I received a report from Algiers concerning living conditions in France. It stated that eggs were selling for 40 francs a dozen, and chickens cost 200 francs, for any fortunate being who had that much money.

Back of these steep price rises, lies just one simple phenomenon. New money has come into these areas and the supply of goods is limited. So prices shoot up.

And the common people of Morocco, Italy and France -- and Greece and China for that matter -- are not finding it easy to live. They are up against a nearly impossible situation.

This should serve to remind us that inflation is not something that civilization has outgrown during the past twenty years. Inflation can happen today. It is happening, with exceedingly dire results to low income people, almost everywhere. And it can happen not in the creeping way we see it today, but disastrously here at home.

Our inflation probably would be less extreme than that which now tortures the people in countries abroad. But the principle is the same, and a fifty percent rise in the cost of living is well within the realm of possibility. This would prove most destructive to us, and would require drastic and expensive action on the part of the Government. Certainly it would cripple business and throw hardship on the American people to an infinitely greater extent than 10.5 billions of new taxes, which is one of the reasons the House chose to give for trimming down the suggested 10.5 billions to two billion.

In principle, the extra money which stimulated production has brought to the people of America today can play the same havoc in our economy as the soldiers' spendable dollars are causing abroad. The principle is the same. We have a shortage of goods, exactly as they have abroad -- not to the same extent, but to a great enough extent to cause trouble. The only thing that we have which they haven't is an OPA, and Fred Vinson, whose responsibility is to sit on the lid.

How long Judge Vinson and people working with him will be able to hold prices in line under present circumstances is a question. He is doing everything he can, but the wild horses of inflation are growing wilder every hour, and no one seems disposed to give him any help. Our economic picture at this writing seems to be a galaxy of punctured ceilings, tottering wage formulae, and political viewing-with-alarm .... or with-timidity.

It is easy to underestimate the possibility of inflation, and to disregard the necessity for taking protective measures.

The fact that we have done as well as we have in controlling the cost of living up to this point makes a great many people over-confident.

But this is not the first time in our recent national history that we have failed to heed warnings. It is not the first time that we have chosen to be optimistic about the future at the expense of being thoughtful of the present.

I'd like to read to you a paragraph from the President's message to 70th Congress of the United States, sent up in December, 1928. The following October you will recall, we suffered the greatest financial crash in history.

> "No Congress of the United States ever assembled," the President said, while all this was brewing; "on surveying the state of the Union, has met with a more pleasing prospect than that which appears at the present time. In the domestic field there is tranquility and contentment .... The great wealth created by our enterprise and industry, and saved by our economy, has had the widest distribution among our own people, and has gone out in a steady stream to serve the charity and the business of the world. The requirements of existence have passed beyond the standard of necessity into the region of luxury. Enlarging production is consumed by

an increasing demand at home and an expanding commerce abroad. The country can regard the present with satisfaction and anticipate the future with optimism."

There is no indication here that any threat lay in the wind. There is no indication that the golden dream of 1928 could be anything but an accepted way of life. It has all the complacent assurance of the recent report from the Lower House on the tax bill.

But that was not the fact. Many people back in those days knew that, as Walter Lippman pointed out a few days ago, National leadership was turning a blind eye and a deaf ear to the inflationary forces then present. The Nation had been warned by the very man who later, as President, reaped the fruits of this optimism. Three years before, he had called attention to certain national policies, and said, "... it means inflation with inevitable collapse and will bring the greatest calamity upon our farmers, and workers and legitimate business."

But in those days the Nation and its leaders preferred to see the sunny side. Even the financial crash itself failed to jolt some of our National leaders into looking at the problem realistically. Three months after the crash, the Secretary of the Treasury told the public: "I see nothing in the situation which warrants pessimism ... there is plenty of credit available."

It is like our saying today, "The inflation isn't bad, let's forget it. Let's get rid of our present controls and set up no new measures -- they're a nuisance."

In renewing the Administration's request for a tax bill that will help pay off our war debt at the rate of an extra 10.5 billion dollars a year, I want to emphasize that by draining off a sizable portion of our national income, it will help to stabilize our economy, and will give Fred Vinson a hand in trying to keep prices down to the point that the lowest income groups will be able to sustain themselves through the remainder of the war.

And this cannot be done by any practical or possible move in the direction of economy. There is much misunderstanding on this point. The first misunderstanding is that any real economies, that will effect spending during 1933 or 1934, are contemplated. The Army and Navy have revised their budgets, as they are constantly doing, in keeping with the principles of good business. There is nothing new about it. Since last August they have revised it downward _______ billions. The Army, in addition, has placed 13 billions in a reserve fund -- which however is still on call if the Army needs it. All Government departments have the same sort of reserve. The Navy, it appears, will have to ask for additional funds -- so any reserve it has will certainly be used, and more will be needed. Consequently, the reports that the armed forces have saved up to 18 billions is pure fiction.

