DIARY

Book 642

June 15 - 16, 1943

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*See also Book 646, page 213

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

June 15, 1943

CONFERENCE IN SECRETARY'S OFFICE
ON TAX PROGRAM

Those present besides the Secretary were Senators George and Byrd from the Senate Finance Committee, Congressmen Doughton, Cooper and Disney of the Ways and Means Committee, Judge Vinson, Director of Economic Stabilization, and Mr. Paul and Mr. Bell from the Treasury.

The Secretary said that when they met last week Chairman Doughton stated that he would like to take some time to think over the matters that had been presented to him and come back for another meeting in a week or ten days. The Secretary asked if they had made any decisions, and if so, he would like to know what they are.

There had apparently been some misunderstanding as to this among the various congressional representatives because there have been no meetings between these gentlemen since the one in the Secretary's office last week.

Jere Cooper said he understood we were to have another meeting today and pick up the subject where we left it last week. He suggested that we discuss the subjects in this order:

1. Is there to be a tax bill? His personal feeling is that it is going to be very difficult to get a tax bill through this Congress. The Republicans are playing politics for all they are worth and we are not going to get their cooperation on any tax bill. They will, of course, publicly announce that they are in favor of higher taxes and then they will continually fight against each provision.

2. If there is to be a tax bill, when will it become effective?

3. When should the Committee start work on it?

Mr. Disney said it is quite necessary for him to get home; he has not been there for a long time and his constituents have just about forgotten him, so if he wants to be re-elected next year he has to go home. He is, however, willing to come back the latter part of August and start working on the bill.

Senator Byrd said that there was no doubt in his mind but that politically a tax bill would help the Republicans. He thinks the Republicans will fight a tax bill all along the line and then, when it comes to the vote, they will vote for it announcing publicly that the Democrats insisted upon it and it was necessary for them to go along, but that as Republicans they were not responsible for the higher taxes.

The Secretary said he could not urge too strongly a new tax bill before the end of this year. We have to borrow the sum of $40,000,000,000 in the next six months and we are only paying about one-third of our total expenditures out of revenue. He thinks it is important to get the additional revenue while the people have it in their hands, and this would be of tremendous help on the inflation front. He said he could not plead too earnestly for immediate action; that the President knows this conference is taking place and the public knows it, and he believes that both are expecting some announcement on the tax front.

Senator George said that in his opinion it was up to the Ways and Means Committee to start the ball rolling first. There is nothing the Senate Finance can do until the Ways and Means have finished with their work. He thinks, therefore that that Committee should decide as to whether we are going to have a tax bill; that the Republicans probably will not go along but we may have to go ahead regardless of their attitude. He suggested that Chairman Doughton call the Ways and Means Committee together and lay the matter before them. It is quite well settled that no one could write a tax bill with retroactive features in it as we have in the past, and he is also quite certain that the Committee can not do very effective work on a tax program until after a recess. He does not see that there is much use in debating that matter. He feels rather strongly that the Secretary is entitled to a decision as to whether there is going to be an attempt to get a tax bill. If that decision is in the affirmative then he thinks hearings could start by the end of August.

Chairman Doughton suggested that the Republican representatives should be immediately contacted to get their consent to this whole program.

Mr. Vinson said it had been his experience that no good had ever come from conferring with the Republicans in advance, but Mr. Cooper said he agreed with him in one sense but on the other hand they had been very cooperative in the last two years; aside from the pay-as-you-go wrangle they had had unanimous committee reports on the 1940 and 1941 tax bills.

There was some discussion of a sales tax and the chance of getting one through the Congress. Mr. Disney thought we could not get a sales tax through the Congress unless the President indicated that he would sign such a bill.

Senator George thought possibly we could pass a sales tax but had some doubt about passing it over a Presidential veto. Senator George also thought that we could get a revenue bill through both houses carrying a substantial amount of new taxes. He thought we might get as much as $1-1/2 billion from excises alone.

Senator Byrd then said he thought it was their duty to get a tax bill through this session. He said there would be more controversial items than ever and he was quite certain it would be folly to try to raise as much as $16 billion through new taxes and he thought it would be a mistake on the part of the Administration to ask it. He was sure that ~~we~~ they could not get sufficient

Democratic support to pass such a bill and failing in that, the Republicans would spread far and wide that the Democratic members of the two houses did not follow the Administration's lead and provide the revenue asked.

Congressman Doughton asked what the situation is regarding enforced savings.

The Secretary said that the President had announced at his press conference last Friday that he was in favor of giving voluntary savings a chance for the present. Vinson did not quite agree with the general feeling that enforced savings are out. He said it is a question of what the President meant by "for the present." It looks as though Mr. Vinson is very much in favor of forced savings.

The Secretary said it was his feeling that every effort should be made to get revenue in the form of taxes coming into the Government equivalent to 50% of our total expenditures. There was some discussion then as to what was meant by revenue and how much additional taxes would be needed.

Jere Cooper said that the $38 or $39 billion of revenue that Paul had mentioned at the last conference would indicate that we needed at least $12 billion more to approach 50% of our expenditures. He said it was his personal opinion that we could not get a revenue bill through the Congress carrying anything like $12 billion of new taxes.

The Secretary said he was having luncheon with the President and he would like to get some decision as to just how this group feels about new taxes.

Congressman Doughton then asked for a show of hands as to how the group felt about a new revenue bill this year, the main provisions of which would become effective January 1. The group was unanimously in favor of such a course. He then asked, assuming there would be a recess of at least forty days or more, whether the group would be in favor of hearings say two weeks before Congress reconvenes. All agreed to this program.

The question then came up as to what would be said to the press in view of the fact that knowledge of this meeting is in their hands and the further fact that two or three reporters were standing outside waiting for them to come out. I drew up a statement which the group agreed Mr. Doughton might read as he went out the door. It read something like this:

> "It was agreed that every reasonable effort should be made to enact a new tax bill this year, the main provisions of which would not become effective before January 1, 1944.
>
> "Immediate discussion will take place with the Ways and Means Committee with a view to having hearings begin two weeks before Congress re-convenes, if there is a recess."

AWB

June 15, 1943

MEMORANDUM FOR THE SECRETARY'S FILES:

At 9:00 A. M. today there assembled in the office of the Secretary the following gentlemen:

Senator George	Secretary Morgenthau
Senator Byrd	Daniel W. Bell
Congressman Doughton	Randolph Paul
Congressman Cooper	Judge Vinson
Congressman Disney	

The discussion centered around three points:

1. Whether there should be any tax bill this year.
2. When hearings on any such bill should be begun.
3. Whether the income tax increases of such a bill should be retroactive.

There was considerable discussion on point 1. Mr. Cooper expressed a great deal of doubt on the point. Senator George expressed very forcibly his idea of a necessity for some bill, saying that even the Republicans would not be able to take a position as Senator Byrd had intimated in complete opposition to such tax increases. The meeting finally unanimously, but somewhat reluctantly, agreed there should be a tax bill.

On the question of timing, general agreement was speedily reached, largely on the basis of views expressed by Messrs. Cooper and Disney, and agreed to by Judge Vinson that it would be impossible to start hearings before approximately September 1st or a short time before the end of the contemplated recess. Mr. Doughton is to call together the Ways and Means Committee for the purpose of fixing this date. There was pretty general agreement on the point that income tax increases especially should not be retroactive in any bill, but that they should begin to take effect not earlier than January 1st. This question was analyzed as being rather academic in view of the fact that no bill could probably be enacted before shortly before the end of the year.

The meeting did not discuss particular taxes. Disney put forward the idea that a sales tax could not be enacted without Administration support and Senator George agreed with this statement. On the compulsory saving subject, the Secretary referred to the President's most recent press interview as representing the Administration position. Judge Vinson attempted to qualify this statement, but the conversation drifted off into vagueness on this point. The Secretary made it perfectly clear that he was opposed to any compulsory saving in the bill. Mr. Doughton made one suggestion to the effect that this problem could be handled at the end of the consideration of the bill, after it had been determined how much could be secured from other sources.

There was considerable discussion at this meeting as to the advisability of taking the Republicans in on conferences. Chairman Doughton was strong for such a course of action on the ground that it might disenable the Republicans from saying that the Democrats had made the tax bill a political matter. Jere Cooper was dubious about the wisdom of taking in the Republicans, at least at this stage. Judge Vinson was of this same opinion and Senator George doubted whether anything would come of it. No final decision was reached.

At the end of the conference Mr. Doughton gave out a press statement which had been prepared by Mr. Bell in written form.

Tax Meeting

JUN 15 1943
11:16 AM.

CONGRESSIONAL TAX LEADERS MEET WITH ADMINISTRATION OFFICIALS.

WASHN - J - ADMINISTRATION OFFICIALS AND CONGRESSIONAL TAX LEADERS AGREED TODAY THAT MAJOR PROVISIONS OF TAX LEGISLATION WHICH THEY SCHEDULED FOR CONSIDERATION LATER THIS YEAR WILL NOT BECOME EFFECTIVE BEFORE JANUARY 1 1944

THIS MEANS THE ANNOUNCED PLANS OF THE ADMINISTRATION TO SEEK 16 000 000 000 DLS OF ADDITIONAL TAXES AND SAVINGS DURING THE 1944 FISCAL YEAR WHICH STARTS JULY 1 HAS BEEN ABANDONED

FOLLOWING THE CONFERENCE WHICH WAS HELD IN OFFICE OF SECRETARY OF TREASURY MORGENTHAU CHAIRMAN DOUGHTON OF HOUSE WAYS AND MEANS COMMITTEE MADE THE FOLLOWING STATEMENT

-WE HAD THIS CONFERENCE AT THE INVITATION OF THE SECRETARY

-IT WAS AGREED EVERY REASONABLE EFFORT WILL BE MADE TO ENACT A TAX BILL THIS YEAR— THE MAIN PROVISIONS OF WHICH WILL NOT BECOME EFFECTIVE BEFORE JANUARY 1 1944

-THERE WILL BE EARLY DISCUSSIONS BY WAYS & MEANS COMMITTEE WITH A VIEW OF HOLDING HEARINGS ABOUT TWO WEEKS BEFORE CONGRESS RECONVENES IF A RECESS IS TAKEN-

JUN 15 1943
11:30

ADD-CONGRESSIONAL TAX LEADERS MEET

WASHN - D J - MR DOUGHTON SAID THE DISCUSSIONS THIS MORNING DEALT LARGELY WITH QUESTION OF WHETHER CONGRESS SHOULD UNDERTAKE TAX LEGISLATION THIS YEAR - HE SAID NO DECISIONS WERE REACHED ON AMOUNTS OF REVENUE TO BE RAISED AND METHODS TO BE USED IN RAISING ADDITIONAL REVENUE

JUN 15 1943
11:30

ON THE BASIS OF PLANS OF CONGRESSIONAL LEADERS TO PRESS FOR A RECESS FROM ABOUT THE MIDDLE OF JULY TO EARLY SEPTEMBER MR DOUGHTON-S COMMENTS WOULD INDICATE THAT THE TAX HEARINGS WOULD GET UNDER WAY ABOUT THE MIDDLE OF AUGUST - IF NO RECESS IS TAKEN THE HEARINGS MIGHT COMMENCE AT AN EARLIER DATE

THERE WAAS NO IMMEDIATE ELABORATION ON THE STATEMENT THAT THE MAIN PROVISIONS OF ANY LEGISLATION ENACTED WOULD NOT BECOME EFFECTIVE BEFORE JANUARY 1 1944 - HOWEVER THE CONGRESSIONAL TAX LEADERS HAVE TAKEN THE POSITION THAT RATES ON 1943 INCOMES OF INDIVIDUALS SHOULD NOT BE INCREASED - THEIR ATTITUDE ON A CORPORATION INCOME TAX INCREASE EFFECTIVE ON 1943 EARNINGS HAS NOT BEEN SO DEFINITE ALTHOUGH IT HAS LEANED IN THIS DIRECTION - THE CONGRESSIONAL TAX LEADERS HAVE POINTED OUT THAT IT WOULD NOT BE DIFFICULT TO MAKE EXCISE TAX INCREASES EFFECTIVE UPON ENACTMENT

IN ADDITION TO REP DOUGHTON THE CONGRESSIONAL GROUP PARTICIPATING IN THE CONFERENCE INCLUDED

FROM HOUSE WAYS & MEANS COMMITTEE REP COOPER OF TENN AND REP DISNEY OF OKLAHOMA BOTH DEMOCRATS AND FROM THE SENATE FINANCE COMMITTEE CHAIRMAN GEORGE AND SENATOR BYRD OF VA BOTH DEMOCRATS DIRECTOR OF ECONOMIC STABILIZATION FRED M VINSON A FORMER MEMBER OF HOUSE WAYS AND MEANS COMMITTEE PARTICIPATED IN THE DISCUSSIONS

RANDOLPH PAUL TREASURY GENERAL COUNSEL AND TAX SPOKESMAN PRESENTED THE DEPARTMENT-S VIEWS

Add Tax Meeting

JUN 15 1943
12:28PM.

ADD-CONGRESSIONAL TAX LEADERS MEET

WASHN - D J - CONGRESSIONAL SOURCES SAID CONFERENCE RESULTED IN A GREATER UNDERSTANDING OF OVER-ALL PROBLEMS OF LEGISLATING TO OBTAIN NEW REVENUE

REPRESENTATIVES AND SENATORS WERE SAID TO HAVE CALLED ATTENTION TO FACT THAT POLITICAL CONSIDERATIONS ENTER INTO SITUATION THAT DEMOCRATIC MAJORITY IN HOUSE IS ONLY A -PAPER MAJORITY- AND THAT IF TREASURY SHOULD PROPOSE MEASURES WHICH ARE UNPOPULAR AND IMPOSSIBLE OF ENACTMENT FAILURE TO PUT THEM THROUGH WOULD REFLECT ON DEMOCRATIC CONGRESSIONAL LEADERSHIP

CONSEQUENTLY IT WAS AGREED MEMBERS SAID THAT TREASURY WILL NOT COME TO CONGRESS SEEKING A SPECIFIC DOLLAR AMOUNT IN ADDITIONAL REVENUE BUT RATHER WILL EMPHASIZE DESIRABILITY FOR FINANCING AT LEAST HALF OF GOVERNMENT-S WAR EXPENDITURES BY TAXES AND SAVINGS

MR VINSON WAS REPORTED TO HAVE EXPRESSED OPINION THAT GREAT RELIANCE SHOULD BE PLACED ON PRICE AND RATIONING CONTROLS IN HOLDING INFLATION IN CHECK FEELING THAT IF PRICES RISE INORDINATELY PEOPLE WILL SEE THAT THEY OBTAIN FOOD FIRST AND PAY THEIR TAXES WITH WHAT IS LEFT

MR PAUL WAS SAID TO HAVE PRESENTED FIVE DIFFERENT -PROGRAMS- WHICH ACCORDING TO TREASURY ESTIMATES WOULD RAISE THE 16 000 000 000 DLS REQUESTED BY PRESIDENT IN HIS BUDGET AND ALL OF WHICH ONE CONGRESSMAN ASSERTED WOULD -WRECK THE COUNTRY-

IT WAS REPORTED THAT SOME OF THEM INCLUDED A SALES TAX WHICH ADMINISTRATION OPPOSES AND OTHERS CONTAINED A SPENDINGS TAX AS AN ALTERNATIVE - A 55 PC COMBINED NORMAL AND SURTAX RATE FOR CORPORATIONS WAS AMONG THE SUGGESTIONS IT WAS SAID

June 15, 1943
11:20 a.m.

TAXES; VOLUNTARY VERSUS COMPULSORY SAVINGS

Present: Mr. Bell
Mr. Paul
Mr. Sullivan
Mr. Haas
Mr. Blough
Mr. Viner
Mr. Smith
Mrs. McHugh

H.M.JR: Now, look, gentlemen, I can't help but be a little pleased, in view, particularly, of Drew Pearson's article and all the other articles which have been printed.

Did you see the article?

MR. PAUL: No, I didn't see it. I was just talking to him. He didn't say anything about it.

(Article written by Drew Pearson appearing in the June 15 Washington Post handed to Mr. Paul by the Secretary.)

H.M.JR: What a pal he is. Anyway, I was able to keep away from this very definite propaganda which is going on all over the country to ease the Treasury out of the tax picture. When I say the Treasury, I mean me.

And from the steps of the Treasury they gave out an announcement in the last ten minutes that there would be a new tax bill, which I think is very nice, and so forth and so on.

That is Ben Cohen who slipped that to him (to Drew Pearson).

MR. PAUL: I don't know. Everything always gets out, that is all.

H.M.JR: It is the way Corcoran and Cohen always worked, and they haven't changed. But it makes Pearson look kind of silly in view of what happened here this morning.

But, anyway, this is what I thought I would tell the President. I haven't got - you see, this last draft which they sent you (Paul) on the proposal, which went to your office--

MR. PAUL: Dan has that. That is all in the air, that thing, until--

H.M.JR: This is what I thought I would tell the President, and I talked to Walter George.

My own feeling is to tell the President of the United States that I don't think, in view of their announcing a tax bill, he should send up a statement saying that he wants the tax bill because - and then let his statement cook for the next two months. I think it is bad timing on his part.

MR. PAUL: I agree with that. That, of course, doesn't apply to the subsidy part.

H.M.JR: I am not discussing that. But as to taxes, in view - they say they are going to have a tax bill, and why should he now, two months in advance--

MR. SULLIVAN: It would lose all the effect.

MR. PAUL: He ought to say that at some critical time - put it in then.

MR. VINER: Say it when Congress is refusing to consider it.

H.M.JR: I mean, save his fire.

MR. PAUL: Save his fire, yes.

H.M.JR: Do you all agree on that?

MR. BLOUGH: I agree, with this exception, that I think if he sends up a subsidy statement he ought to have a paragraph in it indicating that subsidies in themselves aren't going to take care of this; that a large withdrawal of the spending power will be necessary but that Congress, he understands, is considering--

MR. VINER: ... is working on it.

MR. BELL: He is assuming that a new tax bill is coming through and this is just a part of the whole program. I agree with that.

(Mr. Smith entered the conference.)

H.M.JR: I am sorry, would you repeat it? What did you say?

MR. BLOUGH: I suggested this amendment, that if he sends up the statement on subsidies he put in a paragraph in that statement to the effect that of course this subsidy business is only a part of the whole stabilization program; that it is necessary to withdraw large amounts of spending power, but that he understands Congress is in the process of doing that.

H.M.JR: I am going to say to the President: "In view of the fact that Congressional leaders have announced tax bill this year, suggest you hold your fire."

Right?

MR. PAUL: I get the general sense, but I couldn't hear all of what you said.

H.M.JR: It is just for myself. I will say: "In view of the fact that Congressional leaders have announced tax bill for this year, I suggest you hold your fire. But if you send up" - what did you say?

MR. BLOUGH: A message on subsidies.

H.M.JR: "If you send a message on subsidies you should say"--

MR. BLOUGH: "You should indicate the great importance of taxes to withdraw spending power."

H.M.JR: That is all right.

(Copy of ticker release handed to the Secretary by Miss McCathran and read by the Secretary, copy attached.)

H.M.JR: I sent out word particularly that you (Bell) were here.

MR. BELL: That's all right.

H.M.JR: I think that is all right.

MR. BELL: That is not bad at all.

H.M.JR: Now let's go--

MR. PAUL: That question about abandoning, when I was going down the hall George Bryan tried to get me to answer that question, and I refused to answer it. That is where it came from.

H.M.JR: Well now, what do we do? All of this stuff that is coming over from Ben Cohen, what do we do with all that stuff?

MR. PAUL: Well, up to this point - up to the point where it has become final - I was just serving on that committee, that is all.

H.M.JR: What happens next?

MR. PAUL: I presume that Vinson or Byrnes want to submit that as a suggestion to the President.

H.M.JR: But it has come over here to you, you see, and Bell and I have been trying to do the best we can. But what is the next move?

MR. BELL: Well, the first four pages of this proposed message deal with taxes, and it has in there the matter of enforced savings.

As I understand Paul, he told them over there that he would have to reserve the right of the Treasury to object to that.

MR. PAUL: I told them more than that. I told them that I didn't think I ought to serve on the committee because the Treasury position is against that. So it was then distinctly understood that I was - that anything I worked on was without prejudice to the Treasury position on that.

MR. BELL: Well, that is all right. Now it is a question, I think, of the principals getting together with the President on that part of the message. If it doesn't go, of course it is out.

H.M.JR: What do I do next?

MR. BELL: I think you can decide that when you come back from seeing the President this afternoon.

MR. VINER: If the President agrees that he doesn't want a message on taxes now, then the Treasury can report to them that there is going to be no message on taxes.

(The Secretary held a telephone conversation with Speaker Rayburn, as follows:)

June 15, 1943.
11:37 a.m.

Rayburn's Operator:	Henry Morgenthau, Mr. Speaker.
Sam Rayburn:	Yes.
HMJr:	Hello, Morgenthau.
R:	Yes.
HMJr:	Sam.
R:	Yes, sir.
HMJr:	How are you?
R:	Pretty good.
HMJr:	Well, we had a good meeting down here. Doughton and Cooper and George and Byrd and they gave out a statement that we will have a tax bill this year.
R:	Uh huh.
HMJr:	And they said depending ypon the adjournment. Now what I want to ask you, has it been decided whether you are going to have a recess?
R:	Yes, we are going to have a recess when we get these appropriation bills all through from about the 10th to 15th of July until after Labor Day.
HMJr:	'Till after Labor Day?
R:	Yeah.
HMJr:	That's fixed?
R:	Yeah.
HMJr:	Well, then....
R:	That was agreed on all around. Uh - the leadership in the House, both Republican and Democrat and in the Senate.
HMJr:	Yeah. Well, that's what I wanted to know because no one has told me and then, in view of this statement, that would mean that the tax bill would come up then.

R: Oh, I think our fellows would be willing to come back here a couple of weeks.

HMJr: Yeah, I think.....

R: Before....Doughton said the other day, a couple of weeks before we took up again.

HMJr: That's right.

R: And go right at it.

HMJr: That's right.

R: Yeah.

HMJr: Don't you think its very important that we try to get a tax bill this year?

R: Henry, I don't know enough about it.

HMJr: Well.....

R: Except that you say it is and some of our fellows over here say it is.

HMJr: Well, I.....

R: Of course, we don't want any more retroactive tax bill.

HMJr: No, that....we've agreed on that.

R: Yeah.

HMJr: Well, I'd say it's most necessary.

R: Well, that's fine. Well, I'll tell....I'll speak to Doughton and say that I think that he ought to have this adjournment so as to come back here a couple of weeks before we meet and go at it.

HMJr: Now may I ask you one other question?

R: Yeah.

HMJr: Have you ever taken a position publicly on a volunteer plan of buying war bonds or notes?

R: No, I haven't.

HMJr: Or the compulsory plan?

R: No, I haven't.

HMJr: You haven't?

R: No.

HMJr: Well....

R: I'd like to talk to you about it sometime.

HMJr: I'd like very much to talk.....

R: All right. Let's get together in the next week or ten days and talk about it a little.

HMJr: Fine.

R: I'd like to know something about it.

HMJr: Well, that will be my privilege to try to tell you.

R: Well, fine, Henry.

HMJr: Thanks.

H.M.JR: Then you people think the question is, if the President does this then there is no--

MR. PAUL: That is right.

MR. BELL: The first four pages ought to be out of this message.

MR. SULLIVAN: Provided they don't amplify this reference to the tax bill now being considered by the Congress. Then you are back into your first four pages of this all over again.

MR. BELL: As to the subsidy message, it is now being redrafted from the Treasury standpoint in the three research divisions - three people working on it. I understand they have a new draft this morning.

MR. PAUL: That is a new draft of ours.

MR. HAAS: A new draft on that subject.

MR. BELL: We will send that over - when we all agree to it we will send that to Cohen as our part of the draft on the subsidy message, not on the tax end. I think we might put something in, a paragraph on the tax end, in view of this.

MR. HAAS: That is in it.

MR. BLOUGH: The first paragraph could be slightly changed in this new draft, or somewhat later in the message it could be put in.

Then I think, if I might suggest something, that you should use this period between now and August 20 or so to do what you suggested yesterday, to really build up public opinion in favor of a good, strong tax bill.

H.M.JR: There is no question about that, but before we do that I have got to give the President a memorandum on the volunteer versus compulsory because Fred Vinson left no doubt in my mind that he is for this thing.

Is it ready?

MR. PAUL: I want to--

H.M.JR: Just a minute, Paul.

MR. PAUL: I am agreeing with you.

H.M.JR: I am so desperate to get all of this stuff and time is so short, and nothing is ready for me.

(Draft of letter to the President handed to the Secretary by Mr. Smith, copy attached.)

H.M.JR: Who worked on this?

MR. SMITH: That is just our conversations we have had over the last three or four days all rounded up. Haas and Lindow gave me this material this morning.

H.M.JR: Has Blough seen this?

MR. SMITH: No, not in this present form. Nobody has seen it. I just got it, the last page, three minutes ago, so it will have to be - it has everything in it that everybody has discussed.

H.M.JR: You see, nobody around here gives me this stuff a day or two in advance so I can have this thing. It is always this terrific pressure and heat that I am under. It is impossible for me to work this way and do anything intelligent.

I mean we ought to have an argument on compulsory versus the other thing - I mean it ought to be here. It ought to be on hand. It is a terrible way to work.

Well now, in the first place, let's do this as a memorandum instead of as a letter.

MR. SMITH: All right. It starts out with the revision that we made the other day when the boys were down at the farm.

(Mrs. McHugh entered the conference.)

H.M.JR: I thought - Dan, didn't I ask to have something ready?

MR. BELL: On what?

H.M.JR: I mean on this compulsory versus the other thing for the President. No?

MR. BELL: I don't think so. The other--

MR. SULLIVAN: We worked on Herb Gaston's letter.

MR. BELL: Which was off as a result of the conference.

H.M.JR: It is almost impossible to go - here I have to go and see this man and I got to collect my thoughts, and nobody in the Treasury has got the initiative for me to get this for the President of the United States on compulsory versus the volunteer.

I can't work like this. I will just have to use my head. I mean there should be somebody in the whole Treasury - my gawd, the way Herman Oliphant did, some planning, some thinking in advance so that I am not always under this pressure.

It is perfectly obvious the whole Byrnes crowd and everybody wants this, and I got to go in an hour and fifteen minutes and face this man, and I have nothing to work with. I am under this kind of pressure all the time, day in, day out.

MR. BELL: Can we take that into my office and thrash it out in an hour?

H.M.JR: What I want is so simple. I mean, if somebody, knowing that this problem is here, would do a little bit of thinking for me in advance - I mean they know this thing, you know I am having lunch, and here this man Vinson interrupts me all the time on this business, and this fight goes on, and I have no tools to work with.

The thing that I want is - I mean I can't do this whole fighting, I can't do it alone. It is just impossible. The argument I want to give the President is simply this: How much can we get out of the volunteer plan beginning with July 1, the next six months how much can we get, or the next twelve months from July 1 to June 30 during the next fiscal, as compared to compulsory - what is the most we can get.

He won't read a thing like this any more than I will. He won't read more than one page, and that ought to be possible, to get a thing like that out so you can say you can get - I don't know - we have gotten seven, we can get another fourteen - I don't know how much we can get.

Sam Rosenman said, "If you get ten percent on compulsory, how much can you get?" I haven't got the answer.

If you had ten percent you would get so much; if you had fifteen you would get so much; if you had twenty - in other words, to equal what you have got, you would have to get so much.

Can you give me something?

MR. BELL: I think so.

H.M.JR: When can I see you?

MR. BELL: We have an hour and a quarter before you go to lunch. It will have to be a good deal shorter than that.

H.M.JR: Haas, your shop ought to have something.

MR. HAAS: We have got that.

H.M.JR: You ought to have something in the top drawer. You ought to think ahead a little bit on this thing.

MR. BELL: Can we write it in an hour?

MR. HAAS: I am afraid, Mr. Secretary, you won't convince the opposition if you put it just that way. I think you will have to use some of the stuff Fred put in there. I mean that is my own personal opinion.

MR. VINER: But the whole case doesn't have to be made today.

H.M.JR: I want one thing for the President, which is - the President knows what we are doing. I want to show him that I can get for him so much on the volunteer plan during the next twelve months.

MR. HAAS: And what rates.

H.M.JR: What rate we have to get to get that. Is that simple enough, Jake?

MR. VINER: I think you ought to have that information.

H.M.JR: What else ought I to have for him?

MR. SULLIVAN: And the comparison between existing tax rates and the new compulsory rates.

MR. VINER: What the combined rates would be of forced savings, and so on, and then I would say the one argument, that with the voluntary method you can place the burdens - you can adjust them between different persons. With the compulsory, you can't do it, and in order to avoid the serious impacts you have got to have as complicated a bill for forced savings as you have for the income tax, that is, exemptions and classifications, and so on.

MR. SULLIVAN: Total yield under your individual income tax is how much this year?

MR. BLOUGH: Thirteen plus three.

MR. SULLIVAN: Sure, that is not as much as the fourteen you are getting.

MR. VINER: There is one other figure you ought to have. Canada and England are using it. You ought to have a figure as to the proportion of their revenue they are getting that way.

MR. BLOUGH: Less than one-tenth in Canada and less than that in England.

H.M.JR: Well, all those things should be down on paper for me. This argument is going on. You have known now, Paul, that this fighting is going on, and you know where I stand and I have no tools to work with.

MR. PAUL: I thought this group was working on that.

MR. BELL: There was a letter being prepared before the President's press conference, and after what he gave out to the press Friday morning we said, "Well, the letter is not necessary now." The work stopped on the letter.

H.M.JR: Well, it shouldn't. See what you can do. It will have to be a different, much more detailed memorandum which should go to Byrnes, Ben Cohen, and to Fred Vinson, and that whole crowd which believes in the thing.

MR. VINER: I think you might even have three levels, this one-page thing, then one for these other men, and then you ought to prepare here a full-fledged, elaborate case with--

MR. BELL: Figures and rates.

MR. VINER: Figures and rates ready here, out of which you can draw the arguments and the facts that you need, and you may want to release this whole thing.

MR. PAUL: We have it.

MR. VINER: I am sure you have it.

H.M.JR: Come back at quarter of. Will you gentlemen all help?

Dow-Jones June 15, 1943 11:16 a.m.

CONGRESSIONAL TAX LEADERS MEET WITH ADMINISTRATION OFFICIALS

Washington (DJ) - Administration officials and Congressional tax leaders agreed today that major provisions of tax legislation which they scheduled for consideration later this year will not become effective before January 1, 1944.

This means the announced plans of the Administration to secure $16,000,000,000 additional taxes and savings during the 1944 fiscal year which starts July 1 has been abandoned. Following the conference, which was held in the Office of Secretary Morgenthau, Chairman Doughton of House Ways and Means Committee made the following statement:

"We had this conference at the invitation of the Secretary.

"It was agreed every reasonable effort will be made to enact a tax bill this year, the main provisions of which will not become effective before January 1, 1944.

"There will be early discussion of Ways and Means Committee with a view of holding hearing about two weeks before Congress reconvenes if a recess is taken."

Mr. Doughton said the discussion this morning dealt largely with the question of whether Congress should undertake tax legislation this year. He said no decisions were reached on amounts of revenue to be raised and methods to be used in raising additional revenue.

On the basis of plans of Congressional leaders to press for a recess from about the middle of July to early September, Mr. Doughton's comments would indicate that the tax hearings would get underway about the middle of August. If no recess is taken, the hearings might commence at an earlier date.

There was no immediate elaboration on the statement that the main provision of any legislation enacted would not become effective before January 1, 1944. However, the Congressional tax leaders have taken the position that rates on 1943 incomes of individuals should not be increased. Their attitude on a corporate income tax increase effective on 1943 earnings has not been so definite, although it has leaned in this direction. The Congressional tax leaders pointed out that it would not be difficult to make excise tax increases effective upon enactment.

In addition to Representative Doughton, the Congressional group participating in the conference included:

From House Ways & Means Committee, Representative Cooper of Tennessee and Representative Disney of Oklahoma, both Democrats; and from the Senate Finance Committee, Chairman George and Senator Byrd of Virginia, both Democrats; Director of Economic Stabilization, Fred M. Vinson, a former member of House Ways and Means Committee, participated in the discussions.

Randolph Paul, Treasury General Counsel and tax spokesman, presented the Department's views.

My dear Mr. President:

At a meeting recently called by Mr. Justice Byrnes and attended by members of his staff, Budget Director Harold Smith, Judge Fred Vincent, and Randolph Paul, a proposed tax statement to be issued by you was discussed. In the proposed statement, you would refer to the 16 billion dollars called for in your budget message, and state that a considerable part of this must be raised through enforced lending. Mr. Paul was advised that a schedule had been drafted by the Bureau of the Budget calling for 11 billion dollars in enforced lending, and 5 billions in new taxes.

In view of the positive stand against compulsory savings which you took in your press conference last Friday, I am confident that you feel such a statement in the near future would be a serious mistake, and while it would be of little value anyway, since Congressional leaders have indicated that nothing will be done on fiscal legislation until September, it would greatly damage the volunteer plan now in operation. As a matter of fact, even the publicity currently in the press, discussing enforced lending, may seriously hamper the sale of War Bonds. It tends also to demoralize the million or more volunteer workers, who represent <u>the best liaison that exists at present between the Government and the people</u>.

