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June 22, 1943
9:14 a.m.

HMJr: Hello.

Sec'y
Frank
Knox:

Hello, Henry.

HMJr: Hello, Frank. How are you?

K: I'm fine.

HMJr: Good. Uh, Frank, two things: Some, oh - I don't know - a year ago, or something like that - uh - you loaned us uh - uh - Admiral Conard, C-o-n-a-r-d.....

K: I wrote you a note about it yesterday, or day before.

HMJr: Did you? What did you say?

K: I said that he was about to be discharged by the hospital, apparently all right.....

HMJr: Yeah.

K:and asked if you wanted him to report to you.

HMJr: Well, the answer is, "I don't."

K: You don't, huh?

HMJr: I didn't get your letter, but.....

K: Well, it's in the mail, then. I dictated it a day or two ago.

HMJr: I'll tell you. He's an awful nice fellow, but he's a little old for this - selling job.

K: I should think so, yeah.

HMJr: What?

K: I should think you're right.

HMJr: And, if it isn't going to embarrass you....

K: Oh, not a bit. He's a retired admiral anyway. He can just go back into retirement.

HMJr: Well, whatever it is, will you take him off my hands?

- 2 -

K: I will. I will. That's all taken care of.

HMJr: Right. Now, another thing: You - could I somehow or somewhere see somewhere in the Navy the true story on what the sinkings are? I don't want them up to the last couple of days but if I could - say from the first of January up to the fifteenth of June or something like that....

K: What do you want to use them for, Henry?

HMJr: For my own head, that's all.

K: Oh, well, I'll give them to you.

HMJr: I mean, I just want to see them visually. I don't want them on a piece of paper.

K: Well, do you want actual tonnage or just in round figures?

HMJr: Well, I mean I'd like to know....

K: About one-third as much this month as there were last month - - -

(Remainder of conversation not recorded.)

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June 22, 1943.
9:35 a.m.

HMJr: Hello. Hello?

Operator: He's coming right now.

Henry A.
Wallace: Yes, Henry.

HMJr: Henry?

W: Yes.

HMJr: Good morning.

W: Yes, Henry.

HMJr: Uh - look, let me - have you got a moment?

W: Yes, sir. Go right ahead.

HMJr: Well, I've been working here very quietly on trying to find some way to help the President on this price situation other than through subsidies - on account of the attitude of Congress, and we think we have a way which he could do it - which is - and you most likely have thought of it but this idea of the possibility of buying up an entire crop and then distributing it through the regular channels... Hello?

W: Yeah.

HMJr: Now, I wondered if you had any time when we could sit down and, maybe, just talk this thing over and whether it had interested you.

W: Well, I don't have any responsibility in the field.

HMJr: I know. Neither have I, but I'm doing it and then if - I haven't got any either, other than - just the same that you and I - that we don't want to see inflation, but on account of your knowledge of the farm....

W: I'd be glad to talk it over with you if you want to come up and have lunch with me at one o'clock, I'd be delighted.

HMJr: Uh - wouldn't Milo be good on this?

W: Yeah. Milo's got good brains.

- 2 -

HMJr: And I - could I bring the fellow with me who has been doing the work on this?

W: Sure.

HMJr: It's Captain Kades who used to be in the Treasury. Is that too much?

W: Fine. I'll arrange - I'll see if I can get Milo and - one o'clock in the Capitol?

HMJr: One o'clock would be perfect.

W: Okay.

HMJr: I'd like to just get your reaction before I go any further.

W: You bet.

HMJr: What?

W: All right, sir.

HMJr: And I'll be there, and I'll bring Kades with me.

W: Fine.

HMJr: Thank you.

W: That's good.

June 22, 1943
10:54 a.m.

HMJr: Hello.

Operator: Mr. Doughton. Go ahead.

HMJr: Hello.

Robert
Doughton: Hello, Henry.

HMJr: How are you, Bob?

D: 'Bout the same. Busy with this coal business.
How are you?

HMJr: Just about the same.

D: Not c-o-l-d, c-o-a-l.

HMJr: Yeah. Uh, Bob, I read in the papers that you kinda
talked with your committee about when and how on a
tax bill, but I didn't see anything definite coming
from you.

D: Well, we wasn't hardly in a position to decide when
we'd be in hearings until we saw what was done about
the recess.

HMJr: I see.

D: The boys - some of them, you know, want to - if we
have a recess - want to go home for a little time.

HMJr: Yeah.

D: At least thirty days - if we have a recess for anything
like fifty or sixty days, I don't believe we'd get them
to work. 'Twould take a little time. If we don't have
a recess, we could go to work, as far as I know, pretty
soon after we dispose of - send this coal bill over to
the Senate, if we are able to do that.

HMJr: But....

D: But until we decide what's done about a recess, my
thought was this, Henry.

HMJr: Please.

D: Here was my thought about it. I think the committee
is inclined to go along.

- 2 -

HMJr: Yeah.

D: That if we had a recess of something like fifty or sixty days for us to go home and come back two or three weeks before the Congress reconvenes so as to get that much time with tax bill....

HMJr: Yeah.

D:Where we wouldn't be interrupted by sessions of the House and roll calls, and get in a full day's work.

HMJr: That would be wonderful.

D: Yeah. That's what I had in mind.

HMJr: Well, I just wanted a - just a little talk with you to find out what you did have in mind and that sounds good and I take it, at the right time, you will say so publicly.

D: Yes, I will say so publicly. I want to see - quick as I see what is done about the recess, then I'll make a public statement about it.

HMJr: I thought there was a very good reaction from the newspapers on your statement when you left the Treasury about - uh....

D: What took place there.

HMJr:About the tax bill and all that.

D: Yes, and they came the nearest telling the truth-- nearest telling the whole truth about it exactly than any statement that I've heard from them.

HMJr: Yeah, I thought that that was all right.

D: Yes, I saw that and was very much pleased with it.

HMJr: Well, I just like to keep in touch with you. You're about the most important fellow on the Hill as far as I'm concerned.

D: Well, I thank you. And I'll keep you informed every-time there's a move and any time you think that there ought to be one and you want some information that you think I might give, why you let me - you call on me.

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HMJr: I'll do that.

D: All right. Thank you, Henry.

HMJr: 'Bye.

D: Good bye.

June 22, 1943
2:20 p.m.

Edward S.
Greenbaum:

Yes?

HMJr: I'm going up this afternoon to see Elinor because she's not so well.

G: Oh, gee.

HMJr: So, I'll be in touch with you tomorrow about tomorrow night.

G: Yes.

HMJr: But I - I've got to be back in the morning anyway.

G: You've heard.....

HMJr: Yeah, the doctor....

G:spoke to me, heh?

HMJr: The doctor called me up and he's a - her temperature is higher and he's quite worried, so I'm going to leave here in an hour and go up there.

G: Is he giving her the sulpha drugs still?

HMJr: Yeah. They - but it takes another full day before they'll know.

G: Yes. Oh, gee! That's a mess. Well, lots of good luck, Henry.

HMJr: Eddie.

G: Yes.

HMJr: I was up and had lunch, confidentially, with the Vice President and Milo Perkins and I let Captain Kades report to them what he had been doing the last three days on this question of how to handle prices, which he is working on - the food prices - Hello?

G: Yes.

HMJr: And he made a wonderful impression, and they encouraged him to go on.

G: Yes.

- 2 -

HMJr: Now, what I - I'm now talking officially - uh - to you or to the Under Secretary of War by you - I'd very much like to have Kades on an indefinite basis over here as my - to help me personally on these special assignments. I'm desperately in need of somebody, because Paul can't do it; he's - gets through with tax bill - now he goes away because he's exhausted. I have nobody - and Kades could really be a general counselor - counsel to me and I've cleared it with Paul and it's entirely agreeable to him. Now, I talked some months ago to the President about it and when I needed somebody like that and he said anytime I wanted anybody to come to him and he'd arrange it but I don't want to bother him if I can do it through your office.

G: Yes. You mean sort of - just an indefinite assignment?

HMJr: On an indefinite assignment.

G: Yeah. Well, that means - indefinite - it means almost permanent. That's what it means.

HMJr: Yeah. I mean - I - frankly, I mean, he can give me what I've been looking for.

G: Yes.

HMJr: I've been to Bill Douglas and I've been to Frankfurter and I've been to different people and, as you know, I spoke to you about different people.

G: Yes.

HMJr: But Kades would fill the bill, as far as I'm concerned.

G: The trouble with it - it violates completely Army policy in reference to fellows in uniform being around other government agencies.

HMJr: Well, the town is full of them.

G: No, it isn't.

HMJr: Oh, well, I could give you many cases. Every agency has them.

G: Why, that's - that's not true. There are certain cases like Landis' thing where we have a shop over there - W.P.B. where there's a War Department unit, and Donovan's outfit....

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HMJr: Yeah.

G: I don't know of any....

HMJr: State Department.

G: What?

HMJr: State Department.

G: Well, they may be military attache fellows....

HMJr: No.

G: Or something like that. Well, anyway, for the time being, it's all right.

HMJr: Well, I don't want to ruffle you. I want to smooth you down....

G: Yes.

HMJr:nice strokes, gentle strokes.

G: Okay. (Laughs) Well, I'll see what we can do.

HMJr: And, I don't know - in fairness to the boy - what I want to ask you is what would - what are his chances of getting a command in a combat unit, you see?

G: Well, nothing, unless we would start something on it, and I expected to do that after he has finished his assignment with you.

HMJr: But I mean, at thirty-seven, can he get a command?

G: No, it wouldn't be a command. He wouldn't be the commanding officer, but he might get with troops.

HMJr: He might?

G: Yes.

HMJr: I see.

G: But he wouldn't normally....

HMJr: He wouldn't?

G:unless some other steps were taken on it. That's fair to say.

HMJr: Well, I'd be pleased if you would tell - if you think it's important enough to tell Bob Patterson about this.

G: Yes, yes, I will. I'll speak to him about it.

HMJr: And, uh - see - and tell him it would really be doing me a great service. Well, I mean me - I mean the Treasury.

G: How do you think he'd react to it?

HMJr: I've talked to him and I asked him whether I could call you up and he said, "Yes."

G: He'll probably do it - do anything that you would want - would be what he'd want to do.

HMJr: Pardon?

G: Anything that you would want, he'd want to do, I think.

HMJr: He said I could go ahead. I asked if he wanted to think it over and he said, "No, go ahead."

G: Yeah.

HMJr: He said, "What am I going to tell Foley?" So, I said, "Well, Foley's in the Army," and that I'm not going to worry about Foley.

G: Yeah, that can be done later.

HMJr: I'm not going to worry about Foley.

G: Yeah.

HMJr: And the other thing is, while I'm on it, I mean I would think he would be due for a promotion by now. He's been a Captain a long time.

G: Yes, I think that probably would be in line.

HMJr: I should think he'd be due for a Majority. Well, Eddie, whatever you can do on it would be really doing the Treasury and me personally a great service.

G: Well, I'll try my best.

HMJr: And, would you let me know?

G: Yes, I will.

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HMJr: I thank you.

G: Okay.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Captain Kades

June 22, 1943

The purpose of this memorandum is to venture a preliminary answer to two questions: (1) why the prices of certain commodities, classified as uncontrolled, have not been put under ceilings in the same manner as controlled commodities; and (2) what are the restraints and economic conditions by virtue of which the current price structure of certain uncontrolled commodities is upheld.

I

The answer to the first question depends in part upon whether or not the price of the commodity is above or below parity. As recently as April 2, 1943, President Roosevelt, in vetoing the Bankhead Bill, reiterated the principle of parity prices as a means to get parity income for the farmer.

A. If the uncontrolled commodity is below parity:
If the price of the commodity (calculated with benefit payments according to the President in his Bankhead Bill veto message) has not reached parity, OPA is forbidden by law to impose a ceiling price at less than parity. Examples are wheat, cotton and barley, the prices of which on May 15, 1943, were below parity.

B. If the uncontrolled commodity is above parity:
In the case of a commodity in this category (such as live hogs and steers), even though a ceiling could be imposed under the law, there are two main reasons why (apart from asserted administrative difficulties) a ceiling is not imposed:

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(1) the necessity for holding out to the farmer the hope of a sufficient reward for his risk and labor, in order to encourage the farmer to produce the commodity in the desired quantity; and

(2) the desirability for maintaining the prices of much of the produce of the farmers in reasonable balance, in order not to tempt the farmers to concentrate on the production of the most profitable commodities to the exclusion of other essential but less profitable commodities.

For example, any grain can be converted into milk or eggs or meat. If ten bushels of corn will produce 100 pounds of pork and the guaranteed minimum of hog prices is \$13.75 per hundred pounds (as it is now), farmers will sell corn in the form of pork unless the price of corn is such approximates \$1.37 per bushel.

II

It is seriously doubted that a solution of this problem is to be found in the mere removal of legal restraints. The Division of Research and Statistics has prepared a brief statement of the main factors which are holding up current prices in six uncontrolled commodities; namely, wheat, cotton, hogs, steers, barley and rosin. That statement enumerates the principal legal and economic considerations which support present prices of these six commodities and is appended hereto.

The mere enumeration of these factors illustrates the complexity of the subject and the difficulty of evaluating the comparative influence exerted by statutory provisions and supply and demand conditions.

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At the root of the matter, of course, is the imperative necessity of effecting a compromise between the high prices necessary to stimulate a high volume of balanced production of essential farm commodities and the low prices required by the consumer.

It is believed that the possibility of a partial solution should be further explored from two angles: (1) whether the Government should assume the burden of guaranteeing a certain price to the farmer (because at least during war it is in the interest of the national community to insure maximum production from the land), and (2) the procedure by means of which such a guarantee can be made most effective.

D.L.K.

STATEMENT OF FACTORS SUPPORTING CURRENT
PRICES OF SIX UNCONTROLLED COMMODITIES

1. Wheat

Prices are held up currently by:

1. Non-recourse crop loans at 85 percent of parity, the minimum permitted under provisions in the Price Control Act of 1942, as amended in October. (This is the principal price-supporting influence.) The loan on the 1942 crop averaged \$1.14 at the farm, and is raised to \$1.22 for the prospective 1943 crop. The average farm price May 15 (latest reported) was \$1.228.
2. Restriction on sales of Government-owned wheat at less than parity, as contained in Agricultural Appropriation Act for fiscal 1943. Parity May 15 was \$1.441, as compared with an average farm price of only \$1.228. This ties up about 300,000,000 bushels of wheat now held by the CCC.
3. Quota limitations on imports of wheat from Canada, as contained in Agricultural Adjustment Act of 1933, as amended. The quotas were recently removed as applied to imports by Government agencies, but remain in force against commercial imports. Stocks of Canadian wheat April 1 (including some in U. S.) were at the high level of 798,000,000 bushels, against 566,000,000 a year earlier.
4. An increasing demand for wheat for food, livestock feed, and industrial uses. The disappearance of U. S. wheat this year is estimated at 963,000,000 bushels, the largest since 1920.
5. A prospective decline of 26 percent in the U. S. crop this year.

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2. Cotton

Prices are held up currently by:

1. Restrictions on sales of Government-owned cotton.
(Probably the most important price factor.)
 - (a) Restriction on sales at less than parity.
(Agriculture Appropriation Act for fiscal 1943.)
Prices are now about at parity, and some CCC cotton has been sold in recent months.
 - (b) Limitation on Government cotton sales to 1,500,000 bales a year and 300,000 bales a month. (Agricultural Adjustment Act of 1938, as amended.)
 - (c) Requirement that sales price must cover all costs to Government of cotton sold. (Agricultural Adjustment Act of 1938, as amended.)

Government-owned cotton totalled 2,700,000 bales on April 30. Loan stock (to which title may later be acquired) totalled on that date 630,000 bales of 1941 crop and 2,670,000 bales of 1942 crop.

2. The Government crop loan at 85 percent of parity on the 1942 crop (which brought 3,100,000 bales of the 12,400,000-bale crop under loan) and prospect of a loan at 90 percent of parity on the 1943 crop.
3. Restrictions on cotton planting under the Agricultural Adjustment Act, which have held acreage planted to around 24,000,000 acres. (In 1933, the acreage was placed at 40,000,000, but there is some question about the comparability of these figures.)
4. The prospect of a further decline in acreage this year due to weather and labor factors, despite permission given farmers on March 6 to exceed their acreage allotments by as much as 10 percent without penalty.

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3. Hogs

The outstanding price factor is the Government program to stimulate pork and lard production for lend-lease, military, and other uses. This has been accomplished by heavy Government buying, initiated in the spring of 1941, and by guaranteed support prices extending to specified future dates. (The present support price at \$13.75 Chicago basis, slightly below recent market levels, is effective until September 1944.) Prices are partially controlled by ceilings on pork products, but administrative difficulties have so far caused ceilings on live hogs to be avoided, although farm prices May 15 were 20 percent above parity. Live hog ceilings have been threatened recently, however, and this was in large part responsible for a substantial price decline during the past month.

4. Steers

Price factors are practically the same as for hogs. With the farm price May 15 at 29 percent above parity, ceilings could be placed on live animals were it not for administrative difficulties and the effect of such ceilings on production. Indirectly, farm policies directed toward raising the price of corn have been partly responsible for the high prices necessary to raise the production of beef (and of hogs) to the required levels.

5. Barley

Barley prices are supported chiefly by a strong demand for feed use. The price recently rose also because of an increase of 1 1/2 cents a bushel in the Canadian export tax on barley (now 8 cents), which increases the cost of barley imported from Canada. A price ceiling cannot be imposed because prices are below parity (24 percent below on May 15).

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6. Rosin

Rosin prices have been supported by crop loans and by a Government stock-piling program in 1942. A very heavy demand, combined with the prospect that the 1943-44 crop of gum rosin will be the smallest on record, have been strengthening factors. The first Government sale from the 1942 stockpile, made in April, was considerably above parity for that grade.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
June 22, 1943

TO Secretary Morgenthau
FROM Mr. Paul

Attached is a survey of laws and programs thereunder affecting agricultural commodity prices.