But even if it weren't -- even if actual economies were possible -- they would not be likely to affect the inflation situation.

The reduction of inflationary pressure resulting would be only a slight fraction of any cut in expenditures.

The only way these economies could be made affective from an inflation standpoint would be if they should release men and materials for the manufacture of consumer goods, in order to increase the amount of materials upon which people can spend their incomes. But there is no indication that we can afford yet to release either men or materials from vital war production, regardless of any economies which can safely be made at this time.

So it is certainly safe to say that savings -- even real savings -- are not an alternative for new taxes at this particular time. They are practically without influence in combating inflation, and they certainly will not reduce the considerable bill we have already created.

If we can save money, if we can reduce our expenditures -- either war or non-war -- it ought to be done. I am sure you know where I stand on that. You may remember that most of my recommendations to the Byrd Committee, were adopted and contributed considerably to the two billion dollars of savings that have been made over the last two years. I have consistently urged that we cut costs everywhere it can be done without interfering with the war effort.

In that connection, I took a stand definitely against the Bankhead Bill, which the Senate recently passed, with the possible result that the Government will waste fifteen million dollars each year to do very badly a job which the Government is now doing very effectively at practically no cost to the American taxpayer. The Senate would break down the voluntary cooperation of advertisers and newspapers and other publications and radio, who, at practically no cost to the Government, provided thirty million dollars worth of advertising during the three weeks of the Third War Loan. There are no possible grounds upon which this waste of fifteen million dollars can be justified. I shall keep my record for economy consistent and continue to oppose the passage of this bill in the House.

I should like to discuss now the proposals which we made to the House Ways and Means Committee, and those which I am going to make here, today, to you.

On behalf of the Administration, I suggested to the House that we get 10.5 billion dollars in additional revenue.

I want to repeat that suggestion today.

I suggested to the House a definite plan for raising that amount of money. We provided schedules showing how 2.5 billions could be raised in new, selected excise taxes. This included excise taxes on such things as soda-pop and chewing gum and candy, which seemed to us to be very reasonable and logical sources of revenue, because they cannot be considered essentials of living; but apparently the House thought differently.

We suggested a tax schedule that would raise 1.1 billion dollars from corporations, which seemed little enough in the face of a 26 billion dollar increase in their income.

Believing that estate and gift taxpayers were not contributing as much as they might, in comparison to other taxpayers, to the war program, we suggested an increase in rates to produce four hundred million in new revenue from this source.

Finally, we presented a recommended income tax schedule that would produce 6.5 billion dollars in increased levies on income. At that time, I also presented to the Committee a recommendation for handling this program.

Today I am not going to make all of these recommendations to you. I am not going to give you a blue print. Instead, I am going to ask you to raise 10.5 billion dollars and hope, from the bottom of my heart, that you will raise it in such a way that the cure will not be worse than the disease.

I recommended to the House Ways and Means Committee that they take important steps toward simplification of the tax laws by discontinuing the Victory Tax and the earned income credit. I make the same recommendation to you, because the American public is entitled to simplification of its tax laws. We don't have the right to ask every taxpayer to become a bookkeeper, and under the present circumstances, a person outside the range of a simplified tax form is faced with some very perplexing problems and calculations. We at the Treasury are doing everything in our power to simplify the returns. We have managed to clarify, to an extent never before achieved, the simplified returns required of taxpayers earning up to $3,000. Beyond that, however, the toils of a most complicated tax law has us at its mercy.

I implore you, therefore, to keep simplification in the forefront of your minds while considering the new tax bill. I hope you will not drop the Victory Tax, and then add in its place a new tax which will make returns for the average taxpayer equally as complicated. This the House did in its Tax Bill.

If you simply drop the Victory Tax, and leave the income tax exemptions where they stand, you will relieve 11 million people of paying taxes. At first glance, it seems strange that anyone would even think of relieving people of tax liabilities at the very time that we are demanding more taxes; but careful examination of the facts indicates that there is a great deal of justice in relieving of tax liability many of the people who are now subjected to the Victory Tax. There are, for example, 21.5 million people -- a third of all the Nation's salary and wage earners who make less than a thousand dollars a year. These 21.5 million people earn an average of less than 18 dollars a week, and today approximately ____% of these people are paying the Victory Tax. The aggregate tax that they pay to the Treasury amounts to about_____million dollars. In addition to this amount which is paid directly to the Federal Treasury, these same people pay an estimated _____ million dollars in State, city and hidden taxes. These taxes will be with them no matter what is done concerning Federal policies and will increase with increased excises.

