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January 1, 1943
10:00 a.m.

NORTH AFRICA

Present: Mr. Bell
Mr. White
Mr. McCloy
General Carter
Mr. Acheson
Mr. Feis
Sir Frederick Phillips
Mr. Playfair

H.M.JR: The purpose of this meeting is, we have had a series of rather disturbing telegrams from General Eisenhower in regard to the cross rate between the English pound, the French franc, and the American dollar. General Giraud seems to be quite disturbed, particularly in as much as a different rate was put into effect in Madagascar without our being informed about it.

If Mr. Bell would give a little resume of the cables, I think it would be helpful.

MR. BELL: I think General Carter, Doctor Feis, and Doctor White might help me out a little if I make any mistakes in going back over the history.

Prior to November 8, when our troops entered North Africa, we had a number of discussions between representatives of the State, War, and Treasury, on what rate of exchange our troops should use in that area.

Doctor White's office had a great deal of data on that, particularly the relation of the currency there to the French franc, the currency in circulation, and the black markets.

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The black markets at that time, as I recall, were about a hundred and thirty to a hundred and seventy-five to the dollar. We felt in the Treasury that a fair rate would be around a hundred francs to the dollar. But after discussing it a number of times with State and War - and General Carter discussed it also, as I recall, with the Chiefs of Staff - we came to the conclusion that seventy-five would be certainly fair to the local populace and would not be unfair to our troops. We felt that they could stand that rate.

General Carter then discussed that rate with, I believe, representatives of the British Treasury - Sir Frederick Phillips - and there were some cables exchanged.

The British wanted the prewar rate of forty-four francs to the dollar - a hundred and seventy-six to the pound - principally because they had already agreed with DeGaulle that that would be the rate for the DeGaulle franc.

Later, when you and Doctor White went to London, White and Bernstein discussed the matter further with representatives of the British Treasury, and the rate of seventy-five francs to the dollar, and three hundred francs to the pound was then agreed upon. We had drafted a proclamation and it was further amended in London at that time, which General Eisenhower was supposed to issue when he landed in Africa. As you know, he did not issue it, but Admiral Darlan instead - as I recall, it was he - issued the proclamation on November 14, declaring these rates for North Africa.

There was some objection on the part of the French to these rates, principally because of the previous DeGaulle agreement. But in a cable dated November 20 from Eisenhower, he said that the French wanted these rates; and he said that he had agreed to recommend to Washington - as the French desired him to recommend - that the British be asked to modify their monetary arrangements with DeGaulle, accordingly. He stated at that time that the British had been advised of these desires. We have not followed that up. It is also mentioned in a later cable as to what we have done about it.

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About December 15 we received, through the State Department, a cable from the British Embassy which raised the question of the exchange rate for West Africa. Up to this time we had been talking about North Africa all the time. About December 15 this question was raised as to West Africa.

The telegram from the British stated that Admiral Darlan had made the currency of North and West Africa interchangeable, and under these circumstances it seemed hard to see how different rates of exchange could be established in these territories.

We agreed to this and cabled General Eisenhower, stating that we thought the rate for West Africa should be the same as for North Africa.

Some time--

H.M.JR: What is West Africa?

MR. BELL: Dakar.

Sometime between December 12 and December 24 there was a mix-up because apparently the West African authorities authorized the use of the prewar rates, or at least they were being used, according to cables received from the Consul General.

I think this information was cabled to Eisenhower that they were using it, but shortly thereafter - I think the next day, on the 24th - Darlan sent a cable to Boisson that he should use the seventy-five franc rate to the dollar and three hundred francs to the pound in West Africa, and he added, "--pending conclusion of the discussions with the United States on the question of rate of exchange for all the areas."

Then Eisenhower cabled us to this effect. He said that the rate would continue indefinitely until a new rate, if any, was fixed by mutual agreement.

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We have taken the position from the beginning that we were willing to sit down and discuss the seventy-five rate. If it wasn't right--

H.M.JR: You forgot to mention Madagascar.

MR. BELL: I am coming to that.

We were perfectly willing to sit down and discuss this rate with the French and also with the British, as they had been interested in the beginning. Things seemed to be moving along pretty well until the recent declaration that the prewar rate would be used in Madagascar. That has further confused, apparently, the African situation, as indicated from the recent cable that Giraud's prestige may be at stake because of that rate.

H.M.JR: Let me interrupt you a minute. Is the Dakar rate now seventy-five?

MR. BELL: It is seventy-five, yes, sir, and is extended indefinitely until another rate is fixed by mutual agreement.

H.M.JR: So from Dakar to the borders of Tunisia it is all uniform?

MR. BELL: Yes, sir.

That brings us down to the Giraud cable.

MR. FEIS: May I interrupt on that, Dan? About West Africa, the situation is still a little confused. We know that the dollar rate is seventy-five - that that has been brought to the same rate as the North African rate - but we are uncertain as to whether the pound rate has been readjusted in North Africa to the three hundred to the pound, or whether it is still at the one hundred and seventy-six. Perhaps Sir Frederick can tell us.

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SIR FREDERICK PHILLIPS: My information is that there is no business doing on account of the uncertainty of rates, and that is one of the points you wanted to bring up.

MR. FEIS: I am sorry, Dan, to interrupt.

MR. WHITE: Equatorial Africa has been excluded from the discussion so far.

MR. BELL: That is right. This cable on the 23rd from Eisenhower to Marshall says Darlan has cabled to use seventy-five francs to the dollar and three hundred francs to the pound, pending conclusion of discussions with U.S. on the question of rate of exchange for all the areas.

That is the last we had, and we assumed that that was a fixed rate, at least for the present.

GENERAL CARTER: General Fitzgerald told me yesterday - he just came from Dakar a few days ago - that the seventy-five rate was in effect in Dakar.

MR. FEIS: We have had that confirmed to us three times.

H.M.JR: What about Casablanca?

MR. BELL: That is the same.

H.M.JR: Dakar and Casablanca are pretty far apart.

MR. BELL: The whole Africa area, from Dakar around to Tunisia is the seventy-five rate.

MR. WHITE: Everything except Equatorial.

MR. BELL: Yes, there they are using the DeGaulle currency, as far as we know, which is a special type of currency, and in agreement with him and the British fix that rate at the prewar rate for the franc. Probably,

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I don't know, the rate could go on. It is a special type of currency that is supported by the British, but we don't see how - certainly from an economic standpoint - you can justify a prewar rate for the French franc any place.

H.M.JR: I would like to say something. What I say I would very much like to have get to Sir Kingsley Wood and also Lord Halifax, but before I start, this was brought to my attention - I don't know whether you have seen the November 21 "Economist" - London "Economist" - it says here, "In December '41 the Bank of Algiers was authorized by Vichy to increase note circulation--" and so forth. "In the light of this, the new rate of exchange seems to be fair to the interests of the local population." That is the end of this article - page six hundred and thirty-six.

What I wanted to say is this. I am sure there is no intention by the British Treasury to do anything - well, to use a word over here - to muddy the waters - is that a phrase that you understand? Is that a phrase used in England?

SIR FREDERICK PHILLIPS: It might be used.

H.M.JR: I mean, until this is cleared up, it is very disturbing to me, because there are so many people who always are looking for something to make trouble between the English Government and ourselves. There is all of this going on, and from what the War Department has told me, handling Giraud is not the easiest thing in the world, and General Giraud is bedeviling General Eisenhower, who certainly has got his hands full, as well as you people have, on the military side.

Then along comes this Madagascar incident and they are using that to make trouble.

Now, Sir Frederick and I have been through many worse situations than this with the French Government in our tripartite agreement, and we have always stuck together - the two governments - the two treasuries -

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against much more difficult situations than this one. We have always had complete frankness and complete cooperation, and I am certainly not going to assume it will be any different. But here is a situation combining, first, the military, which is the most important; and second, the economic. I hope that the thing can be very rapidly cleared up so that General Eisenhower can put his mind exclusively on fighting and will not have to be bothered by Giraud bedeviling him about what the cross rate is in Madagascar.

That is my first and only speech for the first of the year. (Laughter)

MR. BELL: I might add, Mr. Secretary, that the Combined Food Board submitted to us late last night a memorandum.

H.M.JR: Food?

MR. BELL: Food Board, yes. It is signed by Maurice I. Hutton, Joint Executive Officer. It is a memorandum on the West African exchange rate and the contemplated purchase of food, oils, and fats down there. I did not have a chance to study it. (Memorandum referred to dated December 31, 1942, addressed to Mr. Bell)

Harry, I don't know whether you did or not.

MR. WHITE: I read it over.

MR. BELL: That has been submitted on this situation, which I don't think we have studied enough to--

MR. WHITE: I can comment on it.

H.M.JR: I would like to hear from Sir Frederick first, if you don't mind.

SIR FREDERICK PHILLIPS: First as to Madagascar, frankly, I am a little astonished at the importance which seems to be attached to Madagascar.

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The only importance it has, I suppose, is that it has joined the sterling area, and the rate, I gather, was announced sometime in December. We have been dealing with various parts of the French Empire all over the world, particularly in East Africa, Central Africa, and West Africa, for months and months past. In every case the rate has been fixed by the agreement of the French authorities set up; in every case the rate has been settled at par one hundred and seventy-six.

No objection whatever has been taken by the French authorities; and I think, on the contrary, all those French authorities, which are numerous, would see strong objection to a rate of three hundred.

As regards what we have been doing recently, I am equally surprised because certainly early in December I did write to all the U.S. Departments, I think - War Department, the U.S. Treasury, and the State Department, not indeed about Madagascar, but indicating that if the French in Somaliland came over, we contemplated in Somaliland - when Somaliland came over, we contemplated fixing a rate of one hundred and seventy-six. So I cannot see any doubt whatever. I think that that was the British attitude right through.

MR. FEIS: That is correct, sir.

MR. BELL: I remember something like that.

SIR FREDERICK PHILLIPS: You may think our attitude is wrong, but we have been perfectly frank and open.

H.M.JR: Did either you or White get a letter on Somaliland?

MR. BELL: I think there is something some place on Somaliland, but nothing on Madagascar.

GENERAL CARTER: That is in a letter that Sir Frederick sent.

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SIR FREDERICK PHILLIPS: I might read it. It is dated December 8. "In this connection you may like to know that the London authorities proposed that if French Somaliland comes over to our side, the rate of exchange shall be fixed at one hundred and seventy-six to the pound. That appears to be the natural course, since French Somaliland has no trade relations with North Africa, and has trade relations with Madagascar and East Africa generally." In fact, when that was written I assumed everybody knew the Madagascar rate was going to be one hundred and seventy-six.

MR. BELL: I think we would agree, wouldn't we, Harry, that those areas are probably unimportant, economically, but the fact that the rates have been announced has disturbed this African situation.

MR. WHITE: I think, unquestionably, the economic aspect of those are of no importance whatsoever in the light of the larger problem. I think it is the announcement which has been taken by Giraud as an additional evidence in conjunction with what has been done with the Equatorial Africa that has given the matter its importance. I don't remember that Somaliland letter. I am sure we got it, but we probably paid no attention to it.

SIR FREDERICK PHILLIPS: My point is surely quite different from that. My point is, Somaliland and Madagascar - if you say they are small places, supposing they never happened or existed, naturally the same point would have come up because, as I say, we fixed rates - or, rather, the French themselves, with their agreement, fixed rates for the franc all over the DeGaulle French Empire months and months ago, and particularly French Equatorial Africa, which is the important place.

H.M.JR: Well, Sir Frederick, this is the message I want to get over. You can't discuss in the same breath, if you don't mind my saying so, the military campaign to take Tunisia and a cross rate in Somaliland. We have got to have unity.

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I am strongly urging on the Chancellor of the Exchequer that we continue to play ball together on all the fronts as we have in the past, even if it means making the rate uniform in Somaliland and Madagascar.

From all I gather, General Giraud is a difficult enough man, and you just can't discuss the same thing. Whatever the rate is, the chances are you haven't done any trade with Madagascar or Somaliland that amounts to anything. I am making a very strong case, and aside from everything else - all of us in this room have got a tremendously difficult job to do between now and when we begin to testify on Lend-Lease, and the whole question of your balances, and the whole question about the food question - it is all up, and I want to be in the right frame of mind, and right now I am not. I am not.

SIR FREDERICK PHILLIPS: Really, with respect - I have explained that the rate for French Equatorial Africa was fixed many months ago. That is the stumbling block, because although I quite agree it is not contiguous with French North Africa - has nothing to do with Algiers, it is actually contiguous with French West Africa. The only point I am arguing is what the French rate should be in French West Africa at this time.

In regard to the North African rate, if I may say so with the greatest respect, the rate was objected to strongly by Darlan - eventually he gave way. The rate is being objected to by Giraud; the rate is certainly objectionable to DeGaulle, and frankly, I don't see how it is easy to refuse the French request for reconsideration.

No doubt one can say, "We will take time--"

H.M.JR: But we haven't.

MR. BELL: We don't want to do that.

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H.M.JR: Don't get me mixed up. I am not saying that we won't reconsider. In fact, we are willing to reconsider, but what I am saying is that when we do consider where your government and ours do business with the French, we have got to have a united front.

We may not do a dollar's worth of business with Madagascar or a dollar's worth of business with French Somaliland, but we can't have one cross rate in Somaliland, another in Madagascar, and another one in Africa if it is upsetting to Giraud. It is only upsetting to me because it upsets him and upsets General Eisenhower. I want to eliminate that.

I also want - this is a new venture - we are starting on a new venture here - and I want a demonstration from the British Treasury towards me - a reaffirmation from the Chancellor that he wants to continue in the future as he has - as his predecessors have, in the past. I never had any business with him like this.

Now, I want to know if he wants to work with me in the future the way - we and Herbert Feis went all through this thing - we sweat blood over this thing together. I want - in other words, I want a sort of vote of confidence; that is what I want.

Your position is clear that you wrote us, but after all, what is French Somaliland? It is nothing.

SIR FREDERICK PHILLIPS: Nothing at all. The trouble is entirely in French West Africa.

MR. WHITE: Was that in the letter?

H.M.JR: May I just say this? I have got from now until Mr. Stettinius begins to testify.

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I am going to have to spend most of my time on this whole question, and I want to be in a good frame of mind. My mind, right now, is confused.

MR. BELL: I think ~~the~~ rate for West North Africa certainly has been fixed for the time being, pending conclusion of the discussions to change it.

It was suggested in the last cable that the representative of Giraud be sent over here to discuss the rate.

H.M.JR: That doesn't help matters any.

MR. BELL: I should think we ought to accept that and discuss it with them and the British.

H.M.JR: I don't want anybody to come over here until I get some kind of a message from the Chancellor. Now, it isn't only myself, but Mr. Stimson, also, you see, has written me and asked me to handle this thing for him.

I called up Mr. Hull and asked him whether he would like me to handle it for him, and he said, "By all means, please do so."

McCloy, read this, and see if there is any objection to my reading that letter of Mr. Stimson's. If you think it is all right, would you mind reading it, so he just doesn't think it is me - I mean, just the letter.

(Letter dated December 30, 1942, addressed to the Secretary from Mr. Stimson, read by Mr. McCloy; copy attached.)

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H.M.JR: That is from Mr. Stimson.

MR. WHITE: May I say a word about the chronology - supplement what was said a little? The consideration of the North-African franc, as Dan so well indicated, was arrived at as a result of a lot of conversations, and that decision was made over here.

There was a cable that came from London while we were over there; and when we went over we did not decide the rate, but we merely pointed out, Dan, that the rate had been decided in conference here and it could not be changed without another conference. But in any case, that was an important matter. The decision was arrived at after a long time.

Now, certainly the DeGaulle rate, which you have in Equatorial Africa, was fixed, according to our information, a long time ago, a year and a half ago, or something of that character. It was not yet in the picture.

You ought to be, and I am sure you are, cognizant of certain of the political consequences of fixing these different rates. Apparently they do have important ramifications and important impact on matters of higher policy which are wholly remote from and wholly independent of economic considerations, which we all agree are extremely minor. Therefore, if and when you contemplated a reaffirmation of a rate - wherever that rate may be, whether in Somaliland or in the other area - it seemed to me quite clearly that the political repercussions should have been envisaged; and it was important enough, it seems to me, to be a basis for discussion.

You say that the information with regard to Somaliland was contained in the letter. I don't remember seeing the letter. I am sure, since you say you sent it, that we got it, or it may have been - was it a letter or a cable?

SIR FREDERICK PHILLIPS: It was a letter. I sent you a copy.

GENERAL CARTER: You saw it.

(Letter dated December 10, 1942 addressed to General Carter and signed by Sir Frederick Phillips handed to Mr. White by General Carter)

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MR. WHITE: Oh yes, we did go over that.

Now, the reason why, as I see now, is we were postponing the Libyan-rate discussion of the whole matter and didn't make a decision on that and postponed it with regard to that. But I think that those matters ought to be treated with a little more importance than they have been. I mean, it ought to be a question of discussion with the Treasury because of the political ramifications, and the same case with regard to Libya. It is not merely an instance of notifying us what you propose to do, it seems to me; it is a question of putting the problem on the table and saying, "Gentlemen, let's examine this jointly the way we have all the other problems." In that way we will avoid the untoward developments such as developed on a wholly political field.

SIR FREDERICK PHILLIPS: But you appreciate, don't you, Doctor White, that the Madagascar rate has been a hundred and seventy-six all through right from the start of the war?

MR. WHITE: But that has been the Vichy rate in Madagascar. That doesn't in any way change the other.

SIR FREDERICK PHILLIPS: It was the same when our troops went in. It has been effective ever since the summer. All that happened is that Madagascar happens to have joined the sterling area when that announcement came out. We didn't make any change in Madagascar; we kept the existing situation.

MR. WHITE: But, apparently, had that question been brought to us we would have taken the same position with that as with regard to the DeGaulle rate. When the DeGaulle rate was presented to us, we here discussed it, and we said that it was very desirable for political reasons to have the one rate the same. But we did not make a final decision, because we were not called upon at that time to make a decision. We postponed it; we put it on the table - was that right, Herbert?

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MR. FEIS: Yes.

MR. WHITE: We did not give it the consideration that apparently the matter deserved, and one reason why we did not give it the consideration it deserved is that we don't feel that the matter was presented to us in the way in which it should have been presented to us.

SIR FREDERICK PHILLIPS: Let me be quite clear, if I may, about the Secretary's message that he wants me to convey.

In the first place, you want the West African rate to be recognized as seventy-five to the dollar - the West African rate. That will cause a great deal of trouble. The Combined Food Board is in entire agreement with our view that that would be a disturbing factor on all the West Coast of Africa when we make our purchases. However, that is not a vital point.

As regards the DeGaulle areas, what exactly is it, Mr. Secretary, you are proposing, that we should go to all these colonies where in each case there is a French government and propose to them that they raise their rate to three hundred?

H.M.JR: What I am proposing is - I am really not interested in the rates, see, as such. It is terribly unimportant.

What I am interested in is that we are starting a new era, and I want a declaration from the Chancellor of the Exchequer as to whether he wants to work with me as closely in the future as we have in the past wherever the dollar and the pound touch the franc.

SIR FREDERICK PHILLIPS: I give you that declaration now.

H.M.JR: Well - and that there be a uniform rate in whatever part of the world it is.

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SIR FREDERICK PHILLIPS: You do wish the DeGaulle area rates brought up to the three hundred?

H.M.JR: No. I will state it again. What I am saying is this, that I would like the English Government and the United States Government to work together and consider together and study together what the rate should be wherever the pound or the dollar come in contact with the franc, looking towards having a uniform rate throughout the world.

MR. BELL: You are not attempting to say what that rate is. You just want it uniform; you want to study it.

H.M.JR: No, I want it uniform. I want to work together.

MR. WHITE: You don't mean a uniform franc rate but a rate which with the dollar and the pound would be uniform with respect to a particular currency, and that would be arrived at after joint discussion.

H.M.JR: Yes, that we do the thing together, that we begin to build up another tripartite agreement.

You have some doubts, Herbert?

MR. FEIS: No doubts.

H.M.JR: Any doubts in your mind about what I am saying, Dean?

MR. ACHESON: No.

MR. FEIS: I have a doubt, Mr. Secretary, as to whether I understand Mr. White's last comment.

By uniform rate you have in mind that the dollar-pound relationship should be uniform everywhere, not necessarily in the immediate present; that the volume of the franc in terms of dollar sterling should be uniform?

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MR. WHITE: That is right. In other words, it would be an avoidance of what may be happening in West Africa where you have a franc-dollar rate different from a sterling-franc rate.

MR. FEIS: I am just trying to make clear as to whether that is the Secretary's meaning.

H.M.JR: Let me do it again in non-technical language. What I want from the Chancellor is this: A declaration on his part that his Treasury and the United States Treasury will work together wherever we meet any form of currency - that we sit down together and then agree on a policy, looking toward some kind of uniformity of currency throughout the world, whether it is French - or if we meet any other currency that we meet it together. Whatever the situation, there will be combined effort toward - after all, gentlemen, what I am talking about is the first leg on the economic future, so to speak, and we have got to be together and we cannot have our generals worrying about trifles like this.

SIR FREDERICK PHILLIPS: You mean any foreign rate, don't you, Mr. Secretary? We are not interested in your relations with Puerto Rico or the Philippines, and you are not interested in our relations with parts of the British Empire.

H.M.JR: We are not interested in your relations with Africa or Australia, but we are for the moment the French. That is the best illustration.

In non-technical language, any doubts in your mind?

MR. ACHESON: No.

MR. MC CLOY: No, it is clear.

H.M.JR: Bell?

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MR. BELL: No, that is fine. That would apply to any country that we go into.

MR. WHITE: Including Libya.

MR. BELL: Yes.

H.M.JR: You understand, don't you?

SIR FREDERICK PHILLIPS: I know quite well what you are saying.

H.M.JR: Why should the English and the United States Governments let General Giraud throw Madagascar into the face of General Eisenhower? The fact that he has got to sit down and take an hour to read a cable is an hour wasted. It is the Treasury's job to make those things easy for him and see that the civilian situation behind him is just as smooth as possible.

But, if we let a DeGaullist or somebody else, or any other striped Frenchman make trouble for us, we will be in constant hot water. It just isn't worth it. Until you get these Frenchmen lined up and get what the President calls French unity - isn't that what he speaks of all the time - which isn't my job - I mean, they will be making constant trouble for us. It may be Madagascar today; it may be Libya tomorrow; and it may be Central Africa the day after; but if we move on the same front, that is one less cause of friction. I want my mind set at peace so I can face this very difficult Lend-Lease thing which we are going to face in the next ten days. This has raised a question in my mind.

SIR FREDERICK PHILLIPS: I don't think, Mr. Secretary, the way you put it there will be the slightest difficulty in the Chancellor giving you such an assurance straight off. I think it might help if you indicated - I don't press it - how you envisage the study of these questions taking place, for instance, as regards the North-African rate. You propose to consider it, I gather, when you get a suitable opportunity.

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H.M.JR: We will consider anything. I mean, if it is unfair to your Government or ours or the French, the thing can be reopened at any time. It has to stay fluid. It is the basic policy.

MR. WHITE: Then there is one further comment about that Somaliland - here was a question of an exchange rate between your Government and Somaliland. Why should that be information which you give to the War Department and address to the War Department? I mean, I am thinking, why didn't we pay more attention to that? One of the things was, it was something you were considering for the future, and the second was, it was an exchange rate. It was some of your discussions with the War Department--

MR. FEIS: Harry, if I may say so, Sir Frederick Phillips sent Mr. Bell and myself copies of that letter to General Carter. We felt - Mr. Bell will correct me if I am not expressing his feeling - we felt advised about the Somaliland action. We did not feel it necessary or advisable to make any comment on it or to bring it forward.

MR. WHITE: I wasn't cognizant of that, and I have some responsibility in this matter. I don't know what your relations are.

MR. FEIS: I thought, Harry, you were at that meeting.

MR. WHITE: I may have been, but what I am getting at is, the matter of an exchange rate between sterling and any other currency is a Treasury matter. Had it been a matter which was directed towards us in that light, I am sure we would have given it more consideration. I feel a certain amount of responsibility for not having paid more attention to that, if that led to the Madagascar episode without our cognizance.

MR. BELL: We thought the Libyan thing was much more important.

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GENERAL CARTER: The Libyan matter was immediately taken up.

SIR FREDERICK PHILLIPS: I am all with Doctor White; I am quite ready to write in the first place to the Treasury and send copies to every one else; I prefer it. Historically it all happened because when we started - Carter will bear me out - this was the most important operation before the North African was announced. In fact, I had most rigorous and particular directions as to how I was to send cables. That is why it started between General Carter and myself, from the highest orders.

H.M.JR: Anyway, it is all water over the dam. The whole purpose of this meeting is closer cooperation. It is up to us to cooperate amongst ourselves, certainly, and unless somebody else has got something to say--

MR. FEIS: May I make one additional comment, too?

H.M.JR: Please.

MR. FEIS: I will make this for myself - again I believe that General Carter and Mr. Bell are of the same mind, but they can indicate that - that during the recent period of interchange about these North and West-African rates we were cognizant of the fact that it was quite possible that a situation that would prove to have some difficulty in it was arising because of the different levels of rates in Northwest Africa and the rates in the DeGaulle areas. Our discussion was taking place during an obvious period of difficulty of our relationships in North and West Africa, and it did not seem at the moment to face this particular monetary difficulty. It seemed, at any rate to me, that it could be better - more smoothly faced - with a better hope of solution as the situation developed slightly further, and perhaps that point has now been reached. But our discussions were not in blindness of this position that has developed. Dan, do you agree with that?

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MR. BELL: Yes, I agree with that. We always had it in the back of our mind, the DeGaulle situation and the rates fixed.

H.M.JR: Are you finished?

MR. FEIS: Yes.

H.M.JR: Do you want to say anything? You have been very quiet.

GENERAL CARTER: I subscribe to what Mr. Feis just said. We were concerned during this whole period with the possibility of having to face this different rate; and when the Libyan matter arose, I asked Sir Frederick to give us some information about it, and that was what brought forth this letter in which you mentioned the Somaliland.

H.M.JR: Well, I think - I am confident that once the Chancellor knows about it he will give Sir Frederick the kind of instructions that he has in the past. Then we can go on from here.

MR. McCLOY: I have one question, if I may - I notice a good bit of concern expressed in these telegrams. What reply is now going out to Eisenhower regarding this? Are you going to conform to his suggestion that somebody come over and discuss it, or are we going to tell him that we are reconsidering it? Is he in repose? Will he be in repose on it until we reply to these telegrams?

MR. BELL: We will have to do something on that telegram.

H.M.JR: What we thought we would do after Sir Frederick left was, we might discuss what kind of a telegram we send out, if that is agreeable to you.

SIR FREDERICK PHILLIPS: I don't honestly think, sir - I don't want my views to be mistaken - I don't honestly think that, and I don't think any of you should think

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that the existence of a DeGaulle rate of one hundred and seventy-six is the sole cause which is agitating first Darlan and then Giraud to object to that North African rate. I think it lies much deeper than that.

H.M.JR: What is it? I would love to know.

SIR FREDERICK PHILLIPS: I think myself that any colonial administration which has gotten paid in francs will always look very unfavorably on a fall in the franc. I think that is the real objection. No doubt they dress it up in the form that, "We ought to have the same rate as DeGaulle, and DeGaulle should have the same rate as we do;" but that is what they are after. So I don't think you will stop any agitation. I don't think you will stop the objection you are getting from North Africa merely by adjusting other French rates.

MR. WHITE: That seems to be the chief argument they are using, however. Maybe they have other reasons.

(Sir Frederick Phillips and Mr. Playfair left the conference.)

H.M.JR: My thought, Jack, in answer to your question as to the kind of a cable that could be drafted, would be to send word to Eisenhower - a description of what happened here this morning and say, "Pending word from the English Treasury, we would rather that no French representative come over here." That would be my idea.

General Carter could stay, and Feis, or anybody you want to have stay, with Bell and White and draft such a cable. Simply say that until we hear from the Chancellor of the Exchequer there is no use of there being a French delegation over here.

MR. ACHESON: I think you will hear from the British Treasury very quickly, don't you?

H.M.JR: You got my Lend-Lease remark? That is true. I brought this up at Cabinet yesterday. I

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brought up this business, because there was great discussion about this Lend-Lease thing. Wickard brought it up. He is just floundering, and he is scared about how he is going to explain that the English are selling American food and keeping the money. So I told them about the memorandum. The President said, "The sooner you get that memorandum on the balances to me, the better."

(A copy of the cable sent to General Eisenhower attached hereto.)

C O P Y

24

War Department
Washington

December 30, 1942.

Honorable Henry Morgenthau,
Secretary of the Treasury.

Dear Mr. Secretary:

I am inclosing herewith a paraphrase of an extract from a cable which we have received from Eisenhower. As I told you this morning over the telephone, I hope your intervention with the British can afford us some relief in this matter for it is very embarrassing, as you can see.

Very sincerely yours,

(Signed)

Henry L. Stimson
Secretary of War.

Incl.

Refer further to your cable No. 3351,
 December 28. Secretary of Treasury has had the
 representative of the British Treasury in and has
 made presentations to him which are being communicated
 to the Chancellor of the Exchequer. The purpose of
 these representations is to assure complete uniformity
 and concert of British and American policy in the
 monetary field. We expect an early reply at which
 time we will communicate with you. Would therefore
 like to postpone a decision with respect to receiving
 a delegation from General Giraud, the usefulness of
 which is in question now.

*drafted of cable prepared
 by Dr. Fies, Dr. White, Gen
 Houston and me, after Secy's
 conference with Phillips this
 morn. Secy. initialed original
 and gave it to Gen. Houston.*

*SWB
 1/1/43*

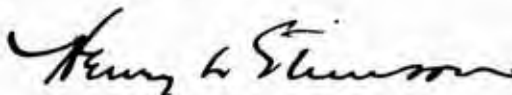
WAR DEPARTMENT
WASHINGTON

January 1, 1943.

My dear Mr. Secretary:

I thank you for your letter of December 31st keeping me posted with what is going on on the subject of the rate of exchange between the pound and the dollar and the franc in North and West Africa.

Very sincerely yours,



Secretary of War.

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

January 1, 1943
11:28 a.m.

HMJr: Hello.

James V.
Forrestal: Henry?

HMJr: Happy New Year.

F: Same to you, Henry. I don't want - not too happy, but....

HMJr: Well....

F: Yeah.

HMJr: Happier.

F: That's right. Henry, Frank spoke to me of the observation you made yesterday at the Cabinet meeting about....

HMJr: Contracts.

F: Con.. - well, the - particularly you're talking, I presume, mostly of the facilities that....

HMJr: That's right.

F:have been granted to people.

HMJr: That's right.

F: Well, he - it was his loyal defense of the Navy he said he was sure there were none of those conditions existing with us. Well, I told him not to be so sure.

HMJr: That's right.

F: Well, I - I - it is clear that a lot of these fellows who did not take advantage of that - of their right to put their own money in and get....

HMJr: Yes.

F:the rapid amortization....

HMJr: Yeah.

- 2 -

F:are now pressing to get it.

HMJr: Yeah.

F: Now that may - you may have seen some evidence of that. We've seen quite a lot.

HMJr: Yeah.

F: We're not going to give it to them on the - that is, where - where they want to come in and buy the plant now and get the benefit of the rapid depreciation which they - which is applicable to their earnings.

HMJr: Well, that isn't the point. Jim, the President originally said this - going back to his Charleston Armor Plate Plant....

F: Yeah.

HMJr:which he was so proud of having put grease on and kept.

F: Yeah.

HMJr: Now he originally said that he wanted these - where we paid for the facilities, have it so that it's at the discretion of the Government whether we should maintain the plant or put it away in cold storage or so forth and so on, or what it should make. Now I know - I haven't seen a contract yet where it's the discretion of the Government to do anything.

F: Well, that - we have a good many where that discretion - for example, we have the right for five years to keep - to keep many of our plants - either the company has to maintain them or we have the right to take them over.

HMJr: But there's no uniform policy. There's....

F: There is no uniform policy, Henry, and you're - over the - I think the only uniformity that exists possibly is what we've started here. I started about two months ago....

- 3 -

HMJr: Well, look, old man, I've put this in the hands of Paul and Sullivan - hello?

F: Yes.

HMJr: And in a couple of days I imagine they'll be in touch with you.

F: Well, I - why, I'd welcome all - all the....

HMJr: Because I - and I want you to know how it started. I didn't start this, because I've got enough problems, but the President said that he wanted a report on housing and what could happen to housing after the war.

F: Yeah, yeah.

HMJr: I don't know whether Frank told you that.

F: Yeah.

HMJr: He brought it up himself, and I said....

F: But, Henry, let me interject this - it's part of a larger problem....

HMJr: Yes.

F:and which is the only post-war problem I'm concerning myself with - is what kind of a war industry you're going to sustain for the Government.

HMJr: Right.

F: I mean that - and that is linked right with this whole thing you're talking about.

HMJr: And I - well, I'm delighted that you're interested.

F: Well, I - I'm - it's - I'm fanatic on that subject, and....

HMJr: Well, I didn't know that. Well, then when we get along and before I - I'd like to sit down with you myself.

- 4 -

F: I'd like to very much, Henry, because I think, as a matter of fact, it's a ball that you might take because nobody else is thinking about it very much.

HMJr: Well, I'll tell this to the men, and then early next week let's get together.

F: Fine. Okay.

HMJr: I appreciate your calling.

F: Right, Henry.

HMJr: Thank you.

January 1, 1943
12:55 p.m.

Lewis
Douglas: Henry?

HMJr: Yes, Lew.

D: I just called you up to wish you and your wife a mer.. - a Happy New Year.

HMJr: Well, the same to you, Lew.

D: Lots of luck.

HMJr: We both need it.

D: (Laughs)

HMJr: And I hope I'll be seeing you one of these days.

D: I'd love to see you, Henry.

HMJr: And take care of yourself.

D: And you take care of yourself.

HMJr: Very nice to hear from you.

D: And nice to hear your voice. But really I hope you have all kinds of luck this year, Henry.

HMJr: Thank you, Lew.

D: Goodbye.

HMJr: Goodbye.

D: My best to your wife.

HMJr: Mine to yours.

D: Thank you.

HMJr: Goodbye.

January 1, 1943.

MEMORANDUM FOR THE SECRETARY'S FILES:

The Secretary telephoned Vice President Wallace today to say that Claude Wickard seemed upset over the question of prices of foodstuffs in England and in the United States and over the public reaction to the sale by England of food sent to England under lend-lease, and that the matter had been referred to at Cabinet.

Secretary Morgenthau suggested that it would seem to be an appropriate matter for Wallace to handle in the same way he did the dollar position. The Secretary suggested that another meeting be called of the same group to explore the problem and see if some unified policy could not be adopted with respect to this problem.

The Vice President wondered whether he could appropriately take up such a matter and the Secretary replied that "someone has got to take the leadership and I think it should be you".

H. D. White

17/33

Sent to the President on 1/3/43

OFFICE OF THE VICE PRESIDENT
WASHINGTON

Report to the President on Policy Decisions
Relating to Dollar Position of
Lend-Lease Countries

A committee consisting of representatives of the Departments of State, Treasury, and War, the Office of Lend-Lease Administration and the Board of Economic Warfare, undertook to consider the following four problems:

1. The appropriate level of the gold and dollar balances of the United Kingdom. Should these balances be allowed to increase further or should an effort be made to hold them at approximately the present level or should they be reduced?
2. The desirability of continuing lend-lease exports to South Africa in view of the present size and rate of increase of the gold holdings of that country.
3. The extent to which in the formulation of lend-lease policy for sterling area countries the gold and dollar position of each of these countries should be considered as separate from that of the United Kingdom.
4. In granting lend-lease assistance to countries outside the British Empire, should their holdings of gold and dollar balances be taken into consideration?

Recommendations made in this report are based on the recognition that the purpose of the Lend-Lease Act is to provide our Allies with the goods and services that they need for the most vigorous prosecution of the war. They are based on the assumption that our arrangements with lend-lease countries should be so conducted as to maintain their gold and dollar balances at a level consistent with the above objective.

1. The United Kingdom:

The United Kingdom held, as of November 30, 1942, an aggregate of \$928 million of gold and dollar balances as follows:

(In millions)

Gold.....	\$702
Dollar balances.....	226
Total	\$928

This total of \$928 million represents an increase of \$770 million from the low point of May 1941 and an increase of \$430 million since January 1942. Whether or not these holdings will increase in the near future depends on a number of factors within the control of the United States Government such as the volume of lend-lease aid, the volume of United States purchases and the dollar expenditures of and for our troops. It also depends on certain factors largely beyond our control, of which an example is the proposed substantial payment by the United Kingdom to Canada.

Judging the total British position at this time, we conclude that the balances now held by United Kingdom are adequate. In this connection, it will be recalled that in the Spring of 1941 the British suggested that they should have a "minimum working balance of \$600 million required to meet contingencies everywhere".

Recommendation

It is recommended, in the light of present circumstances, that the United Kingdom's gold and dollar balances should not be permitted to be less than about \$600 million nor above about \$1 billion.

2. The Union of South Africa

Gold holdings of South Africa have risen from approximately \$220 million in September 1939 to more than \$600 million in November 1942. In addition, South Africa has repurchased about \$160 million of Government securities formerly held in the United Kingdom, as well as substantial amounts of gold mining securities.

South Africa's gold production is not expected to diminish greatly below the present all time high of \$600 million per year. Even if gold production were to be drastically curtailed, South Africa would scarcely be hindered in her prosecution of the war because of any shortage of foreign exchange.

Lend-Lease exports to South Africa were unimportant until May 1942. Since then they have increased steadily. In October, 76 percent of United States exports to South Africa were on lend-lease account and 43 percent of the non-military items exported under lend-lease. These goods are lend-leased to Great Britain for the Union of South Africa, but they are shipped directly to the latter country. In the case of non-military goods, a large part is distributed by South African Government through normal commercial channels.

In view of the large gold balances of South Africa, lend-lease aid to that country, considered by itself, cannot be justified on foreign exchange grounds. It has been urged that political considerations make it important that lend-lease aid should be extended. There is, however, evidence to indicate that the Union Government is willing and able to finance the purchase of war materials with its own resources.

Recommendations

a. It is recommended, as long as South African balances remain at or near their present high levels, lend-lease non-military exports to South Africa on a credit basis, either directly or indirectly through the British, be discontinued and that negotiations to this end be started at once.

b. It is further recommended that a Lend-Lease Agreement with South Africa be obtained providing for lend-lease military aid to that country and reciprocal aid to the United States in the form of strategic materials.

3. The British Empire and its Parts

The present financial arrangements with the British appear to be rather inconsistent. When the British request that additional lend-lease aid be granted and that they be relieved of the necessity of making various dollar payments, they count only the United Kingdom's gold and dollar balances and most of the dollar receipts of the sterling area as being available.

They exclude the gold and dollar holdings of South Africa, Australia, New Zealand and India which together are at least as large as those of the United Kingdom. When, however, they compute the dollar expenditures which must be made, the British count not only the payments which the United Kingdom must make, but also the payments which their Dominions and Possessions, including South Africa must make.

It would seem that the correct procedure is to make lend-lease arrangements either with any part, or with the whole of the sterling area, and to vary the arrangements so as to fit the ability of the part, or the whole, to pay for goods and services. If Great Britain is to act for the whole Empire, the assets of all the members of the Empire should, it seems, be considered as well as their aggregate net need for foreign exchange. The same would hold for any part of the Empire for which Britain makes lend-lease arrangements.

Recommendation

It is recommended that the United States Treasury initiate and continue discussions with the Financial representatives of South Africa, Australia and New Zealand concerning their respective gold and dollar positions. Whether or not similar procedure should be adopted with British India rests upon the decision of the State Department concerning the expediency of such procedure with India at this time.

4. Non-British Countries Receiving Lend-Lease Aid

Thirty-six non-British Empire countries received \$1.5 - \$2 billion of lend-lease assistance through November 1942. Among them are countries with substantial gold and dollar holdings.

Recommendation

It is recommended that consideration in the determination of lend-lease policy should be given to the gold and dollar position as well as to all of the relevant factors.

5. Continuing Review

In order to implement the policy decided upon concerning the appropriate amount of gold and dollar balances to be held by various countries receiving lend-lease aid, it is necessary to have a closer degree of coordinated effort by the various departments making decisions affecting the dollar position of these countries and to give consideration to the ways in which that policy shall be implemented. It is also necessary to be informed concerning the countries to which lend-lease aid is being granted, either directly or indirectly.

If the balance rises above the upper limit decided upon by the policy committee, the most feasible method of reducing the contribution of the United States seems to be the following:

- (a) Reduction in lend-lease exports of non-military goods.
- (b) Procurement of strategic materials and other non-military supplies as reciprocal aid.
- (c) Receipt as reciprocal aid of sterling to finance expenditures of American Armed Forces abroad.

Recommendation

It is therefore recommended that the Cabinet group appoint a permanent subcommittee under the chairmanship of the Treasury charged with the responsibility of making recommendations to this Cabinet group with respect to the implementation of policies relating to the above problems, and that the Secretary of the Treasury take the necessary steps to obtain from each of the United Nations the information on their foreign exchange resources needed for the work of the subcommittee.

W. A. Wallace
Vice President

Cordell Hull
Secretary of State

W. B. Bell
Acting Secretary of Treasury

Henry L. Stimson
Secretary of War

E. A. Tamm
Chief Justice of the Supreme Court

If you approve of these recommendations you shall be glad if you will so indicate below.

The White House

Approved: _____

January 1, 1943



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 1, 1943

MEMORANDUM TO THE SECRETARY:

There is attached list showing purchases made through December 29, 1942 on the Rehabilitation Program. This list does not include 10,000,000 yards of piece goods secured from the Work Projects Administration nor the 3,416,019 yards of piece goods previously purchased and held in storage for the account of the Chinese, which have been diverted to this program.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



Vendor	Location	Description	Quantity	Amount
Ultrafit Co., Inc.	New York, N.Y.	Shirts	486 dz.	\$ 5,353.10
The Loyal Shirt Co.	New York, N.Y.	Mens Shirts	870 5/12 "	9,437.67
Topkis Bros. Co.	Wilmington, Del.	Mens Shirts	1,325 1/2 "	13,785.25
Elmar Sportwear Co.	New York, N.Y.	Womens Shirts	220 "	3,333.00
Jonat Sportwear Co.	New York, N.Y.	" "	208 1/12 "	3,158.70
Marlene Sportwear Co.	New York, N.Y.	" "	1,632 "	21,564.82
Mack Sepler	New York, N.Y.	" "	290 "	4,176.00
Champ. Pants Mfg. Co.	Pittsburgh, Pa.	Mens&Boys Tros.	3,100 "	62,143.75
" " " "	Lawrenceville, Ga.	" " "	350 "	5,975.00
" " " "	Jefferson City, Mo.	" " "	650 "	12,793.75
" " " "	Atlanta, Ga.	" " "	200 "	3,600.00
A. I. Meyer Corp.	Boston, Mass.	Infants Sweaters &	1,050 "	12,387.50
" " " "		Boys Long&Short Pants, Mens		
		Overalls, Coats & Dungarees		
Berst Forster Dixfield Co.	Dixfield, Me.	Safety Matches	50 M gr. boxes	35,815.00
The Spool Cotton Co.	Jersey City, N. J.	Thread	180,000 dz.	41,914.40
Corning Glass Works	Charleroi, Pa.	Lamp Chimneys	7,400 "	3,848.00
Clinton Paper Co.	Brooklyn, N.Y.	Newsprint	30 tons	1,750.00
A. G. Nelson Paper Co.	New York, N.Y.	Book Paper	2 "	332.78
Sigmund Ullman Co.	New York, N.Y.	Printing Ink	200 lbs.	40.00
Weiss, Hesslein Co.	Gastonia, N.C.	Thread	100,000 dz.	18,500.00
The Maerican Thread Co.	New York, N.Y.	"	18,000 "	5,943.30
The Gardiner Hall Co.	S. Wilmington, Conn.	"	23,000 "	6,781.09
Ludlow Mfg. & Sales Co.	Ludlow, Mass.	Jute Rope	471,603 lbs.	98,321.84
The Grady Travers Co., Inc.	New York, N.Y.	Cotton Twine	7,057 "	2,779.04
Hoffman Roberts Cordage	New York, N.Y.	" "	2,355 "	996.88
Johnston & Co.	New York, N.Y.	" "	5,600 "	2,297.00
Independent Cordage Co.	New York, N.Y.	" "	30,000 "	12,755.80
A. W. Archer Co., Inc.	Jamestown, N.C.	" "	14,800 "	5,733.00
" " " "	Hickory, N.C.	" "	18,000 "	6,660.00
" " " "	New York, N.Y.	" "	2,874 "	1,135.24
Irvington Smelting Refining Works	Irvington, N.J.	Copper Sulphate	2,000,000 "	91,800.00
Phelps Dodge	Laurel Hill, L.I., N.Y.	" "	1,000,000 "	45,900.00

<u>Vendor</u>	<u>Location</u>	<u>Description</u>	<u>Quantity</u>	<u>Amount</u>
Lewis Bros. Hosiery	New York, N.Y.	Hosiery	1,468 doz.	\$ 1,565.20
Ma-Ro Hosiery Sales	High Point, N.C.	Men's Socks	3,000 doz.	3,675.00
Henry I. Siegel	Dickson, Tenn.	Men's & Boy's Clothing	7,778 doz.	112,906.50
Everlastik Knitting	Fulton, Ky.	Men's Work Trousers	6,000 doz.	88,500.00
Plymouth Undergarment	Philadelphia, Pa.	Sweaters	100 doz.	1,200.00
Infants Socks	New York	Underwear	906½ doz.	1,522.92
Rathgeb Knitting	Eufaula, Ala.	Hosiery	1,280 doz.	1,280.00
	Highland, N.Y.	Girls & Womens Pullovers	577 doz.	5,696.05
Kent Mercantile	New York, N.Y.	Sweaters	2,227 doz.	21,798.00
Parsons and Baker	Phoenixville, Pa.	Underwear	691 doz.	1,368.75
Norwalk Knitting Mills	New York, N.Y.	Boys Virls	6,714 doz.	34,790.15
The Standard Overall	Martinsville,	Men's Work Trousers	6,250 doz.	88,375.00
Herbert Hosiery Mills	Norristown, Pa.	Hosiery	2,596 doz.	2,738.44
Cardinal Knitting Mills	New York, N.Y.	Children's Sweaters	300 doz.	1,380.00
Shepard Knitwear Co.	New York, N.Y.	Women's & Girls Sweaters	561 doz.	4,987.00
Slane Hosiery Mills	High Point, N.C.	Hosiery	4,000 doz.	5,075.00
Kramer Bros.	Philadelphia, Pa.	Girls & Infants Socks	375 doz.	4,006.25
Continental Undergarment Co.	New York, N.Y.	Men's & Women's Underwear	100 doz.	237.50
Princeton Knitting Mills	Philadelphia, Pa.	Men's Sweaters	200 doz.	3,300.00
Jos. E. Haber, Inc.	" "	Sweaters	75 doz.	1,017.00
Elting Bros.	Marion, N.C.	Boys Socks	1,500 doz.	1,875.00
Wrights Under. Co.	West Lawn, Penn.	Underwear	303½ doz.	934.14
	Port Carbon, Penn.	Underwear	200 doz.	390.00
Majestic Knitting Mills	New York, N.Y.	Sweaters	600 doz.	4,762.50
Rich. Hosiery Mills	Rossville, Ga.	Girls & Infants Anklets	1,860 doz.	1,609.00
Adelphi Hosiery Co.	Burlington, N.C.	Boys Socks	1,222 doz.	1,723.05
Matt. D. Artson	New York, N.Y.	Womens Sweaters	140 doz.	1,289.20
Adelphia Shirt Co.	Allentown, Pa.	Childrens Shirts	3,500 doz.	20,125.00
Fulton Und. Mills	Chattanooga, Tenn.	Men's Shirts	300 doz.	375.00
Dadout an Export Corp.	New York, N.Y.	Med Clothing	500 tons	251,000.00

<u>Vendor</u>	<u>Location</u>	<u>Description</u>	<u>Quantity</u>	<u>Amount</u>
International Shoe Co.	St. Louis, Mo.	Shoes	36,000 prs.	\$ 57,240.00
Dutchinson & Winch Shoe Co.	Boston, Mass.	Shoes	4,000 prs.	7,400.00
John Pilling	Lowell, Mass.	Shoes	12,868 prs.	24,758.00
Endicott Johnson	Endicott, N.Y.	Shoes	51,688 prs.	92,000.00
Star Shoe Mfg. Co.	Boston, Mass.	Shoes	2,791 prs.	4,047.00
H. H. Brown	Worcester, Mass.	Shoes	972 prs.	1,929.50
Brown Shoe Co.	St. Louis, Mo.	Shoes	1,697 prs.	3,111.50
General Shoe Corp.	Nashville, Tenn.	Shoes	5,200 prs.	6,540.00
Suffolk Shoe Co.	Boston, Mass.	Shoes	4,800 prs.	6,720.00
Julius Goldstein Sons Co.	" "	Shoes	13,285 prs.	19,687.00
Boston Novelty Shoe Corp.	" "	Shoes	5,360 prs.	7,445.00
Samuel Brilliant Co.	" "	Shoes	2,400 prs.	3,360.00
Nathan Jacobson	" "	Shoes	660 prs.	957.00
Benj. Walk & Co.	" "	Shoes	18,683 prs.	24,840.00
Benj. Shir	" "	Shoes	10,070 prs.	11,557.00
Brilliant Bros.	" "	Shoes	3,760 prs.	6,492.50
David Brown	Baltimore, Md.	Shoes	1,800 prs.	2,520.00
Shaer Shoe Co.	Worcester, Mass.	Shoes	1,626 prs.	2,461.50
Craddock & Terry	Lynchberg, Va.	Shoes	7,923 prs.	14,400.00
Rogers Bros.	Boston, Mass.	Shoes	2,400 prs.	3,780.00
A. G. Walton & Co.	Chelsea, Mass.	Shoes	10,513 prs.	21,026.00
Superior Shoe Co.	Boston, Mass.	Shoes	1,077 prs.	1,616.00
Goodman & Singer	" "	Shoes	1,002 prs.	1,603.50
French American Banking Corp.	New York, N.Y.	Misc. Cargo	12,328 lg. tons	5,258,288.82
Winthrop Chemical Co.	New York, N.Y.	Atabrine	7 lbs.	90.00
E. R. Squibb & Sons	" " "	Misc. Drugs	40 lbs.	375.00
S. B. Pinick & Co.	Jersey City, N.J.	Physostigmine Sulphate	1 lb.	438.75
Merck & Co.	Rahway, N.J.	Pilocarpine	1 lb.	66.80
Gus Edelstein & Bros.	New York, N.Y.	Hosiery	2,196 doz.	3,539.75
Sport Wear Hosiery Mills	Etowah, Tenn.	Hosiery	4,534 doz.	7,070.90

43
Vendor

Location

Description

Quantity

Amount

Vendor	Location	Description	Quantity	dz.	\$	Amount
Turiel Bros.	New York, N.Y.	Womens Hose	1,275			3,307.50
Jf. Trinkaus	New York, N.Y.	" "	410			1,004.50
Timely Modes, Inc.	New York, N.Y.	Womens Blouses	455			4,539.00
Cohen & Tallan	New York, N.Y.	Children Socks	238	1/2		328.50
Benal Hosiery Co.	Hickory, N.C.	Hosiery	3,400			4,075.00
" " "	Valdese, N.C.	"	600			840.00
" " "	High Point, NC	"	3,240			6,822.00
" " "	New York, N.Y.	"	1,045			1,007.25
" " "	Durham, N.C.	"	540			837.00
" " "	Mohnton, Pa.	"	600			1,350.00
Reidbord Bros.	Pittsburgh, Pa.	Mens Work Tros.	625			10,312.50
Batavia Mills	New York, N.Y.	Sweaters	678			8,427.92
" " "	Pittsburgh, Pa.	Mens Work Tros.	1,200			19,564.00
Comus Mfg. Co.	New Bedford, Mass.	Boys Pants	1,800			19,800.00
S. Rosenbloom	Baltimore, Md.	Mens Work Tros.	1,333	4/12		15,950.00
		Sport Shirts				
May Hosiery Mills	Nashville, Tenn.	Womens&Infants Hose	2,168			6,103.80
Hoffman Clothing	New York, N.Y.	Boys Trousers	109	1/3		940.80
Art-Mor Togs, Inc.	New York, N.Y.	Ladies Garments	643	2/12		12,685.37
Appalachian Mills	Knoxville, Tenn.	Mens Sweaters	448			4,463.00
		& Underwear				
Hindes & Hirsch	New York, N.Y.	Boys Pants	775			7,943.75
Dadourian Export	New York, N.Y.	Mens Work Tros.	99			2,244.00
Daisy Whithead Knitting	New York, N.Y.	Womens Hose	1,540			2,359.00
" " "	Dallas, Texas	" "	300			495.00
" " "	High Point, N.C.	" "	180			423.00
Prudential Knitting P	Philadelphia, Pa.	Mens, Womens&Boys Sweaters	2,748			38,775.50
		Boys Trousers	1,764			10,323.59
Penn State Mfg.	Allentown, Pa.	Boys Trousers	250			3,937.50
Sharp Brothers	New York, N.Y.	Hose	759			1,219.00
Chester H. Roth	Hickory, N.C.	"	6,770			9,617.00
" " "	Burlington, N.C.	"	450			720.00
" " "	High Point, N.C.	"	2,010			5,125.50

<u>Vendor</u>	<u>Location</u>	<u>Description</u>	<u>Quantity</u>	<u>Amount</u>
Gladstone Bros.	New York, N.Y.	Mens&Womens Cloth	5,190 8/12 dz.	\$ 58,828.90
Fuld & Hatch Knitting	Cohoes, N.Y.	Mens&Boys Underwear	1,653 "	6,612.00
Johnstown Knitting Mill Co.	Johnstown, N.Y.	Mens Cottonsport coats	192 "	2,208.00
DeWilde-Herzberg	Auburn, Pa.	Sweaters	863 "	10,904.75
"	Lowell, Mass.	"	250 "	4,875.00
"	Boston, Mass.	"	45 "	507.50
Utica Knitting	Utica, N.Y.	Mens Sweaters	438 7/12 "	7,675.21
Peerless Hosiery Co.	Sweet Water, Tenn.	Mens&Womens Hose	1,500 "	3,000.00
"	Burlington, N.C.	" " "	5,000 "	5,250.00
"	New York, N.Y.	" " "	500 "	725.00
Crown Hosiery Mills	High Point, N.C.	Mens, Womens&Childrens Hose	11,050 "	26,457.50
Robert C. King	Hamburg, Pa.	Protective Drawers	123 1/2 "	829.85
"	Port Clinton, Pa.	Army Athletic Shirts	95 "	249.37
"	Hazleton, Pa.	Athletic Shirts	500 "	1,125.00
"	E. Millsboro, Pa.	Mens&Boys Sweaters	208 5/12 "	2,431.88
"	New York, N.Y.	Mens Sweaters	962 "	10,115.50
Loom-TWX Corp.	New York, N.Y.	Underwear	10,840 "	26,073.60
New England Overall Co.	Boston, Mass.	Mens&Boys Workpants	112 1/2 "	1,515.50
Vivian Fashions	New York, N.Y.	Womens Skirts	350 "	472.50
Montcastle Knitting	Lexington, N.C.	Boys Golf Hose	1,200 "	2,400.00
Essex Mfg. Co.	Essex, Md.	Mens Work Tros.	432 "	9,121.50
Suffolk Knitting	Lowell, Mass.	Mens Sweaters	3,741 "	75,360.09
Isadore Spivak	Philadelphia, Pa.	Mens Work Tros.	695 "	10,575.00
Union Pants Mfg. Co.	Bordentown, N.J.	Mens&Boys Work Tros.	609 1/2 "	10,581.37
A. A. Smith and Son	Middletown, N.Y.	Mens&Boys Sweaters	2,074 "	17,699.50
"	Ilion, N.Y.	" " "	329 "	3,171.00
"	Brooklyn, N.Y.	" " "	31 "	186.00
Big Jack Mfg.	Bristol, Va.	Work Clothes	2,716 "	53,958.00
Ritemade Garment	New York, N.Y.	Womens Dresses	220 11/12 "	3,843.95
Samfeld Mfg.	Chicago, Ill.	Boys Short&Long Pants	330 10/12 "	4,775.00

\$7,367,714.13



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 1, 1943

45

MEMORANDUM TO THE SECRETARY:

Supplementing my memorandum to you of December 29th concerning the authorization to purchase supplies in the amount of approximately \$27,000,000 against a \$100,000,000 allotment, subject however to clearance from WPB, we have been working closely with WPB to develop clearance on spot material that can be shipped promptly.

We have an informal clearance from the Textile Branch of WPB and have the assurance that they will make available to us all facilities to meet the requirements such as releasing to us inventories of certain stocks in the hands of the producers.

Clifton E. Mack
Clifton E. Mack
Director of Procurement





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 1, 1943

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Clifton E. Mack
Clifton E. Mack
Director of Procurement



TO:

46

THE SECRETARY:

○

I thought you might
like to have the figures
for the end of the month
on the Victory Fund Drive.

LWB

January 1, 1943

Office of the Under Secretary

○

FUNDS RAISED DURING THE MONTH OF
DECEMBER THROUGH THE SALE TO THE
PUBLIC OF PUBLIC DEBT SECURITIES

(In millions of dollars)

	From Banking Sources	From Non-Banking Sources	Total
Treasury bills	\$ 900	--	\$ 900
7/8% Certificates	2,117	\$1,681	3,798
1-3/4% Treasury bonds ...	2,058	1,003	3,061
2-1/2% Treasury bonds ...	--	2,830	2,830
Tax notes	--	1,305	1,305
Savings bonds -			
Series E	--	\$726	
Series F	--	66	
Series G	--	<u>222</u>	1,014
	<u>\$5,075</u>	<u>\$7,833</u>	<u>\$12,908</u>

January 1, 1943.

JAN 1 1943

Dear Mr. Gilleaudeau:

I want you to know that the strong advertising support which "This Week" is giving to the War Bond campaign is most appreciated. This is a splendid example of the type of cooperation which alone can bring a voluntary, continuing program such as our War Savings activity to full success.

It is only through the united efforts of all Americans, working together, that we can win through to our mutual goal of victory in the war and sound economy in the peace to follow.

Consequently, I wish to thank you for your patriotic and continuous cooperation in bringing our War Bond message to the attention of your six million readers.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Raymond Gilleaudeau
President
"This Week"
420 Lexington Avenue
New York, New York

(Odegard took in for
signing 1/1/43 - mailed
out by his office)

Copy in Diary

Copy to Odegard's office

JAN 1 1943

Mr. W. E. O'Brien
Advertising Manager
Buffalo Courier-Express
Buffalo, New York

Dear Mr. O'Brien:

This is to express my sincere appreciation of the splendid contribution made to the War Bond program by the Buffalo Courier-Express' issue of December 7th.

I want to take this opportunity to thank you and all those responsible for this most noteworthy achievement, and through you, to thank as well the many patriotically-minded sponsors who made this issue possible.

It is through just such inspiring cooperation as this that we will win through to victory in this war and to sound economy in the peace to follow.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

BKX:ms

(Odegard took in for
signing 1/1/43 - mailed
out by his office)

Copy in Diary

Copy to Odegard's office

JAN 1 1943

Mr. Edward H. Butler
Editor and Publisher
Buffalo Evening News
Buffalo, New York

Dear Mr. Butler:

This is to tell you that the Treasury Department is deeply appreciative of the splendid contribution to the War Bond program which the Buffalo Evening News made in the issue of December 5th. You and all of the patriotically-minded sponsors who made this issue possible are certainly to be commended.

In any voluntary continuing operation such as this, it is only through the united efforts of all Americans, working together, that a program of such magnitude can bring us to our mutual goal of victory in the war and sound economy in the peace to follow.

Again, please accept my sincere thanks for this outstanding contribution to the War Bond program.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

RSK:ms

(Odegard took in for
signing 1/1/43 - mailed
out by his office)

Copy in Diary

Copy to Odegard's office

JAN 7 1943

Mr. William H. Moore
Director of Advertising
The Detroit News
Detroit, Michigan

Dear Mr. Moore:

This is to tell you that the Treasury Department is deeply appreciative of the splendid contribution to the War Bond program which the Detroit News made in its Pearl Harbor edition. You and all of the patriotically-minded sponsors who made this issue possible are certainly to be commended.

In any voluntary, continuing operation such as this, it is only through the united efforts of all Americans, working together, that a program of such magnitude can bring us to our mutual goal of victory in the war and sound economy in the peace to follow.

Again, please accept my sincere thanks for this outstanding contribution to the War Bond program.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

BSK:MC

(Odegard took in for
signing 1/1/43 - mailed
out by his office)

Copy in Diary

Copy to Odegard's office

JAN 1 1943

Mr. John H. Sorrells, President,
The Memphis Commercial-Appeal
Memphis, Tennessee

Dear Mr. Sorrells:

This is to tell you that the Treasury Department is deeply appreciative of the splendid contribution to the War Bond program which the Memphis Commercial-Appeal made in the issue of December 7th. You and all of the patriotically-minded sponsors who made this issue possible are certainly to be commended.

In any voluntary, continuing operation such as this, it is only through the united efforts of all Americans, working together, that a program of such magnitude can bring us to our mutual goal of victory in the war and sound economy in the peace to follow.

Again, please accept my sincere thanks for this outstanding contribution to the War Bond program.

Sincerely yours,

(Signed) H. Morgenthau, Jr

RM:ms

(Odegard took in for
signing 1/1/43 - mailed
out by his office)

Copy in Diary

Copy to Odegard's office

JAN 1 1943

Mr. Karl D. Baker
 Business Manager
 Washington Daily News
 Washington, D. C.

Dear Mr. Baker:

Please accept my sincere thanks for the splendid cooperation given to the War Bond program in your issue of December 7th.

The many full-page color advertisements, plus all of the supporting War Bond advertisements in black and white, are an inspiring and magnificent contribution which, it is felt, will most certainly be reflected in increased sales of Bonds and Stamps not only in the District of Columbia, but in all the surrounding area. You and all of the patriotically-minded sponsors who made this issue possible are certainly to be commended.

It is cooperation such as this which alone can carry a program of the scope and continuing nature of our War Bond activity to the full success which all Americans so devoutly desire.

Sincerely yours,

(Signed) H. M. Morrison
 (Odegard took in for signing 1/1/43 - mailed out by his office)

ASK:ms

Copy in Diary

Copy to Odegard's office

JAN 1 1943

Mr. Thomas F. Joyce
 Vice President in Charge of Advertising
 RCA Manufacturing Company, Incorporated
 Camden, New Jersey

Dear Mr. Joyce:

I want you to know that your series of War Bond advertisements telling what various employees of RCA Victor are doing in the Payroll Savings Plan is most appreciated. This is a splendid example of the type of cooperation which alone can bring a voluntary, continuing program such as our War Savings activity to full success.

As you are so well aware, as Chairman of the Camden County War Savings Staff, it is only through the united efforts of all Americans, working together, that we can win through to our mutual goal of victory in the war and sound economy in the peace to follow.

My sincere thanks to all and especially to the many patriotic employees of RCA Victor who are determined to "Beat the Promise" in War Bond buying as in war production.

Sincerely yours,

(Signed) H. Morgenthau (Odegard took in for signing 1/1/43 - mailed out by his office)

Copy in Diary

Copy to Odegard's office

RSK:me

JAN 1 1943

Dear Mr. Brown:

I want you to know that the series of War Bond advertisements which you not only are running in "Editor and Publisher" but also are offering to newspapers, is most appreciated. This is a splendid example of the type of cooperation which alone can bring a voluntary, continuing program such as our War Savings activity to full success.

It is only through the united efforts of all Americans, working together, that we can win through to our mutual goal of victory in the war and sound economy in the peace to follow.

Consequently, I wish to thank you for bringing these War Bond messages to the attention of not only your own readers, but the newspaper readers of America.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. James W. Brown, President
"Editor and Publisher"
Times Tower Building
42nd and Broadway
New York, New York

(Odegard took in for
signing 1/1/43 - mailed
out by his office)

Copy in Diary

Copy to Odegard's office



DEPARTMENT OF AGRICULTURE
WASHINGTON

January 1, 1943.

Dear Henry:

This tardy acknowledgment of your note of December 22 is due to my absence from the office on account of illness.

Your idea of using John Stewart Curry's poster seems to me to be a good one, and I trust it will aid materially in the selling of War Bonds to farmers.

Sincerely yours,

Claude R. Wickard
Secretary

The Honorable
The Secretary of The Treasury

December 22, 1942.

Dear Claude,

We are sending over herewith a poster of John Stewart Curry. The idea is to use this poster to help us sell War Bonds to farmers.

Would you mind having it in your office for twenty-four hours, and then let me know whether you would like us to go ahead and use it or not.

I would appreciate your very frank judgment on this matter, which I value very highly.

Yours sincerely,

The Honorable

The Secretary of Agriculture.

HR, Jr. -CKA

Analysis of Exposure to Payroll Savings Plans

December, 26, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
--	---	--	--------------------------------

Part A - Summary by Number of Organizations Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	470	473	99
(2) Firms with 500 to 4,999 employees.....	5,697	5,630	98
(3) Firms with 100 to 499 employees.....	25,387	29,110	87
(4) Subtotal - large firms.....	31,554	35,413	89
(5) Firms with less than 100 employees.....	134,566	*	*
(6) Total business organizations	166,120	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	166,120	*	*

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	8,645,091	*	*
(2) Firms with 500 to 4,999 employees.....	7,463,839	*	*
(3) Firms with 100 to 499 employees.....	5,742,420	*	*
(4) Subtotal - large firms.....	21,851,350	*	*
(5) Firms with less than 100 employees.....	3,261,709	*	*
(6) Total business organizations.....	25,113,059	32,900,000 1/	76
II. Governmental organizations			
(1) Federal Government.....	2,376,067	2,800,000 1/	85
(2) State and local governments.....	1,417,385	2,900,000	49
(3) Total governmental organizations.....	3,793,452	5,700,000	67
III. Grand total.....	28,906,511	38,600,000 1/	75

Treasury Department

January 1, 1943

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

* Data not available.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Dec. 19	Dec. 26		Apr. 18	Dec. 19	Dec. 26
Alabama.....	41	67	67	68	60	99	99
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17*	17	94	100	100
Northern California.....	122	131	131	132	92	99	99
Southern California.....	121	153	154	157	77	97	98
Colorado.....	25	31	31	31	81	100	100
Connecticut.....	114	155	155	165	69	94	94
Delaware.....	15	23	23	23	65	100	100
District of Columbia.....	32	52	52	52	62	100	100
Florida.....	28	44	44	48	58	92	92
Georgia.....	86	126	126*	126	68	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	496	497	502	78	99	99
Indiana.....	88	148	148*	165	53	90	90
Iowa.....	22	40	40	47	47	85	85
Kansas.....	23	25	25	25	92	100	100
Kentucky.....	38	50	50*	52	73	96	96
Louisiana.....	29	54	55	55	53	98	100
Maine.....	48	55	55	55	87	100	100
Maryland.....	84	111	111	111	76	100	100
Massachusetts.....	237	324	326	334	71	97	98
Michigan.....	265	287	287	287	92	100	100
Minnesota.....	79	81	81	81	98	100	100
Mississippi.....	26	36	37	37	70	97	100
Missouri.....	103	138	140	142	73	97	99
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	28	29	29	79	97	100
Nevada.....	4	5	5	5	80	100	100
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	197	198	199	71	99	99
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	908	908*	931	82	98	98
North Carolina.....	103	137	138	141	73	97	98
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	484	487	505	82	96	96
Oklahoma.....	31	56	56	56	55	100	100
Oregon.....	48	55	55	55	87	100	100
Pennsylvania.....	551	625	625	638	86	98	98
Rhode Island.....	61	78	78	85	72	92	92
South Carolina.....	84	99	99*	99	85	100	100
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	88	88	92	54	96	96
Texas.....	65	124	124	125	50	99	99
Utah.....	8	10	10	10	80	100	100
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	111	111	111	84	100	100
Washington.....	49	74	74	74	66	100	100
West Virginia.....	36	77	77*	77	47	100	100
Wisconsin.....	127	154	154*	154	82	100	100
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	<u>4,844</u>	<u>6,153</u>	<u>6,167</u>	<u>6,303</u>	<u>77</u>	<u>98</u>	<u>98</u>

Treasury Department

January 1, 1943

* Data are for December 19, inasmuch as no December 26 report was received.

Regraded Unclassified

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Dec. 19	Dec. 26		Apr. 18	Dec. 19	Dec. 26
Alabama.....	149	256	256	347	43	74	74
Arizona.....	43	71	71	71	61	100	100
Arkansas.....	44	54	54*	100	44	54	54
Northern California.....	512	726	726	794	64	91	91
Southern California.....	756	1,091	1,120	1,290	59	85	87
Colorado.....	113	137	137	142	80	95	96
Connecticut.....	277	581	581	692	40	84	84
Delaware.....	21	59	59	63	33	94	94
District of Columbia.....	52	173	177	216	24	80	82
Florida.....	147	216	216	216	68	100	100
Georgia.....	133	392	392*	419	32	94	94
Idaho.....	31	33	33	33	94	100	100
Illinois.....	1,300	2,087	2,093	2,253	58	93	93
Indiana.....	415	704	704*	869	48	81	81
Iowa.....	160	177	177	213	75	83	83
Kansas.....	276	288	288	299	92	96	96
Kentucky.....	136	226	226*	284	48	80	80
Louisiana.....	179	300	300	330	54	91	91
Maine.....	60	160	160	168	36	95	95
Maryland.....	177	348	350	405	44	86	86
Massachusetts.....	639	1,178	1,194	1,535	42	77	78
Michigan.....	689	1,016	1,020	1,316	52	77	78
Minnesota.....	376	440	440	444	85	99	99
Mississippi.....	59	99	100	114	52	87	88
Missouri.....	472	720	731	974	48	74	75
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	137	139	144	72	95	97
Nevada.....	14	21	21	27	52	78	78
New Hampshire.....	89	147	149	170	52	86	88
New Jersey.....	463	993	993	1,189	39	84	84
New Mexico.....	33	41	41	42	79	98	98
New York.....	2,060	3,947	3,947*	4,257	48	93	93
North Carolina.....	282	487	488	553	51	88	88
North Dakota.....	14	20	20	20	70	100	100
Ohio.....	1,126	1,757	1,762	2,047	55	86	86
Oklahoma.....	166	303	303	325	51	93	93
Oregon.....	211	297	297	309	68	96	96
Pennsylvania.....	1,682	2,307	2,309	2,309	73	99	100
Rhode Island.....	154	296	302	352	44	84	86
South Carolina.....	71	158	158*	172	41	92	92
South Dakota.....	21	26	26	* 26	81	100	100
Tennessee.....	199	418	430	516	39	81	83
Texas.....	326	733	734	1,008	32	73	73
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	69	69	74	60	93	93
Virginia.....	281	346	346	367	77	94	94
Washington.....	234	367	369	452	52	81	82
West Virginia.....	134	220	220*	314	43	70	70
Wisconsin.....	278	492	492*	680	41	72	72
Wyoming.....	17	23	23	23	74	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	15,360	25,281	25,387	29,110	53	87	87

Treasury Department

* Data are for December 19, inasmuch as no December 26 report was received.

January 1, 1943.

Regraded Unclassified

JAN 1 - 1943

Dear Klemmer:

I have your letter of December 29, 1942, with which you sent a copy of a plan by Captain Walter E. Cupp of Caldwell, Idaho, entitled "Cooperative Loan Exchange or The Idaho Plan Loan Bank".

Captain Cupp's proposal is essentially one for the formation of cooperative banks or credit unions which would be authorized to issue circulating currency, to be known as "certificates of credit", against Government securities or other "satisfactory security" including mortgages. The objective, as stated by Captain Cupp, is "to prevent bankruptcy of many local business institutions by bolstering the revolving of local securities into a liquid credit which may be used in maintaining local business and stimulating or making possible the local financing of New War or Defense Industries".

Although the cooperative provision of credit facilities is a generally desirable objective, Captain Cupp's plan would be objectionable in a number of its details, especially in that of permitting the issuance of circulating currency. In this latter respect, the "Idaho Plan" would have the effect of weakening rather than strengthening the power of the banking supervisory authorities over the volume and flow of the total medium of payment, and would probably make for less rather than more stability in the economy.

It seems to me, also, that the present would be a most inappropriate occasion to undertake such a plan. We are faced with the necessity of making drastic reductions in our consumption, and unless the amounts of money spent by individuals undergo corresponding reductions, there will be pressure towards inflation.

Consumption expenditures of individuals can be reduced by taxation or by saving. It is desirable, moreover, that savings should be invested in securities or applied to the reduction of debts. To the extent that they can be liquidated,

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or used for current purchases of consumption goods, the act of saving is nullified. Captain Cupp's plan would provide a means of liquidating savings invested in Government securities and other approved securities. It would not, therefore, contribute to the prevention of inflation.

I am returning the copy of Captain Cupp's plan which you sent to me.

Affectioately,

(Signed) Henry

Mrs. Eleanor Roosevelt.

The White House.

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APR 12/31/42

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THE WHITE HOUSE
WASHINGTON

Handwritten signature

42635

December 29, 1942

Secretary Morgenthau:

Anything on this?

E.R.

DEC 30 1942

RECEIVED
U.S. DEPT. OF JUSTICE
DIVISION OF INVESTIGATION

RECEIVED

January 1, 1943.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

This is to supplement Mr. Paul's memorandum of 12-31-42 as to Charles R. Clark, former Treasury representative in London and Berlin, now on detail from the Customs Agency Service as an investigator in New York for the Division of Foreign Funds Control. It is understood that Mr. Clark is an applicant for a position as one of an advisory commission to the Government of Iran and seeks Treasury recommendation as to his fitness.

Mr. Paul's memorandum summarizes Clark's employment experience. There is nothing in the Customs personnel file personally discreditable to him. There is a memorandum by former Commissioner Eble indicating that Clark had not been properly diplomatic in two or more instances of interviews with German manufacturers. In one instance an informal complaint was made by the director of a syndicate of knitting machine manufacturers, who appeared to regard Clark's statements to him as threatening, which Clark disclaimed.

Tom Gorman says Clark is not the man he would want to recommend for such a mission as that proposed. He regards him as a man who doesn't stand on his own feet but needs supervision and that he has a tendency to look too much to his own advantage. Gorman recalls the circumstances of Clark's transfer in February 1927 from his position as Assistant Customs Attache at London to a similar position at Berlin. Clark and Charles R. Howard were rival candidates for the position as head of the London office vacated by the transfer of Wait to Paris. Commissioner Moyle settled the matter by appointing Sid Kennedy to the place and transferring Clark to Berlin.

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Erwin May, who was Clark's superior in Berlin, says that he did not think much of Clark's ability as a foreign representative but that he has done better on the Foreign Funds job. He adds that Clark is conscientious and faithful but that he needs supervision.

The file includes recommendations of Clark by Representative John Taber of New York.

WJG

MEMORANDUM FOR THE SECRETARY.

January 1, 1943.

Mail Report

Not only was the mail of Christmas week very light, but it was also routine in material and lacking in any great variety of quotable comments. Possible excerpts were held to combine with this week's report, which, therefore, covers the period from December 21 to date.

The main volume of the mail dealt with various aspects of the bond selling campaign. Complaints continue to apply almost without exception to delays in delivery to employees of the War Department or others under the jurisdiction of this Government agency. We have at least 50 such delays reported, many dating back to bond deductions in May or June, 1942.

Complaints about delays elsewhere, and about redemptions, dropped in number while there was a decided decline in bonds submitted for redemption, especially during the last few days.

For the first time in several weeks, compulsory investment in bonds was indorsed by a few correspondents. Other suggestions include: \$3 bonds for school children only; conversion of series E Bonds into Annuity Bonds; promotion of sales on the President's birthday; payment for accrued annual leave in bonds; and the distribution of captured enemy equipment in connection with certain types of bond purchases.

Correspondence about taxes falls roughly into three classes; appeals for explanation of the new tax measures; attacks from those who disapprove of the new schedule, especially the Victory Tax; and suggestions, particularly from those who desire the pay-as-you-go plan. There are a few indorsements of the sales tax, and a few letters opposing it. There are scattered indorsements

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Memorandum for the Secretary.

January 1, 1943.

of a graduated spending tax and a gross income tax. Quite a number of letters suggested a discount on income tax paid in full on March 15, while others submitted plans for periodic payments through banks.

Letters from those asking explanations and help in making out their income tax blanks far out-numbered all other types of tax letters. This report contains a separate classification of comments on the Victory Tax, which hereafter will be included with other tax comments unless it should prove to be particularly heavy. The car-use stamp continues to be unpopular. Letters protesting both its necessity because of the limited use of cars, and the method in which its sale is being handled. There are a great many complaints of the fact that those who failed to buy the stamp at the proper time are now securing them at lower rates. The general mail contained several letters from firms and individuals, inquiring as to the attitude of the Treasury for pre-payment for post-war delivery of durable goods. This mail has not reached any appreciable amount.

Opposition to the \$25,000 salary ceiling is growing. Nation-wide gasoline rationing has brought complaint, particularly from those who have been using their cars in the sale of War Bonds. About 50 letters have come from soldiers and sailors who report to the Treasury their failure to receive allotments. There continues to be great interest in the shortage of metals for coins, and all sorts of plans for substitutes.

Abraham E. Forbush

General Comments

Romer Walter, Schriever Grade School, Schriever, La.
Upon receiving a check worth \$145.32 for scrap iron, the pupils of the Schriever School salvaged, we see it fit and proper to put this money in a place where it may be helpful to the war effort. We therefore enclose this check to be used by you as you see best.

Ruth Butler, Secretary-Treasurer, Junior Class, Tryon High School, Tryon, N. Car. After the Town of Tryon had done a rather good job of salvaging scrap metal, the members of the American History and the Civics Classes went out one morning and rounded up approximately two thousand pounds. The small check enclosed (\$26.92) represents our net proceeds. * * *

Bozo Balic, Camden, N. J. I am donating my pay check to the United States to buy one good rifle to shoot the Sour Crout that is in Europe. Give it to a good sharp shooter so that it can't miss it this time.

Jos. E. Bezdek, The Colonial Trust Co., Pittsburgh, Pa. * *
As a Control Teller of the above Trust Company, I find it possible to save between \$400 to \$800, perhaps more, in pennies alone, depending on payrolls. My suggestion is to have every paymaster eliminate using change in payroll envelopes by holding all small change for credit to each employee, similar to any other deduction. This amount can be paid to the employees every three or six months or anytime the paymaster sees fit. * * * With this arrangement, the banks would have greater surplus of coin, especially nickels and pennies, to supply business houses. I know from experience that the payroll demands for coin are so much greater today because of the tax deductions and many other deductions, social security, etc. To hold the small change due each employee would mean another entry, and this would be very simple to any paymaster, knowing that it would not take much time. * * *

Sol Bernstein, Public Accountant, Cleveland, Ohio. The enclosed communication (Letter addressed to Mr. Bernstein by Frank F. Gentsch, Collector of Internal Revenue, Cleveland, Ohio, saying that Mr. B's transfer from Federal Housing Authority to the Office of the Collector, could not be consummated until investigation by the Intelligence Unit was completed.) is self-explanatory. * * * At time of referral by Civil Service Commission, employment as Zone Deputy Collector was to be immediate. I am now informed by the Collectors' Office that I do not belong to his Bureau until the investigation is completed and approval is secured from Washington. Civil Service, on the other hand, says that I belong to the Treasury Department. Between the two, it appears that a permanent Civil Service appointment and a period of unbroken service is to be lost in red tape. * * * A prime consideration in accepting the position of Zone Deputy Collector at a lower salary and grade, than I was receiving, was a desire to serve in a field where my services could be utilized to the utmost, and the urgent need for accountants. As a permanent Government employee, previous investigations no doubt have been made and the records thereof are on file with the Civil Service Commission. Why then, additional investigations? We are urged to be all out for Victory, but the loss, so far, of a month's working time in perfecting a simple transfer would seem to indicate that we are still doing "Business or Politics as usual". If the general public responded to their "tax bills" and the "call to service" in this fashion, we would indeed be in a sorry mess. * * *

Lester S. Bush, 102 N. Vine St., Muncie, Ind. Does anyone in the administration at Washington ever realize that there are literally millions of people in this country who are not making any more money now than before this terrible war started? What makes me ask this question is this nutty Nugent proposal a newspaper story about which I have just read. * * * You seem to be the only one down there in the administration who has his feet any where near the ground. Maybe you'll get some help after the New Year. The people who still think sincerely hope so. What we need most in America now is a thorough and complete house cleaning at Washington. Your department seems to be the only one which has not gone completely off the beam and for that we all are most thankful. Please keep it that way,

Mr. Secretary, and keep on helping to save America for the Americans.

Mr. E. Tunley, 1428 Putnam Avenue, Brooklyn, N.Y. Last year I sent you my Christmas days pay for Uncle Sam. Well here it is again this year, and you will receive it again and again until we have defeated them again.

Elizabeth C. Miller, 2067 E. Cambria Street, Philadelphia, Pennsylvania. I understand that Federal Savings and Loan Associations are organized and operate under the supervision of the United States Government. Is such an Association permitted to charge a borrower 90 days' additional interest over and above the actual interest due, if he desires to pay off his mortgage loan before maturity, especially when said 90 days' additional interest amounts to almost \$100, and the property has been sold? This practice does not appear fair to the borrower, when an account has always been paid up, and the borrowed money is being returned before it is required to be paid.

Mr. R. M. Roseberry, Accountant, County Clerk's Office, Winfield, Kansas. I have noted with much satisfaction your masterful efforts, and the results there from, to finance this Government and wish to offer you my congratulations on both your efforts and accomplishments * * *

Mr. Charles T. Terwilliger, President, The Wallkill National Bank, Wallkill, New York. I recall writing to you several weeks ago with reference to certain rumors afloat concerning the possibility of the United States Government attaching savings accounts and checking accounts in banks and on a number of occasions I have read refutations of such action in the newspapers. Such rumors, however, still continue to circulate and apparently they are increasing in volume. A day or two ago a customer asked us if there was any truth in the current report that immediately after the first of January the United States Government intended to place a tax of 25% on all bank accounts. This morning a lady customer who has some \$6,000 on deposit in our special interest department, came in and asked me if the rumor were true that it is the intention of the United States Government to immediately freeze all bank deposits so that no customer can withdraw funds. These matters are becoming rather serious and I wonder if it would not be advisable for some more definite action on

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the part of the government to stop these rumors, either through radio statements by various commentators or by some official of the Government himself, as well as through more frequent refutation in the newspapers themselves. I wonder if it would also help if the Secretary of the Treasury should have some large placards or handbills made whereby banks could place two or three of them in the lobby refuting such statements.

Favorable Comments on Bonds

Prince E. Stater, 229 West Gray, Norman, Okla. The "Top That 10%", literature received this day, - many thanks; we really mean thanks, for we have employees with us drawing GOOD pay who are not investing even 5% in bonds from their weekly pay. * * * In your "map", on page 5 of the "message to American Employers and Workers", you failed to designate Norman, in Oklahoma, where are located 5 Defense projects, partly finished and occupied by the U.S. Navy students, *** that is supposed to have cost 16 million dollars and incidentally, please note, the writer has been employed on these different "Bases" as a sign writer since May the 18th last, and have purchased 22 bonds some \$18.75, some \$35.50, total \$625.00 which is more than 10% of my pay; * * * LET ME TELL YOU WHY, many are not buying bonds through the employer plan:--I hear complaints and many of them, from the employees who signed up for the employer to deduct 10% from their pay check to deliver to them Bonds in lieu thereof, and, after waiting 3 months, they had not received a single Bond; Many quit their job to get what was coming to them, their bonds included. REMEDY THIS offensive practice and you will do more to sell bonds than all the literature you can print and distribute. * * *

M. E. Leavitt, 1035 Haight Street, San Francisco, Calif. * * * I am well in my 70's and never saw any service but in the National Guard and I feel it my duty to do my little. Please do not think this letter is for self glory. My folks on Father's side came to this country about 1737 and my mother's during the early 1800's from Holland. * * * During the dispute between this country and Great Britain over the boundary line between Maine and New Brunswick, my Grandfather Leavitt was one of those who was patrolling the border. He carried a Swiss Gold watch while on duty there. * * * It was left to me and I kept it as an heirloom, until this summer and sold it for old gold and bought a \$18.75 bond with it, by putting a very few more dollars with it. I am telling you this for I feel that the gold in this watch is doing lots more good that way than it was by being just kept for an heirloom. I think that if my Grandparents had been here to ask them that they would have said yes in a very loud voice. * * *

Unfavorable Comments on Bonds

Mrs. D. H. Chambers, Olean, N. Y. The circular on the reverse side of this page moves me to protest to you against clogging the mails with useless appeals to the farm population and with quotations from our admirable, but quite - or so it seems to me - impractical President. We should feel much better assured that the money we are spending for War Bonds would be spent wisely if you and your brother politicians in Washington would cut down your office forces to the bone, issue such appeals as these to the newspapers for publication and save the beautiful paper of the accompanying circular for some real use. * * *

William Magenau, Norton, Mass. Today I tried to purchase a \$500 War Bond from the Post Office in Taunton, Mass., but was informed that they were not permitted to take my check in payment. This procedure contrasts decidedly with that in Minneapolis where on two occasions I bought Bonds by check, by simply waiting long enough for the checks to clear - at which time the Post Office handed over the Bonds. Furthermore, I went this morning to one of the banks in Taunton which also stated that they could not accept a check. * * * These difficulties and obstacles put in the way of a prospective Bond purchaser make the Bond buying program rather unattractive. Would you please let me know whether the Treasury Department itself will sell me a Bond in exchange for a personal check?

Austin V. McClain, President, Observer Publishing Company, Washington, Pennsylvania. We have had a committee working on the Victory Bond Drive. They have done a fine piece of work * * * and we have kept the campaign constantly on our front page. As soon as the announcement was made last week that the quota had been over-subscribed our sale of bonds stopped. This left us short of our goal when in the opinion of many of us we would have been able to reach it. Whoever is taking care of this campaign should not have announced the success of the objective before the closing date. * * * I am glad that the issue has been over-subscribed but I feel badly that our local quota has not been reached. * * * Without meaning to imply a criticism I would like to ask if the men running the bond drives are experienced in campaign work or is most of their experience in banking institutions? * * *

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E. A. Pullan, Secretary-Treasurer, Fuller Manufacturing Company, Kalamazoo, Michigan. The great majority of our employees are purchasing War Bonds periodically under a payroll deduction plan. In an effort to encourage the non-cooperative minority to join the plan and to assist in the Treasury Department's efforts to sell Bonds, we intended to donate to each of our employees at Christmas a \$25 War Bond. The National War Labor Board has refused to grant us permission to do so and we quote the reason given below: "In view of the policy expressed by the National War Labor Board which reflects the anti-inflationary wage control policy of Executive Order #9250." Your department has always stressed the point that the sale of War Bonds is an anti-inflationary measure, a theory upheld by leading economists. We will continue to assist the Treasury Department in its efforts to stimulate the sale of War Bonds, but we fail to understand why we should be discouraged in so doing. Our employees were aware of our intention to give them each a War Bond, and now we must inform them that the government has refused us permission to do so. * * * It will be impossible to explain to our employees two conflicting theories. Incidentally, we received permission from the Salary Stabilization Unit to donate a War Bond to persons coming under its jurisdiction, but in order to avoid being discriminatory, we cannot take advantage of this permission.

Milton Siegel, President Local No. 4, Packinghouse Workers Organizing Committee South St. Paul, Minn.

I have been requested to inform you about the difficulty we are having in promptly securing War Savings Bonds which have been purchased on a Pay-Roll-Deduction basis through Armour and Co. in South St. Paul, Minn. The delay in making prompt delivery of these bonds after they have been purchased tends to discourage some of our people and they are talking about informing The Company to cease such deductions and they in turn are going to purchase bonds out of ten per cent of their checks each week. You and I both know that this method of buying bonds is not as certain as the Pay-Roll-Deduction plan. * * *

Bryant White, Franklin Table Company, 2020 Village Drive, Louisville, Kentucky. I tried today (December 22) at my bank to buy a War Bond for a Christmas gift and was told

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a long procedure to follow in great detail and to expect the Bond in not less than two weeks. Result--no Bond. I thought you wanted to sell bonds but you have made buying one as difficult as getting a ration card. Just why don't you place them on sale? * * *

Wright Tarbell, Post Adjutant, The American Legion, Watertown, South Dakota. Reams of paper and barrels of ink are being used in imploring the American people to buy more and more bonds, yet I found out this morning I could not buy a \$25 bond. This Post has \$4,000 in bonds and the officers are trying to accumulate more through small issues. We have the nucleus from a small contribution given us by an inductee, who was given a small sum at a country farewell party; he wanted something worthwhile done with it and turned it over to the Post and we've been trying to accumulate the balance of the \$25 to buy a bond. * * * Yet, when this morning I found that I could not buy an \$18.75 bond for the Post; I could not buy a \$25 bond for the Post; I could not buy any kind of a bond as post adjutant for the Post; I could not buy it in my name and assign it to the post; I could not buy it with the Post as the second party; in fact, I just couldn't buy a bond at all. What ridiculous situations! I was told that many other organizations -- ladies aides, etc., had tried the same thing and their money wasn't any good -- they must buy a \$100 bond -- and where would they get \$100 at this time? If their money is tied up in savings stamps they get no return and can only cash them in. Why not do the common sense thing of making it easily possible for individuals or organizations to buy small, or \$25 bonds as I tried to do this morning and thereby encourage thousands of dollars worth of small purchases. * * * As it is, this Post has about \$25 worth of stamps -- no possibility of getting the other \$75 to buy a \$100 bond and there we are.

Jasper Hunt, Eagle, Nebraska. I am an old man and I live alone. In order to do my bit I am running an egg production project. I've bought stamps from my groceryman, Valley Trumble, and when I filled the book he kindly took charge of it and pretty soon I had a bond to lay aside for money to provide myself a funeral, someday. All this established in my mind a consoling and confidential relation with my Uncle Sam. Whenever I bought one or more stamps, my

money had gone permanently from my hands. The other day I completed a book and turned it over to the grocery man. He took it to the bank but this time the bank handed it back with the instruction that they could no longer take these books for bonds as the Federal Reserve Bank refused to accept them. I must sell the book to the post office. Then, if I wanted a bond I could come to them with the money and I could have a bond. I sold it to the post office for \$18.75. I asked them what would happen if I took the money for Christmas purposes and passed up the bond. They said I could as it was mine. * * * This was something of a shock to me. The bond is bought, but is this keeping the faith with old people, poor folks, and children, whose sacrifices must be made in a small way, and who only arise to the effort when strong emotional appeal is made? At least why could not postal people issue or care for securing the bonds as in World War I? Would not that take off some of the business chill described above. * * * Personally, I greatly admire you and what I feel is your ability to understand.

Benjamin Nathan, 2006 1/2 Harcourt Avenue, Los Angeles, Calif. More "Defense Bonds" could be sold among veterans in this locality and maybe elsewhere if the same conditions prevail. To wit - the law states a veteran can own a home to the value of \$5,000, not over, in order to obtain exemption. If he owns a \$1,000 Defense bond he no longer is entitled to exemption. Now while I do own a home as many other veterans do, mine is not near that above valuation. I do however own defense bonds and would like to procure another but in so doing am penalized by losing exemption. I cite this as just one bottle neck among veterans not buying more bonds. * * *

Mrs. William F. Myers, 626 Lincoln Avenue, Prospect Park, Pennsylvania. I am quite disturbed by rumors which have been flying thick and fast, regarding the validity of the War Bonds. Beginning about 1937, we started buying the then "Baby Bonds", followed by War Bonds, monthly. We are just working people, but have purchased approximately \$15,000 in bonds. Then, recently I hear that a number of persons are "cashing in" their bonds, which doesn't seem right to me, and also hear that the Government will

not be able to pay the bonds when they fall due; that it will welch on the payment, with some alibi or other. I would appreciate it if you could tell me the truth. * * *

J. G. Stoddard, 1063 Glenlake Avenue, Chicago, Illinois. Without doubt you are a very intelligent man and one of the very few "New Dealers" who knows what he is doing and is going to do from day to day or you would not be able to successfully hold such a tough job as the Secretary of the Treasury. You have my sympathy. Therefore, I am sure that you will agree with me when I say that freezing my salary of \$150 a month because I was not raised a year ago, in order to prevent inflation, is, of all the asinine ideas emanating from the 1000 and 1 bureaus in Washington, the most asinine. The freezing of salaries in the lower brackets with the increased cost of living plus the higher income tax and 5% Victory tax means that those in the unfortunate class will not be able to buy war bonds for the simple reason one cannot spend what one does not possess.

Maurice Edelstein, 14 Crestwood Avenue, Buffalo, New York. I have been confronted with some resistance on the part of people with whom I have talked in the interest of investing in War Stamps and Bonds. I am seeking an answer to a claim that is made that we are draining the resources of our Country for the benefit of Britain. As an illustration, all our exports to England are under Lend-Lease; that merchandise is distributed by the British Government to private concerns; and that the British Government have some means of obtaining revenue from our resources from private concerns, but in turn do not pay us, whereas the reverse is true on imports from England. All our imports are on a basis of sales to private concerns. If that is true, it does appear like a lopsided arrangement. I shall appreciate any facts that you care to reveal to refute these claims, because if not true in fact such statements should not be repeated. * * *

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Favorable Comments on Taxation

Earl M. Patterson, San Francisco, Calif. The Tax Committee overlooked one very important amendment relating to the filing of annual information returns. Under the present law, these returns are not required to be filed with the Collector until February 15. Employers are prone to take advantage of this late date in informing their employees of their salary earnings. * * * Under the present emergency a request made by your office to the employers, either through the Collectors' Offices, radio shorts or newspapers, suggesting that the employers notify and file their Information Returns of their employees' earnings by January 15, would be complied with. This would cause no undue hardship on the part of the employer. If employees are notified of their earnings at a late date, they may be tempted to redeem War Bonds already purchased in order to pay their taxes; whereas, if they are notified at an earlier date, sufficient notice of their responsibility would give them an opportunity to pay their taxes out of their current earnings. Your cooperation in the above matter would be appreciated not only by myself and other accountants, but by every employee in America. * * *

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Unfavorable Comments on Taxation

E. C. White, Secretary-Treasurer, Gardner-White Company, (Furniture, Rugs, Appliances), Detroit, Michigan. One of the new tax measures levies a tax of 3% on the charges of all freight and cartage. We believe that you intended this tax to apply on incoming freight. However, the way the law is worded, we believe we are liable for a tax of 3% on all of our delivery charges, because we do not own our own trucks. * * * Because we contract for this work and our competitor happens to own his trucks, the law has the effect of being discriminatory against us. * * * As we do not believe your intentions were to discriminate, we are asking that you agree and sponsor an amendment correcting this unfair one.

Charles E. Boyd, Secretary, Retail Merchants Association, Detroit, Michigan. On behalf of the several hundred retail institutions in Detroit who "hire" their delivery service, we desire to register our most vigorous protest against that section of the Revenue Act of 1942 which imposes a 3% tax on trucking, cartage and similar operations when done for hire. As the law now stands, any retail operation making customer deliveries by a fleet of their own privately owned and operated vehicles is exempt from this tax; whereas all those similar concerns who now hire the facilities of a "common carrier" delivery service must pay the 3% tax. * * * We have figures showing that the stores served by just one delivery concern in Detroit would have paid \$12,000 in the last 12-month period, on deliveries alone, under the operation of this tax provision; and the other group would have paid nothing. In that respect and to that degree the law is grossly discriminatory; in addition to which it now penalizes the very stores, who by reason of joint or pooled deliveries in the use of a common carrier, are thereby most fully meeting the desires of both ODT and OPA for conservation of manpower, rubber, gasoline and other equipment. * * *

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Louis Gilbert, 5835 N. Camac Street, Philadelphia, Penn. Now that Income Tax is on every one's mind, I believe it a good time to call to your attention that the Income tax form is unnecessarily difficult to fill out, due to the that it is laid out wrong end first. It starts with the answers and ends with the elements. If you will pick up a tax blank - you will see that when a person starts with question one - he soon finds himself unable to continue - but must turn the page to question 18 or is it 22 - proceed to 24 or 25, then go back to question number 4 or is it 5, and so skip back and forth. Now if you will look at the state unemployment compensation blank, (for employers' remittances), you will notice that one simply proceeds from question to question in numerical order and at the last question finds himself with the correct answer. I can see no valid reason why the income tax blanks cannot be revised so that it will not take a crew of lawyers to fill one out and pay the income tax. * * *

C. J. Zerr, Managing Director John Zerr, Inc., Fort Madison, Iowa. We are glad to comply with the request of your department and distribute the folders * * * to our employees. We have bought thousands of dollars worth of War Bonds, paid taxes to the point of wrecking our business and have always cooperated with our Government for the 69 years we have been in business. In April of this year when our establishment burned to the ground and we suffered a loss of over \$150,000 we wrote your department, Des Moines Office, and asked for a breathing spell to give us a chance to get back on our feet. All we got was a deaf ear. And we regard some of the letters we got from that office * * * as being plenty tough. Our stockholders feel that it is * * * useless to continue our business and have asked that I arrange to liquidate it. With big business and chain monopolies getting all the goods and all other breaks I wonder just what sort of a break is in store for us when the big blow is over. I don't think our Government is interested in this sort of thing.

Mr. R. D. Kellogg, Richfield, Calif. Under Victory tax a farmer is taxed on gross income less interest payments, taxes, and U.S. bonds purchased. This is all I can find

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in deductions in the new tax text book. The country wishes more hogs and eggs and milk than ever because of greater armed force consumption and because of lend-lease. * * * If I construe Victory Tax correctly it was designed to tax wage earners who have no money invested in their plant. The wage earner does not pay for the machinery he uses nor for the materials on which he works, while the farmer does. Some years ago I bought grain for feeding hogs, I broke even for when I sold the hogs I received barely enough to pay for grain purchased. My profit was the company of the hogs, yet if I understand Victory Tax correctly it makes no difference whether I sell these hogs fed on purchased grain at a loss not a profit, I must pay a 5% tax on the amount of the sale even though I bought \$1500 of grain from which I sold but \$1000 of hogs, In addition to the \$500 I lost I would lose further 5% of \$1000 or \$50 more, this does not encourage hog growing and the same state of affairs is true of very weary chicken raisers. Please advise speedily if my conclusions are correct so I may sell my sows and not breed any for fall farrow.

Arthur C. Wright, 4485 Tweedy Blvd., South Gate, Cal. (Building Developers) I point out to you and the congress the Title 7 Section 701, b of the Revenue Act of 1941, which does not give credit on Federal Unemployment Tax of moneys paid into the state unemployment fund, unless claim for such credit is made within six months following the enactment of this law. The small business man who is financially unable to employ a staff of experts to advise on the various laws and regulations which are passed daily must rely upon his own time to conduct his business and get such information as is available to him. * * * I paid the unemployment insurance to the State of California on Sept. 19, 1940, on Sept. 20, 1941, one year and one day afterwards a new law was passed requiring me to make claim for such payment within six months if such payment was to be honored. My first knowledge of this law was when I received a letter from the Treasury Department dated Oct. 7, 1942 demanding that I pay the original amount a second time and adding the maximum penalties and interest for non-payment. * * * I personally find it hard enough to pay my bills once and certainly feel that I am being treated unjustly when I am demanded to pay a bill for the second time. In talking to my friends I find that there are others who have been caught in the same net and that similar demands for payment of a tax the second time are being made

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against them. * * * When this war was declared I was caught in an extended position and have lost or will lose a life's efforts in savings, and have only the unpaid bills to look forward to, however if I as a small business man must be liquidated, I will gladly suffer with my fellow men for my country without a whimper. However, I do not believe it equitable or just that I should be demanded to pay any tax for a second time. * * *

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Additional Comment on the Victory Tax

E. K. Dodson, 216 G Street, N.W., Washington, D.C. * * *
I do not object to the 5% deduction so long as you comply with the law. Unless it has been changed over night it still reads that pay earned on and after January, 1943 is taxable. In short, what right have you or any other person to make me or any other employee turn over to the Treasury any portion of my pay earned in 1942, regardless of when it is paid? * * *

John Townsend, 1718 East 38th Street, Brooklyn, N.Y.
In regards to the forthcoming "Victory Tax" I would like to know if it is possible to make deductions from same before payment, instead of at the end of the year? * * *
I am one dollar per week less, after pension deductions, than I received under private ownership two and one-half years ago! I have five children, one nineteen years old, the rest under eighteen. To support this group, myself and my wife, I get \$38.82 per week! It is next to impossible to get along now. Each week sees us getting into the red deeper and deeper. Already I owe many hundreds of dollars. I am sure that the "V" tax was never planned as an instrument to harass underpaid people and I would appreciate any broad view the Treasury Department might entertain for such cases as mine. * * *

Mr. Jacob Heitner, 261 Broadway, New York, New York.
In regards to the Victory Tax, arrangements have been made to deduct the 5% from salaries received. However, no arrangements have been made to "ease" payments due from small business men, professionals, etc. In other words, the latter will have to pay one lump sum some time at the beginning of 1944 for the tax due on the 1943 income. To relieve the above unfair condition, may I suggest that the Government work out plans for the various State and National Banks to be authorized to open special Victory Tax Advancements Accounts to be opened in the names of various taxpayers at their option; said accounts to be specially designated for this tax payment and shall not be subject to inheritance and attachment of any kind by any person, firm or corporation other than the United States Government and not be subject to withdrawal by the depositor. * * *

Max Goodman, Certified Public Accountant, 175 Fifth Avenue, New York. In the course of my public accounting work I have various opportunities to come in contact with both employers and employees. * * * Most small employers would prefer to have a system of forced savings instead of the voluntary system now in effect. It is their observation that in most cases those who do not participate in the voluntary savings do so because of a callous attitude and invariably affect the morale of the others who do. * * * The recent over-subscription of the nine billion dollars loan is an indication that the people are ready for increased savings commitments. It is my opinion based on such information as I have been able to glean, that taxation in the lower brackets is reaching (if it has not already reached) a peak. * * * I would also suggest that in the preparation of your forms in connection with the quarterly reporting of the Victory Tax that you combine same with the Social Security Tax. This will save a tremendous amount of work for the employers, the accountants and for the various governmental departments. * * * For the workers in the lower brackets, the payment of taxes on present basis will be a shock and hardship as most of these employees live from week to week and spend everything they earn. The only method in which they would set aside the necessary funds for their tax is a salary deduction plan or a Withholding Tax. * * * As a matter of fact, I think it would simplify matters if the Victory Tax or a tax of approximately 3% were added to the present individual normal rates and eliminated from a special category. * * *

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U.S. SECRET.OPTEL No. 1.

Information received up to 7 a.m. 1st January, 1943.

1. NAVAL.

Northern Waters. At 9.30 a.m. 31st one of H.M. Destroyers, escorting a convoy to North Russia sighted and engaged an enemy cruiser and 3 destroyers. The destroyer was damaged but rejoined the convoy. Two of H.M. Cruisers with 2 destroyers engaged enemy at 11.35 a.m. damaging enemy cruiser and leaving one destroyer sinking. One of H.M. Destroyers was damaged but the other escorts and ships of convoy were probably undamaged. Enemy attack on shipping; now known that one further ship - a Belgian tanker was torpedoed on 28th in convoy outward bound for America on which attacks have previously been reported. This convoy was lightly loaded with cargo.

2. MILITARY.

LIBYA. Enemy has withdrawn from the fort at Bungen which was cut off from forces further north by our operations on 29th. Line of our forward patrols now runs from Bungen to North for 40 miles and then North East towards Busrat.

TUNISIA. 28th. Minor engagements East of Medjez el Bab. South of Pont du Fahs French strongly resisted advance of an enemy column of tanks and infantry. Increased enemy activity in Gasfa area where a small party landed by glider. On 28th/29th destroyed a railway bridge between Gasfa and Feriana.

BURMA. 30th. Enemy was engaged 5 miles North of Rothedaung (20 miles North of Akyab).

RUSSIA. Russians have advanced in a wide sweep on a 60 mile front in Kaimuk Steppe, East of Don.

3. AIR OPERATIONS.

WESTERN FRONT. 31st. Mosquitoes and Typhoons attacked railway centres in France and Belgium. 9 squadrons of Spitfires carried out a sweep over Pas de Calais. Enemy casualties 2, 2, 2, ours 2, nil, nil. 2 enemy aircraft crossed East Coast. Some houses damaged.

31st/1st. Aircraft despatched - Dusseldorf 10 in thick cloud (one missing), sea mining West Coast France 34 (one missing) Intruders 7, leaflets 8.

FRENCH NORTH AFRICA. 30th and night 30th/31st. Sfax harbour heavily bombed by Wellingtons and Fortresses (B 17).

LIBYA. 30th. 8 M.E. 109's destroyed by Kittyhawks without loss.

MEDITERRANEAN. 30th/31st. Southbound 3,000 ton ship probably sunk by Naval Albacores off S.W. Sicily.

1-1-43

INTELLIGENCE REPORT

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CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7Henry Morgenthau, Jr.

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A summary of investigation and analysis conducted for certain OWI officials, issued for OWI and the interest of other members of the Government.

The period covered by this report is the week of December 23 through December 30, except where otherwise specifically stated.

EDITORIAL ATTITUDES

LIQUIDATION

Admiral Darlan's death shocked somewhat more than it saddened the American press. Commentators were less interested in the loss than in the legacy.

The very headlines announcing Darlan's death were full of promise. They forecast an end to the perplexities and dissensions created by his leadership in North Africa and heralded a fresh vitality in French collaboration with the United Nations. It was commonly assumed that General Giraud would succeed the Admiral and would secure the cooperation of General de Gaulle.

The commentators, of course, left no doubt that they disapproved of assassination as a political instrument. The Daily Oklahoman was perhaps the most explicit on this score: "Whether good or evil comes from the murder of the French admiral we do not undertake to predict. It may be that the removal of the man who has played fast and loose with the Nazi will be a real contribution to the cause of freedom... But we do know that we prefer the American system. We like it better when an unsatisfactory public official is defeated for re-election or when one who has pleased the people is returned to office. We prefer the democratic process."

Most others, although they too deplored murder in high places, were by no means blind to anticipated benefits. The St. Louis Post-Dispatch said delicately: "While regretting this violent end of a new ally, it would be unrealistic not to see that an opportunity now is open for ending the ugly dispute that had whirled about Darlan's head and threatened to bring disunity both in this country and abroad." The Birmingham Age-Herald felt that "possibly

nothing could serve as well to reunite the French."

There were some more or less perfunctory tributes to the deceased. The Indianapolis News, for example, remembered that "the position he took in North Africa saved the lives of thousands of American fighting men. And when he fell he was doing his utmost to help bring about the defeat of Hitler and Mussolini." A few analysts were fearful that civil strife might develop and French cleavages be widened. Only one or two were indecorous enough to express outright sympathy or praise for the assassin. "Darlan is dead," said Johannes Steel, "Long live France!"

There was huge satisfaction with the choice of General Giraud to succeed the Admiral. Most observers had hoped for this development in advance. When it was announced, they were unanimously optimistic about its possibilities. The Baltimore Sun, in a representative editorial, declared that "General Giraud's election as Admiral Darlan's successor brings affairs in French North Africa back into conformity with the original American plan... Now, with Darlan assassinated, the French command reverts to the man with whom our forces hoped to work in the first instance. This time, however, General Giraud will be in a more favorable position than he was when he first arrived in Algeria... The latter's elevation to the leadership in North Africa opens the way for a healing of the breach between the two French factions."

Despite such satisfaction with the new situation, there was little tendency among commentators to blame the Administration for its earlier decision to do business with Darlan. But the anxieties and misgivings created by the arrangement were sharply revealed through the relief expressed at its

sudden termination. Almost to a man, the commentators seem to feel better about the situation today — seem to feel that it has been providentially cleansed and clarified.

FUTURE

The new year seems roseate to most of the men who interpret events for radio and the press. They have achieved, partly through the clarification of affairs in North Africa and partly through the tonic of military gains, a fresh sense of direction and of unity with our allies.

The characteristic expression of this feeling is found in the common assertion that the United Nations are at last genuinely on the march, with a full-forged offensive plan for victory. Reviewing the various sectors of the war and the parts played upon them by the allies, the Atlanta Constitution concluded: "All are doing magnificently. The initiative in this global war has passed into the hands of the United Nations ... It is teamwork. It is the cooperation of all the Allies, one and all of them, in the opening phases of the relentless attack which is going to smash Axis military and naval might into helpless pulp."

The prime source of this high confidence was the mounting power of the Russian offensive. Comparing this winter's campaign with that conducted by the Red army last year, editors were prone to point out that Hitler is now engaged on two fronts. Most of them seemed convinced that the Russian advances amount to something more than a tactical readjustment of positions and constitute a real cracking of Nazi strength.

The assurance with which commentators face the New Year manifested itself

also in renewed discussion of post-war problems. The subject no longer seems wholly academic. Vice-President Wallace's latest address received widespread attention — most of it warmly favorable. The future, apparently, is beginning to assume shape, imminence and reality.

RATIONING

Press and radio seem generally determined to promote the success of the point rationing system for canned, dried and frozen foods. They were in substantial agreement as to the need for such a program and as to the patriotic obligation of all citizens to cooperate in making it effective.

For the most part, the Davis-Wickard broadcast announcing the rationing plan was called "a good job." "The reasons given for the rationing," said the New York Herald Tribune, "were completely understandable." A number of commentators, however, expressed some fear that announcement of the program so far in advance of application would encourage panic buying. They exhorted their readers to self-discipline and depicted hoarding as downright treason.

Comment on the point system to be used in the rationing program was almost wholly favorable, with a number of papers devoting editorial space and emphasis to careful explanations.

NEWS NOTE

Certain discrepancies occurred in newspaper accounts of early reactions to the announcement of point rationing. The following headlines appeared in New York City newspapers of Monday afternoon, December 28, and Tuesday

morning, December 29:

NO RUSH AT STORES TO BUY TINNED FOOD BEFORE RATIONING — New York Times

DEALERS FEAR STAMPEDE FOR CANNED FOODS... MINOR RUSH BEGUN HERE AND IN CHICAGO — New York Herald Tribune

GROCERS CHECK RUSH OF HOARDING — New York Post

GROCERS MOVE TO BALK HOARDING — New York Journal American

CANNED FOODS RUSH IS ON; STORES APPLY OWN RATION — New York Daily News

Nothing is more likely to stimulate hoarding than the notion that other people are practicing it.

DEVELOPING SITUATIONS

FOOD RATIONING

Recent reports of Bureau of Intelligence correspondents on public reactions to food rationing suggest that the comprehensive program just announced may encounter strong resistance. Not that people reject the principle of food rationing. They are more likely to complain about the delay in introducing a well-rounded program. Yet, at the same time that they accept the need for rationing, they are prone to blame the actual occurrence of shortages on "government bungling" — on failure to handle the total problem of food supply with foresight and efficiency.

According to the correspondents, the American people approve of rationing as a fair and businesslike way of distributing scarce commodities. But at the same time they are inclined to feel that rationing might have been avoided — or might be less stringent — if the Government had faced the

over-all food situation with more competence and courage. The tardiness with which it approached the problem, they argue, has been partly responsible for the occurrence of shortages.

The reports of the Bureau's correspondents may give an exaggerated impression of the extent of public dissatisfaction with rationing. The correspondents tend to report complaints rather than to give an objective, over-all appraisal of public sentiment. A disproportionate number of them are well-to-do and unsympathetic to the Administration. But many of them are in an excellent position to observe people's reactions, and their views are indicative of prevailing sentiment among an articulate and influential segment of the public.

Rural people are inclined to ascribe impending shortages to the failure of the Government to treat the farmer more sympathetically. They expect less food to be produced in 1943 because of labor difficulties, shortages of farm machinery and the lack of price incentives to grow more of certain needed products.

Urban people think of shortages in terms of the availability of food on grocers' shelves. They blame the present difficulty in getting certain food-stuffs on the delay in introducing rationing and on advance announcement of programs once they are decided upon. One correspondent writes bitterly:

"At the moment, food rationing, or more correctly, the lack of it, has caused unusual panicky, reckless, misdirected actions on the part of merchants and consumers... Since it has become obvious to everyone that rationing only comes about after a shortage or potential shortage is in the offing and when public pressure forces it, and is not based on a solid evaluation of the total problem to be faced... the almost universal attitude is, 'Grab it, boys and girls — you don't know what the hell they'll do next.'"

Advance announcements of rationing programs arouse anger amounting almost to rage in many parts of the country. They are denounced as open invitations to hoard. However, resentment on this score may be lessened in the case of the present program because of Elmer Davis' careful explanation of the need for disclosing the Government's plans. His explanation has received widespread favorable comment in the press.

The Bureau's correspondents believe that the job of "selling" the need for food rationing has been badly bungled. In a general way, they say, people understand the reasons for rationing well enough. Yet, at the same time, they entertain the contradictory idea that this country has plenty of every thing, and they are naturally reluctant to make any sacrifice which isn't absolutely necessary. Confusing or contradictory explanations, announcements which don't quite jibe, give them a convenient excuse for denying the need for particular programs. And, the correspondents maintain, there has been plenty of confusion. "First they say we don't have enough butter, next day they say there's plenty — and the day after that it's frozen!"

Explanations must be complete, consistent and convincing, the correspondents urge. They must cover not only the need for rationing but the connection between saving food and beating the Axis. They must present rationing not as something imposed from above, but as an opportunity for all the people to participate in winning the people's war.

To be effective, the correspondents insist, the explanations have to be repeated many times. One man writes, "It isn't enough to say these things once. You have to hammer it in, over and over again."

MANPOWER SHORTAGES AND ABSENTEEISM

Labor editors among the regular correspondents of the Bureau of Intelligence have very definite ideas about two of the most pressing manpower problems — labor shortages and absenteeism. They believe that both problems are largely local in character, that they tend to occur in conjunction, and that they can be conquered if Government, management and labor cooperate. The diagnoses of the editors are notably similar, and probably reflect the views of many workers.

The editors all feel that with better planning the manpower shortage might have been avoided or alleviated. The continued existence of large labor reserves in some centers, such as New York City, proves, they maintain, that war orders have not been distributed wisely. Mistaken policies of draft deferment are also held to be responsible for the shortages of war workers and farm laborers now experienced in some localities.

Four other causes of the present tight manpower situation are mentioned: the hoarding of personnel by management; inadequate housing facilities; failure to utilize all available employables, especially women; and anti-union employment practices. A St. Louis editor writes bitterly about the hiring policy of some of the firms in that city, which employ non-union applicants and rural transients in preference to union members. He reports that in late November, 10,000 of the 25,000 members of the St. Louis Building Trades Council (AFL) were unemployed. Many of these men possess skills which could readily be converted to war work.

The three basic causes of absenteeism, the labor editors feel, are (1) a

lack of concern about the war; (2) adverse working conditions; and (3) unsatisfactory living conditions. The workers most prone to knock off a day now and then are those who don't appreciate the seriousness of the war or those whose spirit has been eroded by the grind at the plant and the lack of satisfactory housing and recreation.

The editors insist that many of the more irresponsible workers simply "don't understand what the war is all about." They regard their personal pleasure as more important than regular attendance at work because they don't grasp the issues and purposes of the war, or visualize the consequences of an Axis triumph. Sometimes they fail to perceive the connection between the work they are doing and victory on the fighting fronts.

The seven-day week, the editors feel, inevitably leads to extensive absenteeism. It was pointed out that some men work long enough to collect overtime for the seventh consecutive day, then take some time off. Others value an occasional day of rest so highly that they take it even when it means the loss of premium pay. An excessively long work week results in strain, irritability and reduced efficiency. Some workers resort to a day's "binge" for relief. Or, they actually get sick after a while. Ill health was mentioned with surprising frequency as an important cause of absenteeism.

The labor editors blame many of the working conditions responsible for absenteeism squarely upon management. These include not only injudicious time and overtime arrangements, but also lack of standardization of pay and working conditions, and neglect of workers' health and welfare.

Management is also blamed for permitting material shortages to occur and for occasionally hoarding manpower. Whenever work slows down for either of these reasons, the editors say the absence rate shoots up. The need to "boondoggle" lowers workers' spirit. Some workers take time off in disgust, "so as not to draw pay for polishing tools." On the other hand, when plants are operating at top speed, unqualified or harassed supervisors may exert their authority in a way which arouses workers' resentment.

The editors fully recognize the extent to which unsatisfactory living conditions also lead to absenteeism. They point out that in many boom areas valuable work hours have to be used to find a place to live. Where men can't find local quarters for their families, they are likely to take time off to visit them over the week-end and return late to work. Or, lonely and without access to wholesome forms of recreation, they may resort to drinking and spree — then have to take time out to recover.

Special measures will be necessary, the editors feel, to reduce the high incidence of absenteeism among women war workers. Their attendance, like men's, may be expected to improve as plant and community problems are attacked and educational programs are undertaken to bring workers into closer identification with the nation's war effort. In addition, however, a number of the editors maintain that it will be necessary to allow women a certain amount of time, on a regular basis, to attend to shopping and home affairs. All agree on the importance of making provision for the day care of young children.

MANPOWER STABILIZATION IN DETROIT

660,000 DETROIT JOBS FROZEN
— Detroit News, December 10

WMC MAY CALL ON ARMY TO ENFORCE JOB FREEZING
— Detroit Free Press, December 11

Because of headlines like these, the manpower stabilization plan got off to a bad start in Detroit. Many workers had the impression that in some way or other the plan "froze" them in their jobs. Resentment was not strong, but the misconception intensified the normal resistance a new and complicated arrangement is likely to encounter.

A field survey in the Detroit area revealed widespread ignorance, as well as misunderstanding, about the new set-up. Few rank and file workers even knew what was meant when it was referred to as "the manpower stabilization plan" or "the manpower plan." They understood only when it was called "the freeze."

Ignorance and misconceptions about the new arrangement may do more than ruffle tempers in an area not hitherto noted for smooth labor relations. They may actually interfere with the success of the stabilization plan. One of its purposes was to facilitate transfers which will lead to more efficient utilization of Detroit's manpower; it sets up machinery by which such transfers may be handled. But the machinery will lie idle if workers are unfamiliar with it. Foremen may exploit the prevailing misunderstanding in various ways to force men to stay on their jobs. Finally, misunderstanding may operate as a brake on transfers from non-essential to essential work. "Why," workers may reason, "should I transfer to a war plant when

I'll be frozen on my job? I'd better stay right where I am."

The UAW-CIO and organized labor in general wholeheartedly support the new plan. The plan, in fact, represents an agreement reached locally by representatives of management and labor, although erroneously depicted by Time as an order imposed by Paul McNutt from Washington. Labor's endorsement of the plan makes it likely that sooner or later an educational program will be undertaken to explain its provisions to the rank and file.

At present, however, labor appears to underestimate the size of the educational job which needs to be done. A meeting was called to explain the agreement to 1500 shop stewards and local officers of the UAW, but no clear cut instructions were given them for explaining the stabilization plan in shops and locals. As of the middle of December, the plan was not even being put on the agenda of most local meetings.

Lack of familiarity with the plan inevitably heightens workers' doubts about its practicability. Some of the men interviewed in Detroit, who were only casually acquainted with the plan, were afraid that it might be slow and cumbersome in operation.

They emphasized the need for the review machinery, in particular, to be rapid and efficient. The prevailing opinion was that the plan would fail if it were "as slow in operation as the WLB" — which some workers accuse of being on a sit-down strike.

Not only in Detroit but wherever a manpower stabilization plan is put into effect, the desirability of giving workers full information about it is apparent. Radio and the press, and their own publications and

gatherings, should all be utilized. Educational programs will probably be most effective if they are begun even before plans are formally announced.

MISGIVINGS

A number of the Bureau's regular correspondents have reported recently that public confidence in the stated war aims of the United Nations has been somewhat beclouded by two events — the British Prime Minister's assertion that he does not intend to preside over the liquidation of the British Empire and the American military expedient of doing business with Darlan. The two subjects were mentioned spontaneously by widely scattered correspondents in response to a general Bureau request for views on post-war problems.

According to these reports, Mr. Churchill's statement was interpreted by many Americans as a resurgence of old-fashioned British imperialism. It is said to have reawakened distrust of British purposes and to have raised serious doubts as to the solution of basic economic and political problems. Idealists seem to have suffered a good deal of discouragement.

The prevailing response to the Darlan arrangement, according to the correspondents, appears to have been a loyal, though not wholly successful, effort to accept the justification of military expedience and to hope that it will turn out all right. People sympathetic to the Administration tend to express faith in its motives and to say, "There must be more here than meets the eye." But even some of these, according to the correspondents, are fearful about the consequences of any sort of compromise with principles. One letter says they are asking, "Will this war end like the last one? Why

should we fight if idealism is thrown away?" And a number of others revealed their uneasiness by expressing the hope that the deal with Darlan would not last for long.

One correspondent noted that such misgivings were voiced largely by educated persons. Another suggested that full approval of the official treatment of Darlan was expressed mainly by those whose attitude toward post-war problems is narrowly nationalistic. "Reactionaries" were encouraged by "proof that we are real politicians after all — fighting for our own interests, not for Wilsonian ideals." Some who fear Russia took reassurance from our friendliness to Vichy: "This proves that our alliance with Russia is not so ideological as we feared, but opportunistic just as in the case of Darlan."

The Bureau's correspondents are neither sufficiently representative nor sufficiently objective to warrant generalizations about popular sentiment. Their reports may be said to indicate, nevertheless, that in the minds of a good many Americans imperialism and opportunism do not mix comfortably with idealism.

MILEAGE RATIONING

Public appreciation of the need for nationwide mileage rationing, particularly in the areas recently subjected to its restrictions, appears to have increased significantly since the inauguration of the program. A great many Americans, however, remain unconvinced either as to the seriousness of the rubber shortage or as to the effectiveness of gasoline rationing as a means of rubber conservation.

In November, just before nationwide mileage rationing was instituted, the Bureau of Intelligence conducted a survey in four midwestern cities — Indianapolis, Detroit, St. Louis and Cleveland. In Indianapolis and Detroit, acceptance of the need for gas rationing was much lower than in the two other communities — apparently as the result of an organized campaign to bring about a 90-day postponement of the rationing program. Interviewing was conducted again in these four cities during December and additional surveys were made in Oklahoma, Texas and California, as well as throughout the nation as a whole.

Awareness of the rubber shortage has increased — especially in the two cities, Indianapolis and Detroit, where anti-rationing propaganda had created the most serious doubts as to its reality in November. In the major oil producing states there is still, apparently, a pronounced tendency to deny the existence of a rubber problem:

DO YOU THINK THERE IS A SERIOUS RUBBER SHORTAGE NOW?

	% answering "Yes"	
	Nov.	Dec.
National Sample		
Old rationed area	65%	74%
New rationed area	64	67
Indianapolis and Greensburg (Ind.)	40	58
Detroit	57	71
St. Louis	50	57
Cleveland	65	68
Oklahoma, Texas, California	—	52

Similarly, there has been a decrease in the number of people who deny the necessity of nationwide rationing. Sentiment on this score has improved markedly in Indianapolis and Detroit and, indeed, throughout the whole of the country newly brought within the rationing program. Again, the most

marked hostility appears in the states where gasoline is most plentiful.

DO YOU THINK GASOLINE RATIONING THROUGHOUT THE NATION
IS NECESSARY?

	% answering "No"	
	Nov.	Dec.
National Sample		
Old rationed area	22%	14%
New rationed area	42	26
Indianapolis and Greensburg	62	51
Detroit	58	36
St. Louis	36	37
Cleveland	23	24
Oklahoma, Texas, California	—	40

Answers to an additional question posed to all of the samples in December indicates that Government handling of mileage rationing met with considerably more criticism in the old rationed area than in the rest of the country.

DO YOU THINK THE GOVERNMENT HAS HANDLED GASOLINE RATION-
ING VERY WELL, ONLY FAIRLY WELL OR POORLY?

	% answering		
	Very well	Fairly Well or Poorly	No answer
National Sample			
Old rationed area	35%	57%	8%
New rationed area	54	37	9
Indianapolis and Greensburg	38	52	10
Detroit	36	56	8
St. Louis	46	43	11
Cleveland	57	31	12
Oklahoma, Texas, California	51	40	9

People who answered "fairly well" or "poorly" to this question were asked to give specific criticisms respecting management of the program. In the old rationed area, there were frequent complaints regarding the distribution and allotment of gasoline and a feeling that the East should not have been the only area to suffer; apparently this sort of resentment was largely responsible for the higher dissatisfaction in the area which had

the greatest experience with rationing.

Except where there has been a deliberate campaign against rationing, the public appears to approach it with a good deal of faith in the Government's ability to administer the program effectively. Where the program has been experienced, however, a certain amount of disillusionment seems to have set in. Perhaps the inconveniences involved proved greater than expected; possibly expressed readiness for sacrifice was more emotional than real. The relationship between rubber and gasoline is still not fully appreciated.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, January 2, 1943.

Press Service
No. 34-82

Secretary Morgenthau today announced final figures--a history-making total of \$12,906,000,000--in the Treasury's December Victory Fund Drive to enlist fighting American dollars against the Axis. Together with tax revenue and the usual Treasury bill and certificate of indebtedness financing to be done in the meanwhile, this unexpectedly large subscription to the Treasury offerings by the investing public gives assurance, he said, that no further drive will be necessary until early April.

"The \$12,906,000,000 of borrowing is a reflection of the scale on which the war is being carried to the enemy in our growing offensives," the Secretary said. "It is a measure of the productive and military might of America.

"There is comfort for all of us in this grand response by the people to the war needs of the Treasury. The banks of the country promptly and willingly did their allotted share of the lending for their own account, and they are especially to be commended for the manner in which they urged their own depositors to withdraw funds and invest them in Treasury securities. Insurance companies and other institutional investors also purchased large amounts. Some hundreds of thousands of individual investors were able to purchase the securities, and thus rolled up the total to the largest figure in history for any single borrowing operation.

"I am especially pleased that almost all of the \$3,906,000,000 increase over our goal of \$9,000,000,000 came from non-banking sources."

- 2 -

Treasury officials revealed that in addition to the borrowing, the Treasury received during December approximately \$2,700,000,000 in taxes and other collections. When added to the public debt receipts of \$12,906,000,000, this makes a total of \$15,600,000,000 of funds received last month.

The following table shows funds raised during the month of December through the sale of United States Government securities:

(In millions of dollars)

	From Banking Sources	From Non-Banking Sources	Total
Treasury bills	\$ 897	-	\$ 897
7/8% Certificates	2,117	\$1,678	3,795
1-3/4% Treasury bonds.	2,058	1,003	3,061
2-1/2% Treasury bonds.	-	2,827	2,827
Tax notes -			
Series A	-	\$ 86	
Series C	-	1,226	1,312
Savings bonds -		1,014	1,014
	\$5,072	\$7,834	\$12,906

-oOo-

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Page 1

Column A shows Federal Reserve operations in millions of dollars as follows:

Marketable issues:

Market purchases 1/..... +
Market sales 1/..... -
Direct purchases from Treasury -
Maturities..... -

Special one-day certificates 2/:

Net increase..... +
Net decrease..... -

Column B shows price changes in 32nds for all securities except certificates. For certificates, Column B shows yield changes in decimals.

STRICTLY CONFIDENTIAL

Last Week										Index	Description	This Week									
Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Full Week		Monday	Tuesday			Wednesday	Thursday	Friday	Saturday	Full Week					
Dec. 21	22	23	24	25	26	A	B	Dec. 28	29			30	31	Jan. 1	2	A	B				
				</																	

Office of the Secretary of the Treasury, Division of Research and Statistics.

r Original figures revised.

* Less than \$50,000.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.

** Not yet traded.

2/ Transactions are entered as of the day following that to which they apply, since data are not available until the following morning.

Regraded Unclassified

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Page 2

Column A shows Federal Reserve operations in millions of dollars as follows:

Market purchases 1/	1,111,111,111	+
Market sales 1/	1,111,111,111	-
Maturities	1,111,111,111	-

Column B shows price changes in 32nds.

STRICTLY CONFIDENTIAL

[illegible]

Office of the Secretary of the Treasury, Division of Research and Statistics.

† Original figures revised.

* Less than \$50,000.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.

Regraded Unclassified

January 2, 1943

TO THE SECRETARY:

I am sorry to have to bother you about the Budget Message while you are not feeling so well, but I felt that you ought to know about it as soon as it came to my attention.

Yesterday afternoon Mr. Paul, Mr. Blough and I went over Section 1 of the Budget Message with Weldon Jones of the Budget. It was sixteen typewritten pages and was more in the nature of a "State of the Union" message than it was a Budget Message. We had no comment to make on it other than that.

This afternoon we had another conference on Sections 2 and 3, which are attached. Section 2 is the taxing and borrowing program; Section 3 is our future world, including Social Security. Here again it seemed to us that they were getting into the "State of the Union" message sphere.

I told the Budget group that I saw no reason for Treasury representatives sitting around a table trying to correct a long document of this kind without time to study it beforehand. I also told them that it involved vital fiscal policies which you should see and, if you did not agree with them, you should have an opportunity to discuss them with the President. Mr. Paul and Mr. Blough are both against some of the tax recommendations and do not feel that the compulsory savings program is large enough. You will notice that the sales tax is back under the name "Tax Deterrent on War Consumption."

I also told them that if they got any word tonight as to the reaction of the President to Section 2, I would like to know for our guidance in making corrections. Harold Smith just called me (6:10 p.m.), saying that he had just returned from the President, who had been over Section 2 at

- 2 -

great length, had made a few changes but had agreed with practically everything and said that he had made up his mind to submit to the Congress a rather comprehensive program and he was not going to change it. Smith said he told the President that the Treasury was against mentioning compulsory savings and was probably against some of the forms of taxation mentioned.

I promised the representatives of the Budget that we would see them again tomorrow afternoon at three o'clock in order to submit to them any suggested changes that we might have. In view of the information I just got from Harold Smith, I doubt if we will have many changes to suggest.

(Agd) DWB.

DWB:NLE

January 2, 1943

My dear Mr. Ambassador:

Receipt is acknowledged of your letter of December 23, 1942 in which it is stated that your Government is prepared to accept the amount of \$803,718.54 as final settlement for the Spanish silver purchased by the United States in 1938.

There is delivered to you herewith a check for \$803,718.54 drawn by the Secretary of the Treasury (Symbol No. 17-750) to your order, as final payment for such silver.

Very truly yours,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

His Excellency
The Ambassador Extraordinary and
Plenipotentiary of Spain to the
United States,
Embassy of Spain,
Washington, D. C.

FH:ms 12/30/42



EMBAJADA DE ESPAÑA
WASHINGTON

December 23, 1942

Re: Spanish Silver

No. 1476

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

My dear Mr. Secretary:

I have your letter of November 9, 1942, in which you advise me that the melting and assaying of the silver purchased by the United States in 1938 have now been completed and the various charges determined as set forth in your letter, with the result that a balance is shown due of \$803,718.54.

I am instructed by my Government to advise you that it is prepared to accept this amount as constituting final settlement for the silver purchased as aforesaid and my Government requests that the amount shown to be due as above should be paid by check to the order of myself as Ambassador.

I have the honor to be,

Very truly yours,


Juan F. de Cardenas
Spanish Ambassador

JAN - 2 1943

Dear Mr. Stettinius:

This is to acknowledge, on behalf of Secretary
Morgenthau, your letter of December 29, 1942, inform-
ing him that under the Lend-Lease Act silver may be
transferred for coinage purposes in appropriate cases.

Sincerely yours,

(SIGNED) D. W. BELL

Under Secretary of the Treasury.

Mr. E. H. Stettinius, Jr., Administrator,
Office of Lend-Lease Administration,
Five-Fifteen 22nd Street, N.W.,
Washington, D. C.

MB/gjs
12/30/42

Original to Dr. White
Photostat to Mr. D. Bell

12/24/42

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

E. R. Stettinius, Jr.
Administrator

DEC 23 1942

My dear Mr. Secretary:

In a letter of October 12, 1942, acknowledged by Acting Secretary of the Treasury Bell in a letter of October 19, I stated that the Lend-Lease Administration is prepared to lend-lease Treasury silver for use in war production provided the usual lend-lease criteria are met. The Treasury Department has from time to time raised with us the question of lend-leasing silver for coinage purposes. It is our view that under the Lend-Lease Act silver may be transferred for coinage purposes in appropriate cases. Silver is an ideal metal for coinage and coins are essential to the maintenance of a civilian economy. As such, it is closely identified with the war effort.

We propose that the Treasury's free silver be lend-leased to those lend-lease nations requiring it for coinage purposes, under an agreement for the return of silver the terms of which can be worked out in conjunction with the State Department. A prerequisite to the granting of a request for silver for coinage would be the endorsement of the request by the Treasury as to the essentiality of need, with proper consideration for the availability of substitutes.

As I stated in my letter of October 12, 1942, we should wish, before embarking upon any program for lend-leasing silver, to give to the Appropriation Committees of the two Houses of Congress notice of our intention so that if they saw fit they might express an opinion upon the subject.

Very sincerely yours,



E. R. Stettinius, Jr.

FOR REFERENCE



The Honorable
The Secretary of the Treasury

2-5
012P 98

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE JAN 2 - 1943

TO Secretary Morgenthau
FROM Randolph Paul

The man who reorganized Marshall Field's was a Mr. McKinzie, who is now deceased.

Mr. Louis Weiss made the following suggestions as to businessmen:

Mr. Edward F. Addiss, formerly President of Mainland Grees Company (a unit of Commercial Investment Trust); Treasurer of Burlington Mills. Mr. Addiss, who is between 45 and 50 years of age, is a liberal and extremely wealthy.

Mr. Sidney Scheuer, Chief, Procurement Imports Division, Board of Economic Warfare.

Mr. Lawrence Mayer, President of a Watch and Jewelry Company.

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NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTML No. 2

Information received up to 7 A.M., 2nd January, 1943.

1. NAVALNORTHERN WATERS. One of H.M. Destroyers reported damaged on the 31st has arrived at MURMANSK.HOME WATERS. 1st. A blockade runner from the FAR EAST was sunk northwest of CAPE FINISTERRE by one of H.M. Cruisers directed to the position by Sunderland.MEDITERRANEAN. 29th. One of H.M. Submarines sank a ship off NAPLES. 1st. One of H.M. Cruisers hit by bomb during daylight raid on ALGIERS.2. MILITARYRUSSIA. Central Sector. Russians captured VELIKI LUKI. Other operations have been local attacks on a number of German strongholds.Middle Don. Except in the area of Lower CHIR, further Russian progress has been prevented by powerful German counter attacks.Lower Don. German attempt to relieve encircled 6th Army by a thrust from southwest of STALINGRAD decisively defeated and the Russians are making rapid progress in pursuit of retreating enemy, capturing town on left bank of DON opposite TSIMLYANSKAYA.Kalmuk Steppes. Further Russian progress with capture of ELISTA.3. AIR OPERATIONSFRENCH NORTH AFRICA. On 30th, 31st and night 31st/1st SFAX Harbour was bombed by Allied aircraft. 31st. United States bombers made 2 attacks on SOUSSE and fighter bombers attacked a repair depot near PONT DU FAHS. M.E. 109 damaged 5 aircraft on the ground at BONE.CRETE. 30th/31st. Wellingtons bombed HERAKLION airfield.BURMA. 29th. United States Liberators (B-24) attacked shipping in RANGOON setting fire to a 6,000 ton ship and 5,000 ton tanker. 30th/31st. Allied medium bombers attacked airfields at SHWEDO. Night 31st/1st. Wellingtons attacked AKYAB.

January 3, 1943

My dear Mr. President:

Under date of December 23, 1942, I wrote you sending you a draft for a section covering taxes to be incorporated in your Budget Message. Last Tuesday I went over this draft with you. At the same time you also read two memoranda of my conferences with Senator George and Congressman Doughton, held with your approval, at which we discussed the tax program for 1943 and the problems connected with the submission of this program to Congress. At these conferences, these gentlemen both agreed with our view that the Budget Message should not contain any detailed proposals.

You fully agreed with our suggestion that the tax section of the Budget Message should be in general terms and that it should omit specific proposals. You will recall that I said I felt sure that the Bureau of the Budget would not agree with what the Treasury had submitted. You said that did not matter as our draft was what you wanted.

Immediately after leaving the White House on Tuesday, carrying out your suggestion, I sent to the Director of the Budget a copy of the draft you had approved and advised him that the Treasury was prepared to consult with him on it.

We heard nothing from the Budget Bureau until late Friday afternoon, when we received the first section of the proposed Budget Message. Late Saturday, representatives of the Budget Bureau came over with a copy of the second section, covering taxation and borrowing, and Mr. Bell, Mr. Paul and Mr. Blough discussed with them the policy questions involved. We were told at 6:15 Saturday evening by the Director of the Budget that you had been over

- 2 -

the Budget Bureau draft of the section of the Message dealing with taxation and borrowing, that the policies were all fixed, and that so far as any changes in policies were concerned the door was closed. We were asked to go over the language and make suggestions, but not to submit any basic changes.

We are in no position to do this because we disagree with the whole plan of making such detailed tax and borrowing proposals in the Budget Message and, further, because we object specifically to several of the proposals contained in the Budget draft.

We have still another basis of objection which we believe to be of great importance. We in the Treasury feel very strongly, as expressed in my letter of December 23, that the Congressional leaders should be fully consulted in the initial stages of working out a tax program. For several weeks, representatives of the Treasury have also been in frequent consultation with all officials of the Executive Branch of the Government who are interested in taxation and inflation, in order that, to the fullest extent possible, we might have agreement with other Executive Departments as well as with Congressional leaders before any recommendations were submitted to Congress. Your Budget Message in the form prepared by the Bureau of the Budget would completely frustrate this plan.

If I had known that you wanted detailed suggestions for a full fiscal program to be included in your Budget Message, we were prepared to give them to you at once. As late as last Tuesday, you told me that you looked to me to carry for you the responsibility for a tax and fiscal program and that you did not think the Bureau of the Budget should be interested in the details of such a program.

- 3 -

If, as we have been informed, decision has been reached on the main outlines of the tax section in the form submitted to us by the Bureau of the Budget and the door is closed to policy suggestions, I am convinced that a grave mistake is being made. If this is the situation I shall be seriously embarrassed in any attempts to carry on any further negotiations with Congressional leaders and even more greatly embarrassed in attempting to advocate before committees of Congress a program devised under such circumstances and one which I believe to be in several fundamental respects unsound.

In that situation I feel that I would have to consider myself free not only to criticize the Budget Message publicly, but also to state publicly the Treasury views as to how to meet the inflation problem on the fiscal front.

There is another phase of this matter that I regard as even more fundamental and I think you will want to give it most serious consideration. The Secretary of the Treasury, as chief fiscal officer of the Government, is responsible for maintaining the public credit on a sound basis. He, in conjunction with the Federal Reserve System, is responsible for an orderly Government security market. He is required to defend your fiscal policies before the Congress. He is required under the law to administer and execute the fiscal laws adopted by the Congress. It seems to me to be basically wrong in principle for the Director of the Bureau of the Budget -- who does not keep in touch with the Government security market, who can not appraise the effect of recommendations as to taxes and borrowing on the public credit, who never has to go before a Congressional committee to defend your fiscal policies, who never has anything to do with the

administration and execution of these laws, and whose office is not equipped to handle problems of this kind -- to be able to use his strategic position in connection with the Budget Message to become your Chief adviser in the crucial work of laying out a fiscal program for presentation by you to Congress and to the Nation.

For your further information I am enclosing a memorandum to the Bureau of the Budget commenting on its proposals.

Faithfully,

(SGD) HENRY MORGENTHAU JR

The President,

The White House.

January 3, 1943.

To: Under Secretary Bell
From: Mr. Paul
Mr. Blough
Subject: Bureau of Budget draft of Budget Message,
received January 2, 1943.

We believe that the fiscal program proposed has serious defects and will be inadequate to remove inflationary pressure on prices during calendar year 1943. Moreover, neither the obvious legislative and administrative difficulties involved nor the probable effects of some of the proposals seem to have been given adequate consideration.

1. Individual income tax

(a) As we interpret the plan outlined for moving into the collection of income tax at source, there would be a serious initial loss of revenue and a decrease in the anti-inflationary effects of the income tax in 1943. The cancellation of part of 1942 liabilities and the delay in starting collection at source would reduce income tax collections substantially in the fiscal year 1943. The increases in revenue from the other elements in the program are inadequate in the light of inflationary prospects, although the message gives the contrary impression.

(b) The increased spending out of accumulated tax reserves, which would undoubtedly accompany the forgiveness of the tax liabilities, would cancel some of the anti-inflationary effects of the additional revenue in the program.

(c) There is no point in suggesting that further forgiveness might be granted in the case of the larger incomes. The allowance of such forgiveness would be a concession and as such should be used in securing desired measures and not sacrificed by premature announcement.

- 2 -

(d) The desirability of eliminating for future years the returns of small income taxpayers may be questioned on administrative and compliance grounds. There seems no reason to have the President include this debatable point in this year's Budget Message.

(e) We believe it unwise, in effect, to promise the country that no increases in income tax rates will be asked for, applicable to 1943. Increases in rates may become highly desirable. Moreover, it should be made clear that the requested increases in 1944 rates would have to be enacted during 1943 under the plan proposed.

2. Compulsory saving

(a) The justification for compulsory lending is largely vitiated unless the amount is sufficient to give a substantial net increase in collections. We seriously doubt whether the net amount of collections under the proposed plan would be sufficiently large to justify its adoption. Its net effect will be greatly reduced by the provision for offsets and by the decline in voluntary bond purchases. Offering at this time immediate offsets for all payments of life insurance premiums and debts will mean that an extremely large amount of "compulsory savings" would be on paper only. The decline in bond purchases will not be merely in the payroll deduction plan but will include other purchases as well.

(b) It would seem unwise to refer to the immediate offset or redemption as an extension of the principle adopted in the Victory tax. Under the Victory tax it appears almost certain that the great majority of the taxpayers will be entitled to full current use or refund of the post-war credit. Moreover, under the Victory tax voluntary bond purchases are allowed as a credit, thereby eliminating the injustice of allowing immediate redemption for persons making insurance and debt payments. It is apparently not intended to follow this principle in the "compulsory savings" plan.

- 3 -

3. Tax deterrent on consumption

(a) The section on "A tax deterrent on consumption" is so written as implicitly to recommend a flat rate retail sales tax, with some provision for exempting subsistence spending. Before we suggest such an inequitable tax as the sales tax, we should be very sure of the administrative feasibility and the efficacy of the methods for mitigating its impact on subsistence. After extensive study, we have found no practicable method for exempting subsistence spending from a retail sales tax adequate to make even approximate allowances for regional differences and for farm and urban differences. Two suggested methods which have been brought to our attention do not appear to be sufficiently thought through to justify a confident statement from the President in his Budget Message.

(b) In our view the most satisfactory deterrent tax on consumption is a progressive tax on individual spending, collected from the individual and not through retail dealers. Consideration of this type of tax seems to be ruled out by the language of the message.

(c) We believe you are sufficiently familiar with our general objections to a sales tax that no discussion of this is necessary.

4. Corporation taxes

(a) The corporate tax proposals give the impression that unnecessary business expenses are at present allowed as a deduction. The intent is undoubtedly to refer to postponable rather than unnecessary expenses and should be made clearer.

(b) More important, the setting up of tax-free contingency and maintenance reserves is subject to a number of difficult technical problems which led the last Congress to abandon the attempt. The two-year loss carryback provision and certain other provisions were substituted for such reserves. It scarcely seems wise to promise reserves of this kind, however desirable in principle, in the light of Congressional experience in attempting to allow them.

- 4 -

(e) It is noted that no reference is made to alleviating the difficult situation which would be produced by still higher corporate rates for corporations obligated to retire indebtedness under commitments made when tax rates were lower.

5. Joint income tax returns

The Congress has in two successive years flatly rejected the proposal to eliminate joint income tax returns. It may be that this year a variation should be proposed which would arrive at substantially the same solution, so far as married couples are concerned, by allowing community property returns to all married couples and making corresponding changes in either rates or rate brackets. Accordingly, it is suggested that the discussion of joint returns should stress the discriminations under present law and avoid any commitments which would be inconsistent with the use of the community property method.

6. Tax exempt securities

(a) It is believed that too great a concession is offered in the discussion of the taxation of interest on State and local securities. It is impossible to ascertain what tax savings holders of securities may have anticipated, individually or on the average, when they bought them or when they decided not to sell them. Moreover, the recent shifts in rate structure would place large incomes in a comparatively protected position since the rates of tax on the larger incomes have not increased nearly as much in recent years as have the rates on smaller incomes. A great deal of the inequitable tax advantage afforded by tax exempt securities to persons with large incomes will remain if the legislation follows the language in the proposed Budget Message.

(b) If concessions to taxpayers are to be mentioned, the limit of relief might well be the amount which tax exemption has cost the taxpayer by his acceptance of a lower interest rate.

(c) Since the influential opponents of eliminating tax exempt securities are State and municipal officials, any concessions to be offered might well be directed to absorbing their cost increase.

- 5 -

7. This message grants a number of concessions which in our opinion, if to be agreed to at all, could be granted with greater effectiveness during the course of the legislative process. This is particularly true of the current collection and sales tax points. Mentioning concessions now assures the necessity of allowing still greater concessions later.

8. Finally, we believe it unwise that the Congress and the country should be given the impression that the tax program proposed in this message will make unnecessary the imposition of other taxes or of basic changes in existing taxes during and after the war period.

9. In the conference of Saturday afternoon it was stated by Mr. Colm that the representatives of other Executive agencies with whom he had discussed the program expressed in the Budget draft generally approved that program. On the basis of many contacts with the representatives of other agencies Mr. Paul is in a good deal of doubt as to whether the Budget draft, in the form in which it is now written, is on important points consistent with the views of other interested agencies.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, January 3, 1943.
1-2-43

Press Service
No. 34-83

(The following address by Assistant Secretary of the Treasury John L. Sullivan over the Mutual Network is scheduled to be broadcast at 10:15 p.m., Eastern War Time, Saturday, January 2, 1943.

Last October Congress enacted our first wartime tax measure. The Revenue Act of 1942 established higher rates for income and other taxes. It also introduced an entirely new tax, the Victory tax. Because it is a new tax and because we have received many questions about it, a few words of explanation would seem appropriate.

For millions of Americans who are already buying War Bonds, the Victory tax and the income tax to be paid this year supply the first opportunity to contribute by direct taxation to meeting the rising costs of war.

The Victory tax became effective January 1st. Everyone who has income over \$624 a year other than interest from tax free securities or capital gains must pay the Victory tax. The tax is at the rate of 5 percent on income over this amount.

The Victory tax is an additional tax on personal income, entirely separate from the individual income tax. You cannot deduct personal expenses such as interest payments, other taxes and charitable contributions. However, if you are a farmer or in a profession or business you are permitted to deduct ordinary business expenses.

You will be glad to know that there are certain credits which reduce this Victory tax below 5 percent. The amount of this credit depends upon your personal status. If you are single, you are entitled to a credit of 25 percent of the Victory tax. If you are married you are entitled to a 40 percent credit with 2 percent for each additional dependent. This credit constitutes a refund of part of your Victory tax and will be paid back to you after the war. However, if you have purchased certain Government bonds or made payment on your life insurance policies or have reduced old debts in an amount equal to your credit, you are entitled to immediate Victory tax credits, which may be used to help pay your income tax in March 1944. If you don't owe any income tax, you may get a cash refund immediately after March 15, 1944.

- 2 -

The Victory tax applies to 1943 income, and you will be required to file a Victory tax return on or before March 15, 1944.

Thanks to a new withholding device, the payment of the Victory tax will present for wage and salary earners no sudden problem or great burden, because the money to pay that tax will already have been collected and will be standing to your credit at the United States Treasury. Your employer will deduct from every wage envelope and pay check during the year 5 percent of the amount in excess of \$12 per week, and turn that money over quarterly to the Collector of Internal Revenue as prepayment of your Victory tax. Your employer is required to give you a written statement showing how much he has withheld from your wages or salary in 1943. Save that statement. It is your Victory tax receipt.

This special withholding feature applies to practically all wage and salaried people with certain exceptions, such as members of the armed forces, agricultural labor, domestic help, and casual labor. It applies to all civil employees of the United States, including the President, and to all employees of states, counties and cities.

We believe that the additional work which withholding will impose upon employers, and upon the Government, will be more than offset by the convenience to the taxpayer and by the fact that at least to this extent the taxpayer has been placed upon a pay-as-you-go basis.

We hope that this is the beginning of a system which will enable people to pay a substantial part of all their taxes out of their current income -- an arrangement which will be far more satisfactory to the taxpayers and to the Treasury, and which should constitute a formidable weapon with which to combat inflation.

Remember that all income from sources other than wages and salary is also subject to the Victory tax, payable in 4 quarterly installments starting March 15, 1944, or in one lump sum -- like the regular income tax.

We are well aware that every new tax presents new questions and you may have questions that I have not answered. The Bureau of Internal Revenue is anxious to help every taxpayer and every employer to a complete understanding of the Victory tax, and will welcome inquiries addressed to the Collector of Internal Revenue in your district, or to the Commissioner of Internal Revenue at Washington, D. C.

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NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRETU.S. SECRETOFFICIAL No. 3

Information received up to 7 A.M., 3rd January, 1943.

1. NAVAL

NORTHERN WATERS. One of H.M. Destroyers previously reported damaged sank on 1st.

MEDITERRANEAN. One of H.M. Cruisers was hit in BONE and not repaired as previously reported. During air raids on BONE on 1st and 2nd one of H.M. Minesweepers was seriously damaged. One of H.M. Submarines probably sank a 5,000 ton ship off NAPLES on 26th. A convoy of one tanker and one ship reached MALTA on 2nd from ALEXANDRIA.

2. MILITARY

LIBYA. Digging and general activity by enemy reported on approximate line of TEDI ZEM and thence towards BUKARI.

TUNISIA. Ground conditions are improving. Northeast of PICHON enemy battalion withdrew in face of French artillery fire, losing men and material.

RUSSIA. The Russians continue to make progress astride the Lower Don in direction of TSIMLYANSKAYA and westwards across the North Caucasian Steppes.

3. AIR OPERATIONS

2nd. Spitfires attacked railway targets in Northern FRANCE. 8 enemy aircraft crossed the South Coast damaging house property in SUSSEX and DEVON. Some casualties.

2nd/3rd. 42 aircraft laid mines off BISCAY Ports.

FRENCH NORTH AFRICA. 31st/1st. Wellingtons bombed BIZERTEA Harbour. 1st. United States aircraft bombed TUNIS Harbour and marshalling yards. Enemy casualties during their attacks on BONE Harbour were 4, 1, 9. Ours 4, nil, nil.

SICILY. 1st/2nd. Wellingtons dropped 16 tons of bombs on PALERMO Harbour and hit shipping and naval jetties.

January 4, 1943

Conference in Vice President's Office
January 4, 1943
10:00 A.M.

Present: Vice President Wallace
Secretary of Agriculture
Mr. Hendrickson of Agriculture
Mr. Stettinius
Mr. Cox
Mr. Acheson
Mr. Philip Young
Mr. H. D. White

The meeting had been called by the Vice President to discuss the problem of shipment of food under lend-lease to England and the reaction of some Congressmen to the fact that England was selling lend-lease food rather than giving it to their populace. Dean Acheson was about twenty minutes late -- he came after Vice President Wallace called his office directly. Secretary Hull was supposed to have notified Mr. Acheson of the meeting but Mr. Acheson said he had not heard of it.

Before Mr. Acheson arrived, Mr. Hendrickson passed around a number of charts showing the proportion of various important food items and food groups that will be sent abroad and consumed at home as compared to previous years. This led to some discussion as to the need for better public understanding of the proportion of foodstuffs that were going to the Army and to lend-lease and also to the problem of how best to increase food production in the United States during the coming year.

When Mr. Acheson arrived, the Vice President explained the purpose of the meeting and stated that the Board of Economic Warfare's interest in it was very minor but that the problem had arisen at Cabinet and that both Mr. Stettinius and Mr. Wickard were eager to have a clearly defined and agreed upon explanation of their shipment of lend-lease foodstuffs abroad so that they would be adequately prepared to answer any questions that may be put to them at the coming appropriation hearings.

Mr. Cox raised the question of the desirability of modifying the program of lend-lease shipments to England and Russia so that a much larger value of foodstuffs would be allocated to Russia than to England. He expressed the fear, as did Secretary Wickard, that

- 2 -

the Appropriations Committee might react unfavorably to the thought that the United Kingdom was getting as much foodstuffs as Russia and that the Appropriations Committee might cut the appropriation on the basis that England should get less than was being given to Russia, in view of the superior food situation in Britain as compared with Russia.

After some discussion as to the various possible ways of increasing food production and the necessity for obtaining a united front in Washington behind any program that was proposed, it was decided to appoint two Subcommittees to report to the Cabinet Group the following Thursday afternoon or Friday. Speed was necessary both because the farm program was soon to be launched and because the appropriation hearings were to take place very soon. One Subcommittee was assigned the task of preparing a program of maximizing food production in the United States. The Chairmanship of that Committee was given to Mr. Johnson of the Department of Agriculture. The Vice President wanted the Treasury represented on that Committee as did Secretary Wickard. Mr. White suggested that Mr. Haas would know more about agriculture problems than any one in the Treasury and suggested his name.

The assignment to the other Subcommittee under the Chairmanship of Mr. Stettinius was to consider food problems connected with lend-lease. The Treasury was asked to participate in that and Mr. White was appointed on that Subcommittee.

H. D. White



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

2. Rem. Sample 114
1. Rem. Sample 114
1.2.2.

January 4, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing my report to you of January 1, 1943, the purchases against the Rehabilitation Program from December 30, 1942 to January 3, 1943, totaled \$617,427.55, or a total of purchases for the program thus far of \$7,985,141.68.

With regard to the shipment of civilian requirements to North Africa, we are attaching a summary of all cargo shipped as of close of business January 2, 1943, also cargo available and en route, which totals include certain purchases made by Department of Agriculture and the War Department. It has been necessary to revise the figures as submitted with our report of December 29, 1942, as a steamer originally loaded at New York City was then moved to Staten Island and the cargo changed.

Hereafter the reports will be for a complete week.

John E. Mack
John E. Mack
Director of Procurement



SHIPPING REPORT AS OF JANUARY 2, 1943

115

<u>Commodity</u>	<u>Shipped to date from U. S. A.</u>	<u>On hand at NYC waiting vessels</u>	<u>En route to port</u>
New and used clothing	123.5 tons	965 tons	157 tons
Cotton piece goods	203 "	1802 "	5532 "
Shoes	-	-	219 "
Refined sugar	801.5 "	6071 "	-
Raw sugar	1377 "	245 "	-
Powdered whole milk	113.5 "	-	-
Condensed milk	2608 "	689 "	-
Tea	171.5 "	-	-
Matches	127.5 "	102 "	-
Nails	4.3 "	-	-
Drugs	6.067 "	77 "	-
Copper sulphate	1925 "	2175 "	-
Books & booklets	2 "	-	-
Lamp chimneys	-	-	17 "
Phonograph records	-	-	1000 each
Newsprint	-	39 "	-
Printers ink	-	.089 "	-
Mach. finished book paper	-	2 tons	-
Cordage & twine	-	300 "	-
Thread	-	100 "	12 tons
Soap	1248.75	767 "	-
Tobacco	91 "	88 "	-
Photo radio film equipment	1 "	-	-
Lactose	-	2 "	-
Flour	-	2500 "	-
Cotton hose	-	-	2 "
 Totals	 8801.617	 15,924.089	 5939

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

January 4, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended December 23, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Int. E. M. B.

kma:1/4/43

C
O
P
Y

117

FEDERAL RESERVE BANK
OF NEW YORK

December 31, 1942

CONFIDENTIAL

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

I am enclosing our compilation for the week ended December 23, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke,

L. W. Knoke,
Vice President.

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

Enclosure

copy:kma:1/4/43

Week Ended December 23, 1942 Strictly Confidential

Weekly Average of Total Debits Since Outbreak of War
 Through December 23, 1942 8.5 million
 *For monthly breakdown see tabulations prior to April 23, 1941.
 **For monthly breakdown see tabulations prior to October 8, 1941.
 ***For monthly breakdown see tabulations prior to October 14, 1942.
 (a) Reflects changes in all dollar holdings payable on demand or maturing in one year.
 (b) Does not reflect U.S. Treasury bill transactions.
 (c) Includes \$3.2 million deposited by War Supplies, Ltd.

Strictly
Confidential

10334 · J. Neurosci., September 24, 2008 · 28(39):10329–10334

*For monthly breakdown see tabulations prior to April 23, 1941.
 **For monthly breakdown see tabulations prior to October 8, 1941.
 ***For monthly breakdown see tabulations prior to October 14, 1942.
 (See attached sheet for other footnotes)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Reflects charges in all dollar holdings payable on demand or maturing in one year.
- (e) Includes payments for account of French Air Commission and French Purchasing Commission.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) Includes \$2.2 million deposited by British Ministry of Supply.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

January 4, 1942.

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statement No. 66 - Aircraft Despatched
- for week ended December 29, 1942.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D. C.

January 4, 1943.

~~TOP SECRET~~STATEMENT NO. 66Aircraft Despatched from the United StatesWeek ended December 29, 1942

<u>Type</u>	<u>Destination</u>	<u>Assembly Point</u>	<u>By Sea</u>	<u>By Air</u>	<u>Flight Delivered for use in Canada</u>
<u>BOEING</u> Fortress II	U.K.	Canada enroute		1	
<u>CONSOLIDATED</u> Catalina 1 B	U.K.	Bermuda enroute		7	
<u>DOUGLAS</u> Boston III A	U.K.	U.K.		7	
<u>CURTIS</u> Kittyhawk	Middle East a	Port Sudan	22		
<u>FAIRCHILD</u> Cornell PT26	Canada	Canada			16
<u>GLENN MARTIN</u> Baltimore III A Marauder I	Middle East Middle East	Middle East Middle East		5 1	
<u>LOCKHEED</u> Hudson VI Hudson VI Hudson VI Ventura	West Africa U.K. West Africa S. Africa	Freetown Canada enroute Freetown S. Africa		2 1 1 3	
<u>NORTH AMERICA</u> Mitchell I Mitchell II Harvard II	Bahamas Bahamas Middle East	Nassau Nassau Port Sudan		2 2 12	
<u>WACO CO.</u> Waco Gliders	U.K.	U.K.	1		
<u>STINSON</u> * Piper Cub	Middle East	Middle East	2		
			<u>Total</u>	<u>37</u>	<u>32</u> <u>16</u>

* Exported week ended December 22nd.

** Exported week ended December 15th.

Note: 1. Baltimore III A was by error reported exported, please delete from report for week ended December 1st.

2, 1943

Movements Division, Brit. Air Com.

Regarded Unclassified

JAN 4 - 1943

My dear Mr. President:

I am enclosing report on our exports
to some selected countries for the period
ending December 10, 1942.

Faithfully,

1st/ D. H. Bell

acting Secretary of the Treasury.

The President,

The White House.

Enclosure

HDW/cfs
12/28/42

File in Diary

Extra copies to White

By Secret Service 4:50
1/4/43

22W

FILE COPY

December 29, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending December 10, 1942

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending December 10, 1942 amounted to \$30,635,000 as compared with \$88,415,000 during the previous ten-day period. Military equipment accounted for only \$3,115,000 of the total and included no tanks or planes. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$822,000, of which \$195,000 was military equipment.

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland and Portugal amounting to \$1,290,000 and \$590,000, respectively.

127/6 fs
12/29/42

APPENDIX A

**Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations Received
During the Period Indicated 1/**

(In thousands of dollars)

	<u>10-day Period ended Dec. 10, 1942</u>	<u>10-day Period ended Nov. 30, 1942</u>	<u>Total Domestic Exports Aug. 1, 1942 to Dec. 10, 1942</u>	<u>Total Domestic Exports July 28, 1941 to July 31, 1942</u>
U. S. S. R.	\$ 30,635	\$ 88,415	\$ 583,916	\$ 742,941
Free China	822	296	110,639	97,720
Spain	-	1	770	2,858
Switzerland	1,290	935	6,919	11,537
Sweden	2	-	2,628	18,056
Portugal	590	204	1,986	9,743
French North Africa 2/	-	-	2,088	6,305

Treasury Department, Division of Monetary Research

December 28, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria and Tunisia.

RPM/cfs 12/28/42

SECRET

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APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - December 10, 1942 1/
(Thousands of Dollars)

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942 1942	\$ 32,758	\$ 98,902
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	33,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
Oct. 21 - Oct. 31 4/	--	45,701
Nov. 1 - Nov. 10	233	53,144
Nov. 11 - Nov. 20	2,032	45,867
Nov. 21 - Nov. 30	296	88,415
Dec. 1 - Dec. 10	822	30,635
Total	\$ 110,639	\$1,327,676

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research December 28, 1942

ISP/cfs 12/28/42

SECRET

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APPENDIX C

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
December 10, 1942**

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of dollars)</u>
TOTAL EXPORTS			\$ 30,635
<u>Military Equipment (\$3,113)</u>			
Ammunition	-	-	1,669
Internal combustion marine engines	No.	45	767
Ordnance combat vehicles			
Scout cars	No.	400	363
Explosives	Lb.	800,000	138
All other	-	-	174
<u>Non-Military Goods (\$27,522)</u>			
Motor trucks, auto replacement parts and accessories	-	-	5,115
Industrial, electrical and agri- cultural machinery and parts	-	-	4,218
Iron and steel manufactures and semimanufactures	-	-	3,537
Metals and manufactures, n.e.s.	-	-	3,374
Meat products	-	-	2,680
Food products, n.e.s.	-	-	2,011
Wool and cotton	-	-	1,660
All other	-	-	4,927

Treasury Department, Division of Monetary Research December 28, 1942

WEM/cfs
12/28/42

SECRET

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APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
December 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 822

Principal Items:

**Printed matter
Military equipment
Photographic supplies
Power tools
Fountain pens
Miscellaneous manufactures**

**535
195
78
14
1
1**

Treasury Department, Division of Monetary Research December 28, 1942

**EPM/efs
12/28/42**

JAN 4 - 1943

My dear Mr. Secretary:

I am enclosing report on our exports
to some selected countries for the period
ending December 10, 1942.

Sincerely yours,

W. D. H. Bell

acting Secretary of the Treasury.

The Honorable,

The Secretary of State.

Enclosure

File in Diary

Extra copies to White

By Sturgis 4:55 1/4/43

HW/efs
12/28/42

HDW

FILE COPY

SECRET

130

December 29, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending December 10, 1942

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending December 10, 1942 amounted to \$30,635,000 as compared with \$38,415,000 during the previous ten-day period. Military equipment accounted for only \$5,113,000 of the total. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$822,000, of which \$195,000 was military equipment.

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland and Portugal amounting to \$1,290,000 and \$590,000, respectively.

137/cfs
12.29/42

APPENDIX A

Summary of United States Exports to Selected Countries as Reported to the Treasury Department from Export Declarations Received During the Period Indicated 1/

(In thousands of dollars)

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Free China	822	296	110,639	97,720
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Switzerland	1,290	935	6,919	11,597
Sweden	2	-	2,628	18,056
Portugal	990	204	1,986	9,743
French North Africa 2/	-	-	2,088	6,305

Treasury Department, Division of Monetary Research

December 28, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria and Tunisia.

KFM/efs 12/28/42

SECRET

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APPENDIX B

**Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - December 10, 1942 1/
(Thousands of Dollars)**

	<u>Exports to Free China</u>	<u>Exports to U.S.S.R.</u>
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1942		
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Aug. 11 - Aug. 20	192	23,525
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,454
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
Oct. 21 - Oct. 31 4/	-	45,701
Nov. 1 - Nov. 10	233	55,144
Nov. 11 - Nov. 20	2,032	45,847
Nov. 21 - Nov. 30	296	88,414
Dec. 1 - Dec. 10	822	30,634
Total	\$110,639	\$1,327,676

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research December 28, 1942

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APPENDIX C

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
December 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS**\$ 30,655****Principal Items:**

Motor trucks, auto replacement parts and accessories	5,115
Industrial machinery	3,291
Military equipment	3,113
Iron and steel plates, sheets, bars, rods	2,347
Food products, n. e. s.	1,707
Wool and cotton	1,660
Meat products, n. e. s.	1,387
Canned sausage	1,293
Copper, nickel, zinc	1,201
Iron & steel wires, nails & axles, tools, etc.	1,190
Rubber and manufactures	987
Brass and bronze	963
Chemicals and related products	934
Electrical and agricultural machinery and apparatus	927
Aluminum and manufactures	923
Dried egg products	794
Dairy products	700
Relief supplies	498
Inedible oils and fats	519
Tallow and lard	304
Molybdenum, tungsten, cadmium	287
Petroleum and products	144
Abrasives, graphite, carbon	143

Treasury Department, Division of Monetary Research December 28, 1942

**RMH/sfs
12/28/42**

SECRET
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APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
December 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 822

Principal Items:

**Printed matter
Military equipment
Photographic supplies
Power tools
Fountain pens
Miscellaneous manufactures**

**535
195
76
14
1
1**

Treasury Department, Division of Monetary Research December 28, 1942

**HFM:efs
12/28/42**

Jan. 4, 1948

Mr. Haas

Secretary Morgenthau

Would you please make a study of what they are doing about the price of milk in New York City, and let me have a report on it as soon as possible. *See Haas' memo of 1/6/43*

I also would like to have you send a man out to Detroit to look into the milk situation. I understand there is a chain of stores out there which are doing something special about selling milk, and I would like to know more about it, particularly with reference to their relations with the farmers and the labor unions. *See Haas' memo of 1/6/43-*

The memorandum which you gave me on wheat isn't quite satisfactory. I would like to have you make a study and let me know how I could answer the President if he asked me the question, "How can I lower the price of bread?" Please consult with Mr. Paul and then let me know how this could be done legally. You may also consult with the Department of Agriculture if you care to. *Memo submitted 2/4/43-*

George Haas

December 30, 1942

Secretary Morgenthau

I was very much disappointed to read in today's papers that they advanced the price of flour. I think this is a great mistake, and it's only a question of time before the price of bread will go up. I wish you would let me have a memorandum saying how this thing could be solved other than raising the price of flour. It seems perfectly criminal to me to have these huge quantities of wheat in the United States and Canada lying more or less idle and see the price of flour and then bread go up. There ought to be something that we can do about it, and I would like to get suggestions from you promptly.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 4, 1943

MEMORANDUM TO THE SECRETARY:

The following is a review of certain matters of a special nature, both current and proposed, which I believe will be of interest to you, as substantial savings have been made and further economies are indicated. Those matters which are current were discussed with you at the time initiated and I feel you will be interested in the results.

1. Centralized and Consolidated Purchase Program (Savings, approximately \$9,000,000.)

Collaterally with special purchase programs (Lend-Lease, etc.) we have concentrated upon the development of purchasing by the regular agencies of the Government. During 1940 the Procurement Division's major purchasing activity for the regular agencies had to do with the making of General Schedule term contracts and the open market purchasing was limited primarily to Treasury Department, Federal Works Agency, Federal Security Agency and the Bureau of Census. Through the analysis of copies of all Government purchase orders (for other than military items) we have determined that certain classes of commodities, such as machinery, electrical supplies, lumber, etc., representing substantial money volume should be centralized to avoid competition between the Government agencies and to effect purchasing advantages. Consequently we have directed that all such purchases be made through the Procurement Division for all Government agencies other than the military services and Government corporations except Defense Housing. We are now studying



-2-

purchases of minerals (cement, etc.) and metal products by the regular Government agencies with a view to consolidating such purchases, our objective being to centralize within the Procurement Division those purchases representing substantial money volume. That goal has been largely accomplished.

2. Survey of Procurement Methods by
Government Agencies (Indicated
savings of several millions
annually.)

(a) Program to eliminate large volume of purchases of small amounts by agencies for which the cost of purchase either exceeds the cost of the goods bought or is disproportionate.

An analysis of purchase orders issued by the Government agencies (for other than military items) covering a sixty-day period showed that 82% of the purchase orders issued represent only 8% of the money volume of such purchases and the remaining 18% of the purchase transactions represent 92% of the money total. The number of such purchase orders approximates 3,000,000 annually, and it is believed that the administrative cost of processing a purchase document from the time of issuance through to payment and GAO audit is from ten to fifteen dollars per transaction. Consequently, we are now inquiring into the matter with the Government agencies involved with the conviction that a large proportion of small purchase transactions can be materially reduced through proper planning and consolidation. Savings of several millions annually are possible.

(b) Elimination of paper work.

(1) Simplified Purchase Order.

Over the years Government agencies have devised their own purchase order form with

-3-

the result that there are many different types with confusion resulting to suppliers and excessive cost to the Government. We are, in conjunction with a committee of representatives of the Government agencies, developing a standardized purchase order form which will reduce both paper work and administrative cost, likewise make it easier for industry to deal with the Government.

(2) Simplifying Purchase Procedure.

We are conforming Federal purchase procedure to that of industry to the extent possible. Briefly, instead of using the contract forms requiring signatures of both Government representatives and the supplier in each instance together with detailed conditions and provisions, we are instead asking for informal quotations and issuing purchase confirmation for standard purchases and using the contract procedure only for special purchases. This procedure has been approved by GAO and will save both time and money. More important, it will relieve criticism by industry that the involved procurement procedure has made it difficult for them to do business with the Government.

(c) Standardization and simplification in Procurement Procedures.

Along with the development of the Centralized Procurement Program, we are now concentrating upon a cooperative program with the Government agencies in standardizing and simplifying procurement procedures. This is a big job but an interesting one, as it provides for large savings in the cost of goods and the administrative expense of making such purchases.

My thought is that in Federal procurement the legal and administrative limitations over the years have resulted in the procurement officers placing emphasis on their knowledge of procedures rather than stressing the purchase job, such as knowing sources,

-4-

markets and concentrating upon getting the best value possible. If the Procurement Division can simplify the administrative procedure of purchasing and place the emphasis upon the buying job, which I feel we can do in due course, there is an opportunity for real saving in the cost of goods.

3. Taking full advantage of cash discounts (discounts earned to date on the Lend-Lease Program total \$5,482,232.)

It has been the normal procedure in purchasing by many Federal agencies to disregard, in evaluating bids, discounts quoted for less than 20 days. A large part of our dollar volume is for steel products purchased under the Lend-Lease Program. The trade discount is $\frac{1}{2}$ of 1% in 10 days. We accordingly changed the procedure so as to obtain receiving reports showing proper delivery, audit and process the invoices so that payment may be made within ten days. We have found that in certain cases suppliers have not quoted to the Government the cash discounts made available to other buyers and when we have requested a discount and asked why it had not been specified in the quotations, the reply was that normally the Government did not take advantage of short term discounts; consequently, it was not offered.

4. Liquidation of Emergency Relief Organization.

As WPA liquidates its organization, we are following suit as quickly as the vouchering of purchase transactions is completed, and a committee within the Procurement Division has been designated for that purpose.

5. Activities Under Executive Order 9235 In Cooperation With The Bureau of the Budget (Indicated proceeds of approximately \$50,000,000 from WPA and NYA surplus alone for deposit to Treasury Miscellaneous Receipts.).

-5-

(a) Utilization of Property.

It has been the practice heretofore in the Federal service to transfer surplus property in the field service without the exchange of funds. Accordingly, agencies received property of value without being required to account for it and there was no reduction in their budget limitation for operations. Under Executive Order 9235 the transfer of surplus property will be at market or appraisal value at the time of the transfer, and the proceeds will go into the Treasury Miscellaneous Receipts. WPA and NYA are about to surplus vast quantities of equipment and supplies needed by other agencies. We are establishing a field organization to handle the operation of this program. The surplus property from the last war totaled five billions and may be many times that following this war.

(b) Consolidation of Field Warehousing.

This is a new program under Executive Order 9235 and there will be substantial savings, but there is not a satisfactory basis at this time for an estimate.

Heretofore there has been no centralized information concerning Federal warehousing. This information is now being obtained and the next step is to consolidate the warehouses of Government agencies which are now operating independently.

It is proposed to establish consolidated Federal warehouses under the control of the Procurement Division from existing warehouses with such sub-warehouses as might be necessary, and as a result many warehouses should be either curtailed or eliminated and a substantial saving effected. We plan first to establish a consolidated Federal warehouse on the West Coast, very likely at San Francisco, to avoid long hauls and cross hauling, and from that warehouse serve the entire West

Coast area pending progression of the entire warehouse program. The next consolidation of warehouses will be in the Middle West region and one of the several warehouses at Chicago will be designated as a Federal warehouse for that region. Similarly there will be other regions developed to a proposed total of eight. From these Federal warehouses supplies will be issued within the respective regions and procurement will be carried on for the area; likewise they will serve as regional headquarters for property utilization, which includes repair and rehabilitation as well as selling such property.

When that program is completed we will then have an integrated procurement organization both in Washington and in the field providing for purchasing, warehousing and property utilization.

6. Proposal to Simplify Fiscal Program.

As now functioning, the Procurement Division has appropriations for its regular activities (Salaries and Expense). It also has a revolving fund of \$5,000,000 known as the General Supply Fund for the purchase of supplies to be sold to the other agencies, on which there is a surcharge made to cover administrative costs related to the activities of the Fund. We also have special appropriations such as Lend-Lease, Strategic and Critical Materials, Refugee and Foreign Relief, Emergency Relief, and provisions for reimbursement of certain expenditures such as those incurred in typewriter, furniture and automotive repairs. It is believed that once the Procurement Division is established as to the complete procurement job for which it is responsible, that is, centralized purchasing, active cooperation with other agencies on policies and methods of purchasing, Federal warehousing and property utilization, steps should then be taken to simplify the fiscal procedures. For example, the General Supply Fund provides flexibility and is satisfactory during these abnormal times, but it requires that a surcharge be added to the cost of the goods and that reim-

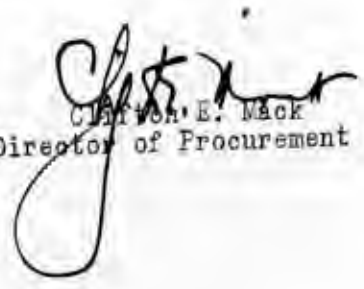
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bursement be obtained through Transfer and Counter Warrant, all of which necessitates paper work. It is my thought that this is a matter which should be reviewed in order that purchase may be made by direct charge against the requisitioning agency to avoid the Transfer and Counter Warrant procedure and to eliminate the necessity of surcharge by providing a direct appropriation.

7. Reduction of Surcharge on Purchases made by Procurement Division for Agencies.

Prior to July 1, 1942 the surcharge on purchases made by the Procurement Division for the agencies was 3% without any ceiling, and in the case of substantial purchases, the surcharge was disproportionate to the services rendered. Effective July 1, 1942 we established a reduced surcharge of 2% with a ceiling of \$100 on a single purchase irrespective of the amount involved.

To summarize the foregoing, our program is to constantly survey purchase procedures and methods to effect savings and eliminate paper work, to consolidate Federal warehouses on a regional basis and from each Federal warehouse at regional headquarters issue supplies, purchase, and provide for the rehabilitation, repair and sale of surplus property, and finally it is our objective to conform Government procedures as nearly as possible to industrial practices consistent with legal and fiscal limitations.


Clifford E. Mack
Director of Procurement

January 4, 1943.

MEMORANDUM

To: Secretary Morgenthau
From: Mr. Gaston

After reading the attached Pegler column on the Victory Tax, Chic Schwarz called up Pegler today and read to him the official ruling by the Commissioner of Internal Revenue. This ruling holds that the tax is payable with respect to any pay period ending after January 1 but does not apply to pay received after January 1 for periods which ended before January 1. Pegler replied that he based his article on press association stories. Chic pointed out to him that both the Associated Press and the United Press had run premature versions of what the ruling would be while the Bureau was still giving consideration to the problem and that they had not gone to the proper source for their stories.

Pegler agreed that he would make it clear in an early column. I am not very hopeful, however, of any correction by Pegler. It is likely to contain epithets and insinuations that are worse than the original article.

The Bureau is perhaps somewhat culpable in having issued its ruling on this point rather late. The tax applies to income for the calendar year 1943 and subsequent years. Income may be either on an accrual basis or a receipts basis. In the case of the income tax, the taxpayer is allowed the option to make his returns on either basis. This was considered impractical in connection with the Victory Tax and therefore the ruling was made as above, making the tax apply to any pay period that laps over into 1943 but not to pay received after January 1 but earned wholly in 1942.

W.H.

Fair Enough



NEW YORK, Jan. 4.—Mr. Morgenthau, Treasury Secretary, is sensitive to aspersions on the ethics and fairness of his income tax reviewers, who are, as has been observed before, masters of a repertoire of sly and shady shyster tricks of interpretation, having the color, if not the odor, of legality.

The controversy began several years ago when President Roosevelt asked Congress to plug certain loopholes in the revenue law and pilloried, personally, a list of individual citizens who happened to oppose some of his policies, for the offense of complying with the law. It was then retorted that the Treasury itself, thru its reviewing agents with their powers of disallowance, was expert in tax trickery and, after some convincing publicity on that point, Mr. Morgenthau warned his men to refrain from bulldozing this profitable class of citizens and invited the citizens to report such conduct to him.

THAT may have civilized the reviewers, many of whom up to that time had regarded themselves as agents of a secret terror, but a current incident proves that they got their inspiration from the top.

We have before us a plain case of larceny from millions of citizens of all income brackets committed by the Treasury, apparently with the approval of Secretary Morgenthau.

In passing the 5 per cent Victory Tax, Congress said unmistakably that it was to be a tax on 1942 income. Yet the Treasury, in violation of the will of Congress and of the law, has usurped the congressional legislative power and decided that all pay checks for the last week or month or quarter of 1942, delivered after midnight Thursday, shall be taxable at 5 per cent even tho most or all of the money was earned before the first of the year.

By Westbrook Pegler

In simple words, the Treasury decided to steal the money from the people and to make the employers parties to the theft by compelling them to withhold the tax and turn it in.

Theft is the only word for it. It is a bold and cynical defiance of law and morality and an example to the people of government by strong arm. The millions of individuals who thus will be nicked for \$2 or \$5 or more, each, will not have the facilities nor the time to fight the Treasury for the return of money which lawfully belongs to them. The total amount which will be stolen by this trick cannot yet be calculated and may never be known, and most of the victims of the larceny probably would be willing to give the Government that much money if the problem were put to them and they were asked to do so.

THAT, however, is beside the point. They were not asked to give the money so as to spare the Treasury and their employers a bookkeeping problem. The Treasury waited until just before the deadline and, when the question was raised, decided to swipe the dough.

Sen. Danaher of Connecticut, a member of the Finance Committee and thus one of the authors of the law, said that unquestionably it applied only to pay earned in 1943, but was willing to concede that expediency might justify the theft by the Treasury. But if expediency permits the Treasury to steal from the citizens, expediency must also justify the citizen in stealing from the Treasury if he can. The fact is that expediency justifies nothing of either kind.

If employers generally had been put on notice they could have made arrangements to reckon the pay checks in time to make an emergency pay day, but even that should not have been necessary. The plain fact is that money earned and due at the end of 1942 was not subjected to this tax and that the 5 per cent collected of such money represents not taxation but larceny.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 4, 1943

TO: Secretary Morgenthau
FROM: Mr. Haas
Subject: The Business Situation,
Week ending January 2, 1943.

Summary

Employment and payrolls: Factory employment and payrolls rose to new peaks in November, according to BLS data released last week. Payrolls rose more rapidly than employment and stood 26 percent above year-earlier levels, indicating a further increase in average earnings per worker.

Wholesale prices: The general price level continues to move higher, with the BLS all-commodity index in the week ended December 26 rising 0.5 point to 101.2, the sharpest gain since last April. Basic commodity prices in the aggregate showed a further slight gain last week.

Price ceilings: The upward pressure on prices continues to force revisions of price ceilings. In addition to the recent 10 percent upward revision in the ceiling on flour prices, retail milk price increases have been authorized for the New York, Chicago and Duluth-Superior areas to replace earlier subsidies.

Inventory control: The WPB has instituted inventory control of consumer-goods stocks of large retailers, wholesalers and stock-carrying branches of manufacturers. Department store stocks declined in November, and at the end of the month were only 11 percent above year-earlier levels as compared with an extreme gain of 71 percent last July.

Rural retail sales: Rural sales of general merchandise in November were only 4 percent above year-earlier levels, largely because of shortages of many goods, while farm income showed a gain of 43 percent. Production restrictions on such items as tires and electrical and household appliances have caused Sears, Roebuck and Company to close 4 of its smaller stores.

Munitions production: Arms production in November showed the largest absolute gain since the armament program got under way, with the WPB index of munitions production advancing to 431 from 385 in the previous month. The WPB expects munitions production in 1943 to be about double that of the last 12 months.

- - - -

- 2 -

Factory payrolls at new peak

Factory payrolls continue to expand, with data just released revealing that by mid-November the total stood at a new record peak nearly 4 percent above the October level. (See Chart 1.) This further gain reflected the mounting tide of payments to war workers, since payrolls normally decline seasonally in November, and various civilian goods industries in November reported further declines in employment due to materials shortages and Government restrictions.

Among the industries showing declines in employment in November were those producing agricultural implements, hardware, typewriters, clocks, silverware, furniture and tin containers. Nevertheless, total factory employment also continued to rise, although at a slower pace than factory payrolls, with the gain from mid-October to mid-November amounting to less than 1 percent. (Refer to Chart 1.) The greater gain in payrolls than in employment indicates a further increase in average earnings of factory workers.

Total employment in non-agricultural establishments declined slightly in November, due principally to a drop of about 10 percent in employment on Federally-financed construction projects. The total in mid-November stood at 38,437,000 workers, which was 2,511,000 (about 7 percent) more than in the pre-war month of November 1941. During the same period factory employment showed an increase of 13 percent while factory payrolls rose by more than 46 percent.

Sharp rise in farm and food prices continues

The continued advances in wholesale prices of farm products caused an increase of 0.5 percent in the BLS all-commodity index in the week ended December 26, the sharpest in any single week since April. At a level of 101.2, the index stands 34.9 percent above the pre-war average of August 1939.

The recent intensification of the advance in the wholesale price level and in the prices of basic products are shown in Chart 2. This rise became apparent late in August, and followed, it will be recalled, the President's press-conference statement that the Administration's anti-inflation program contemplated flexible rather than rigid stabilization of prices. The rate of rise has been accelerated since the beginning of December by action of the farm bloc in Congress looking toward the inclusion of farm wages in computing parity and toward the abandonment of

- 3 -

subsidies for stabilizing farm prices. More recent influences have been the resignation of the Price Administrator and the increase in flour price ceilings.

Prices of basic farm products have continued to rise, and the BLS index of 9 commodities, "uncontrolled as of February 1942", touched a new high on December 31 for the fifth consecutive week. This index has doubled since August 1939. (See Chart 3, upper section.)

Last week grains again were buoyant, with wheat topping its price of the preceding week and reaching a new five-year high. (See Chart 3, lower section.) Millers pointed out that the advance in cash wheat prices since October 3 (when the original flour ceilings were imposed) has practically discounted the 10 percent increase in flour ceilings, and that if wheat prices rise much more the flour trade will again become deadlocked. They say that prices must be high enough to induce farmers to sell "free" supplies or to bring wheat out of loan.

Wheat prices now range from 5 to 20 cents a bushel over Government loan rates (not including carrying charges) in most winter wheat markets, hence wheat not under loan and wheat that can be redeemed from the loan may be sold in increasing quantities. The Department of Agriculture stated on December 30 that the supply of "free" wheat totals more than 500 million bushels, "enough to meet all flour milling requirements during the remainder of the 1942-43 marketing year." Wheat under Government loan as of December 12, amounted to 419 million bushels.

Millers aided by price support for mill feeds

Support of mill-feed prices slightly below OPA ceilings, announced last week by the Commodity Credit Corporation, will enable millers, it was stated, to pay prices for wheat equal to the 1942 loan level, plus carrying charges. On the other hand, any such benefit to millers would be at the expense of an increase in feed costs for dairymen and for livestock and poultry raisers.

Bakers and millers, however, have been quick to protest the OPA and Department of Agriculture orders as "badly handled, confusing, and as not meeting their needs". The American Bakers' Association said that the retail price ceilings for bakery products, based on March 1942 selling prices, must be raised or bakers will continue to go out of business. Many of the savings recommended by the Department of Agriculture, it was said, had already been made effective. A press report states, however, that since bakers' flour requirements are covered until spring, the effect of the order is difficult to appraise at present.

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Uncontrolled prices generally higher

Among products not subject to controls, prices for steers again rose to levels corresponding to the beef ceilings. (Refer to Chart 3.) Cotton prices averaged 20 cents, the highest since May. Rosin prices were firm, as the Department of Agriculture announced the 1943 loan and purchase program of the CCC for naval stores. Prices for hogs receded somewhat from their previous high levels, as receipts became more liberal following rather small supplies in the preceding fortnight.

Butter prices rose one-fourth of a cent last week to the new Government support price of 46 cents a pound. It is likely that when new retail ceilings are announced, the retail price will increase at least as much. Actually, since shortages began, civilian consumers in many cities throughout the country have been paying a cent a pound more, owing to their inability to purchase more than one-fourth of a pound at a time.

Cleomargarine production will be sharply increased by the WPE in an effort to alleviate the butter shortage. According to an order, effective January 1, manufacturers previously limited to 110 percent of their average use of fats and oils in 1940 and 1941, are now permitted to use 180 percent.

Additional price increases allowed

Increases in retail milk prices have been authorized to take effect today in the Chicago, Duluth-Superior, and metropolitan New York areas. The rise is allowed in order to replace previous subsidies removed by the Department of Agriculture at the direction of the Stabilization Director, and is to be effective until April 1. Secretary Wickard has been instructed by the Stabilization Director to work out a program to effect such economies in milk distribution in those areas as may be necessary to cancel these price increases by April 1.

Retail ceiling prices on mixed fertilizer and super-phosphate have been raised in specified areas to give manufacturers relief from part of their recent cost increases. The adjustments vary, with the highest allowed in North-eastern States and none permitted on the Pacific Coast.

Price ceilings have been removed from time to time for a number of commodities sold to the Government. A new OPA order, effective January 4, exempts from price ceilings sales of canned pears to the United States or any agency thereof, but warns that if prices to the Government increase to a speculative degree, an appropriate amendment will be made setting maximum prices on Government sales.

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Food stamp subsidy to be abandoned

The Government-subsidized food stamp program will be suspended, effective March 1, the Department of Agriculture has announced. The reason for the suspension, according to Secretary Wickard, is that food shortages have replaced surpluses and employment has replaced unemployment. It was announced at the same time that the program of providing foods for community school lunches and child-day care centers will be continued, and that some food will be made available for direct distribution among the unemployable, aged, and physically-handicapped needy.

Farm commodity prices at 115 percent of parity

Prices received by farmers for farm products advanced sharply at the end of the year, and as of mid-December the combined index was 5.3 percent above the level of a month before. (See Chart 4.) All groups on a seasonally-adjusted basis participated in the rise. The index of farm product prices in December was 26 percent higher than a year earlier. The biggest advance during the year in any group was in truck crop prices, which rose 81 percent. These prices which are largely uncontrolled also led the rise during the latest month. Fruit prices, another group largely uncontrolled at both wholesale and retail levels, increased 36 percent in the year.

The index of prices paid by farmers (including interest and taxes) as of December 15 remained unchanged from mid-November. The net result was that farm prices in mid-December averaged 115 percent of parity. The previous high of this war was 110 percent, reached in October. In World War I the peak year was 1917, when farm prices for the year as a whole averaged 117 percent of parity.

Congressional proposals to increase returns to farmers

Members of the farm bloc are giving evidence of a vigorous effort in the new Congress to enact additional legislative measures "to improve the position of the farmer". Establishment of Government-financed marketing cooperatives, together with a system involving processing, grading, and pricing by Government specifications, is being advocated by Representative Fulmer. He said last week that the House Agriculture Committee will hold hearings and formulate a program for operating such cooperatives. Representative Fulmer is quoted as blaming the so-called "middlemen" of the food industry for taking excessive

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toll from the consuming public and letting the farmer shoulder the blame for high food prices.

A result of the publication of the parity price of cotton as of December 15, which was unchanged from November, was an announcement by Senator Thomas of another proposal to re-define the parity formula. This proposal would change the base period from 1909-14 to 1919-29, and would adjust the parity figure in proportion to the movement of the BLS wholesale price index of nearly 900 commodities. Such a formula would doubtless include the cost of all farm labor, inclusion of which has also been announced early this year as a major goal of the farm bloc.

On the other hand, a press report early last week stated that a small group in Congress (names not given) may ask investigation of the Agriculture Department's price support program and its effect on price ceilings. The report states that these members recently have investigated the effect of unlimited farm prices upon price stabilization, and have concluded that, while it may not be wise to establish rigid ceilings on farm product prices, there is no logic in permitting Government purchasing agencies to force such prices up to dangerously high levels.

Mercantile inventory control ordered

The long-awaited order instituting control of store inventories of consumer goods was announced last week by the WPB, with the order covering not only retailers, but also wholesalers and stock-carrying branches of manufacturers. The order excludes food stores and dealers in petroleum products. It is limited to firms whose annual net sales amount to \$200,000, and whose inventory in any quarter reaches \$50,000 or more.

While the order applies to all such merchants in business on November 30 or after, the inventory restrictions do not actually become effective earlier than March 1, 1943, nor later than May 1, 1943, depending on the fiscal year of the company affected. "Normal" inventory envisaged by the order is to be determined on the basis of each store's sales, in comparison with inventory ratios prevailing in the base years 1939 to 1941.

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Department store stocks declined in November

Inasmuch as inventory control has been expected for some months, and retailers have apparently been afforded ample opportunity to voice objections on contested points, the actual announcement of the control order appears to have evoked a generally favorable response in retail trade circles.

Considerable progress in cutting down store inventories has been made in recent months, due partly to impending control. Thus the FRS seasonally-adjusted index of department store stocks, after reaching a peak of 140 last July, has since declined steadily and at the end of November was down to 105. (See Chart 5.) This was only 11 percent above year-earlier levels, as compared with 71 percent last July. The heavy volume of sales in recent months has also contributed strongly to the decline in stocks. During November, department store sales rose more than seasonally, and on an adjusted basis equalled the previous record high reached last January. (Refer to Chart 5.)

Department store sales continued to make a very strong showing in December, with sales in the week ended December 19 attaining the highest level on record. Sales during the week ended December 26 naturally slumped due to the holiday, but the margin over year-earlier levels actually widened to 15 percent from 10 percent in the previous week. Comparison with the corresponding week last year, however, was distorted by the fact that the 1941 week had only 3 pre-Christmas shopping days, as compared with 4 in the 1942 week.

Rural retail sales lag behind income rise

After reaching the customary peak for the year in October, cash farm income (including Government payments) declined in November, but the gain over 1941 levels actually widened to 43 percent from 36 percent in the previous month. (See Chart 6, upper section.)

In contrast to the striking year-to-year gains which have been consistently shown in farm income during 1942, rural sales of general merchandise have been showing much narrower gains since last March, and in the month of August actually fell below 1941 levels. (See Chart 6, lower section.) Rural sales in November rose moderately to a new high for the year but the gain over November 1941 was only 4 percent. The relatively poor sales showing is due largely to a depletion in supplies of many items bought by farmers.

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Sales of Sears, Roebuck and Company, the leading factor in the mail order field, actually fell 4 percent below year-earlier levels in November, although Montgomery Ward and Company showed a comparable gain of 8 percent. Sales of the former company, particularly, have been cut this year by the production restrictions on tires, stoves, refrigerators and other electrical and household appliances. As a result of this situation, Sears, Roebuck and Company announced last week that it was closing 4 of its smaller stores in Ohio and Michigan, leaving 609 retail stores in operation.

Arms production gained sharply in November

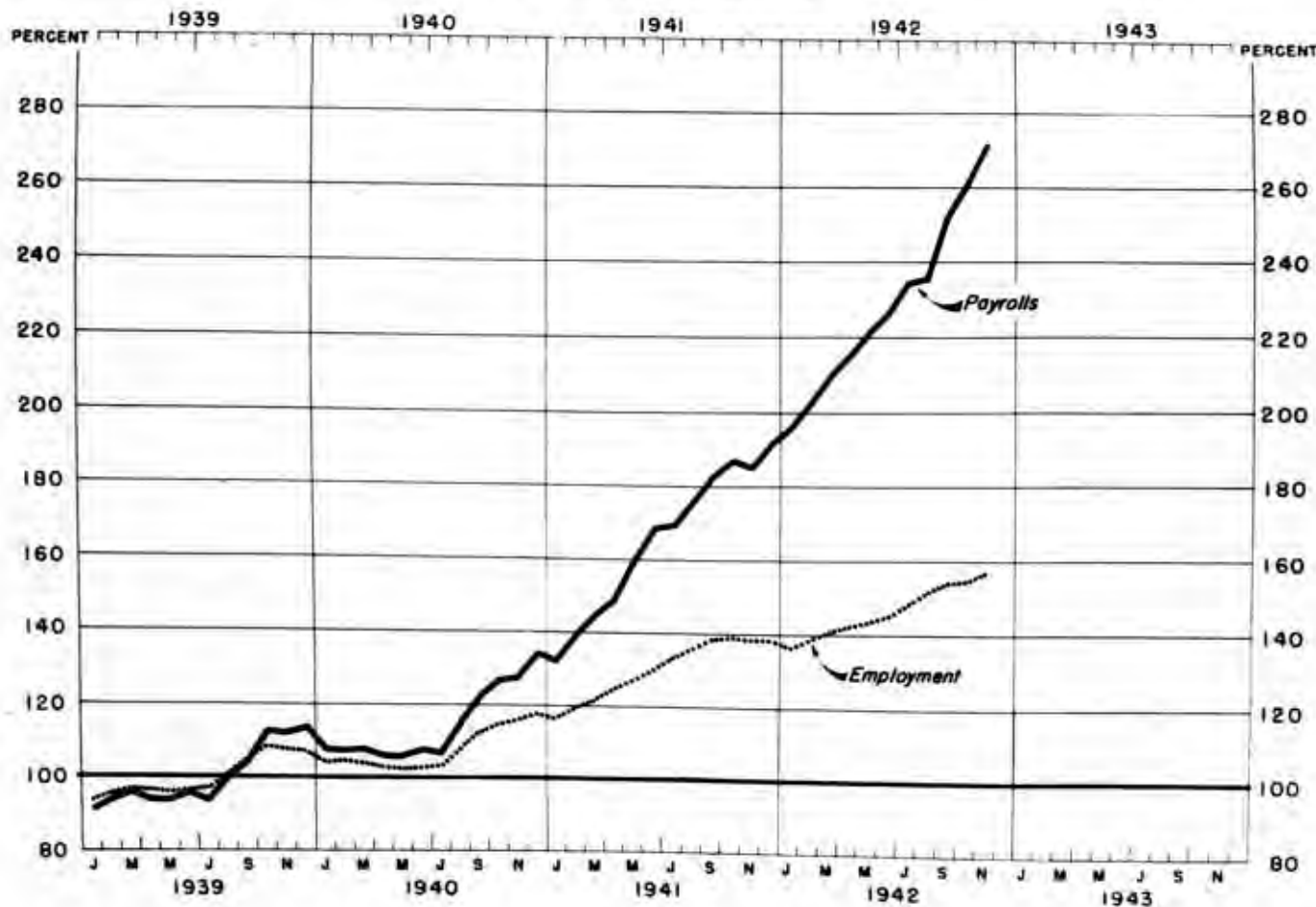
Although aggregate industrial output (unadjusted) declined slightly in November for the first time since our entry into the war, arms production scored the largest absolute gain since the armament program got under way. As a result, the WPB index of munitions production (November 1941 = 100) soared to 431 in November from 385 in the previous month.

Airplanes accepted by the Army and Navy increased 18 percent over the previous month, and the WPB expects that airplane deliveries from now on will increase considerably from month to month, as new plants come into operation and progress is made in scheduling production. Ordnance production, including guns, ammunition and tanks, increased 13 percent in November, while ship construction calculated on value of work completed rose 9 percent. The number of merchant vessels built, however, was unchanged from the previous month at 80, while the dead-weight tonnage was slightly lower.

In commenting on the production outlook, Mr. Nelson of the WPB stated that munitions output in 1943 was expected to be about double that of the last 12 months, and that total war expenditures during the year should exceed \$90 billions, as compared with more than \$52 billions in 1942.

FACTORY EMPLOYMENT AND PAYROLLS

1939=100, Unadjusted



Office of the Secretary of the Treasury
Division of Research and Statistics