In this publicity, particularly if the Administration becomes involved in it, we are gambling with the future of our volunteer savings project. This is a serious situation because:

> <u>First</u>, it is a great morale force. It is doing more to pub the consciousness of the war in the minds of the American people than any other single home front activity. It is providing more than a million people with an important war job.
>
> <u>Second</u>, it is the one thing upon which both management and labor agree, and about which both are enthusiastic.
>
> <u>Third</u>, the enthusiastic volunteer selling and promotion groups comprise a great constructive force <u>unequaled in any other governmental activity</u>.

Fourth, the volunteer plan is working. Last spring we released our program for selling securities the voluntary way during this calendar year. For the first financing period of the year, January through April, we set a goal of $5.3 billions for sales of securities to individuals. When the period was over, we had not only made this goal but we had exceeded it by $500 millions.

The program for the last eight months of the year calls for two financing periods with vastly increased goals for sales of securities to individuals. For the year as a whole, our goal is about $25 billions. If we succeed in the other two financing periods this year as we did in the first, we will have sold individuals 2½ times what they purchased last year. We will also have secured for the Treasury as much as could be realized through a compulsory savings plan calling for $25 billions. It is unthinkable that a compulsory savings bill of this magnitude could pass Congress, or would be accepted by the public without terrible protest.

There is no precedent in either Government or business for selling securities in vast quantities to the bulk of the American people. Yet we have already learned enough to have sold bonds to five-sixths of all the people earning money. During the Second War Loan, lasting less than a month, we sold 33 million Series E bonds -- "the people's bonds". The payroll savings plan, also an unprecedented idea, is encompassing an increasing number of people who are regular bond buyers. At present, 25 million people regularly invest 9 percent of their earnings — because they want to. In my estimation this alone lays a sound foundation for our "people's war" -- and compulsory savings would unquestionably blot this out almost overnight.

Fifth, compulsory savings is entirely foreign to the present Administration's ideology.

Frankly, Mr. President, the Administration's calling for a compulsory savings plan at this time is, I believe, tantamount to slapping the American public in the face. You and I, and all of our war finance leaders, have praised the American people for what they are doing. We have them with us. They are happy about the volunteer method and are confident of its effectiveness and growing success. You would be cheered if you could see the enthusiasm and determination that I have seen in the field.

I don't believe we have the right to cut the people out of our cooperative volunteer program without fair warning. We owe it to them at least to give them an opportunity to produce as much voluntarily as we would ask of them under compulsion. I don't see any reason for legislating enthusiasm out of existence unless it is proven necessary.

I should like to give you some facts about the projected compulsory savings plan, against the present volunteer plan:

1. The projected schedule, according to Mr. Paul's informants in the Byrnes meeting, calls for $5 billions in taxes, and $11 billions in enforced lending.

   I contend that this will have all the political and financial evils of 16 billion dollars in taxes and none of the fiscal advantages of taxes. It will be paid like taxes, collected like taxes, and will, in effect, be only disguised taxes. The chief difference is that it will be more expensive to the Government than taxes, and will be far more dangerous in the post-war reconstruction because $11 billions of it will be returned.

2. The entire 16 billion dollars must be levied and collected with tax mechanisms, and thus will produce the same hardships on the fixed income groups as a 16-billion-dollar income tax. This is exactly what the Administration has been trying to avoid. In all probability it will cause even greater difficulty than a straight income tax, because the enforced savings will be pitched at the low income groups -- and this is probably one great reason that it is enthusiastically espoused by many of its champions.

3. Since many statements have been made that additional income taxation will not be sought at present or in the near future, it is possible that in the Congressional battle which would follow a combination tax and enforced lending bill, the tax bill might be lost in compromise. This would leave us with no increase in taxes, which we badly need, with 11 billion dollars assured from enforced lending, but with so crippled a voluntary plan that both together will not produce even the amounts now secured through the voluntary method.

4. It is my opinion a Congressional battle which is sure to arise out of a combination tax and enforced lending bill would greatly damage the morale of the nation, and would lose public confidence for the Administration -- for you know that the Administration gets blamed for any fight, no matter who starts it or sustains it. A straight tax bill would be a relatively clean fight — some would be for it, some against it, and a compromise could be reached. A combination bill would produce four sets of partisans — two around the taxes, two around the enforced lending. There would also be some who would oppose the combination of the two, and some who would oppose any tax rise under any circumstances. I can see this developing into another

Ruml Plan fight, and perhaps dragging out as long. I believe it would be very bad for the Administration, and more importantly, very damaging to our entire war finance program.

5. I believe it would be as easy to get through Congress a tax bill to gross more than $5 billions as it would be to pass the combination measure. My recommendation is, therefore, to increase the tax bill considerably, and depend upon voluntary savings for the rest.

Faithfully yours,

The President,

The White House.

FS:cf

The Washington Post
JUN 15 1943

The Washington Merry-Go-Round

—By Drew Pearson—

So many Presidents and Prime Ministers have been visiting Washington that State Department protocol experts have worked out a production line system for handling visiting dignitaries. The pattern of entertainment is set from the time the basic structure is begun at the White House, until the finished product is delivered aboard the outgoing plane at Miami.

Whether it be the President of Bolivia, Liberia, Czecho-Slovakia, or Paraguay, there is always a one-night-stand at the White House with a formal dinner, followed by three days at the stately Blair House across Pennsylvania Avenue, where new green sod was laid in the front lawn just before the season opened.

Detroit is the next stop, where a tour of Willow Run wearies the visitors' legs but amazes their minds at American production, and where Henry Ford (now that Edsel is dead) entertains at lunch. In the afternoon, they see skeletons of tanks at one end of the Chrysler line, then finished tanks at the other. Finally they take a ride to see what the interior of a tank is like.

Buffalo displays its aircraft next day, with luncheon by Burdette Wright of Curtiss-Wright, and dinner by Larry Bell of Bell Aircraft.

At New York, the visitors stay in the presidential suits at the Waldorf, and move about the town behind motorcycle police.

From one city to another, they ride in a pair of luxury Pullmans, of which the presidential car is equipped with five bedrooms and two lounge rooms.

All in all it's a breath-taking experience. Axis countries started entertaining Latins abroad before we did, but if we learned the trick from them, we added wrinkles they never thought of.

Most important wrinkle is that we give an indelible impression that the United States is producing the men and the materials which will win the war.

New Tax Czar

Here is one inside reason why the President lost 75 per cent of his battle against the Ruml tax plan, and also why he has finally put Jimmy Byrnes in the job of tax coordinator.

It happens that Henry Morgenthau, who has done a good job as Secretary of the Treasury, is extremely pernickety when it comes to anyone else barging in on his preserve.

No one outside of the White House knows it, but Henry actually went to the President some weeks ago to complain that Jimmy Byrnes was meddling in the tax picture. Henry didn't like it, said that taxes were his domain.

F. D. R. passed it off good-naturedly, but did not back up his Secretary of the Treasury. After all, Jimmy Byrnes was then economic stabilizer and taxes are one of the most important means of preventing inflation and bringing about economic stabilization.

When Byrnes heard about Morgenthau's complaint, however, he decided to keep absolutely aloof from taxes. The President didn't want him to keep aloof, but Jimmy's feelings were slightly ruffled and he let Henry handle taxes all by himself.

If Byrnes had taken off his coat and gone up on Capitol Hill, the tax bill might have been different, for he packs powerful persuasion.

Later Bernie Baruch was offered Judge Vinson's job, replacing Byrnes as economic stabilizer. But Bernie refused unless he could control taxes. This would have put him over Morgenthau, and the President refused to supersede Henry. But now, Roosevelt has officially made Byrnes the coordinator of taxes. He will coordinate between Morgenthau and Congress.

Jesse Wants a Ride

Jesse Jones would like to hitch-hike to Newport News next Saturday, and take Mrs. Jones along. For the moment, he doesn't see any other way of getting there.

The occasion is the launching of the new cruiser Houston, for which Jesse's home town folks raised 84 million dollars in war bonds, after the sinking of the old Houston in the Pacific.

But the boats that used to run from Washington to Norfolk and Newport News are limping along with a limited service, while a train ride would involve day coach travel from Richmond, possibly standing in the aisle.

As for taking a plane, Mrs. Jones puts her foot down firmly, remembering all too keenly that accident a few years ago when her husband escaped death in Louisiana only because the pilot, wrapped in flames, remained at the controls, and made a landing which caused his own death but saved the passengers.

Finally, Jesse is scrupulous about using his own car for what would be pleasure driving.

So Mr. Jones, a wealthy man, who controls more Government agencies than any other man in town, is hoping somebody will give him and the Missus a ride to Newport News next Saturday.

Cox Back-Tracks

It's a closely guarded secret, but the Cox Congressional Committee, now probing the Federal Communications Committee, recently tried to nab all FCC records relating to Station WALB of Albany, Ga., which paid Congressman Cox $2500 for representing it in a license renewal case. Cox has been turning the heat on the FCC, which had recommended that he be prosecuted for taking the check.

The Cox-WALB file was demanded in a terse letter from Fred R. Walker, assistant counsel of the Cox committee. Some FCC officials were for turning over the material, but Commissioner Clifford Durr put his foot down at a closed-door meeting called after the Walker letter arrived.

"We still have the WALB license renewal case under consideration and will have to stop working on it if we relinquish our files," protested Durr. "Furthermore, Mr. Cox has a personal interest in this matter, having been paid a fee by the station."

Durr even went so far as to threaten his fellow commissioners that he would issue a public statement if the Cox files were surrendered.

Somehow Eugene L. Garey, chief counsel of the committee, got wind of what happened in the meeting, including Durr's threat to denounce the proceedings. Next day FCC Secretary Thomas Slowie was astounded to receive a special letter by messenger from Garey stating that the request for the WALB records was due to an "error." With profuse apologies Garey contended that the committee meant Station WAGA, Atlanta, instead of WALB.

June 15, 1943
12:45 p.m.

VOLUNTARY VERSUS COMPULSORY SAVINGS

Present: Mr. Bell
Mr. Sullivan
Mr. Paul
Mr. Haas
Mr. Blough
Mr. Viner
Mr. Smith
Mr. Lindow
Mrs. McHugh

MR. BELL: One page. (Laughter)

(Memorandum to the President handed to the Secretary, copy attached.)

H.M.JR: If it is one page and it is good - I was all ready to apologize to all of you for blowing up, but if you give me results I don't feel I ought to apologize. (Laughter) Excuse me, please, for blowing up.

MR. BELL: The other ought to have been written and prepared.

H.M.JR: I suppose now that things are going better I will go to pieces.

MR. BELL: We thought this was about as much as he would want to read during the lunch hour.

(Memorandum read by the Secretary.)

H.M.JR: What would ten percent of compulsory savings produce?

MR. BLOUGH: Ten percent compulsory savings at present income-tax rates and present exemptions--

H.M.JR: What do you mean, present exemptions?

MR. SULLIVAN: You wouldn't levy it on a fellow earning three hundred dollars a year.

MR. BLOUGH: Sticking to civilians, which is probably the best thing, ten percent up and down the line from top to bottom would raise about four billion six hundred million dollars.

H.M.JR: And fifteen percent? Twice as much?

MR. BLOUGH: Half again as much.

MR. LINDOW: Six point nine.

H.M.JR: And twenty percent would be?

MR. LINDOW: Nine point two.

H.M.JR: And we would get how much?

MR. PAUL: Twenty-five. That is the program.

H.M.JR: We have gotten seven, is that right?

MR. LINDOW: Yes, sir.

H.M.JR: You are out to get that eighteen? (Laughter)

MR. BELL: If you don't make the eighteen you are better off than with eleven billion compulsory, it seems to me. Eleven billion compulsory is the program being talked about?

MR. PAUL: The program budget.

MR. BELL: Certainly part of that has to come out of the voluntary.

MR. PAUL: I have a copy of the plan.

H.M.JR: This will do me. But I think this, Dan, if you don't mind - I had a little talk with Paul, and if you will continue to assume this particular end of it and get these people, so that I can have something - I ought to have something for tomorrow to send over to Byrnes and that group to use on the Hill, you see.

I think what I am going to try to do - is my chart room in shape?

MR. LINDOW: I don't know, Mr. Secretary.

MR. BELL: What do you mean, to occupy? It is in shape to occupy all right.

H.M.JR: What I was thinking I would try to do is get the Speaker to stop by here in the morning, and then take him in there and give him an hour on compulsory savings versus volunteer - I mean do it right in there. I think that is the place to do it.

Just take a look and see, Lindow.

(Mr. Lindow left the conference.)

H.M.JR: I think that is the place to do it.

What suggestions have you got?

MR. VINER: I like that. One thing, in addition, to bear in mind is to stress the point that anything you get out of compulsory savings will by no means be net. It will be encroaching on what you get from volunteer savings.

H.M.JR: I don't know whether - did I draw your attention to this series of articles that is starting in Scripps-Howard? That is going to be the same kind of campaign there as there was on the Ruml plan - there will be on the sales tax, and so forth.

MR. BELL: I think that Fred's letter gives a good basis for going ahead here now, and George put in a lot of figures that Roy has now.

H.M.JR: Will you keep it coming through your office? Why not let's set a time for tomorrow? Don't you think that would be a good thing?

MR. BELL: All right.

H.M.JR: When do you want to talk financing? We got Dr. Viner down on that.

MR. BELL: Have you had a chance to go over that?

MR. VINER: No, but I will today.

MR. BELL: I would make that tomorrow morning then.

H.M.JR: All right. Let's start - George always gets here early-- (Laughter)

MR. PAUL: Who?

H.M.JR: Haas. Nine o'clock?

MR. BELL: All right with me.

H.M.JR: Do you think you can make it, George? (Laughter)

MR. HAAS: I will make it a point to make it.

H.M.JR: How about you, Viner?

MR. VINER: Perfectly all right, hard as it is. (Laughter)

H.M.JR: All right, we will do financing at nine, and then let's say have something for me around eleven, or I can let it go until tomorrow afternoon.

(Mr. Lindow reentered the conference.)

MR. PAUL: I can't - it is not necessary for me to be here, but I have a hearing before a Senate subcommittee at ten.

H.M.JR: Three o'clock tomorrow afternoon. And we would like you (Paul) here, inasmuch as you said you also would like to be educated.

MR. PAUL: I couldn't be here in the morning because of that hearing.

H.M.JR: Three o'clock, volunteer plan, and nine o'clock on financing.

MR. LINDOW: The chart room seems to be in good shape. I understand they have all of the burlap they are going to have until next week, so it is as far along--

H.M.JR: How about the figures?

MR. LINDOW: They look up to date.

H.M.JR: All right.

June 15, 1943

MEMORANDUM TO THE PRESIDENT:

The Treasury program for voluntary sales of securities to individuals calls for $25 billions this calendar year. The program was exceeded in the January-April period. The total goal of $25 billions compares with $14 billions for the estimated Federal income tax liability this year of individuals. This means that the present tax rates would have to be multiplied almost three times on the average if we try to get the same total through taxes and compulsory loans. It is impossible to raise rates in the higher brackets this much without going over 100%, so the increases in the lower brackets would have to be more than three times on the average.

This would be very unfair to a great many people whose incomes have not increased during the war period. On the other hand, many war workers have had increases in incomes making even these rates inadequate to absorb excess funds. The compulsory method does not lend itself to adjustments providing flexibility for these variations.

The voluntary program, on the other hand, offers the necessary flexibility to take care of individuals with varying obligations.

June 15, 1943

Lunch with the President.

I asked the President about this business (HM,Jr's letter of June 10 and the President's reply of 6/12.)

I read him the paragraph of my letter of June 10 in which I said"If I am to continue to be responsible to you for the development of tax policies and to represent you before Congress on tax matters, " and I said, "Well, Mr. President, you avoided answering me in your letter to me on that question - whether I am responsible to you for the development of tax policies." I said, "Are our relations the same as between the President and the Secretary of the Treasury?" He said, "Absolutely the same. This whole question of money is broader than it has been before and I, as President, have to consult other people and instead of my coming directly -- instead of Morgenthau going directly to Roosevelt and Roosevelt dealing directly with Byrnes, I want you and Byrnes to deal with each other, so instead of being a triangular affair it becomes a straight line between Morgenthau and the President so that you and Byrnes work the things out together." So I said, "There is no change in our relationship?" He said, "None whatsoever, but," he said, "I do have to consult more people than I did before on taxes." I said, "Well, that's your privilege."

On the volunteer plan, I let him read this memo of June 15th and I said, "Now, look, Mr. President. We have got this vast sales organization" and I gave him a good talk on it -- one and a half million volunteers, and so forth and so on. I said, "The worst thing that could happen to us is if you keep cutting off the dog's tail by inches; the dog will gradually die. And if the day does come when you don't believe in the volunteer plan, say so, but don't let's have broadcasts coming out of Washington criticizing the volunteer plan," I said, "because I just can't keep it up." He said, "I made my statement at press conference and," he said, "I do believe in it and I want you to go on." And I told him how we are building up in the 48 States; told him about my trouble with Sproul, and so forth and so on.

Then he told me something which really shocked me. He said, "In my talk this morning with representatives from Congress on the question of keeping the price of food down," he said, "I told them about my buying bonds for my grandchildren and one of my grandchildren comes to me and says, 'Look grandpa, you are buying a $750.00 bond for me today that will be worth $1,000 ten years from now, but supposing at the end of ten years I can only buy $500.00 worth of stuff for my bond. Why should you keep on buying War Bonds for me?'" So I don't know whether the President thought he was scaring me. He said, "Have you ever thought of it?" I said, "Look, Mr. President. Not only do I think of it every day, but the thing that amazes me is that the patriotism of the people is such that they keep on buying bonds knowing that the purchasing power of the dollar goes down every day." Then I gavehim a copy of my Boston speech of 1941. So he said, "Well, I told them not to repeat this." Well, all I can say is if anything like this came out from the White House, overnight my whole financing program would just go to hell. He said, "I was just using this as an example." I said, "You don't have to use it as an example to me, because there could be no more dangerous talk." He said, "Oh! I warned them not to repeat it, but I thought it was a good example." (From my standpoint, it's just full of dynamite and they are going to repeat what he said, and that's the way these rumors start.)

I also told the President what Sullivan told me, namely, that Frank Knox and Bridges came to see Sullivan and said that they had been trying to find somebody to beat Tobey in the United States Senate and could not find any Republicans to beat, so therefore they wanted John Sullivan to run for United States Senator against Tobey and Sullivan was willing to consider it because he wanted to be in the Senate to help the President at the peace table. Well, I told this to the President and the President's answer was, "How much influence have Knox and Bridges got?"

o-oOo-o

THE SECRETARY OF THE TREASURY
WASHINGTON

June 15, 1943

MEMORANDUM TO THE PRESIDENT:

The Treasury program for voluntary sales of securities to individuals calls for $25 billions this calendar year. The program was exceeded in the January-April period. The total goal of $25 billions compares with $14 billions for the estimated Federal income tax liability this year of individuals. This means that the present tax rates would have to be multiplied almost three times on the average if we try to get the same total through taxes and compulsory loans. It is impossible to raise rates in the higher brackets this much without going over 100%, so the increases in the lower brackets would have to be more than three times on the average.

This would be very unfair to a great many people whose incomes have not increased during the war period. On the other hand, many war workers have had increases in incomes making even these rates inadequate to absorb excess funds. The compulsory method does not lend itself to adjustments providing flexibility for these variations.

The voluntary program, on the other hand, offers the necessary flexibility to take care of individuals with varying obligations.

10 % compulsory savings $4.6 billion
15% " " 6.9 "
20% 9.2 "

THE WHITE HOUSE
WASHINGTON

June 12, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

The Mobilization Director says that all that he has done about the tax matter is to invite you, Vinson and Smith to cooperate in preparing a draft of a message which I told him I wanted in considering whether I would send to the Congress a message on taxes, inflation and subsidies. Each of the Departments named have responsibilities in connection with the subjects.

If I approve a tax program I would, of course, expect you to present it to the Congress as my program. Thereafter there would be no excuse for conflicting views being presented by various officials. This unity of support should help you in presenting the program.

When you return you and the Director should get together and arrange to cooperate in this matter. Do not let the newspapers disturb you.

F.D.R.

June 10, 1943

My dear Mr. President:

After consultation with you, I held a meeting on tax policy in my office on June 3. Those present were Senator George, Senator Byrd, Congressman Doughton, Congressman Cooper, Judge Vinson, Mr. Paul and myself. You will recall that on June 4 I wrote you a letter, a copy of which is attached, telling of the results of this meeting and I also reported orally on it at the Cabinet meeting the same day at which Mr. Byrnes was present.

At the June 3 meeting, the Congressional members present said they would think things over and they asked that another similar meeting be held on June 15. This proposed second meeting has been reported in today's press and yesterday Senator George confirmed publicly the understanding that such a meeting would be held on that date.

Newspapers reported that yesterday Mr. Byrnes announced at a press conference his interest in future tax policies. A typical interpretation of his announcement is contained in the following quotation from an article by Mr. Crider in the New York Times of today:

> "Following so closely upon the President's press conference statement yesterday in favor of compulsory savings, which was construed as a repudiation of Secretary Morgenthau's insistence upon voluntary savings, the announcement that Mr. Byrnes was going to take a hand in the shaping of future tax policies led observers to the conclusion that Mr. Morgenthau will no longer be the Administration's tax policy maker."

In view of this situation, I would appreciate your advising me at your earliest convenience whether you wish me to hold the meeting on June 15. I should like to feel free to show your communication to the conferees and, better yet, to make it public. If I am to continue to be responsible to you for the development of tax policies and to represent you before Congress on tax matters, it seems to me that this is the time to clear up the confusion created by the statements made by Mr. Byrnes yesterday. Until this matter is cleared up, it seems unlikely that Congressional leaders will pay serious attention to any suggestions I or representatives of the Treasury may make.

Yours sincerely,

(Signed) Henry Morgenthau, Jr.
(by H.E.G.)

The President,

The White House.

June 4, 1943

My dear Mr. President:

Thursday morning at nine o'clock, the following gentlemen met in my office: Senator Walter George, Senator Harry Byrd, Congressman Robert Doughton, Congressman Jere Cooper, Judge Fred Vinson, Mr. Randolph Paul and myself.

For two and one-half hours we discussed whether we should have another tax bill and, if so, when. Most of those present conceded the necessity of a tax bill this year, though there was a strong opinion that it should not apply to 1943 income. The question when a tax bill can be considered is complicated by the fact that many members of Congress evidently want to adjourn for the months of July and August.

Mr. Paul presented a number of plans which by different combinations would raise 16 billion dollars of additional revenue on an annual basis. The Senators and Congressmen wanted to think the matter over, and asked for an opportunity to meet with us again shortly. A further conference has been arranged for June 15th.

I will continue to keep you posted.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

The Washington Post
JUN 11 1943

Jolt To The Treasury?

Was Secretary Morgenthau as surprised at the announcement that the President favors compulsory savings and that Federal tax policy is to become the responsibility of James F. Byrnes as Food Administrator Chester Davis was when Price Administrator Brown outlined a program of subsidizing food processors? Indications are that Mr. Morgenthau, like Mr. Davis, was most unpleasantly surprised. Otherwise the Treasury would not have been busily revamping its bond-selling organization with a view to increasing voluntary purchases of war bonds by individuals. Undoubtedly something drastic needs to be done to mop up the billions of dollars of income accumulating in consumer hands. However, from the Treasury viewpoint, the news that a compulsory savings program is in the offing must seem maliciously timed to handicap its voluntary bond-sales campaign.

If we are to have a system of compulsory saving, it is obvious that Treasury plans for expanding voluntary sales will have to be drastically revised. It is also evident that the amounts that can be borrowed under either a voluntary or a compulsory system of investment will depend to a large extent upon the ratio of taxes to income. Some one executive agency of the Government should, therefore, be given responsibility for developing an integrated program of taxation and borrowing that will be internally consistent. And the Treasury is the logical agency for formulating such a program and for presenting that program to Congress. If the President is for any reason dissatisfied with the conduct of fiscal affairs by his Secretary of the Treasury, or if the latter finds his advice disregarded, the remedy plainly lies in a change of Treasury leadership, not in sporadic tampering with the presumably well-laid plans of a permanent organization.

The fact that Mr. Morgenthau sent the Treasury's general counsel to represent him at the conference to which he was invited by Mr. Byrnes suggests that he regards the intervention of the Director of War Mobilization as an unwarranted invasion of his own domain. However, Mr. Byrnes would certainly not have set himself up as a molder of fiscal policy without the President's approval. So it seems safe to conclude that Secretary Morgenthau is merely the latest of the many victims of the President's habit of relieving responsible officials of some of their powers without advance preparation for the shock thus administered.

June 15, 1943

3:25 pm

Present:

Mrs. Klotz
Mr. Bartelt
Mrs. McHugh
Miss Chauncey

HM,Jr: The President of the United States signed this letter (copy attached), but he said, "How about the Army?" I said, "I don't know, but I think the Army does a good job."

Mr. Bartelt: The Army is doing a good job.

HM,Jr: He wants a memo on the Army. Through Norman Thompson there's a way of getting these things back to Forster.

The President is disturbed about all these things he reads about in the newspapers about the White House not signing up. I said to him, "Are you in a good sense of humor?" I said, "As you told me, don't believe everything you read in the papers. Don't believe what Cissie Patterson prints." He wants a list of every White House employee that are on the White House payroll, including himself, showing how much bonds they buy -- but the regular White House employees.

Mr. Bartelt: On the White House rolls.

HM,Jr: Old Forster, who does not believe in our volunteer plan, went to the President and said there are 400 people here and the lists that are published, publish half of those who are not on the White House payroll, which isn't true.

THE WHITE HOUSE
WASHINGTON

N 13 '42

Dear Frank:

Secretary Morgenthau has called my attention to the splendid record of the civilian employees of the Navy Department in connection with the Government's pay-roll savings plan. He tells me that over 91 per cent of the 588,000 civilian employees of your Department are investing over 10 per cent of their gross pay regularly in war savings bonds through the pay-roll reservation system. This is a most remarkable showing and reflects the enthusiasm which you personally have carried into the program.

I was also happy to learn that you have offered to the officers and enlisted personnel of the Navy, Marine Corps, and the Coast Guard the same opportunity of availing themselves of this convenient method of purchasing war savings bonds through the pay-reservation plan. I know of no better way for the men and women in our armed forces to set aside a part of their pay each pay day for savings, and I am certain that your plans will meet with hearty approval.

Congratulations and the best of luck in your savings program.

Sincerely,

Franklin D Roosevelt

Honorable Frank Knox,

Secretary of the Navy.

June 15, 1943
3:59 p. m.

HMJr: Randolph.

Randolph Paul: Yeah.

HMJr: I saw that thing on the ticker of tape about yourself.

P: Yeah.

HMJr: And if I can be of any help, or write any letters or do anything, I'd be more than pleased to do it.

P: Yeah. Well, of course, you realize I've already issued a statement denying the truth of it.

HMJr: Well, I didn't see that.

P: Uh - Mills called me. Thank you for your offer, by the way, but Mills called me and said he wanted an answer tomorrow.

HMJr: Who is Mills?

P: Mills is on the Ways and Means Committee.

HMJr: Well.

P: A very able fellow.

HMJr: But if there is anything I can do, don't hesitate to call.

P: Thank you very much. It's so completely cockeyed. I'm not interested - have no interest, and they shouldn't have used my name - it was unauthorized. It was a clever device to get sales and the thing was completely - completely - what's-his-name in the papers should certainly have checked with me before he made such a charge.

HMJr: Well, he's an unprincipled sort of a cuss.

P: Yeah. Well, I issued a press release.

HMJr: Yeah.

P: And something will be said on the floor tomorrow and on the record - to answer it.

HMJr: Good. Now, I wish to keep our record clear after my talk with the press and what he said is that he wanted us to cooperate with Byrnes, that we work together, you see?

P: Yeah.

HMJr: Byrnes isn't over us or anything else.

P: Yeah.

HMJr: Now, can you do something with Cohen or with Byrnes direct in what more can we do to be helpful or something like that, you see?

P: Yeah. Well, I can....the point is that....Well, what did the President say about the message?

HMJr: Well, I talked to him about this. I thought this was bad timing, etc., and so on. So he said he was going to send a message and he thought.... he agreed with me but he thought he would have to say something about taxes and I said, "Sure," that that is part of the whole picture....just what was along the lines we had talked.

P: Yeah.

HMJr: I don't know how much of an impression we have made but he said that before the thing came to us he wanted the Treasury to cooperate with Byrnes, etc., and so on. So I don't see what harm it would be to call up Ben....for you to call up Ben, wouldn't it?

P: Oh, sure. I could call up Byrnes.

HMJr: Call up Byrnes?

P: All right. I think I'll call up Ben and make a date with him.

HMJr: That's it.

P: And talk over the situation.

HMJr: I think if you did that and simply say that we are here to cooperate.

P: Yeah.

HMJr: How's that?

P: Okay. I'll do something and I'll write up this morning's conference.

HMJr: I wish you would.

P: As soon as I can get around to it this afternoon.

HMJr: You might tell Bell that you are doing it for I think he was going to do it, too.

P: All right, I will before I do it.

HMJr: And, uh...that's that. Okay.

P: All right. Thanks.

HMJr: I had a satisfactory talk with the President.

P: Yeah.

HMJr: I'm satisfied.

P: Yeah. Okay, I'll send you a copy of this release, by the way.

HMJr: I wish you would.

P: Okay.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau June 15, 1943

FROM Mr. Thompson

Mr. Forster tells me that the President signed the nominations for Cann and Graves as Assistant Commissioners of Internal Revenue with the instruction, however, that they were not to go forward unless cleared by Postmaster General Walker.

Forster has been unable to obtain this clearance, because Mr. Walker has indicated he will not clear Graves until he has talked to you about him.

Thm

June 15, 1943
4:13 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Operator: Mr. Cronin.

HMJr: Hello.

Wm. Cronin: Hello, Mr. Secretary.

HMJr: Morgenthau speaking.

C: Yes, sir.

HMJr: I understood the Postmaster General Walker was trying to get me in regard to the appointment of Harold Graves, but I have no record that he called me.

C: I see.

HMJr: And Mr - the Chief Clerk at the White House said that the Postmaster General was trying to get in touch with me.

C: Uh huh.

HMJr: The point of my call is that I understand he's - the Postmaster's holding up Mr. Graves' appointment.

C: Uh huh. Well, I....

HMJr: You don't know anything....

C: I - I don't know that. See? That would be handled over a t the committee, but I....

HMJr: Well....

C: ....but I can probably find out very quickly for you.

HMJr: Well, I don't - all I know is that it comes from -

HMJr: (Cont'd.) (Talks aside: What's his name - the Chief Clerk?) Forster.

C: Forster. Uh huh.

HMJr: He says that Mr. Walker's holding it up.

C: Uh huh. Well, what - I can probably get it released if it is being held up by the people over at the committee that are - that are in charge of that.

HMJr: Well....

C: Should I - should I....

HMJr: Well, I understand that Senator Lucas has endorsed him -- from Illinois. He's from Illinois.

C: Uh huh.

HMJr: And that Senator Lucas has endorsed him.

C: Uh huh.

HMJr: Supposing you look into it and let me know, will you?

C: All right. Sure I will.

HMJr: Yeah.

C: I may have Mr. O'Connell call you from the committee and tell you the exact status of it.

HMJr: He's - he's - we recommended Cann and Graves as Assistant Commissioners of Internal Revenue.

C: Uh huh.

HMJr: And Graves appointment, Forster says, was held up by the Postmaster General.

C: Uh huh. I see. All right, Mr. Secretary, I'll - I'll have - I'll call you back or I'll have Mr. O'Connell call you back very shortly.

HMJr: I thank you.

C: All right, sir. Goodbye.

June 15, 1943
4:31 p.m.

Operator: Go ahead.

HMJr: Hello.

William Cronin: Hello, Mr. Secretary.

HMJr: Speaking.

C: Mr. Walker as you - I didn't know whether I told you or not, he's - He's out of the city and he won't be back until Thursday morning.

HMJr: No, I didn't ....

C: But it is - it is true that he - he wanted that held up until he talked with you. That was the only reason that he wanted it held up. He has some - some things that he wants to discuss with you in connection with that.

HMJr: Yeah.

C: Now, O'Connell told me that he had tried to get you. It must have been from headquarters - not from - from our office here.

HMJr: No, there's no record of a call.

C: I don't - I don't know anything about that, but - but he - he told me that he knew that Mr. Walker was very anxious to discuss that appointment with you.

HMJr: Well, I'll be here.

C: Well, will Thursday morning be satisfactory?

HMJr: Yeah.

C: All right, fine. I'll see to it that he calls you.

HMJr: I thank you.

C: All right, sir.

HMJr: Good-bye.

June 15, 1943

Fred Smith

Secretary Morgenthau

Will you find out whether they sent out my Kingston speech to the forty-eight state organizations of War Finance? If not, please see that they go out today; that they get distribution through the state chairmen. Please give me a written report on this.