We need not worry about this group contributing to inflation if they are relieved of their present direct Federal taxation. In the face of constantly rising prices, they cannot make inflation; they can only suffer as a result of it, and their suffering will get progressively worse as the cost of living rises. These people should be relieved of their federal tax liabilities and the 700 million dollars which they now pay can be distributed among the remaining ____million taxpayers.

As I have pointed out before, we are not going to recommend any particular schedule that you follow in allotting these new income taxes. Our Division of Tax Research has prepared several schedules. You may use any one of these, or suggest that others be drawn up. Most of our schedules are based on the fact that the bulk of the money that we would get is in the hands of the people who make enough to come within our income tax exemptions but less than $5,000. In the schedule which we presented to the House Ways and Means Committee, 53% of the total tax increase came within this group.

During the House hearings, we were asked whether we felt it was so necessary to get 10.5 billions that the Administration would change its position on the sales tax.

I should like to say here and now that the Administration will not change its opinion of the sales tax as a means of raising revenue. Moreover, I sincerely believe that most of the adher~~ers~~ents of the sales tax, particularly among the newspaper editorial writers, and the general public, would change their own minds about the sales tax if all the facts were presented to them.

I should like to take a few moments to present those facts.

I have heard a great deal, and have seen a great deal in the newspapers, about a sales tax being a sort of white-rabbit that Congress can pull out of a hat -- if the Administration would permit it -- and get 6 billion dollars with the greatest of ease.

It is true that if we put a 10% tax on everything that everybody bought, the tax might produce as much as 6.3 billions.

But I am sure that even the most ardent sales tax enthusiasts can see the unlikelihood of placing a 10% tax on all food. The public wouldn't stand for it. The 21.5 million people who are making an average of $18 a week would be called upon to make a sacrifice unequalled by all the rest of the people on the Home Front combined.

If you exempt food from the sales tax, you lose 2.4 billions of this tax yield. This brings the total yield to 3.9 billions.

There is certainly no justice in taxing medicines. If you exempt medicines, you lose another 200 millions, bring the total to 3.7 billion dollars.

There is no conceivable way that you could put a ten per-cent tax on all clothing, whether it be luxury goods, or just common everyday work clothes. And judging from the tax yield on luxury clothing during the last war, most clothing purchases are necessities. Exempt clothing, and you lose another 1.1 billion dollars. This brings the yield of this 10% sales tax to 2.6 billions.

Under the present laws, a large number of goods are heavily taxed by excises. It is unlikely that you could add another 10% to these at the point of sale. Exempt all of them, and you lose another 1.2 billion.

This brings the total yield of a 10 percent sales tax to 1.4 billion dollars -- and even this figure would be reduced somewhat by such things as rent, and by materials included which are used for business, and which accordingly would not be subject to a retail sales tax

Looked at from a practical point of view, a ten percent sales tax, therefore, simply means that the Government would be required to set up an elaborate new system of collecting and policing a new kind of tax, the total revenue from which would be pitifully small.

And to bring up one more complication, we might point out that State tax laws usually permit a deduction of sales taxes paid during a taxable year. This means that anyone with money enough to pay a state income tax would get credit for his sales tax; while anyone whose income placed him below the exemptions, and who by the very nature of things would be hit hardest by a sales tax, would not have the opportunity to recoup any of his sales tax payments.

It is because of this combination of facts that the Treasury feels that a sales tax is futile, and that much more satisfactory results with far less trouble and expense can be secured by increasing the number of goods upon which excise taxes are placed.

In our proposal to the House Ways and Means Committee, we suggested increasing excise taxes, largely by increasing the number of taxable items, by a total of 2.5 billions. The list could be expanded, and the rates could be higher, according to the luxury rating of the items; but even this 2.5 billions comes within a hundred million dollars of producing as much as a sales tax exempting only food, medicines and clothing.

In view of this, it is difficult to see why anyone would want to struggle with a sales tax. Even overlooking the injustices inherent in such a tax; even overlooking the fact that the controls of our economy are based upon a cost of living index which would be thrown completely off balance by a sales tax, and would automatically launch a spiral of higher prices and higher wages, the very futility of the sales tax as a revenue producer should be enough to recommend it for oblivion, once and for all.

If you want to consider a sales tax under these circumstances, it is your privilege. The Administration, on the basis of the facts, opposes it. But you are the elected representatives of the people. You are the lawmakers. In the final analysis, you must draw up this bill, and you must suffer the consequences of any mistakes in judgment which you may make.