Programs now in operation under agricultural control laws which significantly affect agricultural commodity prices, may be summarized as follows:

(1) limitations upon establishment of price ceilings below parity prices or the highest price between the period January 1 to September 15, 1942, whichever is the higher;

(2) price support operations of the Commodity Credit Corporation through loan and purchase programs, at 90% of parity price on basic agricultural commodities (except wheat and corn at 85%); and 90% of parity price on nonbasic agricultural commodities where necessary to increase production. Support programs in relation to a wide variety of agricultural commodities and processed foods have been placed in effect under these requirements;

(3) subsidy programs in effect to relieve the narrow margin between ceiling prices on processed foods and cost of the raw product; also subsidies as to butter, meat and coffee under the "price roll-back" program; and also subsidies as to certain imported food products;

(4) current provision for parity benefit payments to farmers designed to attain parity return upon 1942 crops of wheat, corn and certain types of tobacco;

- 2 -

(5) the current agricultural conservation program, adjusted flexibly to restrict production of a limited number of presently excess crops and increase production of war crops, under the accepted system of acreage allotments, production quotas and conservation practices implemented by benefit payments and penalties. Another form of payment, incentive payments for war crops and attainment of war production goals, is presently an item in disagreement between the House and Senate under the 1944 agricultural appropriation bill;

(6) price restrictions upon sales of Government-controlled stocks, and quantity restrictions upon sales of Government stocks and imports of wheat and cotton.

These programs are described more adequately in the annexed memorandum.

BBP

Laws and Programs Affecting
Agricultural Commodity Prices

INTRODUCTION

This memorandum outlines the general character and operation of laws, and programs thereunder, affecting prices, production and marketing of agricultural commodities.

A. Principal Laws Involved

The principal laws affecting prices, production and marketing of agricultural commodities are as follows: Emergency Price Control Act of 1942, as amended by the Act of October 2, 1942; the several agricultural control acts which provide the framework of control over production and marketing aimed at stabilizing markets and prices of agricultural commodities, including the Agricultural Adjustment Act of 1933, the Soil Conservation and Domestic Allotment Act, the Agricultural Adjustment Act of 1938, all as amended and supplemented; and the general laws and appropriation items relating to the price support activities of Commodity Credit Corporation through loan and purchase programs and withholding of excess stocks.

B. General Objectives of Farm Commodity Programs

Programs presently being administered under the foregoing laws reflect two basic objectives, as follows:

1. Parity. The attainment of parity price for farm commodities. Parity price is generally defined as that price for the commodity which will give to it a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of the commodity in the base period August 1909 to July 1914. The parity objective is sometimes stated in terms of farm income rather than farm commodity price, particularly in relation to benefit payments to farmers under agricultural conservation programs. For that purpose, parity as applied to income is the ratio between the purchasing power of the net income of farmers and non-farmers which prevailed during the same base period.

2. Production. Agricultural conservation programs, originally operating in the direction of limiting production and marketing, are now flexibly administered in two directions: to limit production and marketing of surplus crops; and to increase production of commodities essential to the war food program by providing incentive for planting of war crops and attainment of increased war production goals.

- 2 -

The various agricultural control programs, although interrelated in both policy and administration, require classification into two general patterns for convenience of treatment. Into the first pattern fall restrictions limiting imposition of price ceilings and direct Government price support operations. The second pattern embraces agricultural conservation programs, including acreage allotments and marketing quotas, and war crop and war production goals, as implemented by benefit and incentive payments and penalties. The various programs and related laws are described below under these two general headings. A few miscellaneous programs not easily classifiable under those two headings are grouped at the end of this memorandum.

I. PRICE SUPPORTS

A. Price Ceiling Limitations

Price control laws prevent the imposition of price ceilings upon agricultural commodities, or commodities processed or manufactured therefrom, below the higher of (1) parity price, or (2) the highest price between January 1, 1942, and September 15, 1942. Section 3 of the Emergency Price Control Act of 1942, as amended by section 2 of the Act of October 2, 1942. Executive Order 9250 of October 3, 1942, directed that agricultural benefit and subsidy payments be deducted from parity price in establishing price ceilings.

Wheat and cotton are examples of presently uncontrolled commodities because prices are below parity.

B. Price Support Operations

A wide range of price support operations are in effect with respect to agricultural products and processed foods. These operations include mandatory loan and price support programs on basic commodities at the statutory minimum of 90% of parity price, or at the discretion of the President at 85% of parity price on corn or wheat; price support programs on nonbasic commodities at the statutory minimum of 90% of parity price where necessary to encourage the expansion of production; recently announced price roll-back programs; subsidies paid processors on processed foods; subsidy programs on imported food products; withholding from the market of Government-held stocks for the purpose of price support; and parity benefit payments made under the agricultural conservation program.

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1. Mandatory nonrecourse crop loans upon basic commodities. These loans must be made available by Commodity Credit Corporation on basic commodities - cotton, corn, wheat, rice, tobacco and peanuts, at the rate of (i) 90% of parity price (or at the discretion of the President at 85% of parity price on corn and wheat) to farmers who cooperate in the programs of the Department of Agriculture, and (ii) 60% of parity price to noncooperators on only the excess over the marketing quotas established by the Department of Agriculture. Under existing law this requirement extends through a two year post-war period. Agricultural Adjustment Act of 1938, as amended, and section 8(a) of the Act of October 2, 1942, to amend the Emergency Price Control Act of 1942, etc.

The integration of these loan programs with acreage allotment and marketing quota programs of the Department of Agriculture is discussed below.

2. Price support programs on nonbasic commodities. The Secretary of Agriculture is required by lending and purchase operations to support the price of nonbasic agricultural commodities at not less than 90% of parity price whenever necessary to encourage expansion of production. These operations are likewise conducted through Commodity Credit Corporation. This requirement similarly applies during the two year post-war period. Section 4(a) of the Act entitled "An Act to extend the life and increase the credit resources of the Commodity Credit Corporation, and for other purposes", approved July 1, 1941, as amended by section 9 of the Economic Stabilization Act of October 2, 1942, U.S.C., 1940 ed., Supp. II, title 15, sec. 713a-8. With respect to certain war crops, price support operations are available only to farmers who plant at least 90% of their war goal acreage and only on the output of acreage up to 110% of the war goal. The integration of these price support operations with acreage allotment and marketing quota programs, is discussed below.

Price support programs at not less than 90% of parity price have been announced so far on either the 1942 or 1943 crops for the following nonbasic agricultural commodities: rye, barley, grain sorghums, dried beans, dried smooth peas, dried wrinkled peas, hogs, Irish potatoes, sweet potatoes, vegetables for canning, cabbage for kraut, soybeans for oil, flaxseed, castor beans, olives for oil, shell eggs, whole dried eggs, dairy products—butter, skim milk, cheddar cheese, evaporated milk, fluid milk; truck crops for fresh markets,

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chickens and turkeys, pecans, dried fruits, sugar beets, hay and pasture seeds, seed and hemp fiber, strawberries. See statement of J. B. Hutson, President, Commodity Credit Corporation, Hearings before Committee on Banking and Currency, House of Representatives, on H.R. 2725, Part III, May 20, 1943, pp. 64-65 and passim; and Congressional Record of June 19, 1943 (Vol. 89, No. 114) at A3330-3332.

3. Price roll-back program. Up to date subsidy payments to processors have been announced on butter at the rate of 5¢ per pound to compensate for a reduction of the same amount in the retail price; and at the rate of 2¢ per pound on the wholesale carcass of beef, lamb and mutton and 1.85¢ per pound on the wholesale carcass of hogs, to account for a 10% reduction in retail prices.

4. Subsidies on processed foods. Subsidies are paid to processors on processed foods for the purpose of absorbing the price differential between, on the one hand, the lower OPA price ceiling on the processed food; and, on the other hand, the support prices established by the Secretary of Agriculture to secure increased production of the commodity, plus the cost of processing. The purpose of such programs is to enable processors to process at fair margins between cost and ceiling prices. Such subsidies carried out in the past or announced for the future include: mill feed wheat and grain alcohol programs; packers' excess supplies of peas grown under contract for canning purposes and cabbage for kraut; vegetables canned for civilian consumption; various edible oils—cottonseed, peanuts and flaxseed; olives for oil, cheddar cheese, fluid milk, sugar beets.

5. Subsidy programs on imported commodities. Such programs are in effect by Commodity Credit Corporation with respect to coffee, sugar, tea and cocoa. These are in the nature of guaranteed quantity or yearly crop purchases (sugar, tea and cocoa) and absorption of shipping charges (coffee and sugar).

6. Withholding Government stocks from market. The 1943 Agriculture Department Appropriation Act prevents the sale of farm commodities owned or controlled by the Government at less than parity prices, with limited exceptions such as grain for feed purposes and for industrial uses. Sales of wheat for feed were limited to 125,000,000 bushels, subsequently increased to 225,000,000 bushels at a sales price not less

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than the parity price of corn. Joint Resolution approved March 25, 1943, Public No. 18, 78th Congress.* The 1944 Agriculture Department Appropriation Bill, presently in conference, contains similar restrictions upon the sale of Government-held farm commodities at less than parity and limits the exception in the case of wheat or corn for feed to sales at not less than the parity price of corn.

The sale of cotton, except to foreign countries, is limited to 300,000 bales a calendar month and 1,500,000 bales in any calendar year. Section 381(c) of the Agricultural Adjustment Act of 1938, as amended.

Withholding from market of farmers' excess stocks (as distinguished from Government-held stocks) is effected by the system of acreage allotment and marketing quotas, coupled with benefit payments and penalties under the annual agricultural conservation programs. Those programs are described more fully below.

7. Parity payments. Supplemental benefit payments to farmers, known as "parity payments", on crops of corn, wheat, cotton, rice, and tobacco, were introduced by the Agricultural Adjustment Act of 1938. Parity payments are made to provide the farmer price income on these crops as near to parity as possible within limits of annual appropriations. The appropriation for 1940 limited payments to amounts necessary to bring the price return up to 75% of parity. Subsequently, this limitation was eliminated and the 1943 appropriation authorized the Secretary of Agriculture to make commitments and incur obligations for full parity payments. Parity payments supplement agricultural conservation payments, but the total payments, plus the amount received for the commodity, may not exceed its parity price. The integration of parity payments with agricultural conservation programs, is discussed below.

The pending 1944 Agriculture Department Appropriation Bill includes provision for parity payments aggregating approximately \$170,000,000 to be paid with respect to 1942 crops of wheat, corn and two grades of tobacco. Approximately 95% of this amount will be paid in almost equal amounts with respect to 1942 wheat and corn crops. These payments are designed to bring returns equivalent to parity price on the only basic crops remaining below parity price.

* Permissive sales of wheat for feed were recently increased to 275,000,000 bushels. Joint Resolution approved June 14, 1943, Public No. 71, 78th Congress.

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II. AGRICULTURAL CONSERVATION PROGRAMS

Agricultural conservation programs embrace four primary bases of control, which can be operated flexibly to increase or decrease production of specific crops: farm acreage allotments, farm production quotas, soil conservation programs, and marketing agreement programs⁽¹⁾. They are implemented by cash payments to cooperating farmers, assessments of penalties against noncooperating farmers, and loan and purchase programs of the Commodity Credit Corporation already discussed above.

A. Acreage Allotments

A specific crop is assigned acreage allotments—national, state, county and farm. The allotment system tells each farmer how many acres of the particular crop he should plant in the particular year. Acreage allotments can be employed to increase or decrease national production, depending on the size of the national allotment and on the type of payment benefit offered. One type of benefit may operate as a compensation for not planting. Another type may operate as an incentive for exceeding the goal. The statutes prescribe the standards to govern the employment of allotments with respect to so-called "basic crops". U.S.C., title 7, secs. 1328, 1332, 1343, 1352, 1358. However, the Secretary of Agriculture has wide discretion with respect to placing other crops on an acreage allotment basis. U.S.C., title 16, sec. 590h.

The most recently proclaimed national acreage allotments are as follows:

43,423,000 acres for corn
55,000,000 acres for wheat
25,550,276 acres for cotton
1,320,000 acres for rice

B. Production Quotas

Under certain prescribed conditions production quotas are applicable with respect to corn, cotton, rice, tobacco, wheat and peanuts. If prior to the beginning of the marketing year it appears that the total supply of the particular commodity will exceed the normal year's domestic consumption and export by more than a specified percentage (ranging from 105 to 135),

(1) Sections 7 through 17 of the "Soil Conservation and Domestic Allotment Act" as added by the Act of February 29, 1936, 49 Stat. 1148, as amended (U.S.C., title 16, secs. 590g-590q); Agricultural Adjustment Act of 1933, as reenacted by the Act of June 3, 1937, 50 Stat. 246, as amended (U.S.C., title 7, secs. 601, 602, 608a(5-9)-608e, 610, 612c); "Agricultural Adjustment Act of 1938" of February 16, 1938, 52 Stat. 31, as amended (U.S.C., title 7, secs. 1281-1407).

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the Secretary of Agriculture is required to so proclaim. The proclamation is followed by a referendum of the farmers who would be affected. If two-thirds of the farmers agree, a compulsory national marketing quota becomes effective for that marketing year. The national quota is broken down by states, counties and farms. Marketing a quota excess by any farmer is subject to a money penalty computed at a statutory rate per unit of the commodity. The penalty may either be paid or avoided by storing the excess under regulations of the Secretary of Agriculture or by delivering it up to the Secretary. The penalties are applicable against all farmers irrespective of how they voted in the referendum. U.S.C., title 7, secs. 1311-1376.

C. Conservation

Farming programs are designed to accomplish the declared statutory purposes—conservation, improvement of soil, parity. Such a program may have as an objective reduced production of surplus crops and increased production of shortage crops. A program may have dual objectives, good farming practice and balanced production. U.S.C., title 16, secs. 590g-590q.

D. Marketing Agreements

The statutes authorize marketing agreement programs to regulate the handling of agricultural commodities in interstate and foreign commerce. Agreements acquiesced in by the interested parties and approved by the Secretary of Agriculture may be used for any agricultural commodity. Mandatory orders may be issued either upon the acquiescence of a specified majority, or under certain circumstances without such acquiescence upon approval by the President. However, mandatory orders may be issued only with respect to certain enumerated commodities including milk, tobacco, and certain fruits and vegetables. Minimum prices are authorized only with respect to milk. Marketing agreements and orders with respect to other commodities relate only to the regulation of shipments, production, grading, size, etc. U.S.C., title 7, secs. 608b-608e.

E. Sugar

The Sugar Act of 1937 prohibited importation of sugar in excess of quotas prescribed by the Secretary of Agriculture. This price raising provision was suspended by Proclamation 2551 of April 13, 1942. The Act also authorizes benefit or subsidy payments to sugar farmers complying with certain standards relative to farm quotas, wage rates, fair prices, soil conservation, etc. The base rate of payment is 80¢ per 100 pounds, raw value. A manufacturer's excise tax and an importation tax are prescribed. U.S.C., title 7, secs. 1101-1183.

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F. Benefit Payments and Penalties

Farmer compliance with the controls is induced by several types of cash payments and penalties:

1. Parity payments. For corn (in the commercial corn-producing area), wheat, cotton, rice and tobacco are made to farmers who comply with acreage allotments. The payments (computed per unit of the commodity produced, e.g., 10¢ per bushel of wheat) seek to provide a return as nearly equal to parity as the funds made available permit. U.S.C., title 7, sec. 1303 and Appropriation Acts provisions. During fiscal year 1942 parity payments amounted to approximately \$170,000,000. (See attached chart "Table 5").

2. Production adjustment allowance. This is a cash payment made to an individual farmer who cooperates in an allotment program. The amount of the payment is determined as follows: The "normal yield" of the allotted acreage is computed for the particular farm. The predetermined monetary adjustment (e.g., 3.6¢ per bushel of corn) is multiplied by the "normal yield". In addition, the present program provides for what are in effect incentive payments for potatoes and truck crops to become available only upon achievement of the particular farm crop goal. U.S.C., title 16, secs. 590h-590q, title 7, sec. 612c.

3. Conservation payments. To encourage soil building practices may be made on the basis of the acreage affected or of the tonnage of fertilizer used. U.S.C., title 16, sec. 590h-590q. During fiscal year 1942 production adjustment allowances and conservation payments amounted to approximately \$436,000,000. (See attached chart "Table 5")

4. Deductions. Payments are subject to two kinds of deductions. First, there is a deduction for planting in excess of allotments. (The 1943 program fixes deductions for planting cotton, wheat and tobacco in excess of allotments at ten times the rate of pay for production adjustment allowance. In other words, if a farmer plants 10% above his allotment of these crops, he will lose his entire crop payment.) Second, a deduction may be made for planting less than the allotment. This provision is important with respect to war crops. The 1943 program provides that if a farmer fails to meet 90% of the war crop goals for his farm, deductions will be made from his crop payment at the rate of \$15 per acre. U.S.C., title 16, sec. 590h(b) and Appropriation Acts provisions.

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5. Payment limitation. Production adjustment allowances and conservation payments are made pursuant to the provisions of secs. 7-17 of the Soil Conservation and Domestic Allotment Act, as amended. They are limited to \$10,000 (except with respect to Irish potatoes and truck crop payments). This limitation does not apply to parity payments. However, production adjustment allowances, etc., are taken into consideration in computing the amount of parity payments.

III. MISCELLANEOUS PROGRAMS

A. Import Quotas

Section 22 of the Agricultural Adjustment Act of 1933, as amended (7 U.S.C., sec. 624), authorizes the President to impose import quotas with respect to commodities subject to the agricultural control laws whenever he determines that imports of such commodities may interfere materially with programs or operations under such laws. The President's proclamation must be made on the basis of investigations and determinations of the Tariff Commission. The President may modify or suspend such quotas upon the results of further investigations and determinations of the Commission.

On September 5, 1939, import quotas were imposed with respect to cotton and cotton waste at 50% of the average annual imports of these commodities from 1929 to 1933. By proclamations of December 19, 1940 and June 29, 1942, the quotas were suspended with respect to cotton with staples of 1-11/16 inches and 1-1/8 inches or more, respectively.

On May 28, 1941, import quotas were imposed with respect to wheat and wheat flour at 50% of the average annual imports of these commodities from 1929 to 1933. After minor exemptions from the quota were made by the proclamation of April 13, 1942 for seed, experimental, and other purposes, the quotas were suspended on April 29, 1943, in so far as they apply to purchases by the War Food Administrator or agencies designated by him. The wheat quota restriction remains in force against commercial imports.