Last night, Scripps-Howard started a series of six articles against the volunteer plan and for compulsory savings. I wonder if Chet LaRoche or Frank Gannett, through this Newspaper Council which they formed, would care to start a sort of survey of the newspapers in each of the towns, how the people feel on the volunteer plan, and possibly get each paper independently to work up a campaign for the volunteer plan as against compulsory savings, provided of course that they find that the people in their town are for the volunteer plan. Please give this matter your consideration, and give me a written answer "yes" or "no". Thank you. Finished

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 15, 1943

TO Secretary Morgenthau

FROM Fred Smith B

Sunday morning I checked with the Associated Press in New York to find out why the Kingston speech had not been reported properly. I found that it had been handled very badly by the Albany Bureau of the AP -- that the editors there had failed to report any of the important facts in the speech, including the announcement of the September 9 drive.

The Albany bureau's bad writeup of the speech cleared the New York office of the AP about 7 o'clock on Saturday. The Albany bureau had received copy from Kingston before 3 o'clock.

I discussed with AP on Sunday the possibility of giving them an interpretation of the speech for the Monday papers, but they felt that this would be a gamble because the speech took place on Saturday, making it old news.

It seems to me that the best way to pick up the ball would be to write a memorandum to the 48 State organizations with the speech material in it, asking them to see that the memorandum gets publicity.

In the final analysis, we can't handle the newspapers successfully unless we can create local pressure.

I am now working on this memorandum and will have it later today.

It is my opinion that such a memorandum would be better to send to the State organizations than the speech, because the speech cannot produce publicity, and the memorandum can.

June 15, 1943

Fred Smith

Secretary Morgenthau

When our new advertising manager comes in, please tell him that one of the first things that I'd like him to do, is to take a look at these recordings that we make each week for the radio stations and also any radio programs, such as the "Bond Wagon" on Saturday night, which I understand is still very mediocre. Now I question throwing the money into that program. I'd rather use that money for the Heinz' program. Think it over. Finished

60

INVESTMENT BANKERS ASSOCIATION OF AMERICA

OFFICE OF THE PRESIDENT
135 SOUTH LA SALLE STREET
CHICAGO

June 15, 1943

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

Dear Mr. Morgenthau:

You were very generous to take the time to attend our War Finance Forum. All of us, knowing the heavy demand upon you, appreciated particularly having you there.

I hope you carried away from the meeting an assurance of the enthusiasm and ingenuity with which the investment men are ready to assist you in the sale of Government securities.

Sincerely yours,

Jay N. Whipple

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 15, 1943

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Attached Article in the New York Herald Tribune, Sunday, June 13, 1943, by Nicholas P. Gregory.

In response to your request, transmitted by Mr. Shaeffer of Public Relations, we have prepared a short review of the Herald Tribune article for you.

Mr. Gregory says that the Second War Loan was not the success it was painted by the Treasury, and that the booklet reporting on the loan was misleading statistically.

As to the success of the loan, he contends that not enough money was raised from individuals. He argues that individuals have been putting excessive sums into currency and checking accounts, and not enough into Government bonds. He says that in the Second War Loan "no inroads were made on the unprecedented holdings of currency and deposits by individuals which had been accumulated before April, nor was any provision made for checking the dangerous growth of such funds in the months before the next drive." Mr. Gregory concludes that only some form of compulsory savings "can succeed in doing this to the necessary degree."

Mr. Gregory's contention that excessive amounts of personal savings have been going into currency and checking accounts is based on solid facts. It was just this problem which the sources of funds analysis was intended to present, together with a program working toward a solution. Even the suggested program, however, would still permit further increases in individuals' holdings of currency and checking accounts this year. From the point of view of <u>reducing</u> existing holdings of currency and checking accounts by individuals, therefore, the sources of funds schedules are not stiff enough. The program would nevertheless represent a significant beginning if it were adopted.

Mr. Gregory's criticisms of the statistics in the booklet on the Second War Loan are concerned mainly with the popular presentation in that report. Examples of his criticisms are as follows:

(1) Savings bond sales were counted from April 1 through May 8 rather than for just "the three weeks of the drive".

(2) The corporation group of investors was labeled "Insurance companies and corporations" although it included savings banks and governmental accounts.

(3) Purchases by "the American people" were interpreted to include purchases by the corporation group as well as by individuals.

It is generally desirable in a popular style report to use short titles and to eliminate footnotes. Complete data on the Second War Loan on a technical basis were presented in an article in the May issue of the Treasury Bulletin which included all of the necessary footnotes.

New York Herald Tribune
Sunday, June 13, 1943

Discrepancy In Bond Drive Report Cited

Treasury Data Include Amounts Bought Week Before and After Drive

By Nicholas P. Gregory

WASHINGTON, June 12.—Substantial discrepancies have come to light in the Treasury's report entitled "The Story of America's Greatest Loan Drive." A comparison of the data given in the pamphlet, which has gained wide distribution and nation-wide publicity, and the Treasury statistical bulletin shows that revision of data is necessary in order to give an accurate picture of the second war-loan drive.

It is important that the true picture of the last financing be brought to the public in view of the renewal of the controversy of compulsory vs. voluntary savings. President Roosevelt injected himself into the battle last Tuesday, although at the conclusion of the second war-loan drive he felt that the need for compulsory savings had lessened in view of the success of the financing.

Here are the facts:

1. In his report, Henry Morgenthau jr., Secretary of the Treasury, states that "during the three weeks between April 12 and May 1 the American people subscribed $18,500,000,000." The bulletin, however, admits that sales from April 1 through May 8, of Series E, F and G bonds were added to make up these totals. It seems, therefore, that the Secretary erred in stating that $18,500,000,000 of bonds had been sold in the three weeks of the drive.

Differences Are Detailed

These sales actually were made in a period of almost six weeks and the total includes regular purchases of war bonds of series E, F and G, in addition to the 2½ per cent and 2 per cent bonds and ⅞ per cent certificates offered in the drive. A substantial correction would have to be made in the Secretary's estimates, particularly as to the subscriptions of individuals, if they really applied to the Victory-drive period and to the bonds offered therein. Individuals' subscriptions would be reduced to less than one-half the figure reported by the Secretary.

2. The Secretary reports that insurance companies and corporations subscribed to $9,750,000,000 during the Victory drive. The bulletin, however, discloses that insurance companies and corporations subscribed to less than $7,500,000,000 during the five-week period from April 1 through May 8. Apparently the Secretary has added subscription of savings banks, state and local governments and Federal agencies to make up his total. Even so, it appears that of the $5,000,000,000 subscribed by corporations, $1,500,000,000 were not for bonds in the real sense, but represented purchases of tax-anticipation notes.

3. Though the Secretary's report indicates that individuals, partnerships and trust accounts purchased close to $3,333,000,000 of government securities during the three weeks of the drive between April 12 and May 1, actually this figure represents all purchases from April 1 through May 8, including tax-anticipation notes and payroll allotments. The correct figure for purchases by individuals, partnerships and trust accounts during the period April 12 to May 1 is closer to $2,000,000,000.

No Redemption Adjustment

Even this figure makes no adjustment for the savings bonds redeemed by such investors from April 12 through May 1, their sales of marketable government bonds to banks and their fairly substantial borrowings to cover their purchases of government securities. Their net purchases, therefore, were somewhat more than two and one-half billion dollars during the drive, or only about one and one-half billion more than normally would have been bought in the absence of a drive.

The Secretary also described to the American people the subscriptions of insurance companies and corporations. There does not seem to be much justification for including the seven and one-half billion obtained from insurance companies and other corporations and associations as part of the contribution of the American people during the second war loan.

First of all, roughly one and one-half billion of their holdings of government bonds were sold to banks by these companies so that their net acquisition of such bonds was only six billions. Second, the greater part of this six billions would have been invested in government securities even without a war-loan drive. Insurance companies, for example, have a normal inflow of funds which these days they must invest for the most part in government securities. In the case of other corporations this is also true, though not quite to the same extent.

Continued on next page

New York Herald Tribune
Sunday, June 13, 1943

Report Raises Vital Issues

The absence of offerings in the first three months of the year and the knowledge that the war-loan drive would be forthcoming in April simply meant that insurance companies and other corporations deferred their purchases until that time. It is interesting to note that 70 per cent of the April purchases by corporations and associations other than insurance companies were of short-term tax notes and certificates of indebtedness.

Finally, and most important, it should be pointed out that the American people as a whole have little to say about the disposition of these business funds and that such money is not nearly as potentially dangerous as that in the hands of the people.

These discrepancies between the Secretary's report to the public and the official bulletin of the Treasury Department might be passed off as technicalities were it not for the fact that in them rests the determination as to whether the drive was a success or not, and whether the financing policy to which the Treasury is dedicated is sound or not.

If the report of the Secretary of the Treasury is accepted at its face value, as it probably has been by the public and Congress, several natural but hazardous inferences are sure to be made:

(1) There will be a general complacency over the problem of financing the war, for if $18,000,000,000 can be raised as easily as the Secretary's report makes it appear, why, it may well be asked, worry about this problem?

(2) There is sure to be a further disregard for the monetary aspects of the inflation situation which is even now neglected in public discussions. The Treasury report makes it appear that a very substantial part of the public's excess income is being invested in government bonds.

Bearing on Taxation Cited

(3) It is sure to encourage Congressional reluctance to higher taxation. Even Mr. Doughton, chairman of the House Ways and Means Committee, has expressed doubt as to the need for higher taxes in view of the success of the drive. It is, therefore, not merely a matter of technical concern to examine the figures which the Secretary of the Treasury has offered to the public to prove his assertion that it was a great success. For if, upon examination of these figures, the drive turns out to have been unsuccessful, it would seem that a completely new policy for financing the war debt should be considered immediately.

By far the most important factor bearing on the success of the war-loan drive was the extent to which it induced individuals to purchase government bonds which they could not otherwise have purchased and the extent to which such purchases were sufficient to tap off excess purchasing power. The results of the drive were not impressive from this point of view.

It is reliably estimated by the Securities and Exchange Commission that during the first three months of this year the American people added $4,500,000,000 to their holdings of money after paying taxes, liquidating debt and subscribing to $2,500,000,000 of war bonds. The accumulation of money by the public at this rate has been proceeding for nine months, during which individuals have added $12,500,000,000 to their holdings in the form of cash and demand deposits. At this rate it appears that the public added another $1,500,000,000 during April, 1943.

Money in Public Hands Zooms

The complete inadequacy of the amount of bonds purchased by individuals is best indicated by the fact that the only effect of the war-loan drive on individuals' currency and deposits in April was to prevent any substantial increase during the month. However, no inroads were made on the unprecedented holdings of currency and deposits by individuals which had been accumulated before April, nor was any provision made for checking the dangerous growth of such funds in the months before the next drive.

Now these idle and liquid funds are coming to be recognized more and more as the most serious inflationary threat in the economy. It is not the cash holdings of insurance companies, of savings banks or even of corporations that constitute the threat to inflationary controls. It is, as has been said again and again, the excess purchasing power of the people constituted by their huge and ever-increasing holdings of money.

In spite of the efforts of two victory drives, money in the hands of the public has increased by the unprecedented sum of $15,500,000,000—an increase of more than 50 per cent since December, 1941.

It should be apparent that victory drives alone are not likely to reduce these accumulations. It should be clear that only some form of a compulsory saving program can succeed in doing this to the necessary degree.

THE WHITE HOUSE
WASHINGTON

June 4, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

TO HANDLE

F. D. R.

I saw Mr. Aldrich today. He is perfectly satisfied with dates (Sept 9-30) for next War Loan. Don't believe any answer is required to attached –

DWB
6-15-43

THE WHITE HOUSE
WASHINGTON

June 2, 1943

MEMORANDUM FOR THE PRESIDENT:

When you were in Hyde Park, Winthrop Aldrich, who is President of the National War Fund, telephoned and asked that the following be called to your attention.

Aldrich is greatly concerned because, he says, the Treasury Department is planning to start another War Loan Drive on September 20th and the National War Fund Drive is scheduled to start in October, with the Red Cross beginning their drive in the Spring. Aldrich said it would be "perfectly tragic" if the Treasury Department Drive which starts on September 20th was extended into October. He urges that the Treasury Department Drive begin in early spring or be put over until November, to avoid overlapping with the National War Fund Drive. He expressed the opinion that it would be fatal if the Drives overlapped.

The goal of the National War Fund Drive is $250,000,000.

Mr. Aldrich said that he would be in Washington today. He can be reached at the Foxcroft School and would like very much to have some word of assurance that the Treasury and National War Fund Drives would be scheduled in a way that would prevent overlapping and conflict.

S.T.E.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau June 15, 1943

FROM Joseph J. O'Connell, Jr.

An inventory and analysis of all legislation enacted during the past ten years affecting farm prices or production is under way, and we will give you the results at the earliest possible moment. In the meantime, there is attached a one-page statement listing some of the more outstanding bits of legislation now on the books which was enacted for the purpose of enhancing farm income through increases in farm prices.

It does not seem to me that we should assume too quickly that such legislation now constitutes a major element in supporting the present level of farm prices. I do not pretend to know the answer, but it seems entirely possible that the present level of farm prices may be attributable more to other factors than to laws of the character described in the attached statement.

JJO'C Jr

Enclosure

1. Statute restricting importation of wheat.

Section 22 of the Agricultural Adjustment Act of 1933, as amended, limits the amount of wheat that may be imported to a small annual quota for each country. This statute effectively removes Canada as a source of wheat supply for the United States.

2. Non-recourse crop loans.

The Act of July 1, 1941 provided for non-recourse crop loans of 85 per cent of parity on basic farm commodities. The Act of October 2, 1942 raised the amount of such loans to 90 per cent of parity. (Earlier legislation also provided for compulsory loans but at a somewhat lower percentage of parity). The enactment of the 85 per cent crop loan legislation in 1941 coincided with the beginning of the sharp rise in farm prices.

3. Restrictions on sale of Government-owned farm products.

a. <u>All farm products</u>:

The Department of Agriculture Appropriation Act, fiscal year 1943, approved July 22, 1942, contains a provision which has the practical effect of preventing any Government-owned farm products from being sold at less than parity.

b. <u>Cotton</u>

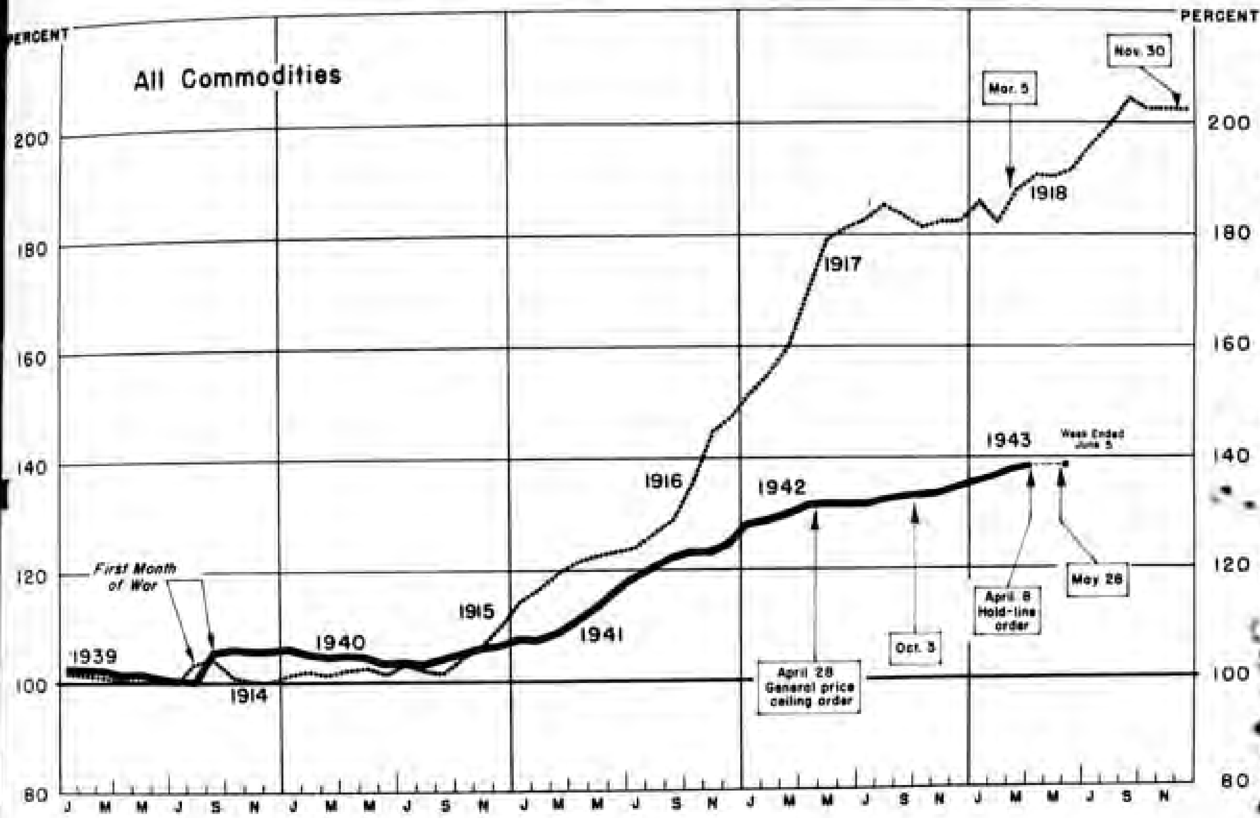
Section 381(c) of the Agricultural Adjustment Act of 1938 provides that not more than a million and a half bales of Government-owned cotton may be sold in any one year, and not more than 300,000 bales may be sold in any one month (this restriction is in addition to the above-mentioned restriction on price).

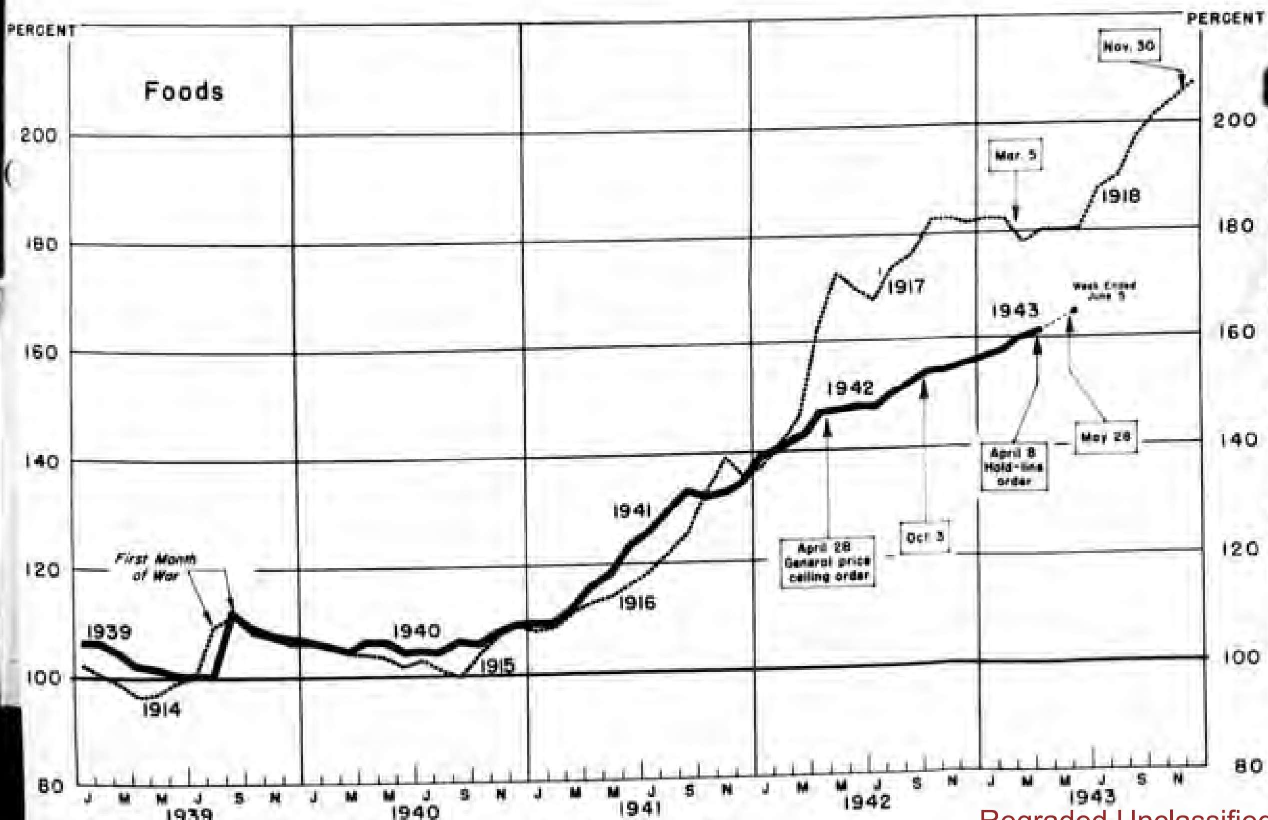
4. Benefit payments to farmers.

The legislation of practically every year since 1932 includes benefit payments for farmers, crop loans, etc., providing means for implementing the then existing policy of enhancing farm incomes through restricting production with resulting higher farm prices.

PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1918

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

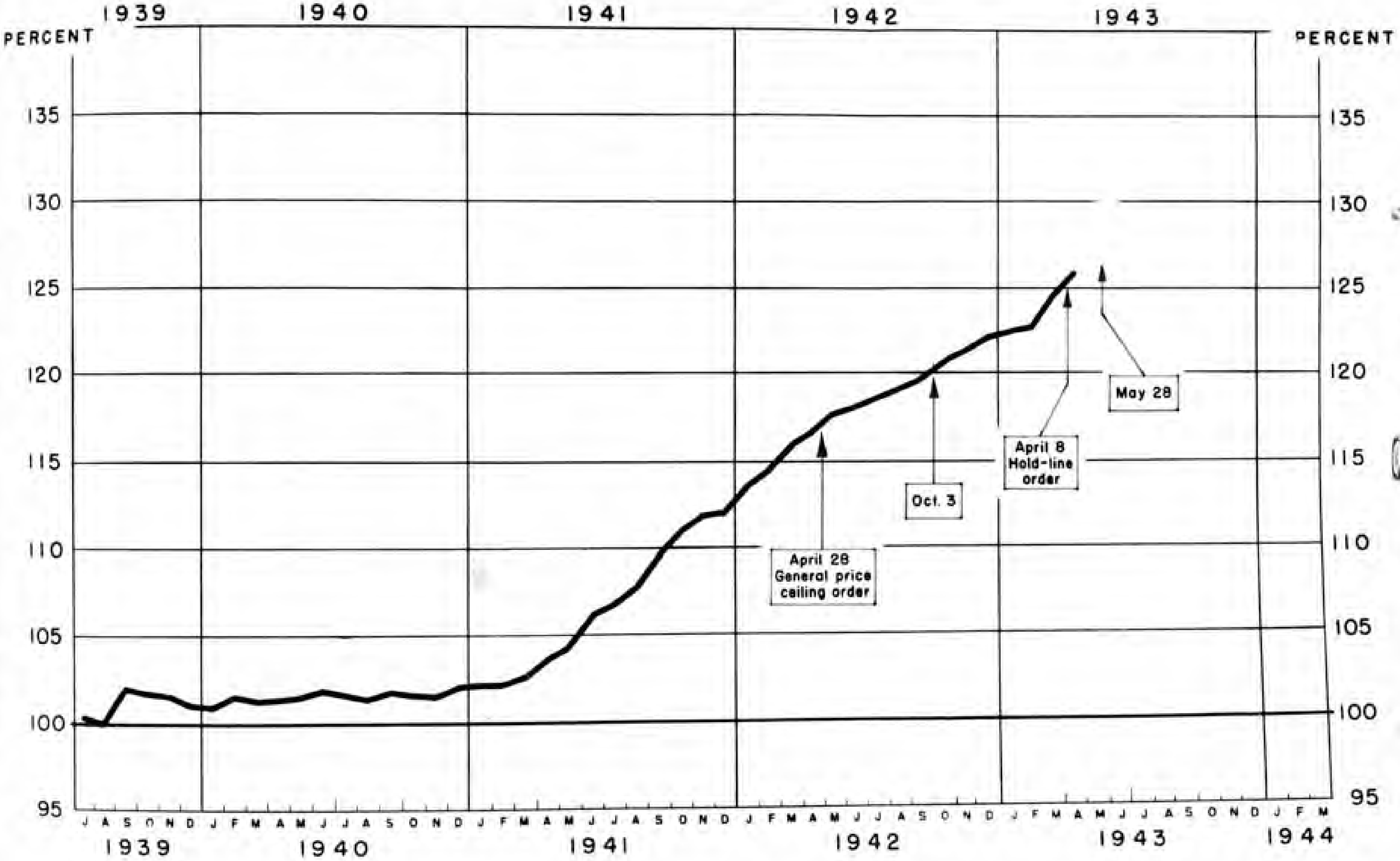




Based on B.L.S. data

COST OF LIVING

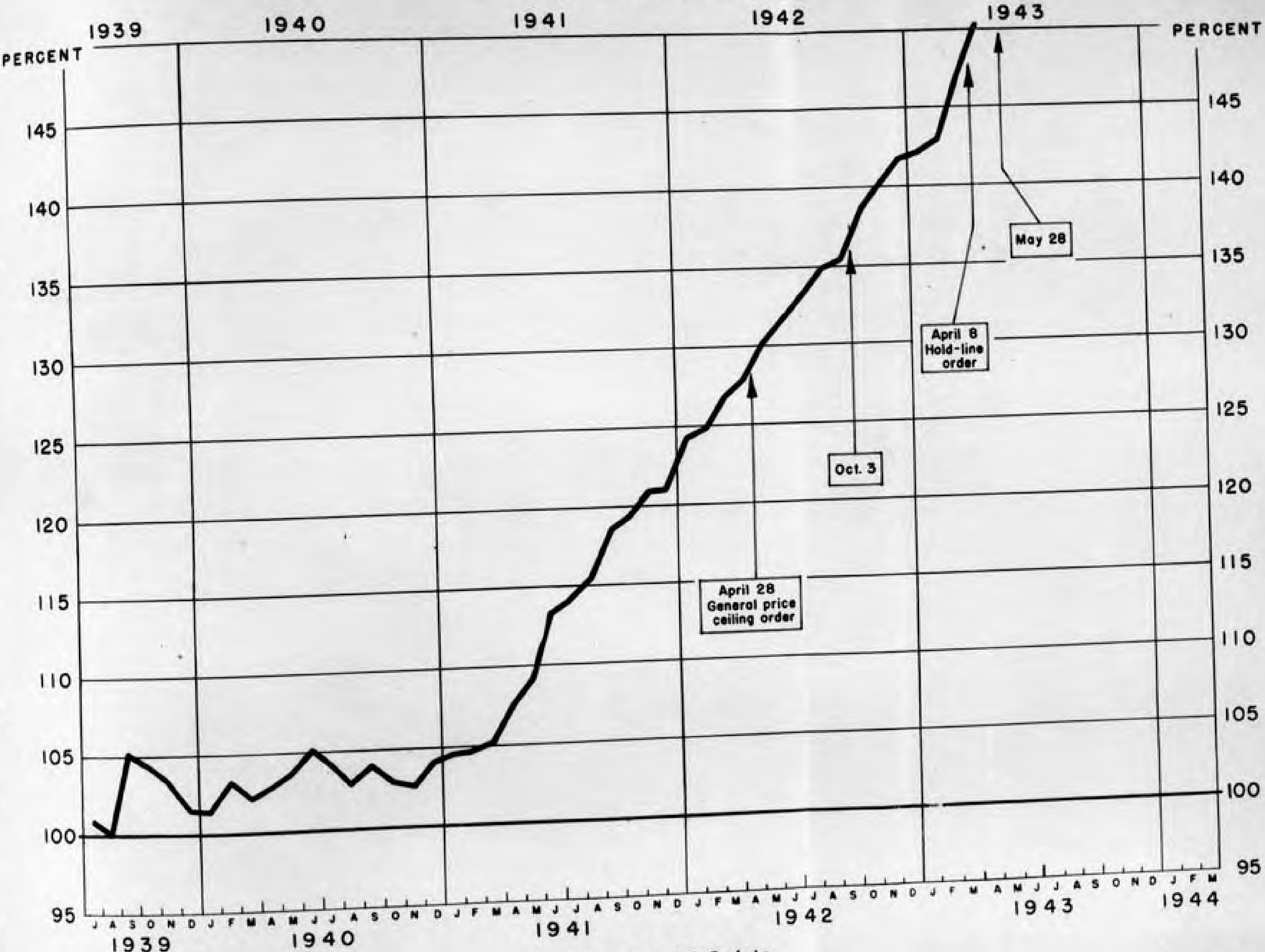
August 1939=100



Based on B.L.S. data

RETAIL FOOD PRICES

August 1939=100



Based on B.L.S. data

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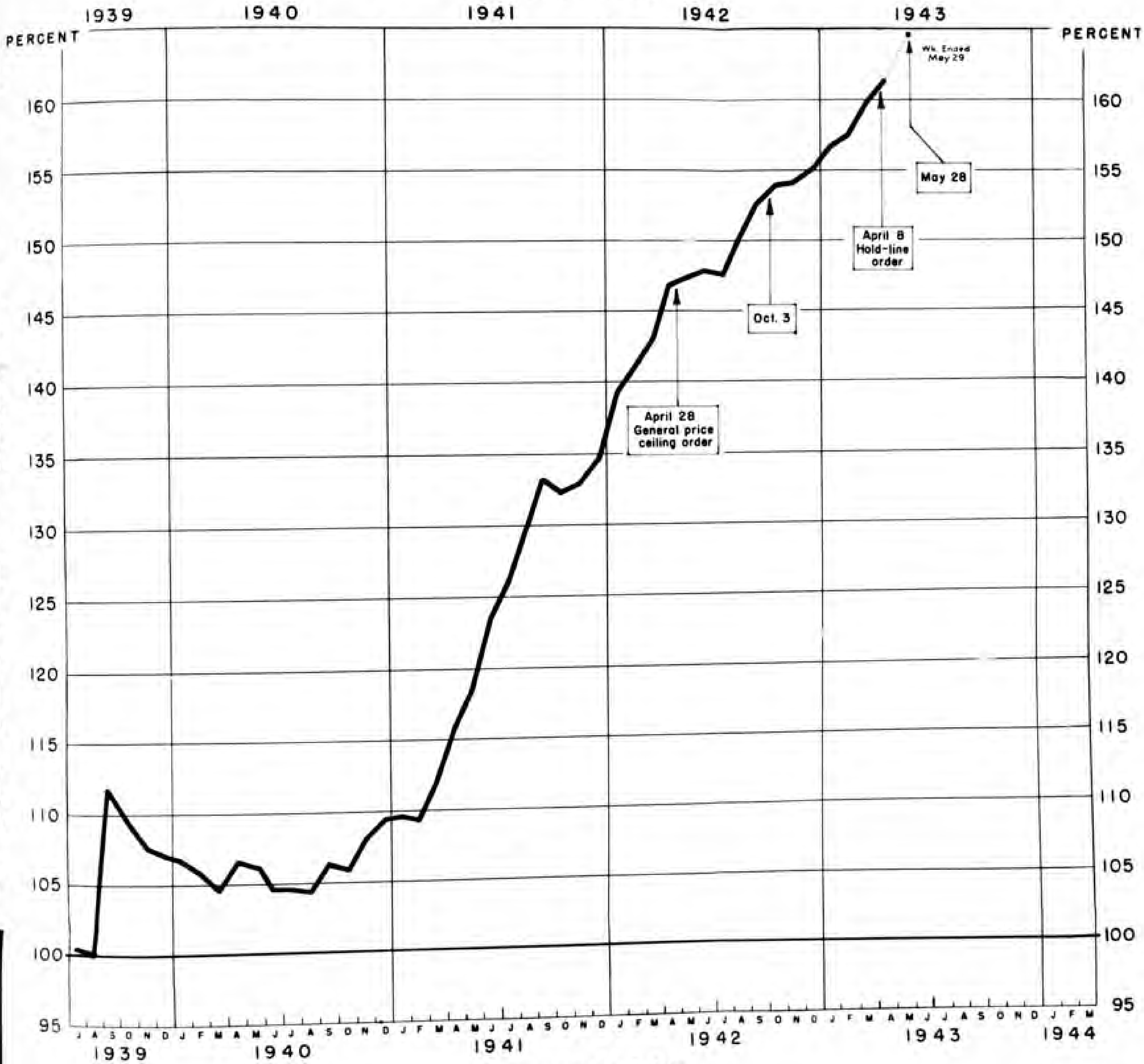
WHOLESALE FOOD PRICES

August 1939=100



Based on B.L.S. data

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 15, 1943.

TO The Secretary

FROM Mr. Schwarz CS

Charlie Shaeffer reports an offer from the War Department of a position as civilian financial adviser to a General at $5600 per year. I have told Norman Thompson and urged that steps be taken to keep him in the Treasury because I feel that, with the existing shortage of trained people, it would be a serious blow to forfeit him to some other Department. Norman feels that there may be some difficulty with the Civil Service Commission but believes it can be arranged for us to match the offer if you approve. I recommend that you do.

Dear Norman:

Please see that Shaeffer gets enough money to stay with us.

HMJr.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau June 15, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. War Contract Renegotiation - The House Naval Affairs Committee will continue today its consideration of the question of war contract renegotiation. Yesterday the committee heard Lewis H. Brown, President of Johns-Manville Corporation, urge that the Bureau of Internal Revenue, which already has the necessary figures, be given complete responsibility for renegotiating all cases that need it. He suggested, too, that Congress define excessive profits to provide a test case for determining when a war contract should be renegotiated. Describing what he called a new type of racketeering in war contracts, Representative F. Edward Hebert also urged the Naval Affairs Committee to investigate "tax attorneys" which had "suddenly turned up" in 20% of the Navy Price Adjustment Board's renegotiation cases. These "tax attorneys," according to testimony received by the committee, are new high-salaried positions created by various firms in order to lower their excess profits and thus make contract renegotiation unnecessary.