Finally, I hope you will give thorough consideration to the long-term significance of this tax bill before you decide upon a course of action. The House has sent up to you a bill which contributes little toward paying off our huge war bill and can contribute practically nothing toward stemming the tide of inflation.

I hope you will not lose sight of the fact that to the extent that the 10.5 billion figure is reduced, just to that extent we will be levying additional future taxes upon the men who are fighting the war, and upon their children and ours.

I hope you will also remember that every dollar taken in taxes is one less dollar which can contribute to an inflation that will unnecessarily increase our war bill, and that will make the job of reconstruction infinitely harder, once the war is over.

And I hope, that you will not be mislead by the idea that anything reclaimed from the estimated budgets of the Army and the Navy is a substitute for new taxes. I am sure that our soldiers will not be so easily deluded. Some day they will be back -- many millions of them -- and the day they make their first income tax payment, they are going to ask: "Why didn't you people back here pay off more of this bill while you were making all that extra money?" Coming from six or eight million men, that can be a very embarrassing question.

As the elder statesmen of this Republic, I hope you will shoulder the responsibility that is unquestionably yours. I hope you will take stock of what is happening all around you.

Remember that we will have a two hundred billion dollar debt by next July -- a debt that will cost us four billion dollars a year in interest alone.

Remember that our cost of living is rising. The latest available figure when I made my proposal to the Ways and Means Committee, was for September, and put the cost of living at 123.9. The latest available figure today is for October, and is 124.4. And this has happened while most of our inflation controls are still active.

Remember that our savings are consistently rising. They have gone up _____ billion dollars since I made the presentation to the House Committee.

And our national income, on the basis of last Saturday's summation of the budget, will drop about ______ billions of dollars -- not enough to have any perceptible affect on the inflation front if the spiral should once start in earnest.

While all this is happening, our inflation controls -- the only forces we have to keep this economic disease in check -- are fast crumbling.

Within the past week, Congress has seen fit to disregard the message from our Commander-in-Chief, pointing out that subsidies were the keystone of our battle against inflation.

Forces in Congress are calling for a reduction in the powers of OPA, which might well result in the elimination of any control of commodity prices.

The Little Steel Formula, which up to this time has held wages in line, has been broken through, and its future certainly is not bright.

Gentlemen, these are the facts.

Perhaps our last opportunity to take any precaution against the calamity of inflation that has hit practically every country in the world to a greater or a lesser degree, is the passage of a tax bill of sizable proportions -- a tax bill that will keep at least 10.5 billions out of circulation.

It is your responsibility. If you refuse to take it, God help America.

November 27, 1943
3:52 p.m.

HMJr: Hello.

Operator: Senator George will call you back in about three minutes.

HMJr: Thank you.

Operator: Right.

3:54 p.m.

HMJr: Hello.

Operator: Senator George.

HMJr: Hello.

Operator: Go ahead.

HMJr: Walter?

Walter George: Yes.

HMJr: I hope I'm not bothering you this afternoon.

G: No, not at all. I got home from the office a little earlier than usual.

HMJr: Well, you know when I was up there and had lunch with you gentlemen?

G: Yes.

HMJr: I'm afraid that I left the impression with you that the deficit would not be decreased. I don't know whether I left that impression or not.

G: Well, no. I don't know that you did. I think you -- you mean on this $13 billion thing?

HMJr: Yes.

G: No, I didn't understand it that way.

HMJr: Well, I....

G: I understood that you didn't think that that amount was justified.

HMJr: I see.

G: And that at the end of the fiscal year it might all be absorbed.

HMJr: I see. Well, of course, the thing is: The Bureau of the Budget has got out a statement which will appear, now, not until tomorrow morning.

G: Oh, yes. I hadn't seen it.

HMJr: Well, it was released for Sunday papers.

G: Oh, yes.

HMJr: And they have revised their estimates as to the deficit and they're going to show the deficit for the fiscal year '44 decreased by about $11 billion.

G: Oh, yes.

HMJr: And I didn't want to feel that there was any misunderstanding or -- as between you and the other gentlemen I met with and myself. I mean....

G: No, I don't think so, Henry. I didn't misunderstand. I understood that....

HMJr: Yeah.

G: ....that they, temporarily, were reserving, say $13 billion.

HMJr: Yeah.

G: But that that was not a final determination....

HMJr: That's right.

G: ....and it had to go until the end of the year.

HMJr: But I didn't leave with you the impression as to what the final thing on the deficit was going to be?

G: No.

HMJr: Well, that's what bothered me.

G: Oh, I don't think so at all.

HMJr: Well, that was all that was worrying me.