B. Revolving Fund for Export Subsidies and Domestic Consumption Program.

Section 32 of the Act of August 24, 1935, as amended (7 U.S.C., sec. 612c), permanently appropriates an amount equal to 30% of gross customs receipts as a revolving fund to encourage the exportation of agricultural

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commodities, increase the domestic consumption through other than trade channels, and increase the production of deficit commodities for domestic consumption. These purposes are achieved through export benefit payments, through purchase and distribution programs of the Federal Distribution Administration, and through incentive payments to producers for commodities required for domestic consumption. While the revolving fund has been supplemented from time to time by specific appropriations, no additional appropriation is contained in the 1944 appropriation bill.

Surplus commodities have been taken from normal trade channels by purchases for distribution under the Food Stamp Plan, the school milk and lunch programs, and for diversion to by-products and new uses. In this respect, the program has served to implement other price-support activities and has supplemented other subsidy measures to assist farmers in reaching parity income.

Recent data indicate that the Food Stamp Plan has been discontinued and that the estimated \$96,000,000 for the 1944 program will be used largely for the school milk and lunch programs, although \$5,000,000 has been allocated for payments on exports of wheat flour. A supplemental budget estimate of the President, dated February 2, 1943 (H. Doc. No. 101, 78th Cong.), indicates that \$25,000,000 will be allocated to use for incentive payments for critical war crops.

(See Hearings, Senate Subcommittee on Appropriations, Agriculture Appropriation Bill for 1944, pp. 36, 37, 532 ff.)

REPORT OF CHIEF OF AGRICULTURAL ADJUSTMENT AGENCY 31

TABLE 5.—Rates of payment under 1941 and 1942 conservation and parity-payment programs

Commodity or type of crop	1941		1942	
	Agricultural conservation program	Parity payment program	Agricultural conservation program	Parity payment program
Cotton.....pound..	\$0.0137	\$0.0138	\$0.012	
Corn.....bushel..	.09	.05	.055	\$0.111
Wheat.....do..	.08	.10	.099	.135
Potatoes.....do..	.023		.018	
Peanuts.....ton..	2.25		1.25	
Rice.....cwt..	.055	.50	.024	
Tobacco:				
Flue-cured.....pound..	.008	.008	.005	
Burley.....do..	.008		.005	
Fire-cured.....do..	.015	.002	.013	
Dark.....do..	.01		.008	
Virginia sun-cured.....do..	.008		.005	
Cigar (41).....do..	.005		.004	
Cigar (52).....do..	.01		.008	
Other cigar.....do..	.008	.007	.005	.007
General diversion.....acre..	1.10			
General and nondepleting ¹.....do..	.70		.70	
Nondepleting (A) ².....do..	.50			
Vegetables (commercial) ³.....do..	\$ 2.00		\$ 1.70	
Orchards (commercial) ⁴.....do..	1.80		2.00	

¹ To be earned by soil-building practices.

² \$1.50 per acre for not exceeding allotment, 70 cents per acre to be earned by soil-building practices.

TABLE 6.—Rates in 1941 and 1942 for computing soil-building allowances

Item	Rate in—	
	1941	1942
Cropland (except in orchards) in excess of special allotments, sugar beets and sugarcane, per acre.....	\$0.70	\$0.70
Nondepleting acreage in area A, per acre.....	.50	
Pasture and range land.....	(¹)	(¹)
Commercial orchards, per acre.....	1.80	2.00
Commercial vegetables, per acre ²	.70	1.00
Restoration land, per acre.....	.45	1.50
Forestry (planting forest trees), per farm.....	15.00	15.00

¹ In areas B and C only (deficit general in crop area).

² Varies by area.

³ Vegetable allotments were established in 1941 but not in 1942.

⁴ To be earned only by carrying out practices on restoration land.

From House hearings on the 1944 Agriculture
Department Appropriation Bill.

Parity payments—indicated amounts required for payments under the 1942 crop
parity-payment program based on 1942 allotments, yields, and estimated partici-
pation

Commodity	1942 normal yield	Esti- mated 1942-43 season average parity price ¹	1942 agri- cultural conser- vation program pay- ment rate	1942 loan rate	Esti- mated 1942-43 season average price ²	Indi- cated 1943 parity pay- ment rate	1942 average allot- ment	Esti- mated percent partici- pation 1942	Calcu- lated amount required for pay- ment ³
		Cents	Cents	Cents	Cents	Cents	1,000 acres	Percent	Thousands dollars
Cotton..... pounds..	238	19.22	1.2	16.02	19.22	.....	27,485	.....	.....
Corn..... bushels..	36.8	94.9	5.5	79.7	72.8	9.7	41,338	72.8	106,686
Wheat..... do.....	12.4	137.0	9.9	114.0	104.5	13.1	58,000	82.8	73,975
Rice..... hundredweight..	22.1	280.0	2.4	233.0	326.4	.....	1,200	.....	.....
Tobacco (cigar)..... pounds..	1,116	18.1	.6	.....	17.05	.45	92.8	82.0	382
Total.....	.....	.....	.....	.....	.....	.....	.....	.....	\$ 181,043*

¹ Nov. 15, 1942, prices.

² Assuming farm payments based on 1942 allotments and yields and conditioned upon 1942 performance only.

³ For commercial area only.

⁴ Oct. 15 price for North Central region.

⁵ Does not include administrative expenses.

Estimated payments under the 1942 parity-payment program (based on 1941 crop
prices)

Commodity	Rate of payment	Estimated 1942 pay- ment
		Thousands of dollars
Wheat.....	12.5 cents per bushel..	870,568
Corn.....	11.1 cents per bushel..	120,483
Tobacco.....	0.7 cent per pound.....	608
Total.....	.....	197,659

*Reduced to approximately \$170,000,000
by Senate----bill now in conference.

Agricultural conservation programs: Acreage allotted, rates of payment and estimated payments 1942 and 1943 programs

Commodity	1942 agricultural conservation program				1943 agricultural conservation program			
	Acreage allotted	Rate of payment		Estimated payment	Acreage allotted	Rate of payment		Amount allotted
		Unit	Amount			Unit	Amount	
	Thousand acres		Cents	Thousand dollars	Thousand acres		Cents	Thousand dollars
Cotton.....	27,485	Lb.....	1.2	78,833	27,281	Lb.....	1.1	77,223
Corn.....	41,334	Bu.....	5.5	66,139	43,423	Bu.....	3.6	50,269
Wheat.....	55,000	Bu.....	9.9	57,235	55,000	Bu.....	9.2	59,584
Potatoes.....	1,740	Bu.....	1.8	4,496		Bu.....		
Peanuts.....	1,610	Ton.....	125.0	702	1,610	Ton.....	110.0	791
Rice.....	1,200	Cwt.....	2.4	623	1,380	Cwt.....	2.0	651
Tobacco:								
Fine-cured (11-14).....	841.2	Lb.....	.5	4,136	845.2	Lb.....	.4	3,483
Burley (31).....	383.0	Lb.....	.6	1,949	423.9	Lb.....	.4	1,702
Fire-cured (21-24).....	84.7	Lb.....	1.3	981	83.2	Lb.....	1.2	1,002
Dark (35, 36).....	36.1	Lb.....	.8	253	36.3	Lb.....	.7	250
Virginia sun-cured (37).....	3.1	Lb.....	.6	12	3.1	Lb.....	.5	14
Pennsylvania (41).....	30.5	Lb.....	.4	104	30.5	Lb.....	.4	119
Georgia-Florida (62).....	2.9	Lb.....	.8	10	2.9	Lb.....	.7	15
Other cigar (42-44, 51-53).....	62.2	Lb.....	.6	491	62.2	Lb.....	.5	416
Soil and range building ¹				180,616				193,806
Total.....				396,580				389,703

¹ Includes insular region and naval stores.

June 22, 1943

Secretary Morgenthau
Randolph Paul

Attached is a newspaper clipping on the statement
by Senator George in respect to compulsory saving.

He certainly contradicts things that he has said
in private conference with us.

(Initialed) R.E.P.

REP/kfa

WASHINGTON DAILY NEWS - June 21, 1943

He Wants It to Become Law This Year

Sen. George Sees Tragedy Ahead If Compulsory Saving Is Not Voted

By MARSHALL McNEIL



Marshall McNeil

will be next to impossible to raise any appreciable new revenue thru the regular income tax, particularly in the higher brackets.

But it would not be so difficult to place additional levies on incomes if the taxpayer were assured he was merely lending the Government his money, and would get it back after the war.

Up to now, the Treasury, in its borrowing has relied exclusively on voluntary purchases of bonds. A compulsory saving program, Sen. George said, would practically kill voluntary purchases of bonds by individuals. "For this reason," he added, "I have heretofore been willing to go along with the Treasury view."

NOT GREAT OBSTACLE

This in itself does not constitute an insurmountable obstacle to compulsory saving. But it does mean that if compulsory saving were enacted, the rate would have to be high enough not only to raise as much money as the Treasury is borrowing by voluntary means, but also to drain off much of the excess purchasing power that is threatening the price structure and leading toward uncontrolled inflation.

This poses the job of educating people to a necessarily lower standard of living during the war.



Sen. George

"It will be one of the great tragedies of this war if, by the first of the year, some sort of compulsory saving plan, or adequate post-war credits system, is not in effect," Sen. Walter F. George (D., Ga.), chairman of the Senate Finance Committee, said today.

The Senator, whose power in framing tax laws is growing steadily, believes the post-war credits system must be applied to individuals, and perhaps to corporations as well.

He is convinced, he said, that compulsory saving for individuals is necessary now to help close the widening inflationary gap. Moreover, thru it necessary purchasing power can be placed in the hands of war workers when victory has killed off their munition jobs.

Because of enactment of the current tax-collection law, Sen. George believes it

SOBERLY DISAPPOINTED

Sen. George believes that unless the Administration comes around to supporting a compulsory saving plan it will be sorely disappointed at the small amounts of revenue that can be raised in a new tax bill.

Sen. George believes that compulsory savings rates will have to be the same for all individuals, even those whose incomes have not increased as a result of the war.

He is familiar with the Roosevelt-Morgenthau opposition to compulsory savings, but from other sources it is learned that the President's new tax and economic advisers—Justice Byrnes, the War Mobilization Director, and Justice Vinson, the Economic Stabilization Director—share with the Georgia Senator the view that the voluntary bond sales program should now be supplanted, or replaced, by some type of compulsory saving.

Sen. George is the author of the existing Victory Tax. It is a mild type of enforced lending, under which taxpayers can get certain refunds after the war. This type of tax might be extended, the rates boosted, and the exemptions circumscribed to attain Sen. George's goal.

But, more commonly, compulsory saving is regarded as a plan under which a taxpayer pays certain fixed segments of his income into the Treasury at stated intervals, and receives in return Government bonds, non-interest-bearing, and non-negotiable as long as the war lasts. After the war, they could be cashed in at stated intervals, so fixed as not to put too great or sudden a drain on the Treasury or on our post-war economy.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

June 22, 1943

TO Secretary Morgenthau

FROM Randolph Paul

The attached memorandum from Mr. Blough is
well worth reading.



June 21, 1943

MEMORANDUM FOR MR. PAUL

From: Mr. Blough

Subject: Compulsory Lending

In the light of the recent discussion of compulsory lending two points need to be emphasized. The first is that voluntary lending has not yet demonstrated that it can withdraw enough spending power from the lower and middle incomes unassisted by compulsory lending. Many friends of voluntary lending think it will not be able to do so. If they prove to be right, the Treasury should know more about compulsory lending than anyone else anywhere. Moreover, it should not have placed itself in a position of not being able to propose compulsory lending as a supplement to the voluntary program.

The second point is that compulsory lending is a term covering a number of dissimilar things. Objections which may probably be brought against one kind of compulsory lending are not necessarily applicable to other types.

Among the respects in which compulsory lending plans may differ are (1) the base on which the compulsory loan is computed, (2) the total amount of money raised by the compulsory loan and the persons from whom it is raised, (3) provisions for relief from hardships, and (4) the name that is given to the compulsory loan.

1. A commonly recommended base for computing the compulsory loan is net income above exemption. There are, however, several other possible bases. Increases in income could be used as a basis for a compulsory loan. Last year you recommended that part of the spendings tax be treated as a compulsory loan. Even the sales tax has been proposed as a method of imposing compulsory loans. The total net worth of the individual is another possibility. However,

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difficult, if not insurmountable, constitutional and administrative difficulties presumably account for the lack of consideration given to it.

2. The objective of compulsory lending and accordingly the amount proposed vary widely. Compulsory lending might be recommended as a complete substitute for voluntary lending by individuals. This would require amounts far in excess of anything thus far proposed. Or, secondly, a substantial compulsory loan might be imposed on all incomes from top to bottom to yield amounts up as high as \$12 billion, as in recent proposals. Finally, the compulsory loan might be a postwar credit for the lower brackets of the income tax. This is the form used in England and with some modification in Canada.

3. The inflexibility of the compulsory loan is one of the principal disadvantages. To meet this defect a proposal has been made that for persons whose incomes have not been increased, or for other persons who could demonstrate need, the loan be in the form of cashable bonds instead of in the form of noncashable bonds.

4. Finally, it makes a great deal of difference what the compulsory loan is called and the attitude that is taken toward it. If the official position is that the compulsory loan takes the place of the voluntary loan and will destroy the voluntary system, no doubt this result will occur. If, however, the loan is called a postwar credit, as in England, it may very well be accepted as a tax and not as competitive with the voluntary system. If the loan is called "a minimum lending requirement," as in Canada, the voluntary lending system should be able to function on top of the universal loan in the minimum lending requirement. It is very unfortunate that the phrase "compulsory loan" or "compulsory saving" has been given wide public circulation as both of these phrases have very bad effect on public attitude. If a compulsory loan is used it should certainly be called by some less objectionable name.

Any lending program to yield the required volume of loans from the right income levels must involve coercion

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and compulsion of one kind or another. A question is whether legal compulsion which is inflexible but operates under rules and regulations is preferable to the erratic and often very unjust compulsion of social and economic ostracisms. A judiciously devised scheme of compulsory lending -- for example, the postwar credit as used in England -- may have substantial advantages and may avoid many of the objections which can be raised to certain types of compulsory lending. Forced lending of such a kind would not necessarily interfere with new taxes because it might be added on to the maximum tax program which Congress would be willing to accept and might make possible larger non-refundable taxes in the higher brackets than Congress would otherwise impose.

A compulsory lending program need not supplant the voluntary program. It may actually supplement it. A minimum savings requirement in the form of noncashable bonds should not destroy the sale of cashable securities above that minimum program. Indeed, morale may be better under a compulsory loan because everyone would know that everyone else was making at least a minimum contribution.

It would seem highly desirable that further study of compulsory lending be carried on in the Treasury among the various Research Divisions and that consultation and perhaps joint study with agencies outside the Treasury might prove very desirable.

United States of America
TREASURY NOTES - TAX SERIES

A-1943, A-1944,

A-1945

1945
Department Circular No. 715

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, ~~June~~ 22 1943

Fiscal Service
Bureau of the Public Debt

I. TERMINATION OF SALE OF SERIES A-1945.

1. The sale of Treasury Notes of Tax Series A-1945, dated September 1, 1942, pursuant to Department Circular No. 695, dated September 12, 1942, will terminate at the close of business on June 22, 1943.

II. CASH REDEMPTION OF NOTES OF TAX SERIES
COVERED BY THIS CIRCULAR.

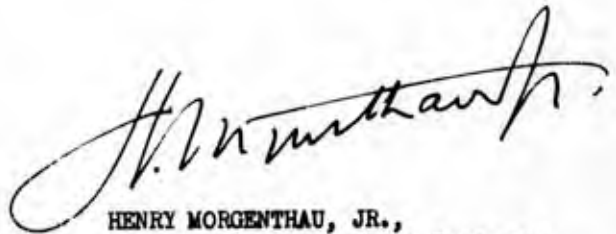
1. Notwithstanding the provisions of Department Circulars No. 667, dated July 22, 1941, as amended, No. 674, dated December 15, 1941, and No. 695, dated September 12, 1942, limiting to their issue price the cash surrender value of Treasury Notes of Tax Series A-1943, dated August 1, 1941, Tax Series A-1944, dated January 1, 1942, and Tax Series A-1945, dated September 1, 1942, any such notes will be accepted, at the option of the owners, at any time at or prior to maturity for cash redemption at their tax payment value current at the time of presentation. Treasury Notes of Tax Series A-1943 mature August 1, 1943, those of Tax

- 2 -

Series A-1944 mature January 1, 1944 and those of Tax Series A-1945 mature September 1, 1945; no interest will accrue after the maturity of the notes.

2. The cash redemption value hereunder during any month is the same as the tax payment value for that month as shown in the table on the back of each note and as shown in the tables appended to the respective issue circulars.

3. Notes presented for payment hereunder must have the requests for payment properly executed and must be surrendered, at the risk and expense of the holder, to the Federal Reserve Bank or other agency that issued the particular notes.



HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Filed with the Federal Register
June 23, 1943 - 11:18 A.M.
Federal Register Series No. 1988

United States of America

TREASURY SAVINGS NOTES

Series C

1943
Department Circular No. 696
First Amendment

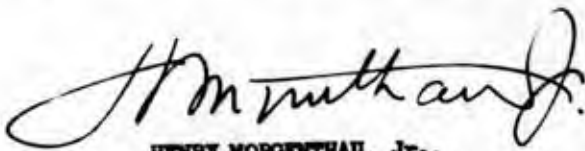
TREASURY DEPARTMENT
Office of the Secretary
Washington, June 22, 1943

Fiscal Service

Bureau of the Public Debt

1. Notes of the United States issued pursuant to Department Circular No. 696, dated September 12, 1942 and heretofore designated Treasury Notes of Tax Series C shall hereafter be designated Treasury Savings Notes, Series C, and said circular is amended to conform to such new designation.

2. The sale of notes issued under the provisions of Circular No. 696 as hereby amended, will continue until further notice. The issue of such notes bearing the designation "Treasury Notes of Tax Series C" will be continued until existing stocks are exhausted, after which notes with the designation "Treasury Savings Notes, Series C" will be issued.



HENRY MORGENTHAU, Jr.,
Secretary of the Treasury

Filed with the Federal Register
June 23, 1943 - 11:18 A.M.
Federal Register Series No. 1987

UNITED STATES OF AMERICA
TREASURY NOTES—TAX SERIES
A-1943, A-1944, A-1945

1943
Department Circular No. 713
Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, June 22, 1943.

I. TERMINATION OF SALE OF SERIES A-1945

1. The sale of Treasury Notes of Tax Series A-1945, dated September 1, 1942, pursuant to Department Circular No. 695, dated September 12, 1942, will terminate at the close of business on June 22, 1943.

II. CASH REDEMPTION OF NOTES OF TAX SERIES COVERED BY THIS CIRCULAR

1. Notwithstanding the provisions of Department Circulars No. 667, dated July 22, 1941, as amended, No. 674, dated December 15, 1941, and No. 695, dated September 12, 1942, limiting to their issue price the cash surrender value of Treasury Notes of Tax Series A-1943, dated August 1, 1941, Tax Series A-1944, dated January 1, 1942, and Tax Series A-1945, dated September 1, 1942, any such notes will be accepted, at the option of the owners, at any time at or prior to maturity for cash redemption at their tax-payment value current at the time of presentation. Treasury Notes of Tax Series A-1943 mature August 1, 1943, those of Tax Series A-1944 mature January 1, 1944, and those of Tax Series A-1945 mature September 1, 1945; no interest will accrue after the maturity of the notes.

2. The cash redemption value hereunder during any month is the same as the tax-payment value for that month as shown in the table on the back of each note and as shown in the tables appended to the respective issue circulars.

3. Notes presented for payment hereunder must have the requests for payment properly executed and must be surrendered, at the risk and expense of the holder, to the Federal Reserve Bank or other agency that issued the particular notes.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

(Filed with the Division of the Federal Register, June 23, 1943)

UNITED STATES OF AMERICA
TREASURY SAVINGS NOTES
Series C

1943
Department Circular No. 696
First Amendment

Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, June 22, 1943.

1. Notes of the United States issued pursuant to Department Circular No. 696, dated September 12, 1942, and heretofore designated Treasury Notes of Tax Series C shall hereafter be designated Treasury Savings Notes, Series C, and said circular is amended to conform to such new designation.

2. The sale of notes issued under the provisions of Circular No. 696, as hereby amended, will continue until further notice. The issue of such notes bearing the designation "Treasury Notes of Tax Series C" will be continued until existing stocks are exhausted, after which notes with the designation "Treasury Savings Notes, Series C," will be issued.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

(Filed with the Division of the Federal Register, June 23, 1943)

6/22/43



Office of the Postmaster General
Washington, D. C.

The President:

The undersigned members of the Board of Trustees of the Postal Savings System hereby respectfully request that they be authorized to purchase bonds to the aggregate amount of three hundred million dollars, par value, in addition to securities already authorized to be purchased, embracing any or all of the classes described below:

- (1) Bonds or other securities of the United States.
- (2) Bonds of the Federal Farm Mortgage Corporation authorized by Act of Congress approved January 31, 1934, fully guaranteed both as to principal and interest by the United States.
- (3) Bonds of the Home Owners' Loan Corporation authorized by Act of Congress approved April 27, 1934, fully guaranteed both as to principal and interest by the United States.

Power to grant the authority desired is conferred upon the President by the Act of May 18, 1916, amending the Organic Postal Savings Act; by the Federal Farm Mortgage Corporation Act, approved January 31, 1934; and by the Home Owners' Loan Act of 1933, as amended by the Act of Congress approved April 27, 1934.

Very respectfully,

Frederick A. C. [Signature]
Postmaster General

Attest:

[Signature]
Secretary of the Treasury
swb
[Signature]
Attorney General



Agent of the Board
Approved,



TREASURY DEPARTMENT
WASHINGTON

June 22, 1943

MEMORANDUM ON MEETING OF THE JOINT
COMMITTEE ON REDUCTION OF NON-DEFENSE EXPENDITURES

A meeting was called at 10:30 A.M., June 22, 1943, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senator Byrd
Congressman Taber
Bureau of the Budget:
Mr. Lawton
Reconstruction Finance Corporation:
Mr. Clayton, Asst. Secretary of Commerce
Mr. Mulligan, RFC
Mr. G. T. Bridgman, Executive Vice
President, Metals Reserve Company
Mr. S. H. Sabin, Vice President,
Defense Supplies Corporation.

There were two other members of the Legislature present, whose names are not known.

The meeting was opened at 10:30 A.M. Congressman Taber left at 11:20 A.M. The Committee reporter made a stenographic transcript of the meeting. Reporters were present.

Senator Byrd opened the meeting and said that Secretary Jones had been requested to appear before the Committee to furnish certain information concerning the relationship of activities between the RFC and the BEW. Assistant Secretary of Commerce Clayton said he was appearing in Mr. Jones' place; that Mr. Jones had been unexpectedly delayed, and hoped to be able to reach the meeting before it adjourned. However, Mr. Jones did not appear.

Senator Byrd said he had addressed a letter on June 7 to Secretary Jones, requesting certain information. Mr. Clayton said he had a reply to such letter which he submitted for the record. Senator Byrd asked Mr. Clayton to read the reply.

Mr. Clayton said that RFC commitments for developments and purchases for account of the BEW amounted to \$350,000,000. He said that since Executive Order No. 9128, dated April 13, 1942,

FOR DEFENSE



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the BEW makes contracts and commitments and that during the period from July 1, 1940 to May 31, 1943 the RFC made commitments for rubber and other critical and strategic articles amounting to about \$3,400,000,000, of which total \$3,100,000,000 was made prior to Executive Order No. 9128. Up to the end of May, 1943, disbursements on foreign developments and purchases for critical and strategic materials amounted to \$1,573,000,000 and disbursements subsequent to Executive Order No. 9128 amounted to \$65,000,000.

Mr. Clayton read from a copy of Executive Order No. 9128, dated April 13, 1942, a description of the functions and duties placed upon the BEW under that Order and explained the purposes for such Order. He said the BEW gives directives to the subsidiaries of the RFC — the Metals Reserve Company, Defense Supplies Corporation, U. S. Commercial Company and Defense Plant Corporation — and these corporations make payments in accordance with such directives. He pointed out that the Executive Order directed the Board of Directors of the RFC subsidiaries to follow the directives issued by the BEW.

Mr. Clayton said he attends meetings of the BEW but that the Board never acts on directives given by Perkins, Paul and Rosenthal. He said practically all directives of the BEW are issued by Paul and Rosenthal. In reply to a question he said the Executive Order gives the powers of the Board to the Chairman or Executive Director of the Board and that Perkins, Paul and Rosenthal apparently act under authority delegated to them by the Chairman of the BEW.

In reply to a question as to what functions the Board performs, Mr. Clayton said it usually discusses different questions presented relating to general problems of economic warfare.

Senator Byrd asked whether the RFC always acquiesced to the directives of the BEW and Mr. Clayton said the RFC staff have sometimes requested the BEW to modify the terms, conditions, etc., of contracts initiated by the BEW. Senator Byrd asked whether the RFC was consulted by the BEW when such contracts were being negotiated. Mr. Clayton said members of the RFC staff were given opportunity to express their views which were seldom adopted and there were numerous instances where views have differed.

Senator Byrd asked whether moneys have been advanced by the RFC for other than materials. Mr. Clayton said, generally speaking, no funds have been advanced other than for materials except in some cases it was necessary to make payments for living quarters, etc., and machinery, materials, etc., necessary in connection with development projects.

Senator Byrd asked whether any BEW contracts required an increase in wages paid to persons in foreign countries. Mr. Clayton replied

- 3 -

that their contracts embody the so-called labor clause. Senator Byrd asked him to explain such clause and Mr. Clayton submitted for the record a copy of the contract for Balsa Wood which the Defense Supplies Corporation has with the International Balsa Corporation. Mr. Clayton explained that the clause required contractors

- (1) To comply with all local laws relating to wages, health, sanitation, etc.;
- (2) Pay wages not less than wages paid on any other comparable operation, or less than wages paid by other persons, whichever is higher;
- (3) Provide protection against accidents, etc.;
- (4) Furnish shelter, water, recreational facilities, etc., and
- (5) Assure existence of food supplies at reasonable cost.

Mr. Clayton said most of their contracts were agency contracts on the basis of cost-plus and fixed fee. He said the labor clauses differ to some extent and that all contracts are not on a cost-plus basis.

Senator Byrd asked for information concerning the number and amount of contracts and Mr. Bridgman, Executive Vice President of the Metals Reserve Company, said that his Corporation had approximately 400 foreign contracts outstanding, aggregating about \$1,000,000,000. He said initially \$1,800,000,000 had been contracted for, \$750,000,000 fulfilled and \$50,000,000 canceled. He said very few of the contracts contain provision for the payment of fixed fees on the basis of costs, but that the compensation to the contractor is usually based upon a fixed fee per item acquired, such as one contract, which he mentioned, was based on a payment of so much per pound of copper produced.

Congressman Taber asked whether the small contracts were on a fixed price basis and the large contracts on a percentage or cost-plus basis. This information could not be furnished and Senator Byrd suggested that the Committee be furnished copies of all such contracts for its examination. Congressman Taber suggested that the Committee did not need copies of all the contracts, which would involve an expense to the agencies, and suggested that the contracts be made available to one of the Committee's examiners. Mr. Clayton agreed that the Committee could send its investigator to review the contracts on file with the corporations.

- 4 -

Mr. Clayton said that U. S. Commercial Company had no agency contracts but most of its activities involve contracts for straight purchases, usually spot purchases.

In reply to a question by Senator Byrd, Mr. Bridgman said the Defense Plant Corporation had 7 or 8 foreign contracts in which the BEW had an interest.

After a discussion between Senator Byrd, Congressman Taber and Mr. Clayton, it was decided that the Committee would send an investigator to the RFC to examine contracts of RFC agencies in which the BEW was interested and would not require such agencies to file copies of all such contracts with the Committee.

Mr. Clayton was asked to explain what the U. S. Commercial Company did. He said the Company was organized in March, 1942 for preclusive purchases in the neutral countries, such as Portugal, Spain and Turkey, and its activities had been extended to other areas. Total purchases have been \$9,000,000 in Portugal, \$33,000,000 in Spain and \$17,000,000 in Turkey, or \$59,000,000 in all. Mr. Mulligan said that the Company had made total authorizations of \$238,000,000, of which \$40,000,000 had been canceled. Of the \$59,000,000 disbursed, \$8,000,000 has been repaid and there is \$51,000,000 outstanding.

There was a general discussion of other subsidiaries during which Mr. Mulligan supplied balance sheets as of March 31, 1943 for the Committee's records and explained the manner in which the administrative expenses on account of the subsidiaries were prorated by the RFC.

Senator Byrd said he had a list of a number of questions he wished to ask Mr. Jones and that he would revise such list and send it to Mr. Clayton in order that the information might be submitted for the record.

The meeting adjourned at 11:55 A.M.

mjk

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 22 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Effect of the War on Bank Earnings in the United Kingdom, Canada and the United States.

The attached table compares the movements of bank deposits, bank loans and Government security holdings, and of bank profits, in the United Kingdom, Canada and the United States for the four calendar years, 1939-1942.

In each of the three countries the major part of the four-year increase in deposits can be accounted for by increased holdings of Government securities. (Although the British and Canadian statistics do not report Government securities separately, it is a reasonably safe assumption that most, if not all, of the increases in investments of banks in those countries represent increases in Government security holdings.)

The earnings obtained by the banks from larger holdings of Government securities have, in all three countries, about offset increased expenses and diminished earnings from other sources. Profits of British banks were up slightly in 1942 as compared with 1941, while profits of Canadian banks were down slightly. Net profits of all member banks in the United States amounted to \$383 millions. This is a slight decline from 1941, but with that exception, is the largest since 1936. It amounts to 6.3 percent on invested capital.

Attachment

Comparison of Movements of Earning Assets,
Deposits, and Profits of Commercial Banks in
United Kingdom, Canada, and United States

	1939	1940	1941	1942
United Kingdom - 9 London Clearing Banks (Amounts in millions of pounds)				
Deposits	+171	+348	+517	+290
Discounts and advances	+125	-161	-193	-9
Investments	-11	+149	+220	+120
Treasury deposit receipts	-	+309	+436	+138
Capital and surplus (end of year)	135	136	136	137
Net profits	10.6	9.7	8.2	8.6
Ratio of profits to capital and surplus	7.8%	7.1%	6.0%	6.3%
Canada - 10 Chartered Banks (Amounts in millions of Canadian dollars)				
Deposits payable in Canada	+274	+31	+300	+552
Loans in Canada	+136	+7	+53	-2
Securities	+183	-115	+228	+534
Capital and surplus (end of year) ^{1/}	277	277	278	280
Net profits ^{1/}	13.8	13.1	13.1	12.4
Ratio of profits to capital and surplus ^{1/}	5.0%	4.7%	4.7%	4.4%
United States - All Member Banks (Amounts in millions of dollars)				
Deposits	+3,670	+5,101	+4,586	+15,438
Loans	+754	+1,359	+2,700	-1,933
Government securities	+1,106	+1,495	+3,716	+18,007
Other investments	+11	+332	-22	-332
Capital and surplus (end of year)	5,522	5,698	5,886	6,101
Net profits	347	349	390	383
Ratio of profits to capital and surplus	6.3%	6.1%	6.6%	6.3%

^{1/} Nine banks.

June 22, 1948

My dear Mr. President:

I thought you would be interested
in a report which goes to our State
Organizations on "Redemptions of Savings
Bonds".

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

By Messenger *Schuy 4:15*

(File in Diary)

WAR FINANCE BULLETIN

Office of the Secretary of the Treasury

Issue No. 1

June 19, 1943

Redemptions of Savings Bonds

A lot of loose, uninformed talk on the subject of Savings Bonds redemptions has crept into the news. The effect has been to create in some quarters an impression that redemptions have become a menace to the success of the voluntary savings campaign. Nothing could be farther from the truth. Here are the facts.

Between May 1, 1941, when United States Savings Bonds Series E, F and G were first issued, and May 31, 1943, cash receipts from the sale of these issues have exceeded \$17½ billions. Cumulative redemptions for this period amounted to \$700 millions -- or only 4 percent of sales. In other words, about 96 percent of the funds invested in these securities since they were first offered for sale is still invested in them.

The record on Series E -- the people's bond -- is almost as good -- a notable achievement indeed when one takes into consideration the kind of money these bonds in large part represent. Between May 1, 1941 and May 31, 1943, sales of Series E bonds amounted to \$11.3 billions.

Information Service for State War Finance Committees

- 2 -

Cumulative redemptions have amounted to \$623 millions -- or only 5.5 percent of sales. About 94.5 percent of the funds received from the sale of E bonds, therefore, is still invested in those securities.

The figures for monthly redemptions are even more heartening, and indicate there is no substance to the talk about the growing magnitude of the redemption problem. Last March redemptions for E, F and G bonds taken together amounted to 87/100 of 1 percent of the securities outstanding; in April they amounted to 61/100 of 1 percent; and in May to only 58/100 of 1 percent. The figures speak for themselves.

There will be an appreciable increase in redemptions in June, but the reason will be the same as for the increase in March -- i.e., the necessity of making a payment on the 1942 Income tax.

Redemptions of War Bonds for the first 5 months of 1943 have increased over those for the corresponding period of 1942. But this is to be expected. Most of the increase has been due to the larger volume of securities outstanding. It has not been due to a growing widespread desire to cash in Savings Bonds.

With Pay-as-you-go in effect starting July 1, there will be less need to cash in Savings Bonds to meet quarterly Income tax payments. The vast majority of taxpayers will soon be current. Others will have smaller quarterly instalments to pay. This should result in reducing considerably the number of redemptions for tax payment purposes.

The fear has been expressed in some quarters that Pay-as-you-go will cut into bond purchases and increase the number of redemptions. This should be a temporary phenomenon and should pass as soon as individuals become accustomed to the new tax-paying system. The new Withholding tax is not really a new tax at all. It is not a tax in addition to existing taxes. It is simply a change in the mechanism of collecting taxes. The ability to forego saving for taxes from now on should make it all the more easier to save for other things -- War Bonds, for instance.

Harold Mager
Technical Assistant
Office of the Secretary

June 22, 1943

MEMORANDUM TO THE MEMBERS OF THE
STATE WAR FINANCE COMMITTEES.

From: Henry Morgenthau, Jr.,
Secretary of the Treasury

On September 9th we will launch the Third War Loan Drive.

I am calling this to your attention now because of the magnitude of the job ahead. If we are to succeed, it is essential that we start now to shape our organization. We have no time to lose.

We will spend a total of about \$52 billions between July 1st and the end of the calendar year. Right now, today, it is costing \$240 millions a day to equip our men and take care of other necessary war expenditures. This is nearly \$100 millions a day more than we were spending last year at this time.

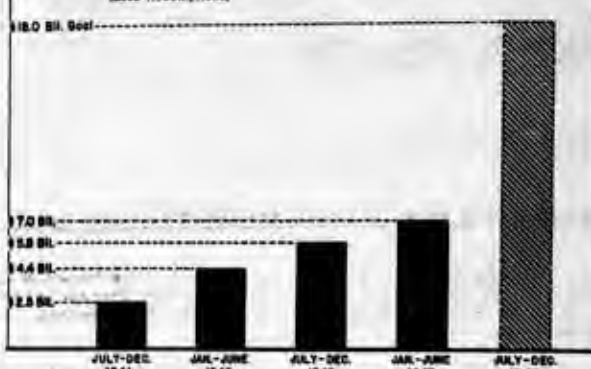
During the last half of the year, it will be necessary for us to get far more from the people than ever before. Unless we are able to get more taxes before the end of the year, we are going to have to sell more than twice as much in bonds to individuals as we did in the first half of the year.

Asking you to take on the job of getting twice as much money from individuals may look as though we are setting an impossible task; but it is possible.

Unquestionably, the money will be there. It will be available in the approximately \$23 billions of savings of individuals, who will be earning \$72 billions during the last half of the year. We are going after the greatest portion of these savings, because it is necessary for us to get this money either through bonds or taxes not only to finance the war, but to protect ourselves against inflation.

The accompanying chart shows the size of the job we have ahead of us. We more than met the requirements of this plan for the first part of the year, and we will still be ahead of the program at the end of June. Therefore, we are more than meeting our quotas. The large jump in the July-December period below will be made possible by a large increase in expected national income (from \$64 billions in first half to \$72 billions in last half) and the increasingly critical shortage of goods to buy.

Total Sales of War Bonds to Individuals
(Less Redemptions)



I am sure we will be able to swing this tremendous job if we all work together, and I have good reasons for my confidence. First, we have proved we have the will to do it. During the Second War Loan Drive in April, we asked individual investors to buy \$2½ billions worth of bonds, and they bought \$3½ billions. We asked insurance companies, corporations, and other large investors for \$5½ billions, and they invested nearly \$10 billions. We asked for volunteers to take over the job of selling bonds to their friends and neighbors, and more than a million men and women in the United States became voluntary bond salesmen. We asked for advertising support, and magazines, newspapers and business people gave us millions of lines.

When the final score was in, we found that all the forces working together in the Second War Loan Drive had produced almost as much as the total amount raised during all of the five bond drives in World War I.

Selling the huge amount in bonds called for in our new program will require a larger and even more efficient sales force than we have ever had before. We will have to sell bonds to nearly every man, woman, and child in America. We will have to promote the sale of bonds 24 hours a day, and solicit -- and follow up these solicitations -- from house to house, from bench to bench in factories, and from desk to desk in offices. We need the cooperation of all the people everywhere -- especially the unstinted, enthusiastic cooperation of labor and management, for to do the job ahead we must not only increase the results of the payroll savings plan, but sell more extra bonds every payday, to more people in more plants.

When I say that our bond goal is twice as much as in the first six months, that doesn't mean that every family is

going to have to set aside arbitrarily twice as much. Under the voluntary plan, we leave it to families themselves to decide how much they can spend for bonds. Families with heavy pre-war commitments, mortgages and insurance, and so on, may not always be able to afford twice as much as before. But folks who are earning more than their usual amount of money will be able to invest even more, and it is the job of the sales organization to see that they do.

As you know, many people with larger than usual wages are already putting high percentages of their pay into bonds. In some cases, where more than one member of the family is working or where the head of the family has a war job at good pay, the percentage of War Bond buying is running to half, or more, of the family income. Many women in war jobs, with husbands working, are investing 100 percent of their pay in War Bonds. Those aren't isolated cases by any means. In April I visited one war plant where 23 percent of the total payroll was going into bonds.

During the coming months we are going to be faced with a few new hurdles, but I believe they are chiefly temporary, and I think they will be offset by the enthusiasm that will come with the invasion of Europe. The withholding tax, at the moment, seems to be a great threat, but in the opinion of most people experienced in bond selling, its bark may prove to be worse than its bite. The Victory tax was greatly feared before it was levied, but sales did not suffer as anticipated. Similarly, we do not expect the new method of collecting Income and Victory taxes will have a serious effect upon sales.

We may have increased taxes before the end of the year, although it is not likely that a new tax bill can be enacted before this Fall, and it should not be retroactive.

I know that nobody likes high taxes, but this is war, and I sincerely believe that taxes ought to be large enough to pay a large share of the war costs. Taxes should cover something like half of our war expenses. They're not covering nearly that much now. On the other hand, we can't get much more than half the money through taxes because, on such a huge scale, taxes can't be levied with fairness.

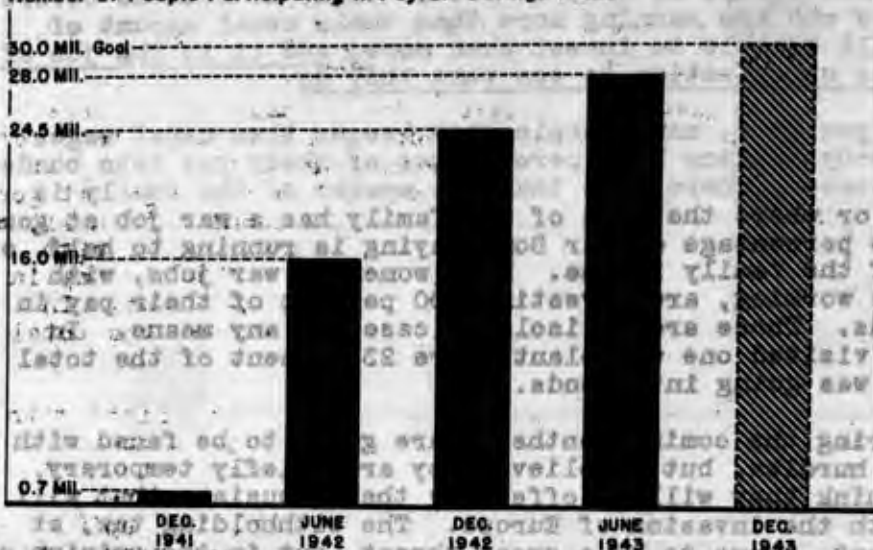
The same holds true for compulsory savings, and that's why the Treasury policy, in which the President concurred in his press conference on June 11, is to rely upon bond sales for the remaining amount. Bonds are flexible. They allow for the personal obligations which some may have, which may be entirely different from the obligations of others.

Now, how are we going to raise twice as much money from individual investors in the next six months?

First, we must expand the payroll savings plan. It should produce month-in and month-out at least 50 percent more than at present. Whether it will produce so much de-

pende squarely upon Labor and Management working together to make the payroll plan work at top efficiency in every plant in the nation.

Number of People Participating in Payroll Savings Plans



The Third War Loan, starting September 9, will aim at raising the largest amount of money from individuals that any drive has raised in the history of the world. Our goal for individuals in this September drive will be to get a substantial part of the necessary money.

In a subsequent drive, and during the four months in which there are no war loan drives, through payroll savings and other continuing sales, we will aim to get the rest of the goal set for individual investors.

I don't believe this is too much to ask of the American people. The incomes received by all of us will be so much greater than the sum total of all the things that we can buy that money will be at hand to purchase the necessary bonds and still pay taxes, life insurance, mortgage obligations, doctors' bills, and to make all the rest of the necessary expenditures.

We know now what this war is going to cost this year. We know about how many planes and tanks and ships we'll need. We know approximately how many men we will have in our armies and how much equipment we'll have to provide for them.

We know those things because our days of guesswork are over. We know exactly what we are going to do and how we're going to do it. From now on, we are going to do the planning -- and the attacking. And I fervently hope that we can continue to work out our financing plans together and keep them on a voluntary basis. But, in the final analysis, that is up to you and the American people.

Wm. V. Roth

60

WU1 25 GOVT 4 EXTRA DUPLICATE OF TELEPHONED TELEGRAM

1943 JUN 22 AM 7 41

WUX BD WASHINGTON DC JUN 21 1943 708P

HON HENRY MORGANTHAU

SECRETARY OF TREASURY

ECONOMIC STABILIZATION BOARD MEETING WILL BE HELD THURSDAY JUNE 24
AT 11:00 AM ROOM 1202 FEDERAL RESERVE BUILDING USE C STREET
ENTRANCE

FRED M VINSON.

6/22/43

URPA

Hmp will try
otherwise Durrell
will attend

6/24

Hmp. Attended

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

JUN 22 1943

TO Secretary Morgenthau
FROM Mr. Paul

In accordance with the existing instructions, there is submitted herewith a summary report of activities and accomplishments carried on by the Legal Staff for the month of April 1943.

A handwritten signature in dark ink, appearing to be 'BSP' or similar, written in a cursive style.

Attachment.

IN THE OFFICE OF THE GENERAL COUNSEL
APRIL 1943.

APPENDIX A

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Taxability of Subsistence Expenses and Per Diem Payment to Dollar-a-Year Men of the Federal Government. Individuals rendering services to agencies of the Federal Government (WAR SHIPPING ADMINISTRATION) in connection with the war effort (so-called dollar-a-year men) receive, under their contracts with the Government, in addition to actual transportation and other necessary expenses incurred while on Government business, specific per diem amounts. It has been held that these specific per diem payments are compensatory and constitute gross income of the recipients, and that they are subject to the withholding provisions of the Victory tax. It has been held also that the allowances or reimbursements of subsistence expenses while in travel status on official business should be included in gross income (but not subject to the withholding provisions of the Victory tax), and (1) that if such an individual continues to carry on his private employment at his original place of business and renders only intermittent service to the Federal Government,

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it will be considered that his "home," for Federal income tax purposes, continues to be his original place of business and any traveling expenses while on Government business away from such "home" are deductible business expenses; (2) that even though the services rendered the Federal Government are substantially continuous, the same treatment will be accorded such expenses, provided the individuals have not severed their connections with the private organizations and continue to render active services to such organizations; but (3) that if an individual serving the Federal Government has severed his connection with the private organization which he previously served or if he does not continue to render active service to the private organization with which he is connected, it will be considered that his "home" is at Washington or such other post of duty as is designated by the Federal agency which he is serving, and the amounts expended for meals and lodging at such post of duty are not deductible in computing net income. (4) Moreover, it has been held that in the case of an individual serving Federal agencies outside the United States, it will be considered that traveling expenses, including the cost of meals and lodging, are incurred while away from "home" and will be deductible, provided it appears that the assignment outside the United

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States is solely for the purpose of doing a certain job and is of a temporary nature.

2. Taxability of Funds Withheld Under Federal Retirement Act. CECIL W. TAYLOR; MALCOLM D. and MARTHA ANN MILLER cases have been tried by the Tax Court and briefs filed. The question involved is whether the amount withheld from the basic salary of a government employee under the Retirement Act is taxable income. The position of the government is that such amount is taxable; that the withholding of the amount is for the future benefit of the employee and represents an investment or assignment of his income for the purchase of property, namely, a right to a future annuity; further, that the employee's interest in the retirement fund is his property, the fair market value of which represents a payment of compensation in something other than money; and finally, that the Federal employee is benefited by having a portion of his salary withheld for retirement purposes to substantially the same extent that he would be benefited if he received his entire salary in cash and used part of it to purchase an annuity. The decision in this case will affect many thousands of Federal Government employees.

3. Case Involving Deduction of Cost of Uniforms From Gross Income. The case of MARCUS O. and MINERVA J. BENSON,

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pending before the Tax Court, involves the issue whether amounts expended by motorcycle patrolmen of the California Highway Patrol for the cost and maintenance of uniforms are deductible from gross income as ordinary and necessary business expenses. The correct determination of the issue involved is as important to the Government as it is simple and novel. Should the Tax Court hand down a decision adverse to the Government's interest in this case, because of the present lowered personal exemptions and higher tax rates, not only policemen, but motormen, miners, nurses, laborers and all others who wear any form of dress distinctive from ordinary civilian street attire in their work, will probably try to use it as a wedge with which to extend the privilege to cover themselves.

4. Tax Case Involving Amounts Paid for Annuity Contracts.

The Government's brief in the cases of T. M. GIRDLER and LILLIAN S. GIRDLER, NORRIS J. CLARK, CHARLES M. WHITE and HELEN B. WHITE, and R. J. WYSOR is about to be filed with the Tax Court. The petitioners, excluding their wives, were all executive employees and stockholders of Republic Steel Corporation for 1940, the tax year in question. The question involved is whether the Commissioner properly included in the taxable income of each of the petitioners the amount paid by the corporation for annuity contracts which were delivered to and accepted by each of the

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petitioners as additional compensation for services rendered. The aggregate amount of tax involved is \$91,555.57.

5. Excess Profits Taxes Under Renegotiation Agreements

(See August 1942 report, item 8). In the cases of AERO SUPPLY MANUFACTURING COMPANY, INC., COMMONWEALTH BRASS CORPORATION, and INDUSTRIAL BROWNHOIST CORPORATION, the taxpayer requested closing agreements to exclude from their 1942 returns excessive profits eliminated pursuant to renegotiations for such year. The renegotiation agreements do not show what action was taken in respect of the provision in section 403(c)(3) of the renegotiation statute which requires that a credit be allowed for Federal income and excess profits taxes as provided in section 3806 of the Code. The ruling letter permitting excessive profits to be excluded from the returns is subject to the condition that the amount of excessive profits stated in the renegotiation agreement represents an amount determined before allowance for Federal income and excess profits taxes. This condition protects the Treasury in the event that a credit was allowed for taxes which accordingly should be collected. This procedure is in lieu of the prior practice of requiring a clarification of the renegotiation agreement prior to the issuance of the ruling letter, and will facilitate execution of closing agreements.

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It will hereafter primarily involve War Department renegotiations made before the tax returns are filed, for the Navy Department has clarified its agreement, and Treasury Procurement proposes to use a form similar in this respect to the Navy Department's.

6. Tax Liabilities in Connection with Subway System of City of New York. New York City acquired a part of its subway system under a "plan and Agreement ... for the Acquisition and Unification, under Public Ownership and Control, of Rapid Transit Railroads ... in the City of New York of the Interborough and Manhattan Transit Systems." The city assumed the obligation for all taxes due the United States for the companies or their receivers, which amounted to approximately \$2,000,000, including assessed interest. The important issues in the case included the determination, for depreciation purposes, of the March 1, 1913, fair market value of a lease under which certain properties were operated by Interborough Rapid Transit Company. This issue was litigated, and both sides originally proposed to appeal from the district court's decision, as the value found was approximately \$20,000,000 more than that urged by the Government and approximately \$30,000,000 less than that urged by the taxpayers. The appeal period was extended to permit the parties to reach an agreement upon the tax liability for 1932 to 1941, inclusive, upon

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the consummation of which the city will not institute any further litigation with respect to the matter. It is also interesting to note that the receiver of Interborough Rapid Transit Company disaffirmed a lease with Manhattan Railway Company, but the United States Circuit Court of Appeals held that he could not avoid the obligation under the lease because of the tremendous public interest involved. The Supreme Court has held in abeyance action on a petition for certiorari, pending the outcome of the acquisition of the properties by the City of New York. The United States Attorney has scheduled conferences in New York on April 27, 1943, between representatives of the Government and the City of New York, and has requested the presence of representatives of the Chief Counsel's office.

7. Tax Evasions Where No Return Was Filed (See March 1943 report, item 6). (a) CHIN LIM MOW pleaded guilty April 8, 1943, to an indictment returned by a Federal grand jury in San Francisco on February 25, 1943, charging him with willfully attempting to defeat and evade his income taxes for the years 1936 to 1939, inclusive. He was sentenced to a year and a day on each of the four counts to run concurrently and he was fined \$2,500 on each count, a total of \$10,000.

(b) ABBEY DREYFUSS (international professional card shark) appeared March 31, 1943, before Judge Samuel Mandelbaum,

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Southern District of New York, and entered a plea of guilty to an information which was filed charging him with willfully failing to file income tax returns for 1939 and 1940. The court imposed a fine of \$500 on each count of the information and stated that if the total fine of \$1,000 is not paid within two weeks the defendant is to be committed to jail. Although he admitted large winnings in connection with his gambling at cards, he contended that he divided these winnings with so-called partners and that he lost the remaining portion of his winnings before December 31 of each year in other gambling ventures, including betting on horse races. He admitted gross incomes exceeding \$5,000, but he denied a tax liability.

(c) JOHN KILKENNY and GERTRUDE HOCKEN were indicted on September 7, 1939, on two counts, namely, (1) attempting to evade and defeat income taxes by failure to file returns, and (2) willful failure to file returns. The Department of Justice concluded, as a result of the decision of the Supreme Court in the Murray R. Spies case, the first count in the indictments was defective and requested superseding indictments from the grand jury. Superseding indictments were returned on April 8, 1943, in two counts. The first count charges attempting to defeat the tax by failure to file an income tax return and failure to pay the tax thereon; and as a further means of

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willfully, knowingly, unlawfully and feloniously attempting to evade and defeat the said tax, the defendants left the jurisdiction of the Court and have at all times since remained absent therefrom and have concealed themselves from the Collector and his duly appointed and acting agents. The second count charges willful failure to file income tax returns.

8. Tax Evasion by Lottery Operator (See March 1943 report, item 2). (a) HARRY S. MILLER, a "numbers operator" of Donora, Pennsylvania, pleaded guilty on March 25, 1943, in the United States District Court for the Western Judicial District of Pennsylvania to an indictment charging willful evasion of a large part of his income taxes for 1936, 1937 and 1938, to wit, \$10,335.85. He was sentenced to pay a fine of \$2,500 and to serve two years in a penitentiary to be designated by the Attorney General. The penitentiary sentence was suspended conditioned on the taxes, penalties and interest for the years involved being paid.

9. Tax Evasion by William D. Frad (See January 1943 report, item 10). This international gambler was sentenced to two and one-half years in a Federal penitentiary on April 23, 1943, following his conviction on April 9 for willfully attempting to evade and defeat his individual income taxes for 1936 and 1937. The total additional taxes and penalties were \$230,548.15.

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10. Tax Evasion by Glen E. Whiddett. He was indicted March 26, 1943, at Carson City, Nevada, for willfully attempting to evade and defeat large parts of the individual income taxes of himself and wife, Christine N. Whiddett, for the calendar years 1936 to 1940, inclusive. He failed to report all of the income received from the operation of a real estate business involving the loaning of money with interest, the sale of real estate and insurance on commissions, the drafting of legal papers and the collection of bonuses for effecting loans. He also failed to report income received from partnerships engaged in the operation of a cafe and a gambling club. Joint returns of Whiddett and his wife for 1926 to 1934, inclusive, and separate returns on the community property basis for 1936 to 1940, inclusive, reported net incomes aggregating \$93,128.32. The aggregate incomes which were not reported amounted to \$160,955.08. The aggregate taxes reported amounted to \$2,769.61, and those not reported amounted to \$13,597.70. The wife was not charged with fraud although she is liable for approximately one-half of the tax on the community property basis. Whiddett is 53 years of age. He kept inadequate records, and the Bureau computed his income on the basis of the yearly increases in net worth. The case was set for trial on March 27, 1943. Whiddett pleaded guilty on March 31, 1943, in the United States

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District Court, Reno, Nevada, to one count of the indictment. Sentence was deferred until the October term of court on condition that all of the tax, penalties and interest be paid which are due from himself and wife for all of the years involved.

11. Tax Evasion by Frank J. Wampach. He was indicted March 31, 1943, on charges of willful attempted tax evasion for 1936 and 1937. This case was referred to the Department of Justice by the Commissioner March 5, 1943, with the recommendation that the above charges be brought. This reference was made because the United States Attorney at St. Paul, Minnesota, had indicated, through channels, that he wanted to prosecute Wampach. The allegedly evaded taxes for 1936 and 1937 are \$2,607.57 and \$4,018.79, respectively. The taxpayer has paid all taxes, penalties and interest determined against him by the agents. Taxpayer is a resident of Shakopee, Minnesota; and the business from which he derived the alleged unreported income in question was that of operating slot machines in connection with a road house and tavern business at Shakopee.

12. Tax Evasion by Elmer J. Ritz, Rochester, New York. Ritz was indicted on September 24, 1942, charged with attempted evasion of his income taxes for 1937 to 1939, inclusive, in the amount of \$2,992.94. The evidence disclosed that two sets

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of books had been kept, one set accurately and one set in a false condition, Ritz making his returns from the latter. On April 5, 1943, the taxpayer entered a plea of guilty to one count of the indictment, the other two counts being nol-prossed. On April 12, 1943, he was fined \$500, sentenced to a year and one day in a Federal prison, the prison part of the sentence being suspended. The taxes, penalties and interest have been paid in full.

13. Tax Evasion by I. W. Murfin. The defendant, an oil man of Wichita, Kansas, was arrested at Wichita on March 24, 1943, for attempted tax evasion for 1936. He posted \$1,000 cash bond for appearance before the United States District Court, Second District, of Kansas. Murfin was arrested pursuant to a complaint filed by the United States Attorney with a United States Commissioner. This procedure was adopted apparently to prevent the running of the statute, and the case will be presented to the next convened grand jury. The case involves the years 1936 to 1939, inclusive, and is based upon the failure of the defendant to report certain income, the deduction of fictitious expenses, and the deduction of personal expenses, the total deficiency and penalty being \$15,037.84. The case was referred to Justice on January 7.

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14. Collection of Taxes from Dresdner Bank, Berlin, Germany. The Collector, Customhouse, New York, reported that \$36,000 income taxes were outstanding against this German bank. The period for collection expired in five days. With the sole exception of a reference to a World War I Alien Property Custodian proceeding, no helpful information was furnished. Arrangements were perfected whereby the present Custodian, under the provisions of an Executive Order excepting this case from the general rule, would pay the assessments from funds now on deposit in the Treasury and to be transferred to him for the purpose. The Custodian is now awaiting (and there is in process) a certification of uncollectibility from other assets or sources so that he may pay the amount due under the provisions of the Executive Order.

15. Collection of Taxes From Estate of Edward B. McLean. McLean, life beneficiary under a spendthrift trust established by the will of John R. McLean, died July 27, 1941, owing income tax of \$217,276.54. The only asset in his estate was \$73,665.51 held by the American Security & Trust Company as undistributed trust income. The trust company, in March, 1942, petitioned the Court for instructions as to disposition of the fund. The United States intervened as did numerous creditors with claims of about \$4,000,000, some claiming priority over the United

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States. An attempt was also made by the Collector of McLean's estate (similar to an administrator) to surcharge the trustee by an amount in excess of \$2,000,000. A settlement has been arranged with over \$200,000 advanced by the heirs of Edward B. McLean which calls for payment to the Government of \$75,000 (more than the undistributed income) and retention by the Government of \$74,877.79 income tax paid by the trustee on income which the trustee had treated as income of the trust estate but which might have belonged to decedent. On April 23d a Cashier's Check for \$75,000 payable to the Treasurer of the United States was received and final order of settlement was entered.

16. Collection of Taxes from Bertram Krulewitch. This taxpayer was adjudicated a bankrupt by the United States District Court for the District of New Jersey. On April 29, 1940, the Collector filed a claim for \$43,338.98 representing unpaid income taxes, penalties and interest for 1936 and 1937. The bankrupt filed objections to the claim, alleging that the taxes were illegal and excessive in amount. On January 27, 1942, the Attorney General accepted an offer of \$1,640.65 submitted by the bankrupt and his wife in compromise of these liabilities. A payment of \$300 accompanied the offer, and the balance was

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payable in monthly installments. On the taxpayer's failure to make the deferred payments, the Commissioner notified them that, pursuant to the terms of the offer, the payments would be applied against the aforementioned tax liabilities, and the collector would be instructed to collect any unpaid balance. At that time neither the Chief Counsel's office nor the Commissioner knew that the referee in bankruptcy, with the consent of an Assistant United States Attorney, had reduced the Government's claim to \$1,640.65. Recently, the United States Attorney petitioned the court to set aside the offer and the referee's order reducing the Government's claim, and to reinstate the Government's claim for \$43,338.98 with interest thereon, subject to a credit of \$300. The question presented is the amount now due the Government, i.e., the original amount, less a credit for the payment made, or the amount as reduced by the referee, less such credit.

17. Collection of Taxes from Marion L. Hasler McNulty.
The debtor, on May 25, 1943, filed a petition for an arrangement under Chapter XI of the Bankruptcy Act in the District Court of the United States for the Southern District of Florida, Miami Division, listing assets of \$330,000 and liabilities of \$191,000. New York creditors attempted to have the

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arrangement proceeding dismissed or transferred to the District Court of the United States for the Southern District of New York, which is holding a subsequent bankruptcy proceeding against the debtor in abeyance, pending a decision on the jurisdictional question. The Collector of Internal Revenue for Florida had filed the largest single claim in the arrangement proceeding, i.e., in the amount of \$102,061.88, and had levied on all of the debtor's property in Florida. At the suggestion of the Chief Counsel's office, the Department of Justice instructed the United States Attorney at New Orleans, Louisiana, to appear on behalf of the United States at the hearing on March 31, 1943, before the Circuit Court of Appeals for the Fifth Circuit and maintain that the Florida court should retain jurisdiction because it is for the "greatest convenience" of all "parties in interest". On April 16, 1943, the Fifth Circuit held that as the District Court of the United States for the Southern District of Florida acquired jurisdiction first, it should retain such jurisdiction, and that the bankruptcy case should be transferred to and consolidated with the arrangement proceeding pending in such court.

18. Collection of Taxes from Edgar Palmer Estate. Palmer, president of New Jersey Zinc Company, died on January 8, 1943, leaving an estate valued at \$30,000,000. The estate tax has

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been estimated at about \$18,000,000. The principal part of the corpus of the estate consists of stock of the New Jersey Zinc Company. The Central Hanover Bank & Trust Company is one of the executors of his estate. Recently, the executors had an opportunity to make two sales of the capital stock of the New Jersey Zinc Company, one sale being of 195,000 shares and the other of 90,000 shares to the National Lead Company at slightly above the current market. To make these sales, it was necessary that the shares be first released from the Federal estate tax lien in accordance with section 827 IRC. This the Commissioner agreed to do upon condition that (1) the proceeds of the sales be invested in Treasury Notes and/or Tax Anticipation Notes, and (2) that these be held in a special account marked "for payment of Estate tax only". The sales were made and the bank now holds in the special account, Treasury Notes, Tax Anticipation Notes and cash (\$86,019.62) amounting to a total of \$17,656,250 with which to pay the estate tax. In effect, the tax has been paid.

19. Collection of Taxes from William Rhodes Davis Estate.

Davis died August 1, 1941, owning valuable oil interests. For more than a year his executor, pursuant to orders of the County Court of Harris County, Texas, has been engaged in liquidating the oil interests. The sales required the constant careful aid of the Government by discharging the interests sold from the

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Federal tax liens of \$5,261,682.01 since otherwise purchasers would not buy. These discharges have involved many extended conferences, much labor and many carefully prepared letters. The largest sales were of the (1) estate's interest in the North and South Rincon fields, Texas, sold subject to prior mortgages of \$4,977,833.40, for a net of \$297,000 and a \$1,000,000 oil reservation, and of the (2) Alice Recycling plant, sold for \$500,000. Further sales are being negotiated.

20. Tax Lien, Levy and Distraint Upon Accrued Salary of Employee of California. A tax lien, levy and distraint upon the accrued salary of a delinquent taxpayer, JESSE H. CAVE, payable by the State of California was questioned by the Attorney General of that State in view of a statute permitting garnishment of salaries of state employees only after judgment. In a letter to the Collector dated April 7, 1943, it was held that the cooperation of the Attorney General of California should be solicited in obtaining recognition of the levy, pursuant to the holding in Bull v. United States (1935), 295 U.S. 247, that the assessment has the force of a judgment at law under which the debtor's property may be seized to pay the debt. While there can be no objection to suit, judgment and garnishment proceedings under the state statute, nevertheless

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where the tax liability of state employees is periodic and involves small amounts, the necessity for repeated judgments would render the intended state relief impracticable. Although the policy of the Bureau has been not to levy upon salaries of delinquent taxpayers payable by states and municipalities, it is believed that under the internal revenue laws ample authority exists for the assessment of taxes and the collection thereof by distraint, including the right to serve upon any person in possession of property or rights to property of a delinquent taxpayer a notice of levy (demand for the surrender of such property) and the right to have such property surrendered.

21. Gift Tax Liability of John Frederick Lewis, Jr., et al.

Under Pennsylvania law if "decendent-owned" property of a testamentary trust is non-productive, carrying charges are allocated to principal or income according to the equities of each case (Levy's Estate, 5 Atl.(2) 98). But if the non-productive property is acquired by the trust through mortgage foreclosure in the nature of a salvage operation, the carrying charges are chargeable to principal (Nirdlinger's Estate, 200 Atl. 656).

The Tax Court held in the instant case that Levy's Estate, supra, controlled the disposition of the carrying charges of non-productive property in an inter vivos trust, and there having been no state court adjudication under the equities of the case,

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the carrying charges were here allocable to income. The Tax Court said, by way of dictum, that in the event the case is considered by a state court and a decision is had contrary to the views of the Tax Court that the carrying charges are allocable to income, the trust income not previously reported by the life beneficiaries could be taxed to those beneficiaries in the year of the state court's adjudication. The problem is local in nature, being peculiar to Pennsylvania, but numerous cases involving this question are awaiting disposition in the Bureau's Philadelphia office. An appeal has been recommended in order to obtain an expression of the Third Circuit's position, and to establish with some degree of finality the year in which such income would be taxable to the life beneficiaries, i.e., in the years in which the income should have ~~been~~ paid to the life beneficiaries or in the year of the state court's adjudication.

22. Unemployment Tax Claim Against Berlin & Russell Aircraft Machine and Manufacturing Company. This co-partnership, composed of Hubert M. Berlin and Charles T. Russell (former Deputy Commissioner of Internal Revenue) on April 3, 1941, filed a petition for an arrangement. The co-partnership operated the business from November 7, 1940, to May 16, 1941, when the assets were sold. The Collector filed a claim in the arrangement

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proceeding for unemployment taxes in the amount of \$1,338.23, covering the period from January 1, 1941, to May 16, 1941, inclusive. The taxpayer denied liability. The United States District Court for the Southern District of California sustained the taxpayer's contention. An appeal was taken to the Circuit Court of Appeals for the Ninth Circuit. The District Court held that the Government failed to show that the taxpayer was the employer liable for the tax within the provisions of section 1607(a) IRC. It was agreed that the taxpayer employed more than eight persons in twenty days during the taxable year 1941. Nineteen of the twenty days, each in a different week, occurred in weeks wholly within the year. The first of the twenty days occurred in a calendar week only partly in the taxable year. The District Court also held that not only must the days be within the calendar year but also that each week must be wholly within that year. As construed by the District Court the phrase "which week is entirely within the taxable year" must be read into section 1607(a). The Circuit Court of Appeals for the Ninth Circuit was of the opinion that specific limitation to "during the taxable year" after the word "days" gives significance to the omission of the word "week", and makes applicable the principal expressio unius est exclusio alterius, and that it is sufficient that the twentieth day in the calendar year

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occurs in a week which is in part in the taxable year, and which is separate from the other nineteen days. The order of the District Court was reversed.

23. Processing, Unjust Enrichment, and Floor Stocks Tax Cases (See March 1943 report, item 17).

Offers of Settlement. The work remaining to be done by the Processing Tax Section of the Claims Division, involving the litigation and settlement of claims for refund of amounts paid as processing and floor stocks taxes under the old Agricultural Adjustment Act, as amended, was lessened materially by the recent approval of a group offer of settlement submitted by Attorney Richard B. Barker on behalf of twelve taxpayers. These taxpayers paid the total amount of \$3,869,582.74 as processing and floor stocks taxes with respect to cotton. By the terms of this settlement, an allowance was made of the principal amount of \$335,442.11, or 8.67 percent of the total amount paid as taxes by these claimants. As a part of the settlement the liability of certain taxpayers for payment of unjust enrichment tax to the Government was agreed to in the total principal amount of \$76,376.36. The unjust enrichment tax liability of other taxpayers in the group had been settled by previous agreements in the principal amount of \$21,415.75, making the total agreed unjust enrichment tax liability of

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these taxpayers the principal sum of \$97,792.09. The net principal amount of refund to be made to these taxpayers was thus reduced to \$237,650.02, or only 6.14 percent of the total amount paid as processing and floor stocks taxes.

Zorro Tobacco Co. v. Commissioner. On April 6, 1943, the Tax Court of the United States decided that the petitioner, THE ZORRO TOBACCO COMPANY, had borne the burden of the processing tax paid by it in the amount of \$791.93, and was entitled to a refund in that amount. The case was submitted to the Tax Court on the record made before the United States Processing Tax Board of Review. An offer of settlement in which the petitioner agreed to accept \$2,430.58 was rejected on October 29, 1942. The presiding officer recommended to the Processing Tax Board of Review that it decide that the petitioner bore the entire burden of \$3,611.02 paid by it as processing tax, and that it had not been relieved thereof nor reimbursed therefor. The Tax Court decided that the petitioner had borne the burden of the tax only in the amount of \$791.93, which was approximately the amount the respondent, in his brief filed with the Tax Court, conceded that the petitioner had borne. In its opinion, the Tax Court held that (1) petitioner is entitled to an adjustment in gross sales value by reason of having processed a higher percentage of higher priced articles during the tax

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period, and (2) under E. Regensburg & Sons v. Helvering, (CCA 2d, 1942) 130 F.(2d) 507, petitioner is entitled to be given consideration for decreased costs only on the inventory on hand at the inception of the tax period.

Insular Sugar Refining Corp. v. United States. In the case of INSULAR SUGAR REFINING CORPORATION v. United States, on April 5, 1943, the Court of Claims denied plaintiff recovery of any part of the floor stocks tax paid by it on sugar under the Agricultural Adjustment Act, as amended, in the amount of \$233,203.81. The court held that the entire burden of such tax had been shifted by the plaintiff to its vendees through the inclusion thereof in the selling prices received for its sugar.

Rowan Cotton Mills Company. ROWAN COTTON MILLS COMPANY income and excess profits tax liabilities for 1935 were settled by a decision of the Board of Tax Appeals. Subsequently, the Commissioner sent the taxpayer a notice of deficiency in unjust enrichment tax for the same year. The Tax Court on April 6, 1943, in a decision favorable to the Government, pointed out that each of the three classes of taxes, i.e., income, excess profits and unjust enrichment, was imposed under a separate title of the Acts in question, and the Commissioner's determination of a deficiency with respect to one did not

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preclude him from determining a deficiency subsequently with respect to the others; and that section 272(f) of the Internal Revenue Code (which limits the determination of any additional deficiency for the same taxable year) is applicable to income tax only. The case involved unjust enrichment tax and penalty in the principal amount of approximately \$40,000. The principle enunciated is applicable to Cannon Mills Company, where an analogous situation exists involving a determination of unjust enrichment tax deficiency of \$828,759.39 for 1935, plus interest thereon.

24. Extension of "Tax Benefit" Rule to Include Business Expenses.

First National Bank. The FIRST NATIONAL BANK, Mountoursville, Pennsylvania, in 1932 made a contribution to aid a failing bank. In 1939, a part of this sum was refunded to the taxpayer bank. The Tax Court, treating the contribution as a business expense, held that such refund should not be included in income for the year 1939, since the taxpayer had received no tax benefit from the deduction in the prior year 1932. It is believed that this is the first case where the Tax Court has extended the "tax benefit" rule to include business expenses. Prior to this time, the rule ordinarily has been confined to bad debts, depreciation and taxes.

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Douglas v. Commissioner. While the Tax Court has been busy extending the tax benefit theory, the Circuit Courts have been equally active in rejecting the rule. On April 7, 1943, the CCA 8th reversed the Tax Court and refused to apply the tax benefit theory in DOUGLAS v. COMMISSIONER (CCA 8th) (1943) C.C.H. 434, p. 9620, holding that such a principle is not found in the statute, nor any of the regulations, and injects into the law of deductions an equitable consideration contrary to the strict construction required to be placed upon statutes allowing deductions. This case involved depletion. The Eighth Circuit has likewise rejected the tax benefit rule in Hardwick v. Commissioner (March 2, 1943) F.(2d) 732, involving losses on sales of stock. It has also been rejected by the Fourth Circuit in Helvering v. State Planters Bank & Trust Company (1942) 130 F.(2d) 44 involving bad debts; Helvering v. Virginia Hotel Corporation (1943) now pending in the Supreme Court, involving depreciation, and by the Third Circuit in Commissioner v. U. S. and International Securities Corporation (1942) 130 F.(2d) 894, involving bad debts.

25. Taxability of Stock Dividends.

General. In Helvering v. Griffiths, the Supreme Court on March 1, 1943, decided that a stock dividend, common on common, was not taxable to the shareholder, and that the statutes and

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regulations thereunder do not afford a basis on which the decision of Eisner v. Macomber may be reconsidered. On April 5, 1943, the Supreme Court decided the two remaining stock dividend cases, i.e., Helvering v. Sprouse and Strassburger v. Helvering. In the Sprouse case, the corporation had outstanding two classes of stock - voting and non-voting common, but Sprouse owned only voting stock. It issued a dividend in non-voting common stock which was distributed to the holders of both voting and non-voting common in proportion to their stockholdings. In the Strassburger case, the corporation had only common stock outstanding, all of which was owned by Strassburger. It issued a dividend in preferred stock thereon. The Supreme Court held that both cases are ruled by Griffiths; that the issuance of the stock dividends brought about no essential change in the proportionate proprietary interest of the shareholders, and hence the stock dividends are not taxable to them.

Frank M. Travis, et al. The issue involved in the cases of FRANK M. TRAVIS, Torrington, Connecticut, HENRY C. MARSHALL, New York, New York, and DAVID BRUCKHEIMER, Brooklyn, New York, is whether a distribution of common stock by a corporation to its common stockholders, there being only common stock outstanding at the time, represents taxable income to the stockholders. In the Marshall case the distribution was of unissued

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stock, while in the Travis and Bruckheimer cases the distributions were of treasury stock. The decisions of the Board in all three cases were that the distributions resulted in stock dividends which conferred no different rights or interests than did the stock already held, and that the stock dividends did not, therefore, constitute income to the petitioners. Dismissal of the proceedings pending in the Circuit Courts has been recommended, upon the authority of the decisions of the Supreme Court in Helvering v. Griffiths (decided March 1, 1943) and Helvering v. Sprouse and Strassburger v. Helvering (decided April 5, 1943). The concurrence in such action in the Travis and Bruckheimer cases was, however, based upon the factual situations existing. In view of section 19.22(a) 16 of Regulations 103, relating to the acquisition or disposition by a corporation of its own capital stock, and section 27(c) of the Revenue Act of 1936 and article 27(c) of Regulations 94, relating to dividends paid credit, it has been made clear that the Bureau is not abandoning its position that a distribution by a corporation of its own capital stock held for investment is a distribution in property.

26. Nondistribution of Corporate Earnings to Avoid Surtaxes Upon Shareholders (See October 1942 report, item 12). In the

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CHICAGO STOCK YARDS COMPANY case on April 12, 1943, the Supreme Court reversed the First Circuit Court of Appeals and affirmed the decision of the Board of Tax Appeals, which was and is in the Government's favor. The opinion was written by Mr. Justice Roberts and there were no dissents. The Court likened the case to the National Grocery Company case and said they could not say the Board of Tax Appeals was without warrant in finding that under all the circumstances the gains and profits had been accumulated to avoid imposition of surtaxes upon the shareholders. There seems to be nothing further to be done under a remand of the case. In this case, the Circuit Court of Appeals for the First Circuit reversed a decision of the Board of Tax Appeals. The Board had sustained deficiencies in tax determined by the Commissioner under section 104, Revenue Acts of 1928 and 1932, on the ground the corporation had not distributed its earnings in order to avoid surtaxes upon its shareholders. The deficiencies with interest amount in the aggregate to approximately \$7,000,000.

27. Surtax on Undistributed Profits and on Personal Holding Company, Morris Investment Company v. Commissioner. This case involved the surtax on undistributed profits and the surtax on personal holding companies. The Third Circuit

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held that under the relief provisions of the 1942 Revenue Act, Congress did not undertake to deal with personal holding company surtax and that consequently section 501 of that Act applied only to the undistributed profits surtax in granting relief to corporations having a deficit. It is believed that this is the first case denying the applicability of section 501 to personal holding company surtaxes.

28. Compromise Offer of Theodore Cohen. Cohen was indicted March 12, 1943, for attempted evasion of income and excess profits taxes of the College Entrance Book Company, Inc., and his individual income taxes. On March 16, 1943, Cohen submitted an offer to pay \$25,000 in compromise settlement of his entire liability, both civil and criminal, with respect to his individual taxes and the income and excess profits taxes of the corporation for the years 1934 to 1939, inclusive. This offer has been rejected on behalf of the Attorney General. The amount of taxes and penalties involved in these two cases is \$72,306.45.

29. Compromise Offer of Associate Gas and Electric Corporation and Associate Gas and Electric Company. The tax liabilities of these taxpayers for 1934 through 1939 in the amounts of \$1,087,612.28 and approximately \$1,596,620.21,

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respectively, were discussed at a conference in Washington on April 26, 1943. Anticipating a joint plan of reorganization, the taxpayers' representatives submitted an offer of approximately \$520,000 in full settlement of the aforementioned tax liabilities. The Bureau representatives considered the offer inadequate. However, in view of the factual and legal complications, an offer of \$750,000 would be recommended to the Chief Counsel, in full settlement of the aforementioned tax liabilities, excluding taxes due under the Federal Insurance Contributions Act and Federal Unemployment Tax Act. The taxpayers' representatives agreed to submit an offer of \$750,000, and to incorporate the tax settlement proposal in the joint plan of reorganization, which will be sent to the Secretary of the Treasury for approval or rejection.

30. Claim for Refund of Estate Taxes by Estate of Alice duPont. More than a year ago, the Review Division disapproved a proposed refund of \$318,693.71 estate taxes to this estate. Attorneys for the taxpayer made personal appeals to the Commissioner and the Chief Counsel for reconsideration of the case, and the Commissioner offered to allow a refund of \$60,000 in full settlement of the claim. Taxpayer refused this offer. The Commissioner then issued a deficiency letter against the Wilmington Investing and Contracting Corporation (the stock of

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which was owned 100% by Alice duPont and her brother and two sisters), it appearing that in its claim for refund the estate was proposing to value a certain contract in a manner wholly inconsistent with the value of the same contract used by the corporation in its income tax returns. Advice has been received informally from the Atlantic Division of the Technical Staff that the taxpayer has agreed to concede that it is not entitled to any refund and to close the case on that basis.

31. Claim for Tax Refund by Herbert R. Gallagher. In 1932, the taxpayer lived in California and filed his income tax return in California on a community property basis. During that year, he and his wife moved to New York, where he was continuously employed until some time in 1940. His returns for 1933 to 1939 were filed in New York. The return for 1933 was a joint return; and the returns for 1934 to 1939 were separate returns (which included the salary received by the taxpayer), and were not on a community basis. During the years 1932 to 1940, the taxpayer and his wife lived in New York. He registered as a voter in New York in 1936 and 1938 and voted there. At no time during the years 1932 to 1940 did he register or vote in California. In 1940, taxpayer moved back to California; and in 1941 and 1942 filed claims for refund for the years 1937, 1938, and 1939, on the theory that he had been domiciled

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in California during the years he had resided in New York, and was therefore entitled to report his income on a community basis. If he can make this contention "stick", he will get a refund of \$80,603.23, plus interest, (which will be offset in part by additional taxes of \$35,336.16 assessable against the wife); but at present the Chief Counsel's office is unfavorable to his contention.

32. Informants' Rewards. JOHN L. MORRIS filed a claim, on Form 211-Revised, for reward as informant in the income tax case of Jones Brothers, a partnership composed of Edward Perry Jones, George Perry Jones, McKissack McHenry Jones and Mrs. Harriet L. Jones, Chicago, Illinois. An investigation was made following receipt of a statement from the claimant to the effect that policy wheels and similar gambling devices were operated by these individuals; that the daily receipts were between \$3,000 and \$5,000; and that more than a thousand persons were employed as cashiers, checkers and writers. The information was so inaccurate and so lacking in substantiation that only a very nominal amount of tax was disclosed to be due which resulted solely from technical corrections and adjustments. The claim for reward was disallowed due to the fact that the information was a matter of public knowledge and most general in

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its character, and in so far as it was specific, it was found to be wholly inaccurate. After the investigation was completed, specific and valuable data were received from one EZRA LEAKE. The re-examination resulted in the recovery of taxes, 50% penalties and interest due for the years 1931 to 1938, inclusive, in a total amount of \$481,710.28, and the imposition of a sentence of 28 months in a penitentiary in the case of Edward Perry Jones. A claim for reward in the cases of these taxpayers was filed in the office of the Chief Counsel March 26, 1943, by Ezra Leake. The claim will be acted upon after essential certifications and recommendations have been procured.

33. Equivalent Tax Exemptions--Great Britain. Under the laws of Trinidad, B.W.I., the income of a married woman living with her husband is deemed to be the income of the husband and is charged in his name. This situation brings up the question of the double taxation of the income of married women who are citizens of the United States but also citizens of Great Britain because of their marriage to British citizens. The cases may be divided into three categories (1) where the income of the wife is from investments, etc. in the United States, (2) where the income of the wife is from services performed in Trinidad but not for the United States Government, and (3) where the

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income of the wife is from services performed in Trinidad for the United States Government. Action taken: (1) the Bureau is not disposed to deny to the wife the benefit of section 23(c) (deduction for taxes paid to a foreign country) or section 131 (credit for taxes paid to a foreign country) where it clearly appears that, although consolidated with the income of the husband for purposes of computing tax, the income of the wife is recognized as her own separate income, and the resulting tax is paid by the wife from her own money. (2) The income is excluded from gross income by virtue of section 116(a) provided the wife is a bona fide non-resident of the United States for more than six months of the taxable year. Section 148, Revenue Act of 1942, however, amends section 116(a) to require bona fide residence in a foreign country during the entire taxable year. (3) The income may be exempted from taxation by Trinidad through reciprocity (section 116(h)), although the case is weakened by the fact that the wife is a citizen of Great Britain.

34. Tax Convention--Canada (See September 1942 report, item 11). The Canadian Commissioner of Income Tax has granted permission to the Commissioner of Internal Revenue for the United States to have agents of the United States examine the books and records of a Canadian corporation and make transcripts of book entries concerning salary and other income paid

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to a citizen of the United States. This is the first instance since the tax convention and protocol between Canada and the United States, proclaimed by the President on June 17, 1942, effective January 1, 1941, where the authority of the Canadian Commissioner will be used to enable the agents of the Commissioner of Internal Revenue for the United States to obtain access to Canadian records following the refusal of the officers of the corporation to permit an examination of its books. The proposed investigation will be made as soon as a convenient date can be arranged between the Inspector of Income Tax at Vancouver, British Columbia, and the agents of the United States Bureau of Internal Revenue.

35. Tax Liabilities of Workers Imported from Mexico (See October 1942 report, item 9). It has been ruled that Mexican workers who are transported to the United States for non-agricultural labor, such as the relief of the present shortage of railroad track labor, for temporary periods, in connection with the war effort undertaken by the War Manpower Commission, are properly classified as non-resident alien individuals who enter and leave the United States at frequent intervals within the meaning of section 143(b) IRC and section 19.143-3 of Regulations 103. Such persons are, therefore, not subject to having a 30 per cent income tax deduction withheld at the source, under

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section 143(b), supra, from compensation or wages paid to them for services rendered in the United States. Such persons are, however, subject to the victory tax imposed by subchapter D IRC, as added by section 172(a) Revenue Act of 1942, and a tax of 5 per cent will be required to be withheld in accordance with section 466(a) IRC from wages paid to them, to the extent that such wages are included in gross income, and are in excess of the withholding deduction (exemption) allowable as stated in that section.

36. Use of United States as Collateral to Support Operating Wine Permit Bonds. Jefferson E. Peyser, Counsel for the Wine Institute, San Francisco, California, upon being informed that he could not use defense savings bonds as collateral to support operating wine permit bonds, suggested that a way might be found around this ruling by, for example, securing such bonds in the names jointly of the permittee "or" the official authorized to accept operating bonds. It was suggested that the Acting Deputy Commissioner advise Mr. Peyser that United States Savings Bonds could not be so used in any case in which the Secretary of the Treasury is not the operating bond approving officer. (Department Circular 530). It was also suggested that it be pointed out to him that there were other types of war bonds (such as those recently allotted as of April 15) which could be used for this

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purpose. There are hundreds of operating and tax bonds required by the internal revenue laws relating to liquors aggregating from \$500 to \$200,000, which could be supported in this manner in lieu of corporate surety. Frequently, the principals in these bonds are required to put up with the surety collateral equal to the face of the bond.

37. Legislative Matters Being Considered by American Bar Association.

(1) To provide that the grantor of an irrevocable trust established for the benefit of his children should not (notwithstanding the Supreme Court's decision in the Stuart case, 63 S. Ct. 140) be taxable on that part of the trust income which is not used for the support of his children;

(2) To provide for a deduction of an estimated amount to be expended in later years for maintenance and repair that would be expended in the taxable year were it not for the present scarcity of materials and labor;

(3) Make applicable to individuals section 114 of the Revenue Act of 1942, relating to the exclusion of income from the discharge of indebtedness (amendment to section 22(b)(9) Internal Revenue Code - now applicable to corporations only);

(4) Amend section 45 of the Internal Revenue Code, or

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some other section of the Code, to prevent the avoidance of taxes by the formation of a partnership by members of a family.

APPENDIX B

The following work was done under the supervision of Assistant General Counsel Tietjens:

1. Collection of Victory Tax and of any Similar Taxes to be Withheld by Employers (See March 1942 report, item 51). Mr. Tietjens and Mr. Reeves attended another conference arranged by Mr. Surrey's office for discussing the procedures which might be followed in connection with the collection of the Victory tax and any similar taxes which may be levied in the future. The meeting was attended by representatives of the Office of the Comptroller of the Currency, the Bureau of Accounts, Bureau of Internal Revenue, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. The three proposals previously suggested were discussed but no conclusions were reached. Mr. Surrey's office desires that the various groups concerned with the collection of the taxes in question agree upon a collection procedure in order that authority may be secured from the Congress at an early date if additional legislative authority is required to effectuate such procedure.

2. Replacement of United States Currency Destroyed in the Philippines. Mr. Reeves conferred with representatives of

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Under Secretary Bell's office, the Bureau of Accounts, and the Office of the Treasurer of the United States, concerning the replacement of United States currency which was deposited by various banks and individuals with former High Commissioner Sayre at the time of the Japanese invasion of the Philippines and which, after having been inventoried, was destroyed by burning at Corregidor under the direction of Mr. Sayre. It was determined that there would be no administrative or legal difficulties in connection with the replacement of the bulk of such currency and that steps would be taken immediately to proceed with such replacement. With respect to a relatively small portion of the currency which was not sufficiently described in the inventory to permit replacement under existing law, it was determined that the Treasury Department would at some future date request the Congress to enact legislation authorizing replacement.

3. Interdepartmental Committee on Employee Grievances.

At the request of Mr. Gaston, Mr. Tietjens will assist him from time to time in his work on this committee.

4. Comptroller of the Currency--Litigation. (a) Michelsen v. Penney (See March 1943 report, item 65). Mr. Tietjens, on

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April 8th with other representatives of the Treasury, attended a conference with attorneys representing the Depositors' Committee in this case. Acceptance of Penney's offer to pay the amount of the judgment handed down by the Court of Appeals was discussed. That Court reduced to approximately \$1,100,000 the judgment of \$2,444,301.99. On April 15, the United States District Court, Southern District of New York, entered its judgment in this case, awarding the Receiver \$1,102,025.15. This judgment, which accrued interest in the amount of \$181.15 per day, was paid by Mr. Penney on April 29, 1943.

(b) Rushton, Attorney General of Michigan v. Schram, Receiver of the First National Bank--Detroit. The United States District Court, Eastern District of Michigan, dismissed the complaint in this case and held inapplicable to National bank Receiverships in Michigan the 1941 Michigan Escheat Act, and directed the State to account for some \$210,000 erroneously paid the State by the Receiver during 1935, 1936 and 1937.

5. Public Debt--Litigation, United States Savings Bonds (See March 1943 report, item 66). (a) The Gaverich case, which is the first case brought directly in a Federal court

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raising the question of savings bonds incorporated "A, payable on death to B", was reargued before the United States District Court at Harrisburg, Pennsylvania, on April 12th.

(b) The Kalina case has developed in New York almost comparable with the Gaverich case except that the circumstances are such as to bring into action the New York statute giving widows definite rights. Final action was postponed pending allowance of the will or the appointment of an administrator in order that all parties may be served with any proceedings that are instituted. It is interesting to note in this connection that a bill passed by the New York Legislature and now before the Governor, which was recommended by the Law Revision Commission, is sufficiently broad in its terms to exclude any claim by the widow to prevent payment of coownership or beneficiary bonds to the coowner or designated beneficiary.

6. Public Debt. (a) Savings Bonds. Registration in the religious names of followers of Father Divine will be permitted, but for the protection of the individuals the Department urged that the new name be followed by the name under which

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the parties were born in parenthesis. This action was taken as a result of information from New York by the Civil Service Commission that they have certified followers of Father Divine under their "new names", also under the laws of the state of New York as interpreted by one of the state courts in an unreported decision, the followers of Father Divine are permitted to vote, and own property under the names they have taken in his sect.

It was agreed at a conference by the representatives of this Department and the War Department that the Chicago office of the Bureau of Public Debt would be instructed to accept army registration for savings bonds in the form "John P. Jones or Mrs. John P. Jones". A discussion was held as to the powers of attorney for members of the armed forces but no definite results were reached.

The position has been taken that coowners on savings bonds may not be changed even with their consent, nor may one be eliminated. Any such transaction is, in effect, a transfer of a present interest and should be brought within the prohibition.

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(b) Savings Stamps. The method of relief in the case of savings stamps cancelled in post offices and lost before return to the Register of the Treasury was discussed with representatives of the administrative Bureaus of the Public Debt, and of the Bureau of Accounts. No definite decision was reached. One suggestion was relief under the Losses in Shipment Act; another was the extension of credit by administrative action on the ground that destruction was proved. Objections exist to either method. In any event, relief cannot be given under §8 of the Losses in Shipment Act since these securities are not interest-bearing nor are they identifiable.

(c) Financing. The legal sufficiency of the following issues was approved:

Exchange offering of Commodity Credit Corporation Series F Notes, maturing May 1, 1943, and 0.65% Certificates of Indebtedness, Series C-1943, maturing May 1, 1943, for 7/8% Certificates of Indebtedness, Series C-1944, maturing May 1, 1944. No cash offering, simply exchange.

7. Railroad Reorganizations.

(a) Seaboard Air Line Railway Company (See March 1943 report, item 68). On April 20 the Under Secretary signed a letter to the Federal Reserve Bank of New York instructing

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them to deliver, upon receipt of a certified check in the amount of \$1,750,000, the securities sold by the Secretary of the Treasury to the Receivers of the above railroad. This transaction has therefore been consummated except for the dismissal of the litigation pending with reference to the lease by the Seaboard of the Prince George and Chesterfield Railroad. Steps are being taken to secure the dismissal of this litigation.

(b) Wilmington, Brunswick and Southern Railroad (See March 1943 report, item 68). With respect to the proposed sale of the note and the securities of the above road held by the Treasury Department, notifications were received from the Interstate Commerce Commission and the Navy Department that they do not object to this transaction. A letter was prepared for the signature of the Under Secretary to Mr. Irwin Geiger accepting the offer of the Machine Tool and Equipment Corporation to purchase for the sum of \$15,000 the obligation of the above railroad and collateral securing the obligation. The note and securities were delivered to Mr. Geiger on April 22, and a receipt acknowledging delivery received and the transaction was closed.

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(c) Virginia Blue Ridge Railway. With respect to the proposed sale of the unsecured demand note of the above railway, there was received from the President of the railway a check in the sum of \$2,500, dated April 7, 1943. This check has been put through for collection and upon collection the President of the railway will be notified that his offer to purchase this obligation has been accepted.

The following work was done under the supervision of Assistant General Counsel Roth:

8. Overtime Compensation (See March 1943 report, item 71). In Myers v. United States relating to overtime compensation of Customs employees for regular tours of duty outside of the hours of 8 a.m. to 5 p.m. (in which a very substantial liability is overhanging), the application for rehearing in the Court of Claims was denied on April 5, 1943. The Solicitor General's office is considering the recommendations made that a petition for a writ of certiorari be filed. Twenty-three similar new cases have been filed by employees.

Drafts of two alternative proposed statutes to eliminate the problems raised by this case were prepared. The proposed

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legislation was approved by Mr. Gaston, (has been forwarded to the Bureau of the Budget). This is an important problem because the additional liability caused by this decision is estimated to be accruing at the rate of about \$1,400,000 a year. A further item involved is the insertion in the proposed legislation of a provision for a 10% differential in additional pay for tours of duty on the part of Customs employees outside of the regular hours of 8 a.m. to 5 p.m.

9. Examination at Time of Entry by Assistant Examiner.

In Heyer v. United States, the Customs Court held that examination and inspection at the time of entry by an assistant examiner, instead of the examiner himself, is not compliance with the provisions of section 500(e) of the Tariff Act of 1930. An appeal has been requested, since if this decision is allowed to stand, three times the number of examiners presently employed at the port of New York would be required.

10. Duties on British Canteen Supplies. The request of the British Ministry of Supply Mission for entry free of tax and duty of canteen supplies, including alcoholic beverages and tobacco, to be shipped to British forces abroad, was studied and approval recommended.

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11. Drawbacks on Lend-Lease Shipments. A comprehensive memorandum containing an analysis of this subject together with recommendations was prepared. Action is proceeding with a view to a full solution of the problem and the maximum appropriate savings to the government.

12. Rug Thread Wastes Regulations. A proposed regulation and advice to Mr. Gaston were prepared with respect to this problem which involved Customs claims amounting to somewhere in the neighborhood of \$1,000,000 (which is not to be collected under the determination made).

13. Ascertainment for Duty Purposes of Foreign Value of Certain Merchandise. (See January 1943 report, item 26.) The Graham and Zenger case, involving the question whether the prevention by a Government licensing control system of the exportation from Belgium of merchandise sold there for local consumption created a controlled market and thereby prevented the ascertainment of a foreign value of the merchandise for duty collection purposes, is now on appeal. The Department of Justice attorney who is preparing the appellate brief, was furnished memoranda prepared by the Division of Monetary Research, giving examples of the widespread use of

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similar control systems by foreign governments. The Government plans to use this material in its argument that a general application of the principle laid down by the Customs Court in the Graham and Zenger case would make it impossible or extremely difficult to determine the dutiable value of many types of imported merchandise.

14. Holiday Pay for Customs Employees. Miss Mahin, an attorney of the firm of Covington, Burling, Rublee, Acheson & Shorb, discussed with the Chief Counsel, Bureau of Customs, a proposed suit by customs employees against the Government to collect overtime compensation for certain work performed on New Year's Day 1942 and on subsequent days which, but for the war would have been treated as holidays rather than working days. It was noted from the Washington Post of April 27 that the suit has been filed in the names of John Di Benedette and Wayland C. Dorrance.

15. Customs Ports of Entry. The Bureau of the Budget suggested that consideration be given to the delegation by the President to the Secretary of the Treasury of authority to designate, and revoke the designation of, customs ports of

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entry, if such delegation would result in an appreciable savings of the President's time. A memorandum was prepared to the Legislative Section pointing out that changes in the ports of entry are so rare that the proposed delegation of authority did not appear warranted.

16. Government's Right of Set-Off and Attorney's Liens.

The collector at San Francisco was informed by letter that certain refunds found to be due to an importer were subject to the Government's right of set-off of claims against the same importer, despite the fact that certain attorneys for the importer contested the Government's right of set-off and asserted an attorney's lien against the refunds which lien they maintained should have been satisfied prior to any right upon the part of the Government to a set-off.

17. Hemp Growing Project in Relation to Enforcement of The Marihuana Tax Act of 1937 (See November 1942 report, item 34). The Commodity Credit Corporation has undertaken a project which contemplates the production this year of up to 300,000 acres of hemp plants, to supply hard fiber needed both for military and civilian uses. The hemp plants will be

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produced under growers' contracts with farmers, and the harvested plants will be transferred to some 71 decortivating mills, which will be operated by a corporate agency known as War Hemp Industries, Inc. A number of procedural questions have arisen involving the enforcement of the Marihuana Tax Act of 1937 in connection with this expansive project. In connection with the application of the transfer tax provisions of the act to the numerous transfers of hemp plants by the farmers mills, it has been tentatively determined that the corporate agency, War Hemp Industries, Inc., is a governmental instrumentality. If this determination is approved, the War Hemp Industries, Inc. may be recognized as an exempt governmental agency under the Marihuana Tax Act, and the transfer tax, which is prohibitive, will not be assessable.

18. Direct Sales Company, Inc. Case (See November 1942 report, item 9). This company had sold large quantities of morphine to the physician under circumstances which, the government contended, showed that it must have known that the vendee-physician was diverting the drugs to unlawful uses. The Circuit Court of Appeals for the Fourth Circuit,

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upheld a judgment of conviction of the Company for conspiracy with a South Carolina physician to violate the Federal narcotic law. The United States Supreme Court granted certiorari and the case was argued on April 12, 1943, the principal question at issue being whether the circumstances were sufficient to show that the company had knowledge of the improper uses to which the drugs were put by the vendee-physician.

19. Patenotre Case. Studies have been made on questions of law raised in this case including the extent of the privilege of the attorney, and the right to have counsel present at examinations under section 3614 of the Internal Revenue Code.

20. Valuation of District of Columbia Teachers' Retirement Fund. An opinion, addressed to Mr. Haas, Director of the Division of Research and Statistics, was prepared. It concludes that the Treasury Department is not, as a matter of law, required to prepare an actuarial valuation of the Fund before July 1, 1946, but that if no manpower difficulties exist, it would be desirable to prepare a valuation as of December 31, 1941, since such valuation would maintain the series of valuations at regular five year intervals.

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The following work was done under the supervision of Assistant General Counsel O'Connell and Lynch:

21. Potomac Electric Power Company Rate Case (See March 1943 report, item 27). Hearings before the Public Utilities Commission relative to fair and reasonable power rates under the so-called sliding scale agreement were completed. A majority of the Commission indicated a proposed rate reduction in the sum of \$315,000. At this hearing the Chief Counsel of Procurement and Treasury representatives were treated by the majority of the Commission in such an arbitrary manner as to indicate that the Treasury intervention was not welcomed by the Commission.

(b) Notices to the Chesapeake and Potomac Telephone Company requesting a conference for the purpose of adjusting certain telephone rates and services were prepared. The telephone company indicated a desire to confer with the Treasury to make adjustments.

22. Disposition of Surplus Property (See March 1943 report, item 28). Conferences were held with representatives of O.P.A. regarding exemption of maximum prices as applied

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to the sale of used surplus property by the Procurement Division. O.P.A. promised exemptions.

23. Lend-Lease Purchases. (See March 1943 report, item 29.) A conference was held with Standard Oil Company of Indiana to discuss the terms of the proposed contract to purchase a Voltol Pilot Plant located at Baton Rouge, Louisiana. This purchase is to be made under Lend-Lease requisition. The contract was drafted and forwarded to the company at Baton Rouge.

24. Renegotiation of Contracts (See March 1943 report, item 30). (a) Conferences relative to the Renegotiation Act were attended and assistance given in the preparation of a joint statement of policy.

(b) Negotiations were conducted with representatives of the Firth Stirling Steel Corporation and the American Cutting Alloys, Inc. relative to reducing royalties being paid under certain Lend-Lease contracts. Hearings were held before Robert LeFevre, Assistant to the Director of Procurement, and the procedure followed Public Law No. 768. Evidence indicated a reduction from 10% to 4% of sales prices under present conditions.

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25. Fuel Oil Contracts. Numerous fuel oil contracts were amended due to shortage of fuel oil and changing of price situation.

26. Russian Oil Refinery (See February 1943 report, item 94). A licensing agreement covering the use of a process owned by the Stratford Development Corporation for use in the Russian oil refinery was prepared. This agreement was consummated April 22. This was the sixth of seven processing contracts which have been completed for the Russian refinery involving the use of patented processes. The original prices asked for the use of the six processes were reduced from approximately \$6,600,000 to \$1,000,000.

(b) A conference was held with a representative of Petrolite Corporation regarding the terms and conditions of the licensing agreement covering the use of the Petreco process for the Russian oil refinery.

(c) A representative of Procurement's Legal Division spent approximately two weeks in the office of E. B. Badger and Company, New York City, advising Treasury procurement officials relative to legal questions arising out of Procurement contract with Badger, the architect-engineers for the Russian refinery.

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27. Glass Bulb and Tube Plant for Russia. A conference was held with representatives of Amsler-Morton, an engineering firm, with respect to the terms and conditions of a proposed contract for the purchase of all machinery and equipment necessary to the construction of a Glass Bulb and Tube Plant for Russia. Contract had to be revamped upon discovering that it called for approximately \$150,000 worth of fire brick which the Russians and the engineering firm decided could be obtained in Russia.

28. Reports on Pending Bills--Reports on the following bills were prepared by members of the Legislative Section:

S. 990, for the relief of the Washington, Brandywine & Point Lookout Railroad Company--report to Senate Committee on Claims (favorable). (This proposed legislation was prepared in the Department at the request of Senator Tydings.) (See March 1943 report, item 38.)

S. 914, to provide for the orderly liquidation and dissolution of the regional agricultural credit corporations--report to Senate Committee on Banking and Currency (favorable).

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S. 798, to provide a moratorium on foreclosures of Home Owners' Loan Corporation's mortgages during the unlimited national emergency--report to Senate Committee on Banking and Currency.

H.R. 1482, to amend title II of the Social Security Act, as amended, to provide for crediting service in the armed forces for certain purposes--report to Ways and Means Committee.

S. 214, to provide for centralization of legal advice in the Department of Justice--report to Senate Committee on Judiciary (adverse). (See March 1943 report, item 39).

S. 982, to provide that the unexpended proceeds from the sale of 50-cent pieces coined in commemoration of the two hundred and fiftieth anniversary of the founding of the city of Albany, New York, may be paid into the general funds of such city--report to Senate Committee on Banking and Currency (adverse).

S. 988, to provide relief for victims of the flood of September 17, 1942, in and near Spring Valley, Wisconsin--report to Senate Committee on Banking and Currency.

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29. Federal Fidelity Bonding Board. Senator McCarran introduced as an amendment to S. 26 (in the nature of a substitute), a bill, prepared in the Legislative Section, to provide for the bonding of Federal officers and employees. This legislation was submitted to Senator Thomas, Chairman of the Senate Committee on Education and Labor, in a report recommending against the enactment of S. 26 as originally introduced.

30. War Loan Accounts (See March 1943 report, item 35). A representative of the Legislative Section attended hearings of the House Banking and Currency Committee on S. 700 (H.R. 1699), to eliminate assessment and reserve requirements in connection with war loan accounts. A letter to the Bureau of the Budget was prepared explaining the provisions of the proposed legislation, pointing out that it was suggested by the Treasury Department to the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, and recommending that a favorable report on it be made to the President. S. 700 was approved on April 13, 1943, and became Public Law No. 37.

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31. Stabilization Fund Bill (See February 1943 report, item 59). With Mr. Sullivan and Mr. O'Connell, a representative of the Legislative Section attended the hearings held on April 19 by the House Committee on Banking and Currency on this bill. At the request of Chairman Somers, a draft of the committee report was prepared. A letter to the Bureau of the Budget recommending that the President approve the legislation was also prepared.

32. Green Silver Bill (S. 35) (See December 1942 report, item 30). The public hearings before the subcommittee of the Senate Committee on Banking and Currency, held on April 28 and 29, on the Green Silver bill and the McCarran substitute (S. 1036) were attended.

33. Senate Special Silver Committee. A representative of the Legislative Section attended on April 29 an executive session held by this committee on the proposal to make available to Great Britain five million ounces of silver through the Lease-Lend Administration.

34. Proposed Customs Overtime Compensation Bill. Alternative drafts of Customs proposed legislation, to authorize regular tours of duty for customs officers and employees at night and on Sundays and holidays, and for other purposes, were cleared and sent to Mr. Gaston with a memorandum.

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35. Coordination Conference of Treasury Law Enforcement Agencies. Representatives of the Legislative Section participated in a coordination meeting held by Mr. Ireby, and explained the provisions of S. 895, a bill to provide a correctional system for adult and youth offenders convicted in courts of the United States.

36. Proposed Executive Order Relative to Investigation of Violations of Certain O.P.A. and Other Related Laws (See March 1943 report, item 41). Conferences were held with representatives of the Office of Price Administration concerning this proposed executive order.

37. International Monetary Conference. Directed to the question of congressional representation at any international monetary conference, a memorandum was prepared concerning the appointment of congressional delegations to the London Economic and Monetary Conference of 1933 and other matters pertaining to that conference.

38. Inspection of Income Tax Returns. A legal memorandum and a draft of an enabling joint resolution were submitted upon the subject of the power of the House Appropriations

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Subcommittee investigating alleged subversive activities of Government employees to inspect personal income tax returns.

39. Katherine M. Drier v. Henry Morgenthau, Jr. A report of the views of the Treasury Department in this case was prepared for use of the Department of Justice.

40. Reproduction of Coins. A letter was prepared advising the Westinghouse Electric & Manufacturing Co. that the Department had no objection to the use of an illustration of a one-cent coin on a chart to be used as a visual teaching aid in schools and colleges.

41. Compromise Offer. A letter was prepared recommending acceptance of the offer of W. Herschel Lovett to pay \$12,000 in compromise of the claim of the United States totaling \$19,305.95 for refund of payments received by the proponent under recent Agricultural Conservation and Parity Payment Programs.

42. Dismissal of Indictments. Letters were prepared advising the Attorney General that this Department would interpose no objection to the dismissal of indictments as to

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Frank Bantferger and Clyde Moore for forgery of Government checks and Loretta Cavallaro and Rosariea Cavallaro for conspiracy to pass counterfeit Federal Reserve notes. Letters were also prepared suggesting that the proceedings be not dismissed as to Marion L. Carpenter for the theft of War Savings bonds and Pauline McCarty for the forgery of a Government check.

43. Board of Legal Examiners (for description see July 1941 report, item 15). Mr. Speck was a member of the examining committee at a meeting held on April 2.

44. Congressional Action on Treasury-sponsored Legislation.

(a) Stabilization Bill. Our bill, to extend the time within which the powers relating to the stabilization fund and alteration of the weight of the dollar may be exercised, was introduced on April 12 by Senator Wagner as S. 991 and was referred to the Committee on Banking and Currency. The companion bill was introduced on April 13 as H. R. 1489 and was referred to the Committee on Coinage, Weights and Measures. S. 991 was reported with amendments and passed by the Senate on April 16. On April 17 it was referred to the House

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Committee on Coinage, Weights and Measures, and reported with an amendment (H. Rept. No. 374) on April 21. The House passed the bill with the Committee amendment, on the same day. On April 22, the Senate concurred in the House amendment.

(b) National Gallery of Art. On April 5, 1943, the House considered and passed our bill, S. 319, to authorize the acceptance of a permanent loan to the United States by the Board of Trustees of the National Gallery of Art. On April 7, the bill was presented to the President for his approval. It became Public Law No. 32, approved April 10, 1943.

(c) Washington, Brandywine and Point Lookout Railroad Relief Bill. Senator Tydings introduced this bill as S. 990 on April 12, 1943, and it was referred to the Committee on Claims. On April 17, Representative Sasser introduced the bill in the House as H. R. 2531, and it was referred to the Committee on Claims.

(d) Huntsville, Texas, First National Bank. Our bill, (S. 854) for the relief of the First National Bank of Huntsville, Texas, was passed by the Senate on April 2, and by the House on April 6 (in lieu of the companion bill H. R. 1321). It was

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approved by the President on April 12, 1943, becoming Private Law No. 25.

The following work was done under the supervision of Mr. Klaus, Special Assistant to the General Counsel:

45. Investigation of Subversive Tax Exempt Organizations (See March 1943 report, item 97). Investigations in Baltimore, giving a rather complete picture of the control which the National Socialist regime had over the various German organizations in that city, has been completed. As a result, Mr. Gaston's office has under consideration a Treasury employee found to be an important actor in the Nazi-controlled German organizations in Baltimore.

The investigations of the activities of Donald Shea, head of the National Gentile League, the Gentile War Veterans' Association, etc., are being continued. Incidental information, showing that Shea has been communicating with relatives of American prisoners of war whose names were disclosed on the German short-wave propaganda broadcast, was obtained and turned over to the appropriate Federal agencies.

Investigations have been commenced of the German-American Conference Relief Fund, Inc., and related organizations in the New York area.

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46. Income Tax Investigations (See February 1943 report, item G(c), page 121). Consultative advice was given by Mr. Klaus in the investigations of Ralph Beaver Strassburger, Gerald L.K. Smith and several other pending income tax investigations.

47. Liaison Activities. Upon information obtained from various sources, recommendations were made to Foreign Funds Control for blocking certain accounts. Material was furnished in connection with the examination of Otto L. Fricke, a Cleveland lawyer. Research was conducted for Secret Service in connection with investigations involving White House security. Material was supplied to F.B.I., to the Criminal Division and to the Special War Policies Unit of the Department of Justice for use in current investigations, Grand Jury proceedings and court trials under the War Powers. Liaison activities are continuing with the Navy Department, Office of Strategic Services, Military Intelligence and State Department. An investigation is being made of Friedrich Von Meister, formerly of General Aniline & Film, found to have had a contract for secret war materials with the Navy Department.