2. McKellar Bill - Despite Presidential opposition, the Senate yesterday passed, by a vote of 42 to 29, and sent to the House the McKellar Bill, frequently described as a "patronage grab," requiring Senate confirmation of Federal employees receiving over $4,500 a year. Although Civil Service appointments are excluded from provisions of the bill, the Senate rejected an attempt to specifically exempt employees of the TVA, which agency McKellar is said to be seeking to control by this measure. The Senate also turned down yesterday the O'Mahoney amendment which would have eliminated the salary provision and confined the bill simply to "policy-making officials." Chief opposition to the bill yesterday came from Republicans, as many Senators who are usually staunch Administration supporters, inexplicably voted for the measure, which, however, now is expected to be indefinitely pigeon-holed in the House.

The St-Regis
Fifth Avenue and Fifty-fifth Street
New York

June 15th, 1943

Mrs. Henrietta S. Klotz
Treasury Department
Secretary's Office
Washington, D. C.

My dear Henrietta,

I enclose short statement of my interview with the President which gives the substantial points of our conversation. On the whole it was a satisfactory interview, and it lasted amost an hour. The presence of Mr. Welles was very useful.

I am not altogether happy about the suggestion of a conference because there are very few Arabs in the world with whom one could reasonably confer, but still the whole thing is an indication that the situation is not frozen. When you have an opportunity, you will no doubt show it to the Secretary.

I hope your health is improving and that you will soon be able to go away for a holiday which will set you up.

With my very good wishes and best regards I am

Ever Yours
Ch. Weizmann

June 12/43

The appointment with the President was set for June 11th, 12 noon, but Mr. Sumner Welles suggested that I should meet him in the State Department at 11.45, and he would bring me to the President.

I met Mr. Welles about 11.50 A.M., and he took me over by a short cut from the State Department to the White House, which we reached about a few minutes before 12, and while we were waiting to be received by the President, I had a short talk with Mr. Welles. I pointed out to him that I am anxious to discuss with the President the situation in Palestine, along the same lines as we had in our various interviews, namely, that the matter cannot be allowed to drift; that the Arabs must be told that the Jews have a right to Palestine.

To this Mr. Welles replied that it is quite right that the President should be told explicitly what our wishes are and he made the two following remarks: (a) That Ibn Saud was writing rather unpleasant letters recently and demanding the stoppage of immigration, "which of course is childish". I fully agreed with him and said that of course Ibn Saud may be a great man, but that he is a desert prince and is very much removed from world affairs. (b) Mr. Welles stated that the next three or four months will be a period of crystallization and a great many things are being discussed and will be shaped, and therefore it is very timely that the Palestine problem should be dealt with now.

At this stage we were interrupted and asked to come into the President's room. He greeted us very cordially and began by saying that he had had a talk with Mr. Churchill about our affairs; that he had gotten Mr. Churchill to agree to the idea of calling together the Jews and the Arabs, and I understood him to say that he and Mr. Churchill would be present at such a meeting.

I at once remarked that it is most important that the mistakes made at the St. James Conference in London should not be repeated; that such mistakes can be avoided if the Arabs are told beforehand that the Democracies mean to affirm the Jewish rights to Palestine; that the Arabs have got out of the two wars a great deal, owing to the blood and treasure spend by the Democracies, who therefore have the right to determine what sort of settlement they consider fair. The Arabs must be told that the reasons which have brought about the Balfour Declaration and the subsequent development in Palestine have not lost their meaning, - on the contrary.

At this stage the President made several remarks: (a) That the Arabs have done very badly in this war; (b) That although the Ara_bs have vast countries at their disposal, they have done very little towards their development; (c) That possibly the Jews might help with the development just as the United Nations would. He then said that he believes that the Arabs are purchasable, to which I remarked that I have heard something to that effect.

The President then asked another question: He is being told that Jewish colonization is running a deficit all the time, which deficit is being filled up by charitable contributions from abroad, chiefly from America. I replied that such a report is incorrect, that any country which receives new immigrants is bound to spend money on development, and therefore would have apparently an unfavorable trade balance, but if one estimates the moneys spent for the development of Palestine and the assets created, and takes into account the production of Palestine, then the trade balance is far from being unfavorable.

The President then reverted to the idea of the conference, on which he and Mr. Churchill agreed, and he said, - of course you will see Mr. Churchill and you will discuss it with him, - and then interjected the question, - Did you see Mr. Churchill here? And I said, no, Mr. Churchill doesn't like to see me because he has very little to tell me. At which he laughed and said he knows that it is the case; that it may be different now in London.

I then emphasized the necessity of doing things now and not waiting for the end of the war: (b) Because one would not like to allow things to harden; (b) Something may happen in Palestine which may create a very difficult position; (c) and this uncertainty is always contributing towards tension. Mr. Welles ~~the~~ at that stage said, with the approval of the President, that he fully agrees with such a view, and there is not going to be a line of demarcation between the cessation of hostilities and the beginning of peace. A great many questions are beginning to shape themselves now, like the Food Conference.

The President then asked, Where would you be if a conference does take place? To which I replied that, all being well, I shall see that I find myself on the spot where the conference does take place.

Mr. Welles then asked the President whether he would like to send someone to Ibn Saud to prepare the ground, to which the President said that that would be an excellent idea, but Mr. Churchill must be consulted first, and his agreement secured. Several names were mentioned in this connection, like Philby and Mr. Hoskins. Mr. Welles suggested that Mr. Hoskins may serve us well in this capacity.

Dr. Weizmann then took the opportunity of reverting again to the main problem by suggesting that the present situation is most unsatisfactory and dangerous, and these 500,000 Jews in Palestine have begun to feel themselves in a trap, and this, added to the general position of Jewry, naturally creates a very serious state of mind, and the sooner this position is settled and the Jews know that there is a future for them in Palestine, the better. The idea that the Arabs would revolt seems to me should not deter the great democracies from doing the right thing by the Jews. This threat of Arab revolt is always there, and I do not think that it would materialize if the Arabs would really feel that the democracies really mean business.

The President then raised the question of the difficulty of finding Arab leaders, to which I said that that is a really serious difficulty. When there was a competent and authoritative leader, it was not difficult for him and myself to come to a very important agreement, - and I briefly told the story of my first talk with Feisal and Lawrence, - which obvious was new to the President.

Thetterminated the interview, which lasted about a short hour. I thanked Mr. Welles most warmly in the presence of the President for the great kindness and services which he has rendered in this difficult situation, and when Mr. Welles took leave from me outside the gates of the White House I again thanked him, to which Mr. Welles said: You should know, Dr. Weizmann, that I am deeply interested.

On our way out of the office Mr. Welles said that I may hear from him in about six weeks, and that if I want to communicate something to him I can do it through Ambassador Winant.

(Dictated by Dr. Weizmann to BJS)

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

SECRET

June 15, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended June 12, 1943.

The production of 1500 charcoal gas-producing generators for the Chinese, which provide fuel for motor trucks in lieu of gasoline, will be completed by July 1, 1943. Requisitions for the balance of the requirements of 4500 have not been forthcoming from the Chinese.

Clifton E. Mack
Director of Procurement

SECRET

LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF JUNE 12, 1943
(In Millions of Dollars)

	Total	U. K.	Russia	China	Administrative Expenses	Miscellaneous & Undistributed
Allocations	$3210.6 (3160.5)	$1595.8 (1595.8)	$1236.9 (1186.9)	$103.4 (103.4)	$6.8 (6.7)	$267.7 (267.7)
Purchase Authorizations (Requisitions)	$2667.0 (2658.6)	$1480.6 (1475.8)	$1040.8 (1041.1)	$40.3 (40.3)	- -	$105.3 (101.4)
Requisitions Cleared for Purchase	$2616.0 (2577.8)	$1444.8 (1442.0)	$1030.0 (998.0)	$40.1 (40.3)	- -	$101.1 (97.5)
Obligations (Purchases)	$2507.9 (2486.0)	$1417.2 (1406.5)	$966.1 (958.9)	$39.9 (39.8)	$6.1 (5.9)	$78.6 (74.9)
Deliveries to Foreign Governments at U. S. Ports*	$1104.3 (1090.7)	$785.3 (778.3)	$288.3 (282.3)	$18.6 (18.2)	- -	$12.1 (11.9)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of June 5, 1943.

SECRET

EXPLANATION OF DIFFERENCES

The reduction in the Requisitions Cleared column for China is caused by cancellations.

Requisitions for Russia have decreased because of clearances not received from War Production Board.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 195

Information received up to 7 a.m., 15th June, 1943.

1. NAVAL

One of H.M. Submarines sank an eastbound ship near MESSINA on 14th. One of H.M. Sloops and one of H.M. Frigates sank a U-boat about 360 miles South-Southwest of ICELAND (C) on 13th. A Fortress aircraft sank a U-boat 120 miles north west of the FAEROES on the 11th.

2. AIR OPERATIONS

WESTERN FRONT. 14th/15th. Aircraft despatched: OBERHAUSEN 203 (17 missing), COLOGNE - 2, Sea-mining 24 (1 missing), Intruders - 26. OBERHAUSEN near DUISBURG, population 194,000 contains steel, chemical and coking plants and 2 benzol and tar distilleries. Blind-bombing attack nevertheless preliminary reports indicate good concentration around the markers with some spread of fires to east of objective. 7 aircraft operated over east and southeast ENGLAND.

SICILY. 13th. Escorted U.S. Fortresses dropped 86 tons on airfields at CATANIA and GERBINI. Enemy casualties in the air - 5, 4, 1. Allied - 2 missing.

BURMA. 12th. Allied bombers attacked the docks area and railway installations at MANDALAY and destroyed the northern approaches to the bridge at MYITINGE.

3. HOME SECURITY

13th/14th. GRIMSBY now reported 39 killed. 14th/15th. LONDON. Single bombs at EALING and HAMMERSMITH. 7 killed EALING.

June 16, 1943
9:30 a.m.

FINANCING

Present: Mr. Bell
Mr. Murphy
Mr. Tickton
Mr. Lindow
Mr. Shields
Mr. Woodward
Mr. Warren
Mr. Seltzer
Mr. Viner

H.M.JR: I just want to let you know that I haven't read Haas' organization memorandum so I'm starting on virgin territory.

How do you proceed, Mr. Bell?

MR. BELL: I don't know as you need to discuss the organization part of it this morning; I thought maybe you might confine this largely to the next Monday's financing - a week from next Monday's financing - which will be two and a half billion dollars.

There may be one question down here on the drive, the question of the amount for individuals. But there is a little agenda before you which we think ought to be discussed at this meeting this morning. (Copy of agenda attached.)

H.M.JR: Well, number one - shall we start with number one?

MR. BELL: Yes. I might say that I called Eccles for an Open Market meeting next Wednesday. He will not be back until Monday, and they said Wednesday was all right but they would prefer Tuesday. They said Wednesday is all right if you prefer it that day. I don't know whether you want to be here Tuesday.

H.M.JR: Why can't they make it Wednesday?

MR. BELL: They can, but there are some meetings Wednesday that Allan Sproul had. They said that they were not important, and if you would rather have Wednesday, O.K.

H.M.JR: I would.

MR. BELL: You would rather have Wednesday?

H.M.JR: Yes.

MR. BELL: All right.

All right, Henry, do you want to discuss the type of security that we ought to have in the June financing?

MR. MURPHY: Yes, sir. There seem to be two securities which are predominantly suggested as securities to be used in the June financing and available for bank subscription - that is, securities which will be open for a brief period for a regular financing.

One of these is a one-and-one-half-percent note. Such a note will probably be due on September 15, 1947. The other is a two-percent bond. The two-percent bond would probably - would be, say, a June 1951-'53.

The principal arguments in favor of the one-and-one-half-percent note are, first, that it ought to be an exceedingly popular instrument. At the present time the year 1947 is practically a blank for maturities, and there seems to be a very considerable demand in the market for a security maturing in 1947. It would be a natural.

In the second place, of course, it would have a rate of interest one-half of one percent less than the rate on the bond. We offered a bond in April. Bank earnings are doing quite well, and it seems that it is a little too soon to offer them another two. There was a lapse of six months between our last offering of two's.

The offering of the note also would contribute to the stability of the banking system, for a four and a quarter-year maturity can be depended upon to be much more stable in value in the event of a subsequent shaking down of the market than a ten-year maturity.

The main argument in favor of the two-percent bond is that it is necessary to hold the market down. The market has in general been strong, but the two-percent area has been the strongest segment of the market, and it is felt that it would be well to restrain the market by putting out the two-percent bond.

Now, of course, a one-and-one-half-percent note would serve the same purpose, although not as effectually. The one-and-one-half-percent area of the market has been strong, but not as strong as the two-percent area.

There is another argument that can be used to counter this, and that is that the fundamental difficulty of maintaining a fixed pattern of rates is, that the more successfully you maintain it and the greater confidence you engender in the market in your ability to hold this fixed pattern of rates within a very narrow range of fluctuations, the more you encourage people to crowd at the long end of the pattern. That is, if you convince people that three-month money is always going to be three-eighths, and ten year money is always going to be two percent, then it can, therefore, be argued that you have too stable a market. That is, a market in which your ceiling is too firmly held is in that sense a bad market. It will be a market in which it will be hard to get a requisite investment in short-term securities. It is better to have enough of a "jiggle" if we can out there to keep people always reminded of the advantages of short maturities.

In our memorandum we recommend rather strongly the one-and-one-half-percent note.

H.M.JR: Well, let's ask some of these gentlemen who are kind enough to come down and give us their time. We will go around the room. We will start here.

MR. SHIELDS: Either issue would sell very well. The oversubscription would be handsome, because the amount is low relative to the demand for either of the two issues. I prefer the one-and-one-half's, but would go along with the recommendation for the two's. There is not much choice between them.

H.M.JR: You would, just as simple as that?

MR. SHIELDS: There is not much choice, Mr. Secretary. One is a one-and-one-half; the other a two. The banks want both; the amount is quite small.

H.M.JR: May I inject an idea which you most likely have thought of? The two would be a much better instrument to save for the Third War Loan.

MR. BELL: If you want a banking issue in the Third War Loan.

H.M.JR: How about for the insurance companies?

MR. BELL: It has always bothered me a little as to how we can put a banking issue in the Third War Loan and keep the banks out, but a two-percent can come any time in the Third War Loan or in the interim financing after the Third War Loan.

MR. SHIELDS: The market is in a good enough shape so it could take a one-and-a-half in June and a two-percent in July or August. There is a healthy demand for securities of those two maturities.

H.M.JR: Your bank earnings are still all right?

MR. SHIELDS: In the aggregate they are fine. There are a number of individual institutions that are a little hard up.

H.M.JR: Are you going to make a differential as between the small bank and the big bank?

MR. BELL: There is a recommendation in the memorandum that you allow a hundred-thousand-dollar subscription in full to everybody, banks and outside banks, and then allot on a straight percentage basis to everybody else.

H.M.JR: Irrespective of their deposits?

MR. BELL: Yes.

H.M.JR: You are not going to let them bid proportionately to their deposits?

MR. BELL: No, in this memorandum we did not.

MR. SHIELDS: I hope if you use some standard it will be total assets instead of deposits, Mr. Secretary.

MR. BELL: Either way would be all right.

MR. SHIELDS: The fair way is against total assets, and most bankers would agree.

MR. BELL: Haas' memorandum points out - at least I think it does - that you are doing this financing on a lower reserve - excess reserve basis - and that probably you shouldn't put any restrictions on the subscriptions at this time, but experiment with the lower reserve first.

H.M.JR: Are they going to hold it down?

MR. BELL: That is one question here, and one thing that we haven't discussed with them. Unless they do some buying between now and the end of the month, reserves will go down possibly to a billion and maybe a little lower.

MR. MURPHY: The Federal portfolio went off three-quarters of a billion in the last two days.

H.M.JR: How come?

MR. MURPHY: There were large sales of bills, and they hit maturities on June 15.

MR. BELL: They had part of the maturing issues.

MR. MURPHY: It was mostly bills.

MR. SHIELDS: New York City is in excess reserves for a few days as a result of tax payments - the money market changes over the 15th, and as a result of that the local banks - the local New York City banks are pulling bills from the Federal.

MR. BELL: They will do that while we are running an overdraft here, but that overdraft will go out pretty quick. It will go out this week.

MR. MURPHY: The Federal probably has very little direct control of these bill transactions. They are pretty much at the option of the bank, rather than the Federal.

MR. BELL: They are on option of purchase;when they are in funds they pick up their option.

MR. VINER: Whenever the member banks have funds.

MR. BELL: Yes.

MR. VINER: Murphy sounds very persuasive to me. I haven't thought very much about it yet, but I would be inclined myself to sell one-and-a-half's if they are agreeable to take it in preference to selling them the two.

MR. WOODWARD: I think the market would take either one perfectly well. The memorandum, as written, however, contemplates no offering to that intermediate market from April until some time late in the year, if then. It is a rather long time between drinks for funds that want to go in there. The other point is the tendency for strength in that market. That can be handled either by letting reserves run down or offering that market something. Therefore, for this specific June financing it seems to me that either one would be appropriate, but I would raise the question of something for that segment of the market some time before too long a period.

H.M.JR: Do we have to go to the banks again before September 9?

MR. BELL: I am hoping we will not. We will have to go in July for the refunding of the August maturity. Now we may want to raise half a billion or a billion in connection with that issue. I should think we could get along with a rather small additional amount.

H.M.JR: Would you want to have, when you announce this reserve, the right to open up the issue again - this same issue - whatever it is, for that July refunding if it is only half a billion?

MR. BELL: No - the July refunding? The certificate issue maturing August 1 is a billion six.

H.M.JR: I thought you said you had half a billion.

MR. BELL: I thought we might raise a half billion to a billion of new money.

H.M.JR: How are you going to do it?

MR. BELL: Offer a certificate for two billion or two and a half billion and pay off the billion six.

H.M.JR: I see.

MR. BELL: There probably ought to be a certificate issue at that time--

H.M.JR: I see.

MR. BELL: ... rather than a bond issue.

H.M.JR: Well, I think we have too many certificates.

MR. SHIELDS: That is a very popular and a very useful instrument, Mr. Secretary. It fills a real place in bank portfolios.

H.M.JR: You know - don't mind my digressing a bit - somebody from here ought to sit down with some of these dumb-cluck financial writers in New York - I don't know whether it would do any good - and explain a little bit what the Treasury has in mind - Shively and those different people. Do you suppose it would do any good to have somebody go up there and sit down and talk to them?

MR. BELL: It might.

H.M.JR: Because certainly they don't seem to have any idea of what we are doing, and so forth, and so on.

MR. BELL: Nick Gregory ought to know. He is around here.

H.M.JR: He doesn't want to know.

MR. BELL: He doesn't seem to care.

H.M.JR: He is carrying a torch for compulsory savings, and he doesn't care how he arrives at it. He is doing everything to discredit us in order to get compulsory savings. That is perfectly obvious. That is what he is doing.

MR. BELL: Is Shively writing some articles?

H.M.JR: All these men are. I mean, we have never sent a Treasury man up there to talk to them, to give them the background of what our problem is. We have never done it. Think about it.

MR. SELTZER: The only thing I would add to what has already been said, with which I agree, is this, that the intermediate section of the market is the most sensitive section; and if excess reserves are going to be allowed to run down the next couple of months, as is possible, then your note would stand up better than an intermediate bond, and for that reason I would prefer the note,in addition to the other reasons,at this time. You would be safer in the event that the reduction in excess reserves hurts the market.

H.M.JR: How many days are you here? Are you with us permanently, or--

MR. SELTZER: No, I come down now and then whenever George gives me a ring.

H.M.JR: You are on that basis?

MR. SELTZER: Right.

H.M.JR: Where are you now?

MR. SELTZER: I am at Wayne University during the school year. During the summer I am doing a job in New York for the National Bureau of Economic Research.

H.M.JR: You are not too far away.

MR. SELTZER: No.

H.M.JR: Good.

How about you, Mr. Warren?

MR. WARREN: I lean toward the one-and-a-half for June, but that is partly because I would like to think of the two-percent issue as a public subscription.

H.M.JR: I asked George Haas to arrange to see Mr. Walter Stewart. Is that in connection with that - did George see Mr. Stewart?

MR. BELL: I don't know.

MR. LINDOW. He hasn't seen him yet, Mr. Secretary; he is planning to this week, I think.

H.M.JR: All right.

MR. BELL: Mr. Warren is one of our regular consultants.

H.M.JR: I thought maybe Mr. Stewart didn't want to see George.

MR. WARREN: I think he is in New York this week.

H.M.JR: Are you a little bit inclined towards the one-and-a-half?

MR. WARREN: Yes.

H.M.JR: Well now, we get our Treasury--

MR. LINDOW: I don't think I have anything to add to what Mr. Murphy said, Mr. Secretary.

H.M.JR: Tickton?

MR. TICKTON: I think that it has been pretty well covered by now. Most of the reasons have been set forth.

H.M.JR: I have no feelings. Kind of a bore - this meeting. (Laughter)

MR. BELL: We advanced this financing date two or three weeks to put out a security to help the market, and at the time we talked about it they wanted a two-percent bond. I think we will have to consider that along with that factor - that factor along with the other statements that Henry has made about the one-and-a-half.

I favor the one-and-a-half, but I do think we ought to have the Federal Reserve people consider the two next week when they come in, because they will argue pretty strongly that that market needs help.

MR. MURPHY: Could I add, Mr. Secretary, that this wire that we sent out to the Federals - the replies that we got from it - six people favored the two; four favored the one-and-a-half; one wanted a joint offering of both; and two didn't care.

H.M.JR: It sounds like a Gallup poll.

MR. BELL: That is about what it was. We kind of rushed them into that; they only had one day.

H.M.JR: How about number two now?

MR. BELL: You remember when we discussed the matter of financing with the bankers they thought it would be a good thing to put out a two-and-a-half in order to get some of those insurance funds that would be accumulating in July in advance of the drive. George's crew has written quite a memorandum on that point. They don't feel that it should be done, that probably you wouldn't get more than half a billion if you did. It would look like a flop.

H.M.JR: And Eccles is violently against it.

MR. BELL: I don't know if violently, but he is against it. I would be inclined to eliminate it for the time being.

MR. MURPHY: It seems that the proposed reopening of the two-and-a-half percent has the almost sole motive of holding down the market. In the telegram that we sent out with respect to that issue it was said that it was primarily for the investment of insurance company funds. And the insurance companies as of the last month - that is, April 30 - had fewer funds than any time since 1933, so--

H.M.JR: How much was that?

MR. MURPHY: Three hundred ninety-four million dollars.

MR. BELL: That will increase some in July.

MR. MURPHY: Those are the balances of the thirty-six companies that report to us monthly and which hold about eighty-five percent of insurance company assets.

H.M.JR: That is not worth while opening for.

MR. MURPHY: The general tone of the replies from the Federal was that we should do it. Everybody except Eccles tended to be in favor of it, but said that we wouldn't sell many, but that it would be a good thing, because it would hold down the market. Actually the long end of the market has not been the sector of greatest strength. As a matter of fact, the longest bonds - the '67-'72's are about a half point below their high last year, and the market is up in that area only about a quarter of a point from the end of the year. It seems to us that the issue would be sort of a planned flop, (Laughter) and it would be kind of hard to explain. It would take the edge off the drive. In the drive you ought to be able to say that something new has been added. If we had been having a two-and-a-half open and we just close it to open it again, there is nothing new in the drive except sales pressure, and you don't have the freshness that you ought to have.

If you extend the two and a half to make a new one for the drive, then you can say the only thing you have done in order to open the drive is to thin down your issues and put on sales pressure. It seems to us that that segment of the market should be given a rest; and if it develops a little strength, that is all right.

H.M.JR: Well, the discussion is open if anybody wants to talk on that point.

MR. BELL: I don't think that the suggestion was made that we reopen the two-and-a-half's to hold down the market. I think the suggestion was made because it was thought we might need the additional funds before we went into the next drive on the 20th of September and that the insurance companies were anxious - have been for a long time - to have a continuous two-and-a-half open.

Some of the bankers said they would be getting substantial funds in the month of July which we ought to pick up and not allow to go into other securities. Then sell those securities in September for the purpose of going into the drive. The amount of money at that time wasn't a factor.

H.M.JR: Well, does anybody want us to do it? That is the easiest way. Does anybody want to open it?

MR. BELL: I don't think so.

H.M.JR: All right. Three - we kind of settled that, didn't we?

MR. BELL: The recommendation is that we give a hundred thousand dollars to each subscriber regardless of whether he is a banker or outside of the bank.

H.M.JR: Whether he is a bank or non-bank?

MR. BELL: Yes, bank or non-bank. Then give a flat percentage allotment to everybody in excess of the hundred thousand.

H.M.JR: That is new, isn't it?

MR. BELL: Yes, that is new. Heretofore we have given everybody a full allotment outside of the banks.

H.M.JR: And this time he can only get a hundred thousand? Why is that?

MR. BELL: Well, that will take care of most all individuals. This is primarily a banking issue, and it puts everybody on the same plane.

MR. SHIELDS: It will stop a lot of the free riding by non-bank holders and also make it possible for banks to obtain these securities without going out in the market and paying a premium for them.

MR. MURPHY: You could have a very anomalous situation with the two-and-a-half-billion-dollar issue and a strong market if you offered a hundred percent allotment to non-banking subscribers and got two point two billion of such subscriptions, and have a three or four percent allotment for banks. The banks would have to buy in the securities from people who are really just purchasing them to sell them to the banks for a ride.

H.M.JR: Well, could the dealers do that?

MR. MURPHY: Well, that would depend on you.

H.M.JR: I mean, could the dealer buy, say, ten million dollars worth of these and get full allotment under the old plan?

MR. BELL: Yes, they could, but the dealers were policed. They were told what they could subscribe. They were allotted to brokers and other investment houses over which the Federal has very little control, but the Government dealers were policed - cut down.

H.M.JR: Anybody want to discuss that?

MR. BELL: I think they are all pretty well agreed on that.

H.M.JR: All right. Four - I don't understand four.

MR. BELL: If you decide that you are going to give flat percentages under three - if you decide to give flat percentages for all above a hundred thousand, then that answers four.

Shall you permit the banks to subscribe on the basis of deposits or total assets?

H.M.JR: You are not going to do that this time.

MR. BELL: As Henry points out, we could do it, but there again you are having another restriction put on at this time, but it might not be so desirable.

H.M.JR: I am in favor of free enterprise. (Laughter)

MR. MURPHY: It was our thought that there are a number of proposals all around to hold down the market; one is by means of open-end issues, one is by means of a restriction on bank subscriptions, one is by letting excess reserves go down, and it would be well not to adopt more than one of them at a time and see how it works. Maybe we might be too successful.

H.M.JR: What are you suggesting, Henry?

MR. MURPHY: I am suggesting that we do not adopt the devices of an open-end issue like reopening the two-and-a-half's or putting a basis on bank subscriptions, because I feel that number five on this agenda is going to be adopted to some extent for us and that it will be adequate.

H.M.JR: You think it will be?

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H.M.JR: You think it will be?

MR. MURPHY: Yes, sir.

H.M.JR: What makes you think so?

MR. BELL: In other words, if we do nothing about restricting the bank subscriptions, just let them come in as in the past--

H.M.JR: The only way we here in the Treasury family are able to do anything with excess reserves is to call up the Federal Reserve two days before the financing and give them hell, or tell them that they are chiseling on us - get nasty. Then they get busy. (Laughter) There is no use talking about - Jake doesn't like this. But it is true that if I call them up about two days before and say, "What the hell are you doing, letting the Treasury down?" they get all excited, and so forth. They go out and buy a couple of hundred million. If we start doing it on a scientific, intelligent basis - you have to do it on an emotional basis. They don't believe in it; they don't like it - get emotional, eccentric, excited, and it works beautifully. (Laughter)

"Sproul or Rouse, I think, are falling down on the job. They are not good Americans" - something like that - get a little nasty. Then you get results. That is the way it happened once, you remember?

MR. SHIELDS: I certainly do.

H.M.JR: Didn't it work?

MR. SHIELDS: Not well enough in October. (Laughter)

H.M.JR: All the scientific data and everything else - this is all in the room here. They are a little sensitive up there now, anyway. (Laughter)

What about the September drive? Are we through on this June financing?

MR. BELL: We didn't discuss number five.

H.M.JR: You have a very important thing that you have to answer on this June drive. Do we use our banking groups under the State War Finance Committees to assist, or don't we? Take Black, for instance, and his group in New York, do we use them?

MR. SHIELDS: Not on a two-and-a-half-billion issue, Mr. Secretary. That is an automatic success.

H.M.JR: Somebody has raised it.

MR. SHIELDS: If you open the end of that issue it would be a good idea.

H.M.JR: Excuse me?

MR. SHIELDS: If you would open the end of the issue it would be a good idea.

H.M.JR: I don't follow you.

MR. SHIELDS: If you had an unlimited allotment, I mean.

H.M.JR: I see.

MR. VINER: You should write to them - talk to them and tell them why you are not using them.

H.M.JR: We have never told them we would use them.

MR. BELL: Their job is to get the banks to cooperate in the drive rather than do a bank financing, but I see no objection to having Doctor Burgess talk to them when he calls them together next week. He is going to have a committee meeting. Why not let him do that?

H.M.JR: What I am going to do is more than that. I want somebody from this office - Murphy or somebody from this office - to go up and see Burgess. I thought they might go up tonight. I am going to talk to Burgess - wouldn't Murphy be the logical one - and bring him up to date on this financing.

As long as Burgess gives us his full time I would like to use him on the whole picture.

MR. BELL: Yes, I would. I was going to ask you whether or not you wanted Burgess to come down any day next week.

H.M.JR: I think it would be nice to have him here Wednesday.

MR. BELL: I don't think it would be bad.

H.M.JR: I think it would be very wholesome. I think we might have Burgess down. Don't you think so?

MR. BELL: Sure.

H.M.JR: Have you any preference as to Thursday or Friday?

MR. MURPHY: I am at your service; I have no engagements.

H.M.JR: If you could go up tomorrow, I could see Burgess Friday morning and have a little talk with him. If you would bring him up to date, you see - don't you think that would be good?

MR. BELL: Very good.

H.M.JR: I mean, we have such a good man - I think it is a mistake not to bring him in.

MR. BELL: I think you ought to use him.

H.M.JR: We are together on that. I don't think I want to do that September drive - not with this crowd, do I?

MR. BELL: I think there is a question here of whether you want to go out for the seven billion dollar goal from individuals in the September drive; and if you do, it is time to begin to organize to really get down to what this says, "house-to-house," and "bench-to-bench."

H.M.JR: Well, that is a salesmanship job, and these fellows don't know anything about selling. They are just experts. (Laughter) Seriously, should we? There is no question - this fellow is out on the end of a limb. He (Lindow) said eighteen billion dollars is easy. He wanted me to make a speech on it. That whole Haas gang says it is easy. (Laughter)

MR. LINDOW: Ask Mr. Shields what he thinks about it.

MR. SHIELDS: Seven isn't enough, Mr. Secretary.

H.M.JR: I agree with you. (Laughter)

MR. BELL: He wants to make it fourteen.

H.M.JR: There is no argument about that, but the next thing is to get it.

MR. MURPHY: It is not easy, Mr. Secretary; it is going to be tough as hell.

H.M.JR: I am in your corner. I would take twenty-five.

MR. SHIELDS: You can get it if you go out for it.

H.M.JR: I gave the President a memorandum yesterday on the volunteer versus the compulsory - that we were out to get twenty-five billion dollars this year, isn't that right?

MR. TICKTON: That is right.

H.M.JR: This year, isn't it - isn't that what the memorandum said?

MR. LINDOW: Yes, sir.

MR. VINER: Of course - how can you tell how much you can sell until you try? The attempt hasn't been made yet.

H.M.JR: Now, Jake, don't pull one of those on me. (Laughter) I don't know which comes first, the chicken or the egg, but seriously I think the thing is an organization job.

MR. VINER: The only point I want to make is--

H.M.JR: Excuse me?

MR. BELL: I take it the seven billion is the minimum goal, and we should stick by those figures.

H.M.JR: Sure. If we got fourteen, I would be the happiest man in Washington. I would treat Ben Cohen to a champagne dinner. (Laughter)

MR. VINER: The only point I wanted to make, Mr. Secretary, is, I don't see how you can judge what volumes you can sell until there has been a serious attempt at the person-to-person selling, and I am speaking as a customer, and not as a seller. I know that the person-to-person approach to it has been made in little segments - in certain sections of the population it has not beenmade. I don't know what you will get on that basis, but all I am saying is, you don't know until that is tried. It may produce huge proportions.

H.M.JR: Jake, there is no argument, and that is why we are reorganizing now on a State basis. We are going forward very rapidly. I talked to the boys last night; they have four States fixed up. They are using the present head of War Bonds in Minnesota. He is on it, but they have this very fine man who was in charge at St. Paul.

MR. BELL: Mr. Pillsbury?

H.M.JR: No, he made a speech at the Investment Bankers - he made an excellent speech there.

MR. BELL: Louden?

H.M.JR: No, the fellow with dark hair - tall.

MR. BELL: Not Thompson?

H.M.JR: No, he talks with a New England accent - has a cultivated voice. He made a wonderful speech. Anyway, they have North and South Dakota and Minnesota which they have lined up.

I talked to Gamble and Gaston last night. We are on our way. Let's forget whether we are right or wrong with the Fed. The fact remains that we are getting the really outstanding citizens in almost every State. I mean, we are really getting some terribly good people who are really interested in this thing. And Mr. Aldrich - tell them what Aldrich said yesterday.

MR. BELL: Aldrich said that he wanted to congratulate the Secretary on his setup in New York. He said by putting Doctor Burgess in and organizing the various committees that had been set up under him it was a wonderful step forward and that he had nothing to worry about. He would get complete cooperation from everybody there. It was quite the best organization that they had ever had in that State.

H.M.JR: We have Mr. Potter as chairman of the banking group and Mr. Black of Chase to do the leg work. We are really getting much stronger, Jake. I think each one - we are far from perfect, but have nothing to apologize for.

Now, what about technical?

MR. BELL: Now that we have the twenty-percent withholding tax there really isn't a lot of excuse for a series A tax note. We thought we might eliminate those. A great many people will hold them or won't turn them in for their June taxes, and they might not have an opportunity to turn them in for taxes so we will have to pay them interest on them. The question is whether we should pay the interest for, say, six months in order to give them an opportunity to turn them in or pay the interest in full up to the date of maturity.

H.M.JR: No question - full to maturity.

MR. BELL: That is all right with me. I thought first December 31 would be sufficient.

H.M.JR: No, full. I think that would be a terrific precedent.

MR. VINER: How long can they run?

H.M.JR: Two years. It would be terrible to--

MR. VINER: On the other hand--

H.M.JR: You are changing the terms of an outstanding Treasury security. I don't see how we can do that.

MR. MURPHY: People who took our advice and bought enough series A tax notes for their taxes will be stuck unless we pay them interest on a cash redemption, and there is no real way to be sure that you can reach them all by December 31.

H.M.JR: I consider it a breach of contract.

MR. BELL: No, not a breach of contract necessarily, because you have given them interest only if they turn them in for taxes.

MR. VINER: But then you destroy the opportunity for them to turn them in for taxes.

MR. BELL: Not necessarily. But I agree that we should give them interest.

H.M.JR: I wouldn't change; I would let the thing stand just as it is.

MR. BELL: We will have to amend the circular and put out a public notice.

H.M.JR: I would stop selling them.

MR. BELL: Yes. We will eliminate them, I suppose, beginning July 1.

H.M.JR: Yes.

MR. BELL: We probably ought to eliminate them at once.

H.M.JR: I would eliminate them at once.

MR. VINER: I certainly would, because they are going to be an awfully nice paper to hold now.

MR. BELL: After we announce we will pay interest in full they will be nice paper.

H.M.JR: I would eliminate them at once.

Same on the C?

MR. BELL: No, have C, but we ought to change the name from Treasury tax notes to Treasury savings notes. They are a dual-purpose note, and corporations are going into them for straight investment purposes.

MR. VINER: Are they redeemable with interest?

MR. BELL: Yes, they are redeemable now with interest, the series C notes.

MR. VINER: They are not confined to use as tax payments?

MR. BELL: No.

MR. VINER: You ought to change the name.

H.M.JR: How long do they run?

MR. BELL: Three years.

H.M.JR: What rate of interest for the full?

MR. MURPHY: One point zero seven. It is a graduated rate.

H.M.JR: Should that be reexamined?

MR. MURPHY: It has been reexamined since our pattern of rates was more or less set, and still seems to be in line.

H.M.JR: And the corporations like it?

MR. BELL: Yes.

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

MR. BELL: They have quite a bit of money in it.

MR. SHIELDS: I personally would prefer to eliminate them.

H.M.JR: Why?

MR. SHIELDS: You will get that money anyhow in seven-eighths percent certificates. They make the basket complicated. You will have to use volunteer salesmen who can't understand complicated things such as this.

H.M.JR: What is the matter with the seven-eighths certificates?

MR. SHIELDS: It is an ideal security for corporations.

H.M.JR: Which?

MR. SHIELDS: The seven-eighths.

MR. BELL: We are getting corporate money in there that will stay certainly for the duration, whereas in the certificates you have to roll them over every year. ~~And~~ they don't like to be bothered with all that paper work. That was the cry we got before.

One other point I might make is that I don't like to go through the argument with Eccles. I think it is easier and cheaper to keep the note. (Laughter)

H.M.JR: I would like to raise it. I would like to raise the point of eliminating the C notes.

MR. MURPHY: Another point in favor of retaining it, Mr. Secretary, is, it is recommended in this book of memoranda that the note be placed in the basket for individuals in the September campaign. That is one of the purposes for the change in name. A note that is called a tax note has no sales appeal. If it is a savings note, it has greater appeal. You can't very effectively put the seven-eighths certificate in the basket for individuals during a campaign which is closed to banks and corporations. You would have a terrific free riding problem with a negotiable security of that type.

On the other hand, it is awfully hard to conduct a campaign for individuals with only long-term instruments. By retaining these series C savings notes you would have a short-term security to offer to individuals; and with a new name it seemed to us it would be a security which would be - where sales pressure could probably be put on; and, of course, being non-negotiable it would not present any market problem.

MR. BELL: There is six and a half billion dollars of the series C notes outstanding. There were on June 1.

H.M.JR: Well, let's think about it. Let's leave it in the air. Now you haven't put it down - I am going to raise the point of the F and G's. (Laughter) It is not here. I am going to raise it.

MR. BELL: Well, we raised it once before, to eliminate it right after the May drive. Now we have let it go; it is recommended that they be continued for at least the next drive.

MR. SHIELDS: That isn't unanimous, however.

MR. BELL: No, that is not unanimous, I agree.

MR. TICKTON: That is the memorandum.

H.M.JR: What is in the memorandum?

MR. TICKTON: That we should continue F and G bonds at least through the next drive. The memorandum, of course, indicates that we do not favor a two-percent bond in the basket, and also indicates that F and G bonds would take care in part of that maturity area.

Now, people who want a two-percent bond would dismiss the argument completely and say that there would be no need for the F and G security.

MR. BELL: It will also take care of this demand for a lower denomination.

H.M.JR: Of course you have a tremendous amount of good will in the sense that an awfully lot of people know about it. An awfully lot of time and energy and money have gone into educating people on the F and G.

MR. TICKTON: Your sales force is very well acquainted with those two securities.

MR. SHIELDS: But not this two or three hundred thousand sales force you will have to have if you go on a house-to-house basis. You have to educate them as to the fine points of difference between F and G and between the two kinds of obligations and the others. I think it is virtually impossible to explain those differences to the person who will volunteer to sell these securities.

MR. TICKTON: Most of your house-to-house canvassers do not concern themselves with anything but an E bond.

MR. SHIELDS: E and some other obligation. That is just what I think they ought to do.

MR. VINER: Do you need to push the F and G in the campaign even though you keep them going?

MR. SHIELDS: Not necessarily.

MR. VINER: You are talking about the trained salesmen. I am talking about the trained buyer, people who have become quite familiar with those securities and do invest in them. I wonder if you want to abandon that.

MR. SHIELDS: The G market is limited to trustee purchases. We buy a lot of them for trusts. We have to buy something for trusts because we must keep that money invested, and in the absence of G's, which are special privilege obligations, we put the money into two and a half's. If you conduct a Gallup poll of the opinions of the trust investment people in the banks, they will say, "Sure, keep them," but

I don't see any use in the obligation - a special privilege for a group which doesn't need that.

MR. TICKTON: It wasn't all trustees. Forty percent went to corporations in the drive, and ten or fifteen percent went to other individuals.

H.M.JR: I don't see why corporations should buy them.

MR. TICKTON: They buy them in preference to a marketable obligation. There are a great many small corporations that are in the market for the same type of security as an individual. They don't have very much money. They are not available - not likely to wish to take any market risk, and they come into the F and G bonds for that very purpose.

MR. SHIELDS: They are obligations that ought to be sold well, or not at all. Henry made this point yesterday, that people buy those things with the idea that they can get their money out of them whenever they want it. We have to redeem them for ninety-five; some of them are going to be mad, and I am not sure the salesmen in these campaigns can make all those points clear to the buyers. He is eager to--

H.M.JR: I know they can.

MR. BELL: But you probably get a large percentage of the money now going into the F and G in the two-and-a-half percent bonds.

MR. SHIELDS: Yes.

MR. BELL: You wouldn't be getting it, however, each month. You are getting two fifty to three hundred million dollars each month from F and G bond sales.

MR. VINER: I would like to ask a question about these A tax notes. You say you will stop them now. It seems to me that you ought to stop them practically immediately if you are going to do it, because a leak would be bad. It is not a big thing.

H.M.JR: I think they ought to get out a circular at once.

MR. BELL: As a matter of fact, they are working on it.

MR. VINER: Close at the end of banking hours today or something like that.

H.M.JR: They will get it out promptly.

What I would like to do with this group if you have time is, I would like to go in the chart room--

MR. VINER: There might be a nasty little newspaper story - some leak.

H.M.JR: Anyway, we can get it out. I would like Tickton to just run through - have a couple of other people come in - I would like to be educated and have them hear it anyway and see what the answers are on this redemption which has been going on. Did you have a chance to read Gregory's story?

MR. TICKTON: Yes.

H.M.JR: I would like to do it in the chart room. I want them to hear it and see if there are any constructive suggestions we can give.

Agenda for Discussion of Financing

June Financing:

1. What security available for bank subscription should be used for the June financing?

2. Should the 2-1/2's of 1964-69 be reopened before the September drive? If so, when and for how long?

3. Should preferential allotments be given for the June financing (a) to small subscribers, (b) to nonbanking investors, irrespective of size of subscription?

4. Should there be a basis for bank subscriptions in connection with the June financing? If so, what basis?

5. What is the most appropriate policy with respect to excess reserves during the next several months? Should the Treasury take any action to further such policy?

September Drive:

1. How much should be sought from individuals in the Third War Loan drive? Will this involve a house-to-house, bench-to-bench, desk-to-desk and farm-to-farm canvass?

Technical:

1. Should Series A tax notes be eliminated and the name of Series C tax notes changed to Treasury savings notes? Should interest be paid on outstanding "A" notes when presented for cash redemption?

June 16, 1943

June 16, 1943
10:35 a.m.
(Chart Room)

WAR BOND REDEMPTIONS

Present: Mr. Bell
Mr. Murphy
Mr. Tickton
Mr. Lindow
Mr. Shields
Mr. Woodward
Mr. Warren
Mr. Seltzer
Mr. Viner
Mr. Sullivan
Mr. Paul
Mr. Smith
Mr. Schwarz
Mr. Louis
Captain Kades

H.M.JR: The purpose of this - I am using this as a springboard, simply this article - there is a whole series of articles which are appearing - this may not make sense to all of you, but I have a purpose - to discredit the volunteer plan.

There has been a series of articles started now in Scripps-Howard, and Mr. Gregory in the Tribune is taking it on. I just wanted to sort of start this discussion to get you to thinking about it.

It is this type of thing, and I wanted - I don't know the facts myself as to the redemptions and how much up against the withholding tax, how much has it all got to do - and I wanted to have a little discussion, using Gregory's article in today's Tribune criticizing us for the redemptions, and so forth.

Tickton has had a chance to read it, so go ahead, Tickton.

MR. TICKTON: For those who haven't read it, Gregory says that redemptions are higher than previous months in June, and he compared it with March. He said sales were lower in the month of June than they were in March and December, and that means we have to have a compulsory savings plan. The figures start, and then it follows the compulsory saving is the answer.

Redemptions are higher in current months than they have been in previous months because the amount outstanding is very substantially higher.

When you compare the amount outstanding - redemptions, say, in March 1942 compared with March 1943, and then come to the conclusion that redemptions are higher, you don't give weight to the fact that in March 1942 you had two and a half billion dollars of E bonds outstanding,in March '43 you had eight and a half billion dollars, and in June '43 you have eleven and a half billion.

MR. PAUL: What is the relationship when you compare the redemptions in terms of those?

MR. TICKTON: As you compare the redemptions in terms of the amounts outstanding, in the middle of 1942 redemptions ran about a third of one percent a month in the amounts outstanding. They are now running about three-quarters of one percent a month against the amount outstanding.

MR. PAUL: A slight increase.

MR. TICKTON: There is an increase. It can be explained primarily by the fact that in the early days of this program the people that bought the bonds were people who had extra funds available. They knew those funds were available, and they intended to save them. They didn't have to be sold. They felt that was a very convenient manner of investing their savings.

Accordingly, those persons--

MR. BELL: They were permanent savers.

MR. TICKTON: Yes, you didn't expect those persons to turn any of those securities in.

MR. VINER: An additional point is that as the securities get older you ought to expect more redemptions.

MR. TICKTON: Not in proportion, necessarily. You would expect some extra ones to come in, but not a large increase, Dr. Viner, and the answer is--

MR. PAUL: Any relationship between the amount of bonds - any proper relationship between the redemptions and the amount on a monthly basis put into the bonds, so that you have a percentage not of the total outstanding but the total percentage of additional bonds?

MR. TICKTON: There is no true relationship between that, Mr. Paul, because our present plan is to have a series of drives so that in the month of the drive you will sell a very much larger volume of E bonds. Say that this month the percentage went down. That didn't prove anything at all.

All you can say is that over a period of time it appears that there are going to be some redemptions because your pay-roll savings plan and the other promotion operations are bound to oversell. That is, you can't get a company with twenty thousand or fifty thousand or a hundred thousand employees turning up with ninety percent of the employees on the plan, deducting ten percent of their pay - you have companies like that without realizing that some fellows couldn't afford it, shouldn't have been in it in the first place. Accordingly--

MR. BELL: Sixty days after a drive you are liable to get an upswing in the redemptions because you oversold series E bonds.

MR. TICKTON: Sixty days after any month. As a result, you always have an increase in redemptions as your sales pressure increases. A lot of the pay-roll savings bonds are coming back - that is, a lot in terms of number of pieces, but it is small in terms of amount of money.

Now, at the moment, taking the over-all proportion of E bonds, you have about ninety-four percent of the bonds you sold still outstanding. However, of the bonds we sold last December, seven percent have already been redeemed, or only ninety-three percent of the December bonds are still outstanding. There is nothing wrong with that because pressure for sales in December was very much heavier than in the early periods.

MR. PAUL: May I make a suggestion?

H.M.JR: That is the purpose of the meeting.

MR. PAUL: Both socially and when you appear on the platform in various places, you are getting asked questions, and I can't carry all these figures in my head. They are very interesting. If we could all be furnished with a very brief tabular narrative statement of this, I think it would help us a great deal.

H.M.JR: I think that - I had this meeting because I wanted to take this cross section of people who have a lot of interest in the Treasury, and as a result of it between Smith and Mr. Lewis they may get out a memorandum that might even go to our forty-eight chairmen.

They most likely - I am sure they don't know much more about it than I do - I mean, what the technical answers are. I think that - I am thinking out loud - that is the kind of information that should be furnished from here to these forty-eight chairmen so that they in turn have the answers. Not only Mr. Paul, but they have got to go on the platform.

It is a kind of thing that has not been done by us, as far as I know. Is that right?

MR. TICKTON: That is right.

H.M.JR: You haven't furnished stuff to the forty-eight State chairmen?

MR. TICKTON: There are press releases that go out, but they are mostly a series of tables. Unless you look at the tables and study them, you don't catch the point, and they were not made for the purposes of particularly bringing attention to the fact--

H.M.JR: And I don't want to always wait until I am attacked. I like to be a little ahead of the game.

MR. TICKTON: You can be attacked pretty near any day. You can always compare this day with last year. Any person can find on any day of the year, or month, that this year is higher than last.

MR. BELL: They won't look at the sales for the same period.

H.M.JR: Again, looking at you two gentlemen (Smith and Louis), and Chick, too, we have a regular form letter. Eddie Bartelt is the man in answer to all of this stuff on the War Department. I think you ought to get the story of where the War Department is on furnishing the Army with war bond purchases. That story broke in the World Telegram. It is all Army.

We have moved heaven and earth to get the Army to make changes. A lot of the suggestions they have accepted. It isn't only war bonds, but they get into the allotment field.

MR. BELL: Yes.

H.M.JR: Well, on war bonds the story is roughly this - are you people bored by this sort of thing?

MR. WOODWARD: Certainly not.

H.M.JR: As of April or May first, the War Department started to get current.

MR. BELL: April first they started on a new plan which they called the allotment plan, and they merely take the man's card and issue him a bond every month; whereas under the old plan they had to wait until the pay rolls came in from all over the world. As a result they were ten months behind in the issue of bonds, and there was criticism.

H.M.JR: That backlog will take them a long time. That is strictly War Department.

On Treasury recommendations, they have changed their plans.

I think, also, that that kind of information should go out to the field so they can answer it.

Through what we have done with Mr. Patterson - I mean there has been a whole flood of correspondence, and on the recommendation the Treasury people made - our recommendations - they have accepted our recommendations, and now the situation is the soldier does get his bonds currently in the two weeks. But the fellow who bought last August is still waiting and will have to wait about ten months, and there is nothing we can do about it. It will have to be cleared up.

Again, I think that kind of stuff should be furnished to our organization and disseminated so they know the facts.

MR. PAUL: The other day an employee at Justice - not my wife - told me that he was going to quit purchasing bonds through this scheme because he was so far behind. He would rather go out and buy the bonds straight.

MR. TICKTON: There are a half a dozen Government agencies that don't deliver under sixty days. Mr.

Bartelt got some information together. I have the names of the agencies. Many of the problems are primarily because of not having thought early enough to put a lot of people on the job.

MR. BELL: It is a personnel problem.

H.M.JR: See that Paul is furnished with an answer so he can explain it to his wife.

MR. PAUL: It wasn't my wife. (Laughter)

MR. SULLIVAN: Have any studies been made about the default of other types of savings? What is the percentage - the monthly percentage - on the default of life insurance and industrial accident insurance? What was the default in prior years when there was a lot of installment buying? What is the percentage of the seizure of mortgaged cars and furniture sold on conditional bill of sale?

I think there are some comparable examples, Mr. Secretary, that might point this out.

The reason I say that is that I am very sure that if the type of issue were changed and it was non-redeemable except in hardship cases with the approval of the Treasury, you would approve almost as many redemptions as we are now getting.

H.M.JR: Then you might also look at what is happening in the mutual savings banks.

MR. PAUL: Couldn't you get some of that information for us, Don?

MR. WOODWARD: Yes, we can.

H.M.JR: It is a good meeting so far.

Go ahead.

MR. TICKTON: The point I was making is that you can expect to be attacked from here on as far as redemptions are concerned. They are bound to go up if the percentage holds constant. That is, if, let's say, we have no more than three-quarters of one percent a month on the amount outstanding from here on and if, let us say, we have a drive in September that sells four or five times as many E bonds in September as in any normal month, sixty days thereafter you will find redemptions hopping up. And that is part of the sales program.

If you try to cut out those persons who say they can't afford to buy an E bond, the net result is that more people will drop out of the program than drop out by the necessity of having to redeem.

A lot of people apparently are buying the E bonds with the intent of holding them for short-term securities; that is, it is a new short-term method of investment.

H.M.JR: Who was it that went out into the field about a year ago and made a study on if we had a withholding tax what would happen? We went to a lot--

MR. SULLIVAN: Blough, Tommy Atkeson, and a group from the Bureau, Mr. Secretary.

H.M.JR: What would you people think of now waiting, say, until about right after the fourth of July and ask that group to go into the field again and make a check-up as to what is happening.

MR. SULLIVAN: I think better than that, the end of July. There will be no tax withheld from any salary prior to July 8.

H.M.JR: When would you think would be a good date?

MR. SULLIVAN: I should think the end of July or the first part of August.

MR. PAUL: What would they be checking exactly? I don't follow.

H.M.JR: I mean, the idea - they go in now, and we have got the withholding tax and they would check how the employees feel about continuing on the volunteer plan. I would like to go back, if possible, to the same factories.

The report, as I remember it, said that if you have a withholding tax they would more or less continue buying bonds.

Now, let the thing go a month, have them withhold, and then go back to the same factories and see how good their report was and what happened.

MR. PAUL: That report was more limited as to employees because it started later as to employees than as to employers.

H.M.JR: What I would like to have - and the research group should work it up - I mean, the men in the factories on the pay-roll deduction plan, what are they doing now that they have a withholding tax.

MR. VINER: I would suggest that you ask Cantrel of Gallup's organization at Princeton to come down. He would be full of ideas as to how to find out why things happen the way they do.

H.M.JR: We have used him.

MR. PAUL: I would like to see worked into that--

H.M.JR: Excuse me. Did you help us with Cantrel or not? I guess it was Professor Brown. Anyway, we have used him, and he is very much interested in this whole thing.

MR. VINER: And I think he knows more about the technique of finding out why things happen.

H.M.JR: And we have a good man in Agriculture. I think both Dr. Likert and Cantrel should be brought in.

MR. PAUL: I would like to see if we can discover anything in that survey, as long as you are making it, to see whether you can develop any relationship between the decreased opportunities for spending money now on account of rationing and the unavailability of goods - any relationship between that and bond sales.

H.M.JR: Well, supposing we have Likert and Cantrel come down and set us up - Likert has done a lot of this work for us.

MR. BELL: He is working on a project now, isn't he, in the field?

MR. TICKTON: Yes.

H.M.JR: What else?

MR. TICKTON: That covers the main matter. You are going to have lots more redemptions; they are going to be larger in dollar volume, and they may be even a little larger in percentage.

All you can say is that a sales program based on the voluntary theory means when you oversell a man, when a man has an emergency or is really oversold and buys more bonds than he can use he has to redeem some afterwards. And that is the core of your voluntary program.

It is impossible to say that an organization like Chrysler's with its sixty or seventy thousand employees with an average of eleven percent deduction and about ninety percent participation - it is impossible to say that every one of those fellows can afford to take out that amount of money, and you have got to expect a lot of people turning in the bonds. That means it doesn't take very many people to make a long line.

The newspaper stories in Detroit told about the lines at the post office. Well, with sixty thousand employees in Chrysler, if only a very small percentage, like four or five hundred, turned up at a post office in any one day that takes quite a while. The story and beautiful photograph - that happened on one occasion.

MR. VINER: Another thing urgent is to avoid arousing the attention of the public.

On that I think one of the places, when you do your analysis - one of the places where that ought to be spread is with the employees who are working on the redemptions.

My daughter is working now at the Federal Reserve Bank in New York on that with some other Smith girls, and they were shocked the first week. They didn't have any background, and they said, "Everybody is returning their bonds." All they see is a big flood of them; it is a big building, and everybody is working on that, and they have no sense of proportion. You see, her letters came home, and she was just shocked - "Why are the Americans all sending in their bonds for redemption?"

MR. TICKTON: Your redemptions are running maybe three million pieces a month. When you split that as to Federal Reserve portions that may be a couple of hundred thousand pieces, and that is a large number of pieces.

MR. PAUL: The reporter can make capital out of the pictures. Nobody sees we issue twenty-five million pieces on new issues - they only see the redemptions.

H.M.JR: Why not let's get Likert and Cantral started right away on making a survey on why there are these redemptions.

I would get Likert and Cantrel down right away.

That comes under Haas, doesn't it?

MR. BELL: Yes. Likert is working under Haas.

MR. PAUL: Let's get the positive side of that story, too.

H.M.JR: Likert and Cantrel would come under Haas?

MR. TICKTON: We will arrange for it.

MR. PAUL: I want to be sure to get the positive side of that as well as the negative side, not only why are there the redemptions--

MR. TICKTON: And why are they buying.

MR. BELL: Many of these people who are on pay-roll savings, they went along with the program of pay-roll savings in the factory and then when the sixty days are up they go right around to the bank and redeem. A lot of that goes on.

H.M.JR: As long as I have got Paul interested now, when these men come down let him see the draft of the questionnaire and let him go over it. I am sure he will have some good suggestions. Also Captain Kades.

MR. LINDOW: I was just going to say--

H.M.JR: Also Sullivan.

MR. LINDOW: ... that the figures on sales to individuals, such as this seven billions for the first six months of this year, are after redemptions. That is a net increase in the amount which individuals hold. So if these reporters would look at the figures that reflect net increases in holdings instead of just the redemptions figures, they would see what is really happening.

MR. PAUL: There is another end of this if you are going to go into all that, and that is to see that some good newspaper stories are told as well as bad ones.

MR. TICKTON: It is the twenty-five-dollar bond that is coming back. All these pay-roll plans are built around the twenty-five-dollar bond, and what happens in a great many instances is that the average deduction on pay-roll savings is seventeen dollars a month and in a great many instances seventeen dollars is just too much for a fellow to get over five weeks. He should get it over seven or eight.

MR. SHIELDS: You might take a look at the Canadians. Their percentage of redemptions has been quite high for the twenty-five and fifty. It ran eighteen percent of the total issued in some recent months.

MR. TICKTON: That is right.

MR. VINER: You have them upstairs. You ought to get hold of Clark and ask him.

MR. TICKTON: One of their men was down - Budden from Montreal - and he explained that they are worried about it, but, again, they are proceeding on the same theory that we are, that you may have to oversell in order to make your goals; that if you set your goals high and oversell a little bit you are going to have some redemptions.

MR. PAUL: Woodward can confirm that. (laughter)

MR. WOODWARD: Yes.

MR. TICKTON: We have some life insurance men in this business, as you realize.

MR. WOODWARD: I was going to say that in life insurance experience there is a definite relationship between the time the thing is outstanding. As Mr. Sullivan and Dr. Viner were earlier suggesting, if you could have a statistical breakdown of the time outstanding in relation to redemptions, I think you would find it extremely illuminating.

Our voluntary terminations - that is, at the will of the insured - are very largely within the first two years that the policy is bought. All the things that were poorly sold are ended in that time. Those that stay out beyond that are of pretty good duration.

MR. TICKTON: We have the same problem.

H.M.JR: Why not let Mr. Woodward take a look at these questionnaires before they go out? Would you do that?

MR. TICKTON: Yes.

H.M.JR: You would know what the life insurance people do.

MR. WOODWARD: Sure.

MR. PAUL: I think we ought to get that information.

MR. WOODWARD: It is very easy to obtain.

H.M.JR: Anybody else got anything?

MR. LOUIS: You may find some relationship to redemptions with the cut-back program of the War Department and the Navy Department, changes in contracts, reduction of production in certain areas from tanks to planes, and so forth. You may find something there.

H.M.JR: Tickton has been working on that for me.

MR. TICKTON: The cut-backs are not cut-backs of the nature of closed-down plants except in rare instances.

There are plenty of cut-backs in war programs, tanks and planes and such, but there are primarily cut-backs in paper programs, things that are for next year.

MR. SULLIVAN: That is something to watch as time goes by because that is going to be more of a factor.

MR. TICKTON: As long as a plant closes down and people are thrown out of work, you can expect some redemptions on that score. For the moment the manpower problem is such that people who are moved out of a factory do not stay unemployed very long. As I gather it, in most factories they are reemployed - that is, they switch over the plant rather than closing the plant down altogether. The Higgins plant was given much publicity, but there are few operations where the plant is absolutely closed down and no further operations conducted.

MR. LOUIS: You might list strikes as a contributing influence.

MR. VINER: Except that they haven't yet - they didn't amount to anything.

H.M.JR: You gentlemen will have a chance. I think out of this meeting if we can get these people down and get a questionnaire going in the field at once--

MR. TICKTON: All right.

H.M.JR: ... on this question of why people are redeeming, and I think the sooner the better. It will give us an intelligent answer. Do you agree?

MR. BELL: Yes, sir.

MR. TICKTON: It has to be handled a little carefully because people will get the idea we are objecting seriously to the redemptions. If the newspapers get it - the difficulty is the newspapers are checking up on people who redeem. You have to take names of people that actually redeemed in order to make the survey.

MR. VINER: But on a sample there are so few you wouldn't need to bother too much.

MR. TICKTON: If Nick Gregory's friends happened to be hit on this sample, you might see it the next day in the Herald Tribune.

H.M.JR: That would be wonderful. I would like to start with Nick Gregory. (Laughter)

Thank you all.

NEW YORK Herald Tribune
JUN 16 1943

Bond Sales Dip As Nation Pays TaxInstallment

Redemptions Rise Sharply in First 12 Days of June; Stamp Purchases Decline

By Nicholas P. Gregory

WASHINGTON, June 15.—To meet the record second-quarter tax bill, the nation's 40,000,000 taxpayers cut their purchases of war savings bonds to the lowest level in the last three quarterly tax payment periods and increased their turning back of bonds already bought, it was learned today.

The daily Treasury statement shows that in the first twelve days of June, only $303,307,124 worth of war savings bonds were bought, while bonds valued at $58,378,440 were turned in for redemption.

Treasury officials pointed out that redemptions are usually large during tax-paying periods, but the heavy taxes, estimated at more than $4,600,000,000 for the June quarter, which will usher in pay-as-you-go taxation July 1, apparently contributed additionally to the decline in purchases and increase in redemptions. The record purchases of war savings bonds during the April-May drive was another contributing factor.

Another significant development is that redemption of war savings stamps in the first twelve days of June exceeded purchases. The totals, as reported in the Treasury statement made available today, show: Purchases, $18,045,188; redemptions, $21,045,879.

Even during this year's first quarter, the Treasury and the taxpayers hung up a better record than they did in the second quarter. The Treasury's daily statement of March 12 showed war bond purchases of $[illegible],444,466 and redemptions of $57,550,498. Purchases of war savings stamps in the same period aggregated $21,114,071, while redemptions were $20,472,176.

Sales of war bonds in the first twelve days of December, 1942, with taxes then based on rates in effect under the 1941 revenue act, totaled $307,[illegible], while redemptions totaled $[illegible],958,680. In the same period, sales of war savings stamps were $18,186,952, against redemptions of $13,789,078.

The high level of redemptions, plus the reduction in purchases of war bonds for June by individuals, is expected to renew substantial interest in compulsory savings. President Roosevelt, at a recent press conference, admitted that it might be necessary to combine compulsory savings with higher taxes to eliminate the inflationary gap created by a larger amount of money in public hands than there are goods to buy.

Savings Are Piling Up

In the face of this situation, consumers are reducing their outstanding debt and piling up a record amount of deposits in savings banks. The Federal Reserve Board reports that in the last year and a half, the volume of consumer credit outstanding has been reduced by $4,500,000,000, while the Securities and Exchange Commission announces that $4,800,000,000 has been added to cash deposits for the account of individuals.

On top of this, money in circulation—that is, outside the Treasury and the Federal Reserve banks—reached the all-time high of $16,666,000,000 recently, or $5,000,000,000 more than last year, and double the amount in circulation in the middle of 1940.

Meanwhile, John L. Sullivan, Assistant Secretary of the Treasury, said that accurate statistics on the number of income-tax delinquents will not be available until the end of 1943, but the number of returns filed may be known by the end of June.

Scattered reports are coming into the Treasury with regard to returns and delinquencies, but they do not afford an accurate picture. Reports of heavy delinquencies have arisen from time to time in view of the substantial rise in income taxes this year, based on the 1942 bill.

Sales to Men in Army

Interest was revived in the war-bond campaign by published reports that there has been a breakdown in actual deliveries of bonds bought by the Army and civilian personnel of the War Department. The War Department admitted on June 10 that deliveries have been slow, but emphasized that they were catching up, in the following statement:

"Bond sales to those in the Army, authorized through a system of pay-roll deductions, started a little more than a year ago. The response exceeded all expectations of those in charge of the program. By the end of the calendar year, three and one-half times as many as the estimated number of deductions had been authorized, so that the lack of machinery to handle the onrush necessitated considerable delay in delivery of the bonds. Now the Army Finance Department, which handles the sales, has changed its system completely, with the result that the bonds go to purchasers within fifteen days after the end of the month for which completion of payment is made. Meantime, the Finance Department is rapidly catching up with deliveries that were delayed under the old system."

Bonds are sent to military personnel only when they are in the continental United States, the Army explained. Soldiers and others on overseas duty have their bonds sent for safekeeping in accordance with their desires either to the Treasury, to a co-holder, or to a beneficiary. About 80 per cent are sent to beneficiaries.

The Treasury said that it has been prodding the War Department to speed deliveries of bonds to personnel in the Army and to civilian employees.

June 16, 1943
11:10 a.m.

FINANCING

Present: Mr. Bell
Mr. Shields

H.M.JR: You say you can do this in five minutes?

MR. SHIELDS: I will try to.

On my recent visit to Toronto and Montreal on bank business, with Mr. Bell's approval I asked the acting general manager of one of the Canadian banks to make an appointment for me with the head of the Toronto victory loan organization - that is, the city of Toronto.

I spent three hours with this individual and his two chief lieutenants. They talked about the local campaign and explained how it worked in relation to the provincial and dominion organization.

Now, I have some figures here relative to the Canadian drive. Shall I skip those and go to the organization?

MR. BELL: I think so.

MR. SHIELDS: The figures are very interesting.

There are four characteristics which stand out, in my mind, in the Canadian drive, at the local level only.

First, the coverage is complete. Every adult Canadian is solicited at least once.

Second, the drive techniques provide for the use of psychological, social, and sales pressure, with emphasis on the sales pressure.

Third, the management of the drive is professional at the community level, and for it the principle of compensation for services to the Government is used.

Now, I can tell you something about each one.

MR. BELL: In other words, they have a professional salesman or bond salesman at the community level. He is not a man that issues statements and all that. He is the fellow there to see that the policies and all are properly carried out. He is a secretary.

MR. SHIELDS: Each of the provinces is divided up into the units which conform generally to the political or county subdivision, and at the head of each geographical unit there is an executive committee composed of the top-notch political, business, and banking names in this geographical unit.

There is a unit organizer, to which reference has already been made and I will make reference later, who is also a full-time paid unit secretary for the executive committee, with permanent offices in the geographical unit.

Now, the unit executive committee appoints a head for each section into which the unit's activity is divided: A special names section, which arranges for the solicitation without compensation, by the way, of every individual and corporation in the unit's territory which is believed to be able to buy $25,000 of securities; a public relations section; a general canvass section, which is divided into groups, and which handles all solicitation at the place of business under the pay-roll drive, the agricultural sales drive, and a general canvass under which everyone is called on at his home.

Fourth is the pay-roll section, which sells the Canadian certificates. These certificates are like our E bonds, but the Canadians are not pressing their sale. They believe they can sell more of the other bonds than of this type.

Then there is an administrative section, which is quite important. It sets up the organization, makes up the reports of the central committee, and handles other technical matters.

Now, there is a dominion organization which each provincial committee reports to, and both the dominion organization and the provincial committee have these subdivisions, the five subdivisions I spoke of. I will name them again: special names section; public relations section; general canvass section; pay-roll savings section; and administrative section.

Now, who are the salesmen? The important point here is that every salesman engaged in the Canadian drive is an individual who has had some experience in selling. During the drive virtually every insurance salesman and industrial salesman and a large part of retail store salesmen are brought into the campaign. They are trained very carefully by the professional organizer who is assigned to each of these geographical units and each of the county units.

This organizer is a professional drawn from the bond-selling fraternity. He makes no sales whatsoever. He uses his experience to train the salesmen for the particular job that they have to do in the campaign. This professional organizer is paid his regular salary by the concern for which he works, and the dominion government pays his expenses and reimburses the firm for the salary during the period he acts as the organizer. Here is the key to the intensity of the Canadian drive.

Of course they pay their professional salesmen to do the job, and we rule that out here.

Canada assembles eight to ten thousand salesmen for each of the drives. In rural communities there is a salesman for each eight hundred persons. In the cities there is a salesman for each thousand persons. That is individuals, not families.

The work is difficult. The salesman has to call frequently more than once to get his prospect at home. He has to spend considerable time with the prospect. He has to check to see if the subscriptions are large or that they come through as promised. He has to make many calls in some cases.

To sum up--

H.M.JR: Please. I am going to tell you what I would like you to do.

MR. SHIELDS: I made an attempt to draw up a chart of how the drive might be organized at the community level to take advantage of the successes that the Canadians have had and avoid their mistakes and take advantage of this intensive factor which you can get, probably, only with professional salesmen.

Now, the key to it is the use of a professional organizer, and--

H.M.JR: Look, I haven't got enough time now. I tell you what I would like you to do. Either here or wherever it is most convenient, I would like you to write out a formal report for me.

MR. SHIELDS: Very well.

H.M.JR: The sooner the better.

MR. BELL: You were doing that, weren't you?

MR. SHIELDS: Yes. I have some difficulty in writing these things up.

H.M.JR: We can give you stenographic help.

MR. SHIELDS: We have stenographic help. I will have to get it done at the office because I have to get back in the office tomorrow.

H.M.JR: I would like to have it. Then I think what I should do - I would like to look at it, then turn it over to Gamble. I think this is so important that I can't take it in five minutes, and I haven't allowed enough time.

When do you think we could have it, by Monday?

MR. SHIELDS: Yes, or Tuesday when I will be down here again.

H.M.JR: Tuesday is fine. Will you bring it down?

MR. SHIELDS: Yes, I will bring it down. I have drawn up some little charts to show how that thing might be worked in.

H.M.JR: Will you (Bell) arrange for you and Gamble and others interested to have a little meeting and let him give a lecture for them?

MR. BELL: Yes.

MR. SHIELDS: Fine.

H.M.JR: Will you do that on Tuesday?

MR. SHIELDS: Yes. I recommend definitely that you make use of the professional organizer at the community level in this campaign. It will pay, I think, extremely high dividends to you in terms of subscriptions, and I think that it is more important for you to use the professional organizer here when you are going to use volunteers than the Canadians where they use professional salesmen anyhow.

MR. BELL: You have to have somebody to train them.

H.M.JR: I can't do this in five minutes.

MR. BELL: I thought you could get the high-lights.

H.M.JR: It is important enough that he should come down and deliver a lecture before the War Finance Committee here and then let them question him.

MR. SHIELDS: Fine. If I do it next Tuesday, then it is not necessary for me to write it up in report form, just make notes on what I am going to say?

H.M.JR: All right.

MR. BELL: We can have a stenographer there.

June 16, 1943.
2:45 p.m.

HMJr: Hello.

Randolph Burgess: Oh, hello, Henry.

HMJr: Can you hear me?

B: Yeah.

HMJr: I can hardly hear you.

B: Uh, well, I'll try to talk a little louder.

HMJr: I called this morning and left a message. I guess you didn't get it.

B: Well, I was up at my son's graduation from the Prairie State.

HMJr: Well, what could be more important?

B: What could be more important than that? Yeah.

HMJr: Uh - he's all right, is he?

B: Yeah. He's an Ensign now.

HMJr: Wonderful.

B: Yeah.

HMJr: Uh......

B: How's your wife, Henry?

HMJr: She's thr.... No, better. Definitely better.

B: Oh, that's fine.

HMJr: Randolph, two things: If agreeable to you, I'd like to send Henry Murphy up to see you tomorrow.

B: Henry Who?

HMJr: Murphy.

B: Murphy?

HMJr: Of Haas' shop. Of George Haas' shop.

B: Yes, I know.

HMJr: To give you - to bring you up to date on our financing

HMJr: (Cont'd) problem. See?

B: I tell you, I've got a terrific day tomorrow.

HMJr: You have?

B: We have our Staff Meeting.....

HMJr: Oh.

B: .... with the deputies called in in the morning - and then I have a lunch thing - my - I sing my song - song - my swan song of the Greater New York.

HMJr: Well, then that's about the.....

B: Then we have the first meeting of our full committee tomorrow afternoon.

HMJr: Well, he doesn't have to come tomorrow.

B: I could see him in the evening.

HMJr: Well, the point was - I - what I was hoping - I'm going to be up in New York Thursday night.

B: Yeah.

HMJr: And I was hoping if you could come to the hospital - nine o'clock Friday morning to see me.

B: Yes, I can.

HMJr: But, I wanted you to have a chance with Murphy first.

B: Well, why not have Henry Murphy come in here about five o'clock tomorrow.

HMJr: Yes.

B: And then I can have an hour with him then and we can continue on in the evening, if necessary.

HMJr: Well, uh - is that crowding you?

B: No. That's all right.

HMJr: Now, let me tell you what I have in mind, if it's agreeable to you. I want to get the benefit of all of your experience.

B: Yeah.

HMJr: (Cont'd) problem. See?

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B: No. That's all right.

HMJr: Now, let me tell you what I have in mind, if it's agreeable to you. I want to get the benefit of all of your experience.

B: Yeah.

HMJr: And we are going to have an open Market Meeting at eleven o'clock next Wednesday.

B: Next Wednesday.

HMJr: And I would like to have you spend a day here in - in consultation on our - on our next bank financing.

B: Next week, Wednesday?

HMJr: Yeah.

B: I think that's all right.

HMJr: In other words, Bell and I want to get the bes--all that we can out of you.

B: Yeah.

HMJr: And.....

B: That's what I'm here for.

HMJr: And I feel that if you're in on the whole picture - uh - you can be that much more useful.

B: All right. I'll plan to be in Washington on Wednesday.

HMJr: But I mean, is that agreeable to - to bring you in at the top?

B: Absolutely. That's all right.

HMJr: Well, then I think I'll have Henry Murphy at your office at five tomorrow and if you wouldn't mind coming to see me at the hospital at nine on Friday...

B: All right.

HMJr: And next Wednesday could you plan spending the day with us?

B: That will be very good. I'll be glad to do it.

HMJr: And that's on the June 27th financing, you see.

B: Yeah.

HMJr: Okay?

B: Very good, Henry.

HMJr: How are you coming?

B: Oh, we're blazing right ahead. We're getting the state organized. I've got Ted Letchworth down from Buffalo - just had lunch with him and we've gone over all the district. We're coming along all right.

HMJr: Well, you'll be pleased to know that I missed Aldrich yesterday 'cause I was late for a White House appointment, but he saw Bell, and he's very enthusiastic starting with Burgess, going down the line.

B: Well, I'm delighted at that. He's a very important fellow.

HMJr: He thinks we're much better off than we were.

B: Yeah. Well, we're going all right anyway.

HMJr: And he says that we're lucky not to get Perry Hall - that he's impossible to work with - he's the most stubborn, pig-headed man he knows.

B: Well, he's a little difficult....

HMJr: That's just....

B: I think that's a little too strong, but he is a little difficult.

HMJr: Well, maybe I - but that's, at least, the way I got it from.....

B: Allan Sproul is back and I've had two or three nice visits with him.

HMJr: Good.

B: So we're all sweet there.

HMJr: Wonderful.

B: So far we haven't had any fights.

HMJr: (Laughs) You won't.

B: But we'll keep our fingers crossed.

HMJr: All right.

B: (Laughs)

HMJr: Thank you.

B: All right. Good luck.

June 16, 1943.
2:59 P.M.

HMJr: Hello.

Winthrop Aldrich: Hello.

HMJr: Hello, Mr. Aldrich.

A: Oh, hello, Mr. Morgenthau.

HMJr: How are you?

A: I'm very well. I'm sorry I didn't see you yesterday.

HMJr: Well, that was the purpose of my call - to tell you I was sorry I was unavoidably detained.

A: Yeah. Well, I knew that and I saw Mr. Bell.

HMJr: He told me.

A: And I - what I really wanted to do was to thank you for what you've done about the dates of the campaign.

HMJr: Well, we had you very much in mind.

A: I knew that.

HMJr: And, after all, it's - your campaign's very important and your people in the states have been very helpful to us, and so I thought that if we could, we would arrange it and we did.

A: Well, I'm perfectly delighted and I appreciate very much your having done it. I think it's going to mean literally millions of dollars to us - uh - having that little leaway in there and not having to put our campaign later than those War Chests usually have them.

HMJr: Well, we're glad to do it and I'm sorry I did miss you. How do you think we are coming in New York State on our war finance?

A: Well, I also wanted to tell you that I, myself, am very thoroughly in accord with what you've done.

HMJr: Oh, really?

A: Yes.

HMJr: Well, I'm awfully glad to know that.

A: Well, of course, I - I had to have different feelings about it from some other people. Uh - and - as I told Mr. Bell, I think, myself, that you'll have a much better set-up with Perry Hall out of it.

HMJr: He was a little bit difficult, wasn't he?

A: Oh, he's so incredibly arbitrary.

HMJr: Oh, really?

A: Yes, the most opinionated man in the world in my opinion.

HMJr: Well, I tried, as you most likely know, for three weeks to get together with Sproul and with Perry Hall. I never worked so hard in my life to get together with them but you could only get together with them on their tickets.

A: Well, that - you can't get together with that man on any other basis.

HMJr: And, uh - I just - well, I just - I couldn't have the - the responsibility without also the authority.

A: Exactly.

HMJr: But, I think, with the new set-up, and I also wanted to tell you how much I appreciate your letting us have Eugene Black.

A: Well, he's going to be - we're delighted to have you have him, of course. But I think he is an ideal man for that job. Ah - he didn't want to take it for the duration, of course....

HMJr: Yes.

A: But I think he can get it set up in such a way that if he gives it a certain amount of supervision to it, that you are going to have a very fine set-up because that fellow is tactful and able and courteous and cooperative.

HMJr: Well, what more could you ask?

A: Well, he is that and he's good.

HMJr: Well, I gather that you think the state set-ups are going to be good.

A: I do, absolutely. As a matter of fact, I think you've got a simply splendid fellow in Dr. Burgess.

HMJr: Yes.

A: And, I - while I'm very fond of Dick Patterson and I think he is a very public-spirited man, I don't think he carried sufficient weight to be able to get the men that were necessary.

HMJr: Well, that's what I found. I - I tried to but I just couldn't rally around the sufficiently responsible people around him. And this ....

A: He's a nice fellow, and....

HMJr: Very nice.

A: And I think he's a very able fellow but he just hasn't got the prestige that was necessary.

HMJr: Well, in war times we can't be, you know - we - you got to get results.

A: Well, I quite agree with you, but I think, myself, unless I'm very much mistaken, that you've got a very fine set-up now.

HMJr: Well, I'm glad and I'm glad to know that because, after all, both you and your bank are very important in the community.

A: Well, I'll tell you another thing. I think it's much better to have the thing out at the Federal. I - uh - the - it - that, I don't think ever was the right place to have it all.

HMJr: Oh, really?

A: Well, I'll tell you why, because of the fact that the - that the little - uh - little bond holders, etc., - it seems to me that they've got to be organized - uh - almost as if it was a charitable drive.

HMJr: I think you're right.

A: It's a different breed of cats....

HMJr: Yes.

A: ....from dealing with the corporations.

HMJr: You're right.

A: In other words, if you had been planning to put the E, F and G bonds into the Federal Committee.....

HMJr: Yes.

A: ....I would have come down to Washington to tell you that I thought it was a mistake.

HMJr: Well.....

A: In other words, they're doing it the other way around...

HMJr: Well.....

A: ....which I think is a much sounder way of doing it.

HMJr: Well, it's most reassuring to have you tell me that. I - I - it makes me very happy.

A: Well, that was the other thing I wanted to tell you.

HMJr: Yeah.

A: Of course, I'm - I'm hoping very much, myself, just on the basis of theory....

HMJr: Yes.

A: ....and on no other, really, that some day the emphasis will be put more on a small bond with a definite maturity than on the E, F and G bonds because I hate the idea of having too much Treasury obligation outstanding on demand. Uh - simply because of the fact that some day it may be inflationary in its results.

HMJr: Now, just what - I don't quite understand what you mean on that.

A: Well, uh - uh - these E, F and G bonds....

HMJr: Yes.

A; ....that are redeemable on demand....

HMJr: Yes.

A: ....I don't think the holders regard them in the same way as they would a bond - a small piece of a twenty-one year bond, say, which, as a matter of fact, they couldn't redeem. The fear I have about those, and it's the only

A: (Cont'd) thing that troubles me now about the whole situation, is if we get too many of them outstanding....

HMJr: Yes.

A: ....that after the war, when people may want to spend money on anything when the rationing goes off,...

HMJr: Yes.

A: ....that a lot of them may be turned in so the people can spend the money. Do you see what I mean?

HMJr: Would it be asking you too much to sit down and expand on that a little bit in a letter?

A: Yes, I have'nt given much thought to it because - uh - it just - uh - is something that keeps bothering me....

HMJr: Well, would you....

A: ....in my mind....

HMJr: Well, would you....

A: ....You see, the point that I have in mind....

HMJr: Would you mind - uh.....

A: I'd be delighted to do it.

HMJr: If it's bothering you, take a little time and write me about it and I could study it.

A: Yeah. All right. Well, I'll do that.

HMJr: I'd appreciate it.

A: Outside of that, I think you've got a grand set-up and that doesn't bother you much because - uh - because it has no - it has some advantages.

HMJr: Yes.

A: Because it - it - it eliminates the danger of market fluctuation.

HMJr: That's right.

A: But it has the disadvantage that it constitutes a large amount of bonds that are payable on demand which

A: (Cont'd) people might redeem in order to invest in real estate or anything else.

HMJr: That's right.

A: Uh - at a time when it would add to the inflationary fuel.

HMJr: That's right.

A: Do you see what I mean?

HMJr: Well....

A: Well, I'll be glad - I'll be delighted to argue about it. I may not do it soon.

HMJr: No.

A: Because I'm so busy on this war fund....

HMJr: I see.

A: ....and I want to - I want to - if I write you about it, I want to think it all out.

HMJr: Well....

A: I will within a fairly short time.

HMJr: Well, I enjoyed my talk with you and it's been very encouraging.

A: Well, I think - I think you did a fine job on that and I wanted to tell you so and I think that the atmosphere here has been very much cleared by it. Uh - I can only speak for myself and I don't know whether everybody feels the same way I do - I have no reason to suppose that they don't.

HMJr: Yes.

A: But I feel very clear about it, that you have clarified the atmosphere here enormously.

HMJr: Fine. That's good. Thanks.

A: Well, I'll write you about that and I'll - I'll try and see you when I come down again.

HMJr: Do that.

A: All right.

HMJr: Thank you.

A: Good bye.

you get people - and he was most appreciative of our setting the date on the 9th instead of the 20th so the War Chest Drive can go ahead. He said, "You are all set, and you are on the right track." He said, "I am only worried - I want to talk to you sometime about selling in the smaller denominations a long, non-salable bond before the war is over." He said, "It isn't quite clear in my mind, but I am going to write you about it. You ought to be selling a twenty-one year bond which can't be cashed until the war is over, in small denominations."

But anyway it gives you a nice pleasant feeling, because God knows they can be critical enough, and I didn't ask Mr. Aldrich. I didn't dream when I was having this absolutely heart-breaking fight with the Fed in New York that he would be on my side, but he is, and he likes it.

So it is all right. You see, when we do a straight bank financing the Chase Bank bond department will get as many as five hundred calls in a day from country banks.

MR. BELL: I don't know how many, but certainly many.

H.M.JR: I understand that they get as many as that - I mean, banks call them up - "What should we do?" And they tell them.

MR. BELL: They probably have quite a string of correspondent banks.

H.M.JR: It is nice once in a while to get a pat on the back. It happens so seldom.

Now, before we start, where is Blough?

MR. BLOUGH: Right here, sir.

H.M.JR: All right, now look, I want you fellows here (Blough, Lindow, and Murphy) to take on an assignment for me, and I want it very soon. I would like to have - you can divide it into the groups that you want, but somewhere about four or five groups - say, a thousand, twenty-five hundred, five, ten, fifteen hundred income - and I would like to know what that kind of person in Canada, England, and in the United States - everything that is taken out from him - wherever the column is similar, you see, you could have it - I mean, for instance, if they have a withholding tax, how much is it? If they have compulsory savings, how much is it?

Now in Canada they have about five different kinds of taxes, you see, something or other, that we could compare the two.

MR. PAUL: Do you want any estimate of the sales tax impact there?

H.M.JR: Excuse me?

MR. PAUL: Do you want any estimate of the sales tax impact? You have to allow for the State and--

H.M.JR: Yes, but something comparable that we can all have. There is so much argument about it, that England does this, and Canada does that, and so forth, and so on. How many different kinds of taxes do they have?

MR. BLOUGH: We can do that very simply.

H.M.JR: Is that your job?

MR. BLOUGH: Yes, with respect to the income taxes and the compulsory lending, and that sort of thing. Mr. Paul mentioned the sales taxes. That is an immensely difficult business and would delay giving you a good answer.

H.M.JR: Well, I would like an answer by Tuesday as far as you can go.

MR. BLOUGH: Yes, we can give you an answer easily by Tuesday. As a matter of fact, we could give it to you much quicker than that if it only relates to those things which are direct taxes.

H.M.JR: Tell Paul; he makes a thing too difficult.

MR. PAUL: If they attack us - if we just have the direct taxes, they say it doesn't cover the picture.

H.M.JR: Why not give me as much as you can, and if it isn't finished--

MR. BLOUGH: I think that is the answer. We will give you installments, one the direct taxes, and the other--

H.M.JR: I think Paul is right; but if you can't give it all to me by Tuesday, give me as much as you can. Is that all right, Randolph?

MR. PAUL: We can give you direct tax columns and then another couple of columns with tentative conclusions on the rest of it.

H.M.JR: And in a very nice and gentle way - I am in that frame of mind today, you see, some of these controversial things - I am looking at this research staff here, see - which are in the papers - would you have the stuff done a little bit in advance, the kind of thing that I may be called on to use?

MR. PAUL: We have most of this now, Mr. Secretary.

H.M.JR: Have you?

MR. PAUL: I am going to rise to Roy's defense there, because we have been working on this subject for months.

H.M.JR: Well, the point is this, Randolph, if he has it I haven't seen it.

MR. PAUL: There was something very much along this line in the Baltimore paper over your signature.

H.M.JR: That is a long time ago; that is like my story with Sidney Hillman, out in the field talking with some of the shop stewards. I came here - Hillman was here with Knudsen, but I made a speech on it but none of the shop stewards understood it.

MR. BLOUGH: Maybe you would like a little weekly newsletter.

H.M.JR: What I want to get for these people here - I am trying to get something new, and after Mr. Louis gets his feet on the ground he will be pushing you. He should be fed stuff so that he can send it out to his publicity men and advertising men in the forty-eight States, so instead of our being on the defensive on this stuff we can take the leadership. This stuff has to be fed to him; he will make good copy of it and send it out if it is stuff that he can use.

But you people - I mean, he will be riding herd on you after a week or so, don't worry. But in the meantime you can read the papers just the way I can - Scripps-Howard. You can read it today. Now, what are the answers to those things?

We have the organization, we have the methods, we have somebody in every one of the thirty-two hundred counties; let's get it down to the county level so these fellows, when they go out to lunch at Child's in Cedar Rapids and a fellow across the table from the war bond man says, "Now, what about this?" he says, "God, I don't know." But if he says, "Now wait a minute, I have the answer" - do you agree with me, Mr. Louis?

MR. LOUIS: Yes, sir.

H.M.JR: We have this enormous, expensive research staff - it costs hundreds of thousands of dollars - and they are pretty good, too. (Laughter) But I want them thinking on this thing, and I want them giving you the material so that you can do good copy and then get it out into the field.

The thing which we have never done in War Bonds - I mean, we get out an advertisement, but we don't give them the arguments for this stuff.

MR. BLOUGH: May I get a clarification of the assignment?

H.M.JR: Yes, sir.

MR. BLOUGH: To what extent do you want pay-roll savings deductions included in these tables, at all?

H.M.JR: Yes.

MR. BLOUGH: What sort of figures? Now, the War Bond people, I suppose, would give the average figures.

MR. GRAVES: Tickton will.

MR. BLOUGH: And you would like to have similar figures, if they are available, for the Canadians.

H.M.JR: Yes, and the English.

MR. BLOUGH: That is where we will have to get some of these other boys in on it.

H.M.JR: Viner has good Canadian connections.

MR. VINER: The fellow who knows that is right upstairs, or will be tomorrow morning, and that is Deutsch.

H.M.JR: Deutsch?

MR. VINER: Yes, he has been working on that for them up there.

H.M.JR: There you are.

Well now, with that much under way, where are we now, Bell, on this thing?

MR. BELL: In that connection we are a little short around here of personnel, and I would like to suggest that instead of Henry Murphy going to New York tomorrow you send to Dr. Burgess Haas' complete memorandum and let him read it tomorrow night and be prepared not only to discuss the June financing with you Friday, but come down Tuesday and discuss the whole memorandum with us here - I mean Wednesday.

H.M.JR: Would you mind getting that to Burgess?

MR. BELL: I talked to him, and he said that would be satisfactory to him and much better if agreeable to you, because his time is very crowded tomorrow.

H.M.JR: All right. But he will take the memo and then see me Friday morning?

MR. BELL: He thought that would be better.

H.M.JR: Sold.

MR. BELL: Will you see that one goes off airmail tonight?

MR. MURPHY: Surely.

MR. BELL: This is fixed up. (Letter to Mr. Byrnes handed to the Secretary.)

H.M.JR: Airmail special delivery.

MR. BELL: This is fixed up as the final draft.

H.M.JR: Who has seen this? I am sorry to make so many speeches, but I got - can somebody read this out loud? Who is the principal author?

MR. BELL: It was made up by a committee composed of the three research staffs, Mr. Murphy--

MR. MURPHY: Mr. Lindow.

MR. BELL: Who else?

MR. BLOUGH:

H.M.JR: Lindow, would you read this?

MR. BELL: Harry White might very well be here, because his staff worked on it.

(The Secretary held a telephone conversation with Mr. White's secretary.)

(Letter addressed to Mr. Byrnes read by Mr. Lindow, copy attached.)

H.M.JR: Is that correct, "With that slight increase in tax -" is there a slight increase?

MR. SULLIVAN: Yes, they pay this year, and then next year they pay twelve and a half percent on what they owed, and the following year another twelve and a half.

MR. PAUL: That sentence could be made somewhat stronger by saying that there has been a gentleman's agreement there shouldn't be any more.

H.M.JR: I don't think I would put that in if you don't mind.

That sentence, "In any event, I feel strongly that no plan for compulsory lending should be proposed at least until after the Third War Loan in September" is a mistake. We don't want that. Steve Early cut that out of the other memorandum. But what I would substitute is something--

MR. SULLIVAN: Excuse me, Mr. Secretary; what he cut out was an announcement now that he would not ask for it until after the campaign.

H.M.JR: Well, I would say - I certainly wouldn't do anything until after the first of January.

MR. LINDOW: I see.

H.M.JR: I don't like that sentence at all.

MR. BELL: That fits in with the preceding sentence anyhow. You say until after the first of the year.

MR. SULLIVAN: Our whole position is that we will be so successful in these drives it will then be a dead duck.

H.M.JR: I don't like this, "We will be able to achieve the goal we have set down for sales to individuals under the voluntary program this year."

MR. BELL: You don't like that?

H.M.JR: I like that, but I don't like the next sentence, "I feel strongly that no plan for compulsory lending should be proposed at least until after the Third War Loan in September."

MR. BELL: Strike out "In any event"?

H.M.JR: I don't see why we should have any--

MR. LINDOW: Just leave that out completely?

H.M.JR: I would end it, "I am confident that we will be able to achieve the goal we have set down for sales to individuals under the voluntary program; and until we are proven we have been wrong, I think that the volunteer plan should continue" period. "Until we are proven that we are wrong I think the volunteer plan should be permitted to continue, with the full support of the Administration behind it."

MR. SULLIVAN: And say that any public statements by Administration officials will undermine the work of this drive.

H.M.JR: Well, that is a little bit--

MR. SULLIVAN: Strong?

H.M.JR: I am saying it the other way, "with the full Administration backing", which is saying, "Please keep your mouth shut" but a little bit more politely.

MR. PAUL: We have a statement later to that effect.

MR. BELL: I think that is a good ending.

H.M.JR: Well now, look, who wants to have a chance - I think this is very good. Who doesn't? Who wants to work on it?

MR. BELL: It reads better than I thought it would. I should think that we might change the last paragraph and send it around for everybody to take another look at, particularly Mr. Paul. He wasn't in all of the conferences.

H.M.JR: Could it get to me tomorrow morning in final shape so I could see it, say, at eleven-thirty?

MR. BELL: Smith ought to take another look at it, because we did violence to his draft.

H.M.JR: If it could come to more - who is responsible for this, you?

MR. LINDOW: I guess so.

H.M.JR: I would like, if you will make a note, to send copies to Mr. Byrnes, Mr. Vinson, Mr. Harry Hopkins, and Mr. Harold Smith, the Director of the Budget.

MR. SULLIVAN: I think you ought to send one to Steve.

H.M.JR: Mr. Steve Early.

MR. BELL: Eccles?

H.M.JR: Yes, Marriner Eccles.

MR. BELL: One to Burgess.

MR. PAUL: Do we have Mr. Vinson on the list?

H.M.JR: Yes. I think subsequently it ought to go again, to be merchandised - I don't know whether you (Louis) agree with me on all of this more or less merchandising. Can't you send it for their background and guidance to these State chairmen?

MR. LOUIS: This will not be released to the press?

MR. BELL: I shouldn't think so.

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

MR. BELL: It could be converted into memorandum form.

H.M.JR: That is for you fellows to decide. The object of this was an answer to the argument of this little group across here known as the "left wing" of the White House. (Laughter)

MR. SULLIVAN: I would like to be free to give a copy of this to Earl Godwin. You remember I told you that I gave him part of the picture, and he wants to do a broadcast on it. I am having lunch with him Monday.

H.M.JR: Will you ask the two fellows (Smith and Louis) next to you if it is all right?

MR. BELL: I don't think it is all right to give it to any newspaperman unless you give it to all of them.

MR. SULLIVAN: I didn't mean the letter, but the substance of the argument when I have lunch with him Monday.

H.M.JR: Can you give it to him verbally?

MR. SULLIVAN: Sure.

H.M.JR: You are a pretty good advocate, aren't you?

MR. SULLIVAN: I made out with him pretty well last Friday morning.

MR. SMITH: You certainly did.

H.M.JR: Anybody else? How about you (Captain Kades) who come in here with a fresh mind?

CAPT. KADES: Blank one, sir. (Laughter)

H.M.JR: What I would like you to do - supposing you are sitting over there across the table from Ben Cohen - where can you tear this thing down? Do it from the other way around, see. You are sitting over there - what can you do to destroy this argument? Take a look at it that way. I mean, you come in, "Well, this is balogna" - let's tear it apart.

MR. BELL: Stay in the Treasury when you imagine you are sitting across the desk from him. (Laughter)

H.M.JR: Give it the Corcoran and Cohen - you know, what could they do to it. Look at it that way.

CAPT. KADES: Yes, sir.

H.M.JR: I think it is a good start.

MR. BELL: I think we might leave that chart out. (Indicating "Chart Showing Growth of War Bond Sales to Individuals.") The final bar looks a little optimistic.

H.M.JR: Well, you fellows - you have me scared. Fred Smith and Albee and my daughter Joan and myself - we were all ready to give that speech, weren't we? (Laughter)

MR. SULLIVAN: There was unanimity on both ends of the line, but not as between the two groups.

H.M.JR: I told you what Joan said, "Don't pay any attention to those people in Washington. It is a good speech." She said, "I understand it; I like it. Now go ahead and give it." (Laughter) She is a sophomore at Vassar.

All the chart does is to say what is in the letter.

MR. BELL: Yes, the letter is better.

MR. SULLIVAN: You are stuck more completely by the letter than you are by the chart.

H.M.JR: We will meet again. I think this is very good. What do you think, Fred?

MR. SMITH: I think it is good.

H.M.JR: How about you, Louis?

MR. LOUIS: I think it is fine; I can't see any other side of the argument. I haven't heard the other argument.

MR. SULLIVAN: You will if you stick around town.(Laughter)

H.M.JR: Oscar Cox gave me the darnedest argument this morning I have ever listened to. If you want somebody, you have to get him in here. He has a plan for - how would you say it? - not legalizing, but through legislation to get the volunteer plan. You know, somebody asked the President that question the other day.

MR. PAUL: He came, after he was here, and talked to me about that.

H.M.JR: What do you do, through--

MR. PAUL: His essential idea is that you have compulsory savings, but give credit for all the voluntary purchases.

MR. SULLIVAN: In other words, you have to buy ten dollars a month, but if you give ten dollars a month, then you don't have to - I mean, if you voluntarily subscribe ten a month, then you don't have to subscribe ten more a month through compulsion. That doesn't make any sense to me.

H.M.JR: But anyway, I told him we wanted to bring him in and let him take a look at all this.

Viner, is there anything you want to criticize?

MR. VINER: No, I have already worked on it. I have no comment.

H.M.JR: Well, of course--

MR. VINER: Except I would leave the chart out.

MR. BELL: You want to take another look at it, don't you?

MR. VINER: Sure.

H.M.JR: You are only giving to the man visually what you are saying in a lot of words.

MR. VINER: Except that chart is partly history and partly prophecy, and I put the prophecy in red ink. It is a hope. It looks like a demonstration. You say, "See the chart." The chart tells them that "I expect to do this." You have already said it in the text.

H.M.JR: It isn't my chart. I don't care; you can do anything you want with it. This is really a brief, isn't it, Randolph? Does it make any impression on you?

MR. PAUL: Yes. I don't think it gives some of the arguments, but I think it is a very able statement of this position.

H.M.JR: Can you tear it down? I think that is what you should do.

MR. PAUL: I was going to make a suggestion--

H.M.JR: Can you do that?

MR. PAUL: ... from the standpoint of avoiding what appears to be an inconsistency, but I don't want to bother the meeting with it.

MR. BELL: If there are any other arguments, we ought to have them and put those in, too.

H.M.JR: Would you give it to the boys?

MR. PAUL: I will give them a couple of points that I have in mind, one of which comes from having attended a meeting.

MR. BELL: Good.

H.M.JR: Do you know anything about the price of cotton and hogs and stuff?

CAPTAIN KADES: Not yet. I haven't been able to see Mr. Taggart. He was tied up in a meeting.

MR. BELL: He was tied up in a meeting.

H.M.JR: On this?

MR. BELL: He was on the subsidy letter - message.

MR. PAUL: Have you talked to Ben Cohen about that lately, Dan?

MR. BELL: No, why?

MR. PAUL: He asked me about six o'clock last night when he was going to get it.

MR. BELL: I was hoping he was going to get it today. Can you give us any information on what the situation is? Did you find out anything yesterday?

H.M.JR: Yes. This is all very much in the room. The President said yesterday that he wants to send a letter up on subsidies - yes, roll-back - and he said, of course, in mentioning the whole thing, that he wants to write a letter on inflation. He agreed with me that in view of what happened here yesterday morning it would be bad timing to say too much about taxes, but he just wants to mention that in this whole picture, that they do need additional taxes.

I told him what I had said. I told him about three times that our objective was to try to obtain at least fifty percent of the cost of the war through revenue. He said, "I will say that."

MR. BELL: The first four pages of the first draft we had were all about taxes.

H.M.JR: He told me he wasn't going to get into any details at all, just going to get into the over-all picture.

MR. BELL: Do you want to see this draft?

H.M.JR: Yes.

Of course, what he did was, he - two things happened. Yesterday there was this announcement that there would be a tax bill, and then the President said to me that what he said to me at lunch - that he said the whole thing to the press yesterday. He has given the statement. So I mean - he said he shot his whole works yesterday. I don't see where it leaves him any ground. He gave the whole thing yesterday on rollback, so I just wonder. He did everything, he told me, with one exception. You know I told you that he told these fellows that if this thing keeps on they are not going to buy any bonds. Did I tell you that story?

MR. BELL: No.

H.M.JR: He was trying to scare me. He said he just bought these bonds for his grandchildren. Supposing a grandchild comes in and says, "Well, grandpa, if you buy me a seven hundred and fifty dollar bond worth a thousand dollars in ten years, I am only going to buy five hundred dollars worth of stuff. That is all the purchasing power the stuff has." He kept looking at me as much as to say, "Does that frighten you?"

I said, "That is nothing new; I go to bed every night with that." But I said, "If you want to say that publicly - I don't know any way you could - you would simply have a complete collapse of the whole Treasury financing program over night."

I said, "It is only the patriotism of the people that has kept them buying bonds. They realize this thing." So he shifted it, and he said that people won't keep putting the money in the savings banks.

MR. BELL: In the savings banks?

H.M.JR: Something like that. He said the thing - instead of saying war bonds, I think he said in Schwarz's copy that the people wouldn't continue to put their money into the savings banks. It is a very risky thing for him to be doing. His argument was with these people that if they don't give him this two percent for rollback of the total cost of the war, the thing is going to be so much more expensive, and so forth. He was trying to scare these Congressmen. I thought he was on pretty thin ice.

MR. BELL: You had better give us some more time than eleven-thirty to read ~~over~~ this other message. It is about seven or eight pages.

Then I think we ought to decide as to how we are going to transmit it. In our draft of the subsidy message - do we want to say anything about the first part of the draft on taxes?

H.M.JR: These gentlemen can come in at eleven-fifteen. That gives them three-quarters of an hour. If I don't - talk that over with Paul. I think instead of all this letter business - I think this letter business isn't good.

MR. BELL: This other can be kept more or less on an informal basis, only something ought to be said.

MR. PAUL: If you want to have it on an informal basis, we can continue the way we have been doing.

H.M.JR: Talking?

MR. PAUL: Yes, and transmitting--

H.M.JR: I would much rather have it that way.

MR. PAUL: As a matter of fact, I think we ought to call Cohen to see whether the whole project hasn't been abandoned. We might be doing useless work on account of yesterday's interview.

H.M.JR: Will you do that and call me back - let me know?

MR. PAUL: Yes. I told Ben last night that we were getting up a cross draft.

MR. BELL: I am not so sure that the first four pages can't be just left out of our memorandum and go on the assumption that it is settled.

MR. SULLIVAN: I think we have to register our objections to the first four pages.

MR. BELL: So do I. The first thing you know you will find it going up in a message.

H.M.JR: Everybody all right?

THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. Byrnes:

It may be helpful to submit a statement of the grounds on which I oppose a forced lending program -- certainly at present or in the near future. In my judgment a proposal at this time for forced lending would seriously impair both the tax program and the voluntary lending program.

The chief considerations on which I rest this judgment are as follows:

(1) Such a proposal would tend to defeat our efforts to get the taxes which the Government needs -- and which the country is well able to stand -- by encouraging substitution of forced lending for new taxes, with a great loss of anti-inflationary effectiveness.

(2) No forced loan program yet offered promises to raise as much as half of the $25 billions we plan to raise this year from individual citizens by the voluntary route. A forced loan program would still leave a need for a voluntary program, but would greatly handicap us in carrying it out.

(3) The voluntary way offers the necessary flexibility of adaptation to citizens' varying situations. A compulsory program could cope with this problem only by the use of unmanageably complex schedules of exemptions and rates.

(4) Voluntary lending as an expression of war participation by individuals has morale values which would be largely sacrificed by making it play second fiddle to a compulsory program.

The remainder of this letter will take up in order the four points just made.

(1) Adverse effect of compulsory lending on prospects for additional taxation.

The present tax revenue, on an annual basis, is just about one-third of our annual budget. I think taxes ought to cover something like half of our expenses. The economy is well able to stand additional taxation, including additional income taxation, at this time. Our estimates indicate that national income payments, after payment of individual taxes, amounted to \$109 billions in the calendar year 1942, whereas income payments after individual taxes (including State and local) for the calendar year 1943 will amount to \$125 billions. Here is an increased capacity to pay taxes which we should tap.

But I fear very much that a proposal for compulsory lending would destroy our chances of getting the new taxes which we need. Statements have already been made that the slight increase in taxes payable in March 1944 and 1945 as a result of the pay-as-you-go legislation should bar further increases in income taxation in the near future. The Treasury, of course, has not made any such statements and rejects this view. I believe a recommendation for enforced lending at this time would be widely interpreted as an abandonment of any intention on the part of the Administration to get additional income taxes.

Substitution of forced loans for taxes is undesirable because of the much lower anti-inflationary efficiency of forced loans. To begin with, a very large proportion of the funds brought in would be funds already scheduled for voluntary investment in war bonds. It is likely that the loans individual citizens would be required to make under compulsion would, in many instances, be fully offset by cancellations in payroll allotment and other voluntary savings arrangements. At best, there would only be a small net gain in the total loaned to the Government.

Even this small net gain in the total loaned will overstate the effect of the compulsory program in reducing consumer expenditure; for the citizens can count their loans as assets available in the future and will thus be less inclined to make savings in other forms. Allowing for the combined effect of the conversion of voluntary bond purchases and conversion of other savings, it is plain that a forced loan program would help much less against inflation than a tax program involving very much smaller amounts.

(2) Only the voluntary method offers a program which is big enough to do the job.

The Treasury's program calls for $25 billions of voluntary sales of securities to individuals this calendar year. The $5.3 billions goal for the January-April financing period was exceeded. The total goal of $25 billions for the year compares with $14 billions for the estimated Federal income tax liability of individuals this year. This means that the present tax rates would have to be multiplied almost three times on the average if we were to get the same total of $39 billions through taxes and compulsory loans. No program yet offered for compulsory lending has been anywhere near this size.

A compulsory lending program which is not large enough to replace voluntary loans completely could not be regarded in full as a net addition to the voluntary lending now in sight. The greater part of the funds obtained through compulsory loans would be at the expense of voluntary loans.

The effect of forced lending would certainly be to interfere very seriously with our payroll savings plan and other regular purchases of war bonds and our future drives for funds in large amounts, but it would not relieve us of the necessity of continuing this steady solicitation and these periodic drives. The difficulties of raising funds in both these types of campaigns would be immeasurably increased by a savings levy which would create in the mind of the average wage earner the strong impression that he had done his full duty with respect to the purchase of Government securities through the enforced deduction from his pay. I think the same effect would be observed with respect to other regular purchasers who are not on the payroll deduction plan.

(3) Greater flexibility and equity of the voluntary system.

Enforced lending would be levied through the tax mechanism and of necessity would be subject to the same limitations as apply in the case of income taxes. This means that the amount of enforced levies which we could apply in any income group would be limited by the capacity to pay of those in that group who are least able to pay. When it is remembered that the total amount which we expect to draw from individuals in taxes and the present voluntary program this year is almost three times the amount of taxes alone, this limitation threatens to become a fatal handicap to compulsory lending. It is impossible to raise compulsory levies -- taxes plus compulsory lending -- in the higher brackets to three times their present level without going over 100 percent, so levies in the lower brackets would have to be more than three times present rates on the average.

The application of such rates would be very unfair to a great many people. Ability to save and to make savings available to the Government is affected not only by size of income but by a variety of other factors.

At any income level there are many people who have reason to expect a drop in income after the war and who, therefore, have stronger reasons to save than people whose incomes are permanently at that level. This is particularly true of families which have more wage earners than usual. Ability to save is affected by the wide variations in the cost of living between war centers and other parts of the country, and between large and small communities -- also in some cases by sheer inability to spend because of the lack of things to buy. Moreover, ability to use savings for Government bonds is affected by prior obligations, such as life insurance and the repayment of mortgage debt.

The compulsory method does not readily lend itself to adjustments providing flexibility for these variations. In principle, most of these elements of difference could be taken care of by the use of elaborate schedules for determining compulsory lending quotas; but the formulation and administration of such schedules would involve tremendous difficulties. The voluntary program, on the other hand, offers the necessary flexibility to take care of individuals in different situations and with varying obligations.

(4) <u>The morale value of voluntary lending</u>.

The voluntary program has been one of the major channels of participation in the war effort on the home front. It is estimated that close to a million people acted as volunteer workers in the Second War Loan. It is not only in the selling effort, however, that civilian participation is involved. The patriotic urge to help finance the war through buying bonds is an important factor as well. The adoption of compulsory lending would seriously affect this sense of participation. It would, I think, go a long way toward killing the enthusiasm and the high morale among workers to which we have been able to contribute through our voluntary payroll savings plan for the purchase of war bonds.

. . . . .

In conclusion, it is pertinent to note that the participation by individuals in the voluntary purchase of Government securities has been increasing substantially. From January to June 1942, the net purchases of Government securities by individuals (redemptions deducted) were $4.4 billions. The purchases from July to December 1942, were $5.8 billions. Individual net purchases from January to May 1943, inclusive, were $6.3 billions, and with the minimum figure estimated for June of $0.7 billions added, the total for January to June 1943 will amount to not less than $7 billions.

Without any increased selling efforts and without anticipating a continuance of this growth, we could confidently rely on individual sales for the calendar year 1943 of not less than $14 billions. As a matter of fact, however, we are wholly confident that the voluntary sales to individuals will far exceed that sum. We have set a goal for the remainder of the year of $18 billions in voluntary war bond purchases by individuals. The program calls for the Third War Loan drive to begin September 9, and a subsequent drive probably in December, as well as continuing sales, especially through payroll savings. This program, if achieved, would give us a total for 1943 of approximately $25 billions. (See the attached chart.)

There are at this moment 27 million persons employed in industry, by the Government and in the armed forces who are participating in the regular payroll deduction plan of investment in war savings bonds. The average deduction from the salaries and wages of all these private and public employees is in excess of 9 percent of their total pay. Payroll deduction alone, not including other forms of regular and occasional voluntary investment, accounts for $425 millions a month.

We put this payroll savings plan into effect early last year and in the first six months of 1942 we raised $539 millions by this method. In the last six months of the year subscriptions through payroll savings amounted to $1,697 millions. From January to May 1943, $1,945 millions were raised and if $425 millions are added as an estimate for the month of June, the total for the first six months of 1943 will be $2,370 millions by the payroll deduction plan alone.

I am confident that we will be able to achieve the goal we have set down for sales to individuals under the voluntary program this year. In any event, I feel strongly that no plan for compulsory lending should be proposed at least until after the Third War Loan in September. It seems obvious that no compulsory scheme could be placed in effect before September, so the Third War Loan would still be necessary. The organization work for the loan is now being undertaken. Any official proposals for a compulsory lending program will confuse the volunteer workers and the public, and may cause serious injury to the Third War Loan.

Sincerely,

Honorable James F. Byrnes

Office of War Mobilization

June 16, 1943.
4:10 p.m.

HMJr: Hello.

Col. Ed Foley: Hello, Mr. Secretary.

HMJr: How are you?

F: I'm pretty good, thank you. How is Mrs. Morgenthau?

HMJr: Well, she's a little better the last two days, I'm glad to say.

F: Well I'm very glad to hear that.

HMJr: I missed you the other night.

F: Well, I called after I returned to the office and they said, "Never mind," and that you'd call later.

HMJr: That's right.

F: And I called Eddie,who....

HMJr: Yes.

F: ....had also called me and he told me what you wanted.

HMJr: Well.

F: And I was very, very glad to comply.

HMJr: Good. Well, we can use him for a couple of weeks.

F: Well, I can't think of anybody better.

HMJr: Right. I just want to say thank you. First thing, I wanted to ask you originally, but....

F: Well, that's all right.

HMJr: Huh.

F: That's all right and I'm very glad you asked for him, and I hope - hope he can do you some good.

HMJr: Okay. I hope to see you soon.

F: Thank you, sir.

HMJr: 'Bye.

HMJr: Hello.

Randolph Paul: Yeah.

HMJr: Randolph, on the Dow-Jones ticker it says The House Ways and Means, after discussing the whole tax problem with Fred Vinson,today deferred decision on when to start work on a new revenue bill, and.....

P: Yeah. I just talked - George - George Bryant just called me up.

HMJr: Who did?

P: George Bryant.

HMJr: Oh, yes.

P: On that point, and - uh - wanted to know if that meant that Judge Vinson was in charge of the tax program. And I said that it didn't mean that to me; that Judge Vinson had gone up on the bituminous coal act and it was very natural that the conversation should drift into the question of taxes as - well - since he was a former member of the committee and economic director.

HMJr: Well.....

P: And that I didn't think that it had any significance. Well, anyway, that's what I told George.

HMJr: Should I call him up and ask him whether he doesn't want to clear it up or something?

P: It wouldn't - it might not do any harm. I'll betcha he'll tell you that that's all there is to it.

HMJr: Well, I just....

P: Why don't you call him up and ask him about it.

HMJr: I think I'll call him.

P: I don't think it will do any harm.

HMJr: I'll call him.

P: Right. Let me....

June 16, 1943.
4:29 p.m.

HMJr: Hello?

Operator: Judge Vinson is not available for a few minutes, but she will call you back.

HMJr: How many minutes?

Operator: She said just a few minutes.

HMJr: All right. Tell him I'd like to talk to him.

Operator: All right.

4:41 p.m.

HMJr: Hello.

Fred Vinson: How are you, Mr. Secretary?

HMJr: I'm all right. Henry, to you.

V: All right,Henry.

HMJr: Uh....

V: I'm a bit out of pocket; I've been before the Ways and Means Committee this morning.

HMJr: Yeah. So I see on the ticker. Uh - how'd it go?

V: It's in pretty good shape. We're going to have the hearing start next Monday.

HMJr: On the coal bill?

V: On the coal bill.

HMJr: How about on the taxes?

V: Well, we didn't talk anything about taxes.

HMJr: You didn't?

V: Not a word.

HMJr: Well, now I want....

V: Did the ticker say anything about taxes?

HMJr: Hello?

V: Did the ticker say anything about taxes?

HMJr: Yeah. I wonder if you don't want to do both you and me a little favor.

V: Yeah.

HMJr: The Dow-Jones ticker - let me read it to you. Then I'll tell you what happened.

V: (Laughs)

HMJr: Hello.

V: Yes.

HMJr: They said: "The House Ways and Means, after discussing the whole tax problem with Economic Stabilizer, Mr. Fred Vinson, today deferred decision on when to start work on the revenue bill. However, the committee announces open hearings Monday and so forth to discuss this." Well, the - this is Wall Street Journal - then they called up Paul and said, "Does this mean that Fred Vinson will represent the administration on the Hill?" Now, rather than let it get in the papers and have a lot of misunderstanding, I think if you could have whoever talks to the newspaper men for you, tell them just what you said to me - that you never discussed taxes.

V: Well, we've never had a single, solitary word about it.

HMJr: Yes.

V: Not - not a word.

HMJr: You've got some press man, haven't you, over there?

V: I haven't gotten one yet. I'm going to have one in a day or two.

HMJr: Couldn't somebody do that for you this afternoon?

V: Yes.

HMJr: 'Cause, otherwise, the headlines all tomorrow will be

HMJr:
(Cont'd) that you're representing and then we will be in - all in kind of.a jangle.

V: Well, that beats hell. Now, I'm telling you the truth. There wasn't a word said about the tax program.

HMJr: Well, if you could, somehow or other, get that out to the press people - uh - I think it would help. What's his name has a man - Brown - do you use him?

V: No. But I can.

HMJr: Would you mind?

V: No. I'll call him.

HMJr: Because.....

V: And...uh - that just shows you what they'll do.

HMJr: I know.

V: And, of course, sometimes, I think, there is a deliberate effort to create friction.

HMJr: Oh, I'm sure of it.

V: Yes, because I think it is just purely a deliberate effort. There wasn't one single word....

HMJr: Yeah.

V: ....that was said about the tax bill.

HMJr: Well, I think if somebody - Brown, or somebody that you use, could just say that to the boys, it would just save us trying to make trouble in the President's official family.

V: Well, I'll be very happy to do it. Because.....

HMJr: Well, I - I feel I know you well enough I can call you up and talk to you man to man on these things.

V: Yeah. Well, I'll call him.

HMJr: I'd appreciate it.

V: All right, Henry.

HMJr: Thank you.

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HON HENRY MORGENTHAU

SEC OF TREAS

ECONOMIC STABILIZATION BOARD MEETING POSTPONED UNTIL FRIDAY, JUNE 25TH, 11 A.M.

FRED M VINSON DIRECTOR OF ECONOMIC STABILIZATION.

1054A.

1943 JUN 16 AM 11 26

SECRETARY TREASURY ... OFFICE

25 11A.M.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

June 16, 1943

TO Secretary Morgenthau

FROM Randolph Paul

The attached clipping took my eye. This is not a suggestion -- it represents the views of the Philadelphia Inquirer!

RP

He'd Be Wise to Draft Ruml

The Treasury, fearful of the confusion caused by the widely spread fiction that income taxes are being universally forgiven, has been anxiously urging that everybody pay his installment due today, the deadline.

There is also a wide misunderstanding of the fact that millions of taxpayers will have to ante up again on September 15 and December 15 and in addition they will have to pay a 12½ percent special levy next March 15 and a corresponding amount on the same date of 1945.

This extra payment on a so-called debt they should never have been called upon to pay, and would not have had to pay under the genuine Ruml plan, is imposed by the unjust compromise tax bill passed by Congress.

There's no hope now of immediate relief to the taxpayers, but it's possible that when Congress takes up its next tax bill it may have a lucid interval.

Mr. Byrnes, Director of War Mobilization, has had added to his other heavy responsibilities the duty of co-ordinating the various new tax proposals from the Treasury and the Congressional committees. He has just drafted Bernard M. Baruch as his right-hand man and counselor on wage and price problems and a better selection could not have been made.

Now if Mr. Byrnes would call to his assistance that outstanding authority on tax problems, Beardsley Ruml, author of the only practical plan for establishing a scientific tax system, the country would rejoice.

Chairman Doughton's mulish opposition to tax reform and Secretary Morgenthau's mixture of indifference and blundering show the imperative need for a constructive genius like Ruml, who knows taxes and could help to adjust the burden on principles fair and just to all.

Miss C-
Secy has seen-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 16, 1943

TO Secretary Morgenthau

FROM Miss Harriet Elliott HE.

I think that you will be interested in knowing that I have arranged to hold six working conferences in July, in the following places:

Atlanta, Georgia - - - - - - - July 1 - 2

Dallas, Texas - - - - - - - - - July 7 - 8

San Francisco, California - - - July 14 - 15

Denver, Colorado - - - - - - - July 20 - 21

Cleveland, Ohio - - - - - - - - July 26 - 27

Boston, Massachusetts - - - - - July 30 - 31

I am attaching the program for the Atlanta conference. With minor variations, this will be the plan for each meeting.

This arrangement makes it possible for us to discuss our work with the key women in every state. I decided that this would be the most effective way to prepare women for the Third War Loan Drive.

REGIONAL CONFERENCE

Atlanta, Georgia

July 1 - 2

__Presiding Official:__ Mrs. Nancy C. Robinson

Thursday - July 1:

Morning Session:

9:00 - 9:30 -	Registration and assembling
9:30 - 9:45 -	Remarks by Mrs. Nancy C. Robinson Introduction of delegates
9:45 - 10:15 -	Function of State War Finance Committee and the Third War Loan Drive - Mr. Robert W. Coyne
10:15 - 10:45 -	Discussion and questions from the floor
10:45 - 11:15 -	Function of Women's State Division - Miss Harriet Elliott
11:15 - 12:00 -	Discussion and questions from the floor
12:30 - 2:00 -	Luncheon Informal presentation of the Withholding Tax

Afternoon Session:

2:00 - 2:30 -	Payroll Savings - Mr. Ralph G. Engelsman
2:30 - 3:00 -	Questions and discussion from the floor
3:00 - 3:30 -	Farm Program - Mr. Lloyd E. Partain
3:30 - 4:00 -	Questions and discussion from the floor
4:00 - 4:15 -	School Program - Miss Nancy G. Larrick
4:15 - 4:30 -	Questions and discussion from the floor
4:30 -	Adjourn

Evening Session:

7:00 - 8:00 -	Informal dinner
8:00 - 9:30 -	Press, Radio and Movie - Mr. Robert Phillips, Jr. Show new Coca-Cola Film

Friday - July 2:

Morning Session:

9:30 - 10:00 -	Women's Organizations - Mrs. John D. Robinson
10:00 - 10:30 -	Questions and discussion from the floor
10:30 - 11:00 -	How to increase individual sales - Miss Harriet Elliott
11:00 - 12:00 -	Discussion by delegates and invited speakers
12:00 -	Adjourn for Luncheon
12:30 - 2:00 -	Luncheon Atlanta Women demonstrate local promotion

Afternoon Session:

2:00 - 4:00 -	Open Forum Round Table Questions on all local and state problems
4:00 -	Adjourn

TO THE SEC'Y

6-16-43

From: Charles Oppenheim
WOR Press Department

For Trade Publications

SECRETARY OF TREASURY MORGENTHAU DOES OWN
SCOUTING FOR SPOTS TO SELL BONDS ON RADIO

Secretary of the Treasury Henry Morgenthau is not only the "boss" of War Bond sales, but also appears to be on the personal lookout for special opportunities to promote them on the radio.

It seems that Mr. Morgenthau noticed that the workmen painting his house in Fishkill dropped their work at 12:15 p.m. sharp, turned on a portable radio and only then unwrapped their luncheon sandwiches.

After watching this performance for several days, he became curious as to the program to which they turned with such regularity and found it was WOR's "Musical Appetizer." He began listening to it himself and became a staunch follower of the show.

He got in touch with Miller McClintock, President of the Mutual network and a personal friend, requesting that WOR make payroll savings plan announcements on the program whenever possible because he felt the show would reach workers, the logical audience for such announcements. Mr. McClintock, in turn, asked the WOR Program Department and the announcements are now on the air.

The Charles Gulden Co., which sponsors the Wednesday and Friday sessions of "Musical Appetizer," also volunteered to include the announcements on their days. And now, the Elway Food Products Corp., who sponsor the other three days and who have changed the program title to "Mealtime Melodies," will continue the War Bond announcements.

WE AIM TO PLEASE
SMITH SERVICE CO.
"ASK IT AND YOU GET IT SOONER OR LATER"

6/14/43

COPY

June 16, 1943

TO THE SECRETARY:

In compliance with your oral request, I am sending you herewith three memoranda dealing with the purchase of War Savings Bonds through the Payroll Savings Plan:

I White House

II War Department

III Delay in delivery of bonds by the War Department

(Sgd) E. F. Bartelt

Commissioner of Accounts

I.

THE WHITE HOUSE

There is set forth below the totals for the White House:

Pay Roll	Number of employees	Number participating	Per cent	Gross monthly salaries	Monthly bond allotments	Per cent
Regular roll...	42	26	62%	$18,128.46	$1,411.26	7.78%
Emergency Fund for the President	2	2	100%	1,254.70	112.50	8.96%
Contg. Expenses White House ..	6	3	50%	1,141.92	37.50	3.28%
Total	50	31	62%	$20,525.08	$1,561.26	7.60%

There is also attached hereto in compliance with your request a detailed list of the employees on the White House pay rolls, showing the extent of their bond participation.

As you know, there has been some misunderstanding and unfavorable publicity concerning the participation of the White House in the Government's pay-roll savings plan. This, unfortunately, has reacted adversely against the pay-roll savings program.

When I was designated by the President as Acting Chairman of the Interdepartmental War Savings Bond Committee, I immediately sensed an unfavorable feeling at the White House toward the Government's pay-roll savings plan. In an effort to determine the reason for this, I learned that it was based, at least in part, upon certain tales which had come to the White House to the effect that the pay-roll savings plan was not being conducted on a purely voluntary basis. Since this was contrary to my experience as Departmental Chairman of the Treasury Department which, as far as my knowledge is concerned, conducted its bond program on a voluntary basis, I felt that these stories were started by persons who either had a personal grudge or who were not in sympathy with the pay-roll allotment method as a system of saving. As you know, in conducting our own campaign in the Treasury Department, we stressed the voluntary aspects of the plan, pointing out that many employees, because of special circumstances, would not be able to participate. Based upon the law of averages, it was assumed that 90 per cent of the employees would be able to save a little each pay day even though in some cases it might be only a small amount. You will recall that in your letter of May 14, 1942, to the heads of the various bureaus and offices of the Treasury Department, you said:

"You probably have observed that there has been advocated in Congress and elsewhere a system of compulsory savings. I feel that before the Government adopts such extreme methods it should give the voluntary system a fair trial. I believe that if the facts are properly laid before the employees it will not be necessary to resort to compulsion, coercion, or pressure."

Many officials of the Treasury Department, as well as of other departments, are allotting as high as 25% of their salaries for War Bonds. The officials of the Social Security Board are placing all of their recent pay increase in War Bond allotments. My goal is to get at least 99% of all officials receiving more than $5,000 on the Pay-roll Savings Plan. One reason I want this is to knock down the statements coming to me from the lower-grade employees that the higher officials of the Government are not supporting the plan.

Realizing the importance of the influence which a hearty endorsement by the White House would have on all employees of the Federal Government, I was hopeful that the feeling against the pay-roll savings system in the White House might be overcome. On February 26, 1943, you were good enough to have the President sign a letter to me containing the following paragraph:

"The wholehearted support of the voluntary system of pay-roll savings by employees of the Federal Government will have a most stimulating effect on our soldiers, sailors, and marines, as well as the millions of war workers in private industry; while our indifference seriously affects the support of those who look to us for guidance."

Since the date of the above-mentioned letter, the monthly investment by civilian employees of the Government through the pay-roll savings plan has increased from $28,600,000 <u>each month</u> to over 36 million, an increase of 7.4 million, or about 25%, in this short period; and the figures are going up substantially every month. This is equivalent to the purchase of 75 flying fortresses <u>every</u> month. Our present goal is 100, and I believe we can do it if we get the proper encouragement and support from those at the top of the Government who, above all, should realize the importance of cooperative effort in the winning of the war. (Incidentally, these figures do not include the Post Office Department. Postmaster General Walker has recently authorized the installation of the pay-roll plan in the Washington, D. C., and Baltimore, Maryland Post Offices with the promise to extend it if we can demonstrate its practicability.)

White House - Regular Roll

June 10, 1943

Name	Annual Salary	Gross Monthly Sal.1/	Monthly Allotment for Bonds	Per Cent
Early, Stephen T.	$10,000	$885.68	--0--	--0--
McIntyre, Marvin H.	10,000	885.68	$150.00	16.9
Barnes, James M.	10,000	885.68	75.00	8.5
Currie, Launchlin	10,000	885.68	--0--	--0--
Daniels, Jonathan	10,000	885.68	75.00	8.5
McReynolds, William H.	10,000	885.68	--0--	--0--
Mellett, Lowell	10,000	885.68	165.00	18.6
Niles, David K.	10,000	885.68	75.00	8.5
Forster, Rudolph	8,250	739.86	--0--	--0--
Casey, Eugene B.	6,500	594.02	300.00	50.5
Latta, M. C.	6,200	569.02	--0--	--0--
Crim, Howell G.	5,600	519.02	50.00	9.6
Tully, Grace G.	5,600	519.02	37.50	7.2
Thompson, Malvina C.	5,200	485.68	50.00	10.3
Sanderson, Frank K.	4,600	435.68	37.50	8.6
Simmons, William D.	4,600	435.68	--0--	--0--
Wagner, Charles C.	4,600	435.68	37.50	8.6
Tolley, Adrian B.	4,000	385.68	50.00	13.0
Ingling, Clarence E.	3,800	369.02	--0--	--0--
Hachmeister, Louise L.	3,500	344.02	56.26	16.4
Miller, Herbert L.	3,500	344.02	15.00	4.0
Nelson, Percy E.	3,500	344.02	30.00	8.7
Smith, Ira R. T.	3,500	344.02	--0--	--0--
Magee, Ralph W.	3,200	319.02	--0--	--0--
Rodier, Jules A.	3,200	319.02	30.00	9.4
Bonsteel, Elizabeth A.	2,900	294.02	37.50	12.8
Ridenour, Rena G.	2,900	294.02	20.00	6.8
Myer, Eleanor	2,800	283.86	12.50	4.4
Brite, Elizabeth F.	2,600	263.60	25.00	9.5
Boardley, John E.	2,300	233.18	12.50	5.4
Yadon, Maryan T.	2,300	233.18	20.00	8.6
McCabe, John L.	2,200	223.04	--0--	--0--
Adams, Alphonse R.	1,800	182.50	--0--	--0--
Bradshaw, Edward D.	1,800	182.50	20.00	11.0
Gutches, Jeanette E.	1,800	182.50	--0--	--0--
Jackson, Samuel C.	1,800	182.50	--0--	--0--
Kennedy, George A.	1,920	194.66	10.00	5.1
Mickey, Harry L.	1,680	170.32	--0--	--0--
Waters, Harry D.	1,680	170.32	7.50	4.4
Thompson, Charles H.	1,680	170.32	12.50	7.3
Minor, Judwin B.	1,380	140.00	--0--	--0--
Morris, Edward C.	1,380	140.00	--0--	--0--
TOTAL	$194,270	$18,128.46	$1,411.26	7.8%

Total percentage of employee participation 61.9
Total percentage of pay roll allotted 7.8

1/ Includes overtime.

White House - Regular Roll

June 10, 1943

Name	Annual Salary	Gross Monthly Sal.1/	Monthly Allotment for Bonds	Per Cent
Early, Stephen T.	$10,000	$885.68	--0--	--0--
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Barnes, James M.	10,000	885.68	75.00	8.5
Currie, Launchlin	10,000	885.68	--0--	--0--
Daniels, Jonathan	10,000	885.68	75.00	8.5
McReynolds, William H.	10,000	885.68	--0--	--0--
Mellett, Lowell	10,000	885.68	165.00	18.6
Niles, David K.	10,000	885.68	75.00	8.5
Forster, Rudolph	8,250	739.86	--0--	--0--
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Thompson, Malvina C.	5,200	485.68	50.00	10.3
Sanderson, Frank K.	4,600	435.68	37.50	8.6
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Wagner, Charles C.	4,600	435.68	37.50	8.6
Tolley, Adrian B.	4,000	385.68	50.00	13.0
Ingling, Clarence E.	3,800	369.02	--0--	--0--
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Miller, Herbert L.	3,500	344.02	15.00	4.0
Nelson, Percy E.	3,500	344.02	30.00	8.7
Smith, Ira R. T.	3,500	344.02	--0--	--0--
Magee, Ralph W.	3,200	319.02	--0--	--0--
Rodier, Jules A.	3,200	319.02	30.00	9.4
Bonsteel, Elizabeth A.	2,900	294.02	37.50	12.8
Ridenour, Rena C.	2,900	294.02	20.00	6.8
Myer, Eleanor	2,800	283.88	12.50	4.4
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Cutchee, Jeanette E.	1,800	182.50	--0--	--0--
Jackson, Samuel C.	1,800	182.50	--0--	--0--
Kennedy, George A.	1,920	194.66	10.00	5.1
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Morris, Edward C.	1,380	140.00	--0--	--0--
TOTAL	$194,270	$18,128.46	$1,411.26	7.8%

Total percentage of employee participation 61.9
Total percentage of pay roll allotted 7.8

1/ Includes overtime.

Employees Paid From the Emergency Fund for the President,
National Defense (Allotment to Executive Office of the President), 1942-43

Name	Annual Salary	Gross Monthly Sal. 1/	Monthly Allotment for Bonds	Per Cent
Hopkins, Harry L.	$10,000	$885.68	$75.00	8.5
Krause, Dorothea E.	3,800	369.02	37.50	10.2
TOTAL	$13,800	$1,254.70	$112.50	9.0

Total percentage of employee participation 100.0
Total percentage of pay roll allotted 9.0

Employees Paid From Contingent Expenses, The White House Office, 1943

Name	Annual Salary	Gross Monthly Sal. 1/	Monthly Allotment for Bonds	Per Cent
Miller, William	$2,600	$263.60	$12.50	4.7
Tolan, George W.	2,400	243.32	--0--	--0--
Diggs, George A.	1,800	182.50	12.50	6.8
Tracey, Richard T.	1,800	182.50	12.50	6.8
Barker, Thomas L.	1,320	135.00	--0--	--0--
McEwen, Paul	1,320	135.00	--0--	--0--
TOTAL	$11,240	$1,141.92	$37.50	3.3

Total percentage of employee participation 50.0
Total percentage of pay roll allotted 3.3

1/ Includes overtime.

Employees Paid From the Emergency Fund for the President, National Defense (Allotment to Executive Office of the President), 1942-43

Name	Annual Salary	Gross Monthly Sal. 1/	Monthly Allotment for Bonds	Per Cent
Hopkins, Harry L.	$10,000	$885.68	$75.00	8.5
Krause, Dorothea E.	3,800	369.02	37.50	10.2
TOTAL	$13,800	$1,254.70	$112.50	9.0

Total percentage of employee participation 100.0
Total percentage of pay roll allotted 9.0

Employees Paid From Contingent Expenses, The White House Office, 1943

Miller, William	$2,600	$263.60	$12.50	4.7
Tolan, George W.	2,400	243.32	-0-	-0-
Diggs, George A.	1,800	182.50	12.50	6.8
Tracey, Richard T.	1,800	182.50	12.50	6.8
Barker, Thomas L.	1,320	135.00	-0-	-0-
McEwen, Paul	1,320	135.00	-0-	-0-
TOTAL	$11,240	$1,141.92	$37.50	3.3

Total percentage of employee participation 50.0
Total percentage of pay roll allotted 3.3

1/ Includes overtime.

II

THE WAR DEPARTMENT

The latest available figures for the War Department are as follows:

Civilian Employment:

Of the 1,200,597 civilian employees of the War Department on the rolls in April, 861,194, or 71.7% were participating in the pay-roll savings program. The gross monthly pay roll on April 30 was $191,274,361. The monthly allotments on the pay roll were $13,113,761, or 6.9%. This is an increase of $3.6 millions a month, or almost 25%, since February when the President indicated his special interest in the pay-roll savings plan. The allotments for May will probably be in the neighborhood of $15 millions.

The War Department has a very fine bond organization. I have met many of the officers who have been assigned to this work. They are capable and enthusiastic. They realize that War Bonds supply the raw materials for victory. As will be observed, they are selling a large amount of bonds every month to their civilian employees through the pay-roll savings plan. The percentages, however, indicate that there is room for a great deal of improvement and I believe that they could double their sales with just a few minutes of real enthusiasm from the top. I firmly believe that if the bond officers of the War Department should procure the same degree of support and enthusiasm from the top officials of the War Department as the Navy bond officers receive from Secretary Knox and Assistant Secretary Bard, they would within a very short time be able to make as good a percentage showing as the Navy and greatly surpass the Navy in the number of dollars invested in War Bonds. They probably/could get as much as 25 millions of dollars a month from the civilian personnel.

Officers and Enlisted Men:

The monthly allotments received and accepted from officers, enlisted men and WAAC's as of May 31, 1943, numbered 2,157,000. The amount of the monthly allotments is $22,367,000. This is an increase of $7,023,000 over April, or almost 50%. The daily average of allotments received during the past four weeks is as follows:

Week ending	Daily average
May 15	18,308
May 22	13,268
May 29	12,536
June 5	10,693

Although the War Department is still having difficulties with respect to bond allotments under the old program (prior to April 1, 1943) bonds purchased under the new program through the pay-roll savings plan are being delivered within 10 to 15 days after the end of the month in which they are paid for. During the month of May, the Army's Chicago Bond Office issued 426,402 bonds, amounting to $10,470,318.75, purchase price. During the first ten days of June, the War Bond Office issued 430,068 bonds. I am informed that there are no delays in the delivery of bonds by the War Department under the new program. In fact the promptness of issuing bonds under the new program has probably caused many inquiries about failure to receive certain intermediate bonds under the old program.

III

DELAYS IN DELIVERY OF BONDS BY WAR DEPARTMENT

Delays in delivery of bonds by the War Department under the old program are still plaguing the bond program.

On June 15, 1943, there appeared in the New York World Telegram an article entitled "Army Engangled over War Bonds." This article states that the World Telegram learned today that 500,000 War Bonds purchased by servicemen and civilian employees as far back as August, 1942, are still undelivered and are clogging the Department's Chicago central distribution offices.

The article refers to the fact that the War Department is receiving a thousand inquiries every day concerning non-delivery of bonds. As you know, the Treasury Department is not responsible in any way for the condition, has no control over it, and there is no reference in the article to the Treasury.

The article appears to be based upon information released by Capt. Gould R. Kardashian of the War Bond Office, Second Service Command. It states that no attempt was made to justify non-delivery of the bonds, but did refer to a statement by Col. Charles Lewis, Commanding Officer of the Chicago Office, assuring bond purchasers that "every deposit ... is guaranteed in full, not a penny will be lost for the bonds will be issued, though it will take several months, and will be dated as of the day they were due."

The situation referred to does not relate to the new system of issuing bonds in the War Department, effective January 1, 1943 for civilian personnel, and April 1, 1943 for officers and enlisted men.

It will be recalled that at the beginning of the program the War Department very unwisely centralized in Washington, D. C., its bond work relating to all civilian and military activities. The present situation is due to this centralization and a couple of other errors of judgment now too late to do much about.

When I became Chairman of the Interdepartmental Committee, I noted a number of letters of inquiry coming to the Committee about failure to receive bonds. In checking into the matter I learned that the War Department had also been receiving inquiries, many more than those received by the Committee. About the same time you asked that I look into the matter, the results of which are set forth in my memorandum to you dated March 25, 1943.

There were some 23 million postings yet to be made to roughly 4 million individual employee accounts. It was then estimated that 3-½ million bonds were yet to be issued on these old accounts. The output of bonds per month was running between 218,000 and 290,000. It appeared on the basis of the best figures I could get from War Department officials that it would take about 15 or 16 months to clean up the work. The low production, in my opinion, was due to two principal factors:

1. Inferior personnel. Absenteeism was running between 20 and 30%. Between 50 and 60% was colored help, many inexperienced in clerical or office work. Some could not add, and many could not even read figures.

2. Inadequate accounting procedure. Each bond deduction was posted by bookkeeping machines to a conventional form of ledger account. The volume of postings which had to be made in relation to the speed with which the postings could be made was simply a herculean task. The system bogged down from sheer weight. With a small number of accounts and postings the system would have been all right. With 4 million accounts and 25 million postings, it virtually broke down.

On May 18, 1943 the office was picked up, lock, stock, and barrel, and moved to Chicago - 40 freight-car loads and 15 van loads. This, perhaps, eventually will be found to be part of the answer. It takes care of item (1), above, the personnel angle, but not item 2, the procedure.

I felt then, as I do now, that the backlog which had accumulated could not be cleaned up, no matter how efficiently administered, without a drastic change in procedure. I suggested at the time the advisability of a full discussion by the War Department, the General Accounting Office, and the Treasury with a view to working out a streamlined procedure which would enable more prompt issuance of bonds. I felt that losses, if any, under a streamlined procedure should be measured against the savings in administrative expenses and the improvement in the morale of our soldiers and civilian personnel, to say nothing of the improvement which would result in bond sales.

When I was in Chicago recently on another matter of official business, I took occasion to call on Colonel Rees who now heads up the special division set up by the War Department in Chicago to clean up the backlog. I found that Colonel Rees has very good space and equipment, and the personnel, generally, appeared to be of a considerably higher standard than those previously employed in the Washington bond office. I was particularly impressed with Colonel Rees who appears to be both capable and alert, with a proper understanding of the problem involved. I believe he is fully as capable of doing a good job as anyone I know. However, under the most favorable conditions, I believe it will take a year to clean up the job.

In view of the fact that the War Department has never been able to live up to estimated performance in the past, Colonel Rees is reluctant to make any forecast concerning the future.

According to the best estimates I can not get, there are about 4-1/4 million accounts to dispose of. Some of these will be refunded because with the small $1.25 allotments permitted by the War Department many will not complete payment for an $18.75 bond under the old system. It is estimated that 5 million bonds remain to be issued. Colonel Rees indicated that if he could have a staff of 3,800 employees (he now has about 1,900) working two 8-hour shifts, he could issue about 30,000 bonds daily, and wind up the work by February 1, 1944. I understand that the Regional Manager of the Civil Service Commission is working closely with him in the recruitment of personnel but that his staff could not be further increased until he gets additional authority from the War Department at Washington.

Between April 19, 1943, when the move from Washington was commenced, and May 18, no bonds were issued. Between May 18 and June 5, they issued 106,212 bonds. They are now issuing about 10,000 a day as compared with the former peak in Washington of 14,000 bonds daily. Production is increasing daily and they hope soon to have it up to 600,000 bonds a month. This is 2-1/2 times better than the production in Washington prior to the transfer.

From the foregoing, it is to be noted that the picture is even worse than that which appeared in the World Telegram. The 500,000 bonds referred to in the newspaper article appear to relate only to the number of cases held in suspense arising from incorrect applications. It is understood that some 13,000 bonds were undeliverable because of incorrect addresses and lack of forwarding addresses, and that such bonds are now being held in the Chicago War Bond Office. When it is realized that there are approximately 4 million persons involved and several millions of undelivered bonds which have been paid for, the receipt of a thousand inquiries a day is not at all surprising.

Yesterday you asked about the form of reply. The Chicago War Bond Office makes prompt acknowledgement of all letters and then after search writes a follow-up. While the letters are substantially the same as to form, they vary in some particulars, depending on the nature of the case, but in virtually all cases, the following points are made:

1. That the delay in delivery is due to the fact that the enrollment in the plan had been much larger than the War Department had anticipated.

2. Difficulties in retaining and recruiting experienced personnel, as a result of selective service and general shortage of manpower.

3. That there need be no alarm concerning the security of the money because the bond deductions are of record on certified pay rolls subject to independent audit.

4. That the purchaser would not lose the benefit of the increment in the value of the bonds because they would be dated as of the month in which they were paid for.

That some persons understand the difficulties under which the Government is laboring is indicated in a letter written to me by a Mr. Earl Klock of Hot Springs, South Dakota. He wrote:

"Thanks for your good letter of March 30, 1943.

I am sure that the matter of War Savings Bonds will be properly handled; and that I will, in due course of time, receive the two bonds still due me. I appreciate the vast amount of extra work which is placed upon your department in handling this important work connected with civilian and army workers' deductions for Bonds.

It is my intention to keep right on purchasing bonds from my Civil Service annuity and Spanish-American War pension. We <u>must</u> win this War!"

June 16, 1943

Dear George:

After the Kingston speech, I got lost in a shuffle of autograph hunters, so I didn't get a chance to visit with your family, and to thank them for sparing you to work with me.

I am quite happy with the way the speech finally turned out. Considering the handicaps that we faced, I think we did very well.

The bad reporting of the speech was due to the fact that it was lost in the Albany bureau of the Associated Press. That is the same group that insisted on checking everybody against everybody else in the Morgenthau house, and I suppose the reason for their confusion on the speech is that they couldn't find enough people to check. We are remedying the lack of good publicity, however, by turning the speech into a memorandum, which we will send to all our people in the 48 States and ask them to call it to the attention of their local newspapers.

I want to tell you again that your contribution is very greatly appreciated, and I am pleased with the way you respond to these emergency calls. I think we have a fine team.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. George Albee,
Hotel DuPont,
Wilmington, Delaware.

FS:cf RS

26

June 16, 1943.

Dear Mr. Robbins:

Thank you for your letter and for your inquiry in regard to Mrs. Morgenthau. I am sorry to say that she has by no means recovered, although she is over the worst of her hospital experience and gaining strength steadily.

I am glad to know of your continued interest in the War Finance activity. When you plan to be in Washington, please let me know, as I should like very much to see you the first time you come to the city.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William M. Robbins,
Vice President,
General Foods Corporation,
Postum Building, 250 Park Avenue,
New York, New York.

GEF.dbs

GENERAL FOODS CORPORATION
POSTUM BUILDING, 250 PARK AVENUE
NEW YORK

WILLIAM M. ROBBINS
VICE PRESIDENT

June 14, 1943

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

My dear Mr. Secretary:

Tom Lane, of the War Savings Staff Advertising Department, came up to my office this morning and to my surprise and pleasure left with me a Citation for my service in connection with the War Finance Committee. The purpose of this note is to tell you how much I appreciate this thoughtful act on the part of the Treasury Department.

While it has been a month since my departure from Washington, I have not lost my interest in the Treasury's War Finance activity, nor have I failed to keep carefully posted on developments. I had rather expected to be in Washington prior to this date and had hoped to come by and pay my respects. Unfortunately, my work here in New York has kept me too well occupied, although on my first trip to the Capitol you may rest assured I will come into the Department to visit briefly with any of the organization who may be in town at that moment.

I had the good fortune to run into Dan Bell with Randolph Burgess the other morning at the University Club where we were both breakfasting, and, of course, I continue to be in more or less constant communication with Stuart Peabody.

I hope that Mrs. Morgenthau has fully recovered from her recent illness.

Regards.

Sincerely yours,

Wm Robbins

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 16 1943

TO Secretary Morgenthau

FROM Randolph Paul

You know, of course, the unjustified charges made by Taber against me from the floor of the House yesterday. Wilbur Mills was kind enough to call me immediately and ask whether he could answer Taber's charges from the floor. Attached hereto is a copy of the statement for Mills; my telegrams to KixMiller, Mertens, and Callaghan & Company; and the answer received today from KixMiller.

Mills called me on the telephone and said that he had talked with Taber today and in view of their friendship Mills is not going to answer Taber from the floor but is giving him a chance to retract his charges. Mills said that Taber would call me. At this writing I have received no call from Taber and when and if he does I shall send you a transcript of the conversation. It is my impression that if Taber does not call me Mills will then deny the charges from the floor.

June 16, 1943

Dear Wilbur:

In a separate letter I am giving you an official denial of the Taber charges. I also enclose a copy of a telegram I sent yesterday to Mr. KixMiller.

It will make quite clear to you, I am sure, that there is no truth in the charges made by Mr. Taber.

I have made no attempt in my separate letter to deal with the fact that no attempt was made to secure the facts from me before making any charges, and it would be entirely appropriate for you to suggest that the course of wisdom in the future would be for members of the Congress, when receiving reports reflecting on persons in the Executive Branch of the Government, to use reasonable diligence to check the authenticity of the reports so that needless harm will not be done.

The question of my personal sacrifice is a matter to which you may refer or not, as you please. If you want a conservative figure for annual earnings before coming to Washington -- a figure applicable to more than the last year -- you might use the figure $75,000. My salary here is $10,000. When I came to Washington I severed all connection with my New York firm, Lord, Day and Lord, which terminated all income from the practice of law.

Sincerely,

(Signed) Randolph Paul

Hon. Wilbur D. Mills
House of Representatives
Washington, D. C.

Enclosures

C
O
P
Y

June 15, 1943

Dear Mr. Mills:

This morning on the floor of the House Congressman Taber charged that banks were being circularized for subscriptions to a cyclopedic tax service published by me in association with Jacob Mertens, Jr., and accused me as a Government official of feathering my own nest through such publication.

This morning there reached my desk by mail a copy of a circular offering a "Coordinators' Cyclopedic Tax Service" published by Coordinators' Corporation, 11 South LaSalle Street, Chicago, Illinois, for which subscriptions were being solicited by William KixMiller of the same address. I assume that is the circular to which Congressman Taber referred in view of the fact that my name is used in it.

The truth is that I have no connection with or interest in the Coordinators' Tax Service and that I have not authorized the use of my name in any manner in connection with its publication.

The circular referred to states that the Coordinators' Cyclopedic Tax Service has the benefit of "the source material and authoritative interpretation of three of the nation's foremost tax experts -- William KixMiller, Randolph Paul and Jacob Mertens, Jr.", which is followed by a reference to Paul & Mertens' 6-volume "Law of Federal Income Taxation" originally published in 1934 by Callaghan & Company.

Not only do I have no connection with or interest in the Coordinators' Cyclopedic Tax Service, but some two years before I entered Government service I withdrew from further participation in the publication of Paul & Mertens' 6-volume "Law of Federal Income Taxation." At that time I relinquished all interest in any further royalties from the sale of that work. I then made definite arrangements

Mr. Mills, 2.

that any subsequent revision of that work was not to be published under my name. In keeping with that arrangement, a successor work, the 12-volume "Law of Federal Income Taxation" recently published by Callaghan & Company, carried only the name of Mr. Mertens as author. Since the time of that arrangement, I have had no relation with that publication or with any Service derived from it.

I am grateful to you for having immediately called this matter to my attention and am appreciative of the fact that you so promptly recognized the falsity of the accusation.

Sincerely yours,

(Signed) Randolph Paul

General Counsel

Hon. Wilbur D. Mills
House of Representatives
Washington, D. C.

COPY

WESTERN UNION

1207-B

CLASS OF SERVICE DESIRED	
DOMESTIC	CABLE
TELEGRAM	ORDINARY
DAY LETTER	URGENT RATE
SERIAL	DEFERRED
OVERNIGHT TELEGRAM	NIGHT LETTER
SPECIAL SERVICE	SHIP RADIOGRAM

Patrons should check class of service desired; otherwise the message will be transmitted as a telegram or ordinary cablegram.

R. B. WHITE, PRESIDENT — NEWCOMB CARLTON, CHAIRMAN OF THE BOARD — J. C. WILLEVER, FIRST VICE-PRESIDENT

$ 2.00 CHECK

$ ACCOUNTING INFORMATION

F TIME FILED

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

To Callaghan & Company June 15 1943

Care of or Apt. No. 401 East Ohio Street

Street and No. Chicago, Illinois

~~RXXX~~ I have just sent the following telegram to William KixMiller Quote Understand you have made widespread circulation among banks, business institutions and individuals of a circular advertising a "Coordinators' Cyclopedic Tax Service" which represents that I have some connection with or interest in its authorship or publication STOP To imply that I have any such connection or interest is misleading unwarranted and untrue STOP I demand that you immediately discontinue further distribution of such circular and promptly take adequate measures to retract its misleading representations Unquote

Randolph Paul

Sender's address for reference

Sender's telephone number

COPY

WESTERN UNION

CLASS OF SERVICE DESIRED	
DOMESTIC	CABLE
TELEGRAM	ORDINARY
DAY LETTER	URGENT RATE
SERIAL	DEFERRED
OVERNIGHT TELEGRAM	NIGHT LETTER X
SPECIAL SERVICE	SHIP RADIOGRAM

Patrons should check class of service desired; otherwise the message will be transmitted as a telegram or ordinary cablegram.

R. B. WHITE, PRESIDENT — NEWCOMB CARLTON, CHAIRMAN OF THE BOARD — J. C. WILLEVER, FIRST VICE-PRESIDENT

1207-B

CHECK 201

ACCOUNTING INFORMATION

TIME FILED

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

To Mr. Jacob Mertens, Jr. June 15 1943

Care of or Apt. No. One Wall Street

Street and No. New York, New York

~~RUSH~~ I have just sent the following telegram to William ~~Kix~~Miller Quote Understand you have made widespread circulation among banks, business institutions and individuals of a circular advertising a "Coordinators' Cyclopedic Tax Service" which represents that I have some connection with or interest in its authorship or publication STOP To imply that I have any such connection or interest is misleading unwarranted and untrue STOP I demand that you immediately discontinue further distribution of such circular and promptly take adequate measures to retract its misleading representations Unquote

Randolph Paul

Sender's address for reference

Sender's telephone number

COPY

WESTERN UNION

1207-B

202

CLASS OF SERVICE DESIRED	
DOMESTIC	CABLE
TELEGRAM	ORDINARY
DAY LETTER	URGENT RATE
SERIAL	DEFERRED
OVERNIGHT TELEGRAM	NIGHT LETTER
SPECIAL SERVICE	SHIP RADIOGRAM

Patrons should check class of service desired; otherwise the message will be transmitted as a telegram or ordinary cablegram.

R. B. WHITE PRESIDENT — NEWCOMB CARLTON CHAIRMAN OF THE BOARD — J. C. WILLEVER FIRST VICE-PRESIDENT

CHECK $

ACCOUNTING INFORMATION $

TIME FILED F

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

To Mr. William KixMiller — June 15 19 43

Care of or Apt. No. 11 South LaSalle Street

Street and No. Chicago, Illinois

Place Understand you have made widespread circulation among banks, business institutions and individuals of a circular advertising a "Coordinators' Cyclopedic Tax Service" which represents that I have some connection with or interest in its authorship or publication STOP To imply that I have any such connection or interest is misleading unwarranted and untrue STOP I demand that you immediately discontinue further distribution of such circular and promptly take adequate measures to retract its misleading representations

Randolph Paul

Sender's address for reference — Sender's telephone number

Dow-Jones June 15, 1943 2:57 P.M.

RANDOLPH PAUL DENIES TABER CHARGE

Washington (DJ) - Randolph E. Paul, Treasury General Counsel, denied emphatically today that he was connected in any way with distribution of circulars soliciting subscriptions from banks to a tax service, and declared that use of his name in such solicitation was completely unauthorized.

Representative Taber (Repn. N.Y.) charged on floor of House earlier today that banks were being circularized for subscriptions to a tax service published by Mr. Paul and Jacob Mertens, Jr.

"I have no financial or other interest in 'Coordinators' Cyclopedic Tax Service." The publication referred to on the circular on which my name appears and use of my name in the circular was completely unauthorized," said Mr. Paul. "A number of years ago--a long time before entering government service in December, 1941-- I made arrangements with Mr. Mertens and Callaghan & Co. to withdraw from further participation in Paul and Mertens 'Law of Federal Income Taxation' originally published by Callaghan & Co. in 1934. Under my arrangement any further revision of this set of volumes was not to use my name and the 12 volume 'Law of Federal Income Taxation' published by Callaghan & Co. used only the name of Mr. Mertens. Since that time I have had no relation with that publication or any service derived from it."

C
O
P
Y

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CHICAGO ILL JUN16 1943 1235P

RANDOLPH E PAUL

GENERAL COUNSEL FOR TREASURY DEPT

ANNOUNCEMENT OF CYCLOPEDIC TAX SERVICE ACKNOWLEDGES USE OF SOURCE OF MATERIALS AS PER OBLIGATION WITH CALLAGHAN STOP NO IMPLICATION YOUR CURRENT CONNECTION STOP WILL GO ON RECORD ANY NECESSARY MANNER REGARDING YOUR ABSOLUTE DISCONNECTION WITH OUR SERVICE STOP REGRET TABERS UNWARRANTED ATTACK STOP WRITING

WILLIAM KIXMILLER

225P

The ways of the New Deal are indeed devious. They rant against special privileges continuously but none of them have ever been known to overlook an opportunity to feather their own nests.

Just a few days ago the mails were filled with circulars soliciting subscriptions from banks at $50 a year to an Encyclopedic Tax Service, located somewhere in Chicago, published by Randolph Paul, the General Counsel for the Treasury, and Jacob Mortens, Jr.

The impropriety of this enterprise is obvious, not only from the standpoint of implied pressure upon the banks to subscribe, but on the thought of a high Treasury official engaged in such an enterprise. Special privileges for the New Dealers and no liberties for the American people.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 16 1943

TO Secretary Morgenthau

FROM Randolph Paul

For some time past we have been concerned over the functioning of Sam Klaus' office. Its exact sphere of operation and its connection with the office of the General Counsel has never been very clear to me. As you know, he has been operating since October 30, 1941, pursuant to an Order under which you directed that --

> "The present functions of Samuel Klaus and of the personnel now working under his direction are hereby transferred to the Legal Division and such functions shall be performed under the supervision and direction of the General Counsel. Mr. Klaus and his staff will engage in such activities as are assigned by Mr. Foley."

In part because I had felt woefully ignorant as to the exact purpose of the setup I inherited, and in part because it seemed to me that whatever its original purpose the situation might stand reexamination, I have held a series of discussions with my principal assistants on the subject. More recently, I appointed a subcommittee of two of the Assistants General Counsel (Messrs. O'Connell and Roth) to explore the situation still further and to discuss with Sam the exact character of his present operations and the exact status of such projects as he now has under way.

Sam's activities over the past months, if not years, have been divided into two general categories; (1) the receipt, coordination, assimilation and distribution of intelligence information received in the Department from the FBI, MID, ONI and other Government intelligence agencies and (2) the undertaking of particular investigation jobs on assignment by the General Counsel.

Approved, H.M.Jr. June 25, 1943

As to the first, it seems perfectly clear that this operation is one which can very readily be carried on by Mr. Irey's office, and that there is no longer any compelling reason for having it occupy, as it now does, a substantial part of the time of Sam and his staff.

As to the second, Sam's current projects are both in the nature of tax investigations, one of which relates to the activities of the America First Committee and the other to certain German organizations which have in the past enjoyed a tax-exempt status.

Sam's present organization has in it about a dozen people besides himself, all of whom are paid from the Foreign Funds Control appropriation. The expenditure involved in the operation of his office approaches $50,000 a year, a sum which, particularly in view of the drastic curtailment of appropriations, Foreign Funds can ill afford to continue to pay (this, of course, quite apart from the doubtful justification of this expenditure as relating to the Foreign Funds function).

From our analysis of the situation (and all of my immediate staff are unanimous with me in this -- a judgment in which Mr. Gaston concurs), it seems perfectly clear that:

(1) Sam's present organization should be broken up;

(2) His confidential files and function of co-ordinating intelligence information should be transferred to Mr. Irey;

(3) Most of his existing organization should be transferred to other work (where they are all badly needed); and

(4) Sam should be retransferred to the General Counsel's payroll with the understanding that

(a) he will complete the revenue investigations now under way to the extent thought desirable by Internal Revenue, and

(b) he will continue to be given such special assignments of work, investigative or otherwise, as the occasion may hereafter demand.

Ordinarily I would not bother you with such a matter as this, but would go ahead and make the indicated changes. However, in view of your Order of October 30, 1941, I thought it necessary to clear the matter with you first.

The matter has been discussed with Sam and, while I would not say he is entirely happy with the result reached, I think he would agree that the portion of his work which relates to the coordination of intelligence information and to the field of so-called subversive activities is, at best, of declining importance. In any event, from the standpoint of the organization I see no escape from what has been suggested.

Unless you disapprove I will proceed to put the changes into effect as of the first of July.

210-211

THE ASSISTANT SOLICITOR GENERAL
WASHINGTON

June 16, 1943

Confidential

Kowler: — 3 -

My dear Secretary Morgenthau:

Following up our discussion this morning about the refugee matter, I am sending you herewith a memorandum giving a first rough draft of the plan.

Copies of this memorandum have gone to Sol Bloom and Scott Lucas, who, as you know, were two of the American delegates to the refugee conference.

I think that they are contemplating having a meeting with Sumner Welles about this problem some time in the near future. Would it be possible for you to attend, if I can arrange it with the two congressmen?

Sincerely yours,

Oscar Cox

The Honorable

The Secretary of the Treasury.

Attachment

MEMORANDUM

1. There should be established by the President a Committee of three outstanding persons, representing all major faiths, to advise, in cooperation with the State Department, the Treasury Department and the Lend-Lease Administration, on all aspects of the war refugee problem which are not the direct responsibility of the State Department.

2. Voluntary contributions to finance the resettlement, transportation, maintenance, rehabilitation and eventual return of refugees and other victims of Axis aggression can be accepted by the Secretary of the Treasury acting under the Second War Powers Act. These contributions might be conditioned upon their use for the relief and resettlement of all war refugees, regardless of race, color, creed, or national origin, under the Lend-Lease Act or by other appropriate means.

3. Arrangements can be made for large contributions to be made in the first instance by organizations and private individuals that are concerned with the refugee problem. The initial announcement of the appointment of the Presidential Committee might mention the fact that contributions had already been received and that further contributions would be received and welcomed by the Secretary of the Treasury. One of the responsibilities of the Committee would be to encourage the making of contributions to this fund through proper publicity, public campaigns and similar methods (all subject to the approval of the Secretary of the Treasury).

4. To the extent possible under its organic statute, the Office of Lend-Lease Administration could supplement the voluntary contributions with funds needed to transport, resettle, maintain and rehabilitate such refugees.

5. Pending the raising of funds and the completion of all of the other necessary arrangements, the Committee, or someone acting on behalf of the President, should explore with the officials of the State Department, and the key private organizations in this field, all aspects of the refugee problem to the end that the machinery of the United Nations, established by the Bermuda Conference, may be fully utilized.

July 16, 1943

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau June 16, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

For the moment at least Congress appears to have run out of major points of controversy. Minor skirmishing, however, continued yesterday as both Senator Bridges and Representative Short criticized OWI Davis' statement in Boston that "Washington news is inadequately covered." Bridges charged in retaliation that Davis "has sought to create the first United States government propaganda bureau of a kind used by the dictator countries." One of the functions of OWI, he declared, is "seeking to cover the sins of mal-administration on the part of the New Deal in the war effort." OPA, also on the spot, was charged by Senator Shipstead yesterday with making "a deliberate attempt to wreck the meat industry" in ordering a 10% rollback in retail meat prices. Other senators in floor discussion yesterday criticized the OPA's subsidy program, which Price Administrator Brown will defend today before the Senate Banking and Currency Committee. Meanwhile the House Naval Affairs Committee continued its hearings on war contract renegotiation with Lewis H. Brown, President of Johns-Manville Company claiming the present renegotiation law is "administratively impossible" since under its provisions renegotiation boards are faced with a much larger number of cases than they can handle. Besides the Treasury-Post Office Bill, deadlocked for so long in conference, the House must also consider the conference stalemate on the 1944 Independent Offices Appropriations Bill, tied up because House conferees refused to agree to Senate action granting $200,000 to the National Resources Planning Board. Another controversial appropriation measure slated for House debate today is the Labor-Federal Security Appropriation Bill which comes from the Appropriations Committee with sizable funds slashed from the War Manpower Commission and provisions for the liquidation of the NYA. Not controversial yet but very much in the offing is the question of the next revenue bill, which is expected to receive some consideration in a House Ways and Means Committee meeting scheduled for this morning.

215

Treasury Department
Division of Monetary Research

Date June 16, 1943

To: Secretary Morgenthau

Finance Minister Gutt of Belgium would like to converse with you or some person in the Government - either Army or State - on the question of the exchange rate to be used in the event of invasion of Belgium.

Apparently, he doesn't feel quite satisfied with expressing his views in a memorandum as we suggested in our letter to him of April 16th (copy of which is attached). I suggest that it might be helpful if you could see him for a few minutes, during which time you could listen to what he has to say and he might feel that he had had an adequate hearing.

H.D.W.

Gutt went home 6/18

Attachment

Gutt saw DWBell Thursday. June 17

MR. WHITE
Branch 2058 - Room 214½

April 16, 1943.

Excellency:

We have been considering in recent months the problems relating to fiscal and monetary matters in countries liberated from Axis domination with the help of American Armed Forces.

In this connection, the Treasury would appreciate receiving any relevant material and recent information regarding fiscal and monetary problems in your country, including a memorandum setting forth your views on the appropriate provisional dollar exchange rates that might be set for belga currency.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency, Camille Gutt,
The Minister of Finance,
Kingdom of Belgium,
c/o Belgian Embassy,
London, England.

COPY

June 16, 1943

Harry White

Secretary Morgenthau

Please send a cable to Casaday in London and ask him to write me a letter giving me the significance and the background of Herbert Morrison's defeat in the Labor Party - just what does it mean? Please get this off today.

Reply in 7/21 - Given to Hope

Treasury Department
Division of Monetary Research

Date 6/16/43 19

To: Mrs. McHugh

From: L. Shanahan

This was approved by Mr. White and forwarded to State Department today. (In response to request in Secy's memo of today.)

25

To: Mr. Livesey

From: Mr. White

Please transmit the following cable to L. W. Casaday, American Embassy, London, England, from the Secretary of the Treasury.

Please transmit by air mail what information you are able to get together on the significance and background of the defeat yesterday of Herbert Morrison as Treasurer of the British Labor Party.

TMK:rl 6/16/43

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

Chungking via N.R.

Dated June 16, 1943

Rec'd 4:10 p.m., 17th.

Secretary of State,

Washington.

934, June 16, 9 a.m.

Add to Embassy's 901, June 10, 4 p.m. to Secretary of the Treasury from Adler " of interest to other Departments and agencies".

ATCHESON

JRL

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 196

Information received up to 7 a.m., 16th June, 1943.

1. NAVAL

LAMPEDUSA. Situation reported well in hand and between 4,000 and 5,000 prisoners taken. LAMPION ISLAND appears deserted. One of H.M. Submarines torpedoed a small eastbound tanker in escorted convoy near TOULON on the 8th. Aircraft from one of U.S. Escort Carriers sank a U-boat, 530 miles south of the AZORES on the 12th. There were 16 survivors.

2. AIR OPERATIONS

WESTERN FRONT. 14th/15th. OBERHAUSEN. 573 tons dropped. Bright moonlight above clouds over objective with intense night fighter activity. Sky marker flares accurately placed and bombing seemed well concentrated. One enemy aircraft claimed destroyed and one probable. 15th. Fighters carried out a sweep over NORTHERN FRANCE. Enemy casualties - 3, 1, 1. Ours - 2 missing. 15th/16th. Aircraft despatched - BERLIN 6, Intruders 16, Anti-shipping 4. Three enemy aircraft flew over KENT.

SICILY. 13th/14th. Wellingtons dropped 27 tons on MESSINA. Many fires were seen near the ferry terminus.

AEGEAN. 14th. Beaufighters attacked a 100 ton Caique and left it sinking.