G: Well, don't worry about any of it.

HMJr: (Laughs)

G: We've just all got problems. That's all there is to it, you know.

HMJr: Well, plenty of them.

G: Yeah, that's right.

HMJr: Thank you so much.

G: All right.

HMJr: Thank you.

G: Good bye.

Route #1
Accord N.Y.
27 Nov 1943

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

Dear Mister Secretary:

It is good news that Mr. Hart is going to file the shackle around my ankle and set me free to go to work for you in January. Kidding aside, it is a generous thing for him to do, too - not because I am so valuable,as because he is badly under-staffed. There is so much that I ought to do for him that I had intended to ask you if I might dash from Washington to Wilmington for a few hours a week. There is a little fat man, given to lavender shirts, who pinch-hits for me when I am not in Wilmington, and he can get things into the God-awfullest mess in three weeks of any human being - I give him the benefit of the doubt - I ever saw.

Yes, I took the Secretary of the Treasury's advice and sold my 800 hens. I took a small loss, but there is always the comforting thought that it might have been larger. If you regard this as sufficient evidence of financial acumen , which is somewhat doubtful, I would consider employing you on a consulting basis. We can offer light work and friendly surroundings, and you will be treated as one of the family. (Being treated as one of the family, so far as my own experience goes, is something that shouldn't happen to a dog.)

Seriously, your address to the advertising men had its frightening side. The success of the drives adds further evidence to the fact that advertising is a tremendous power. What if, after the war, this power is given to 'selling' the point of view of a powerful, reactionary minority? I wish legislation could be framed now to prevent such a thing from happening.

With kindest regards

25

NOV 27 1943

My dear Mr. McNutt:

Your letter of November 25 with reference to withholding of taxes on certain non-resident aliens has been received. Our respective staffs have discussed the possibility of an amendment of Section 143 (b) of the Internal Revenue Code, whereby the withholding at the source on wages and salaries of non-resident alien individuals brought into the United States under the authority of the War Manpower Commission for temporary employment essential to the war effort shall be at the rate of 10 percent. The Treasury Department has no objection to the enactment of such legislation and will be glad to so inform the Senate Finance Committee.

For your convenience, a copy of the text of the proposed amendment is enclosed herewith.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Paul V. McNutt
Chairman, War Manpower Commission
Washington 25, D. C.

Enclosure

Section 143 (b) of the Internal Revenue Code (relating to withholding of tax at source) is amended by adding at the end thereof the following sentence:

"In respect of the compensation for services performed by nonresident alien individuals brought into the United States under the authority of the War Manpower Commission for temporary employment essential to the war effort and subject to withholding under this subsection, the deduction and withholding shall be at the rate of 10 per centum, and there shall be no deduction or withholding under section 1622."

OFFICE FOR EMERGENCY MANAGEMENT
# WAR MANPOWER COMMISSION
WASHINGTON, D. C.

Chairman
PAUL V. McNUTT

NOV 25 1943

My dear Mr. Secretary:

Certain provisions of the Internal Revenue Code pertaining to withholding of taxes at the source present difficult problems to this Commission in connection with the importation of workers from foreign countries and from territories and possessions of the United States. During the past several weeks, conferences have been held between members of my staff and representatives of the Office of the Tax Legislative Counsel Division, Treasury Department, and of the Chief Counsel's Office of the Bureau of Internal Revenue, for the purpose of developing an appropriate amendment of the Internal Revenue Code with respect to withholding of taxes at the source from compensation for services performed by non-resident alien individuals brought into the United States under the authority of the War Manpower Commission for temporary employment essential to the war effort.

War Manpower Commission and your representatives, including Bureau of Internal Revenue representatives, agreed, on November 11, to the language of an appropriate amendment to section 143 (b) of the Internal Revenue Code. It was tentatively agreed at that time that the proposed amendment should be recommended when the tax bill is considered by the Senate Finance Committee, and that it would be most helpful to the War Manpower Commission if the Treasury Department would join with the War Manpower Commission in supporting the amendment before the Senate Finance Committee. I would very much appreciate being able to transmit the text of the amendment with a letter indicating your concurrence and that of the Commissioner of Internal Revenue.

I have informed the Chairman of the Senate Finance Committee, Senator George, of the proposed amendment and of the need for its early enactment from the War Manpower Commission program standpoint. I am, however, reluctant to go forward with a request for the introduction of the amendment without an affirmative reply from your Department with respect to the text of the amendment and your concurrence in the amendment. An early reply will, therefore, be very much appreciated.

Sincerely,

Paul V. McNutt

Chairman

The Honorable
The Secretary of the Treasury
Washington 25, D.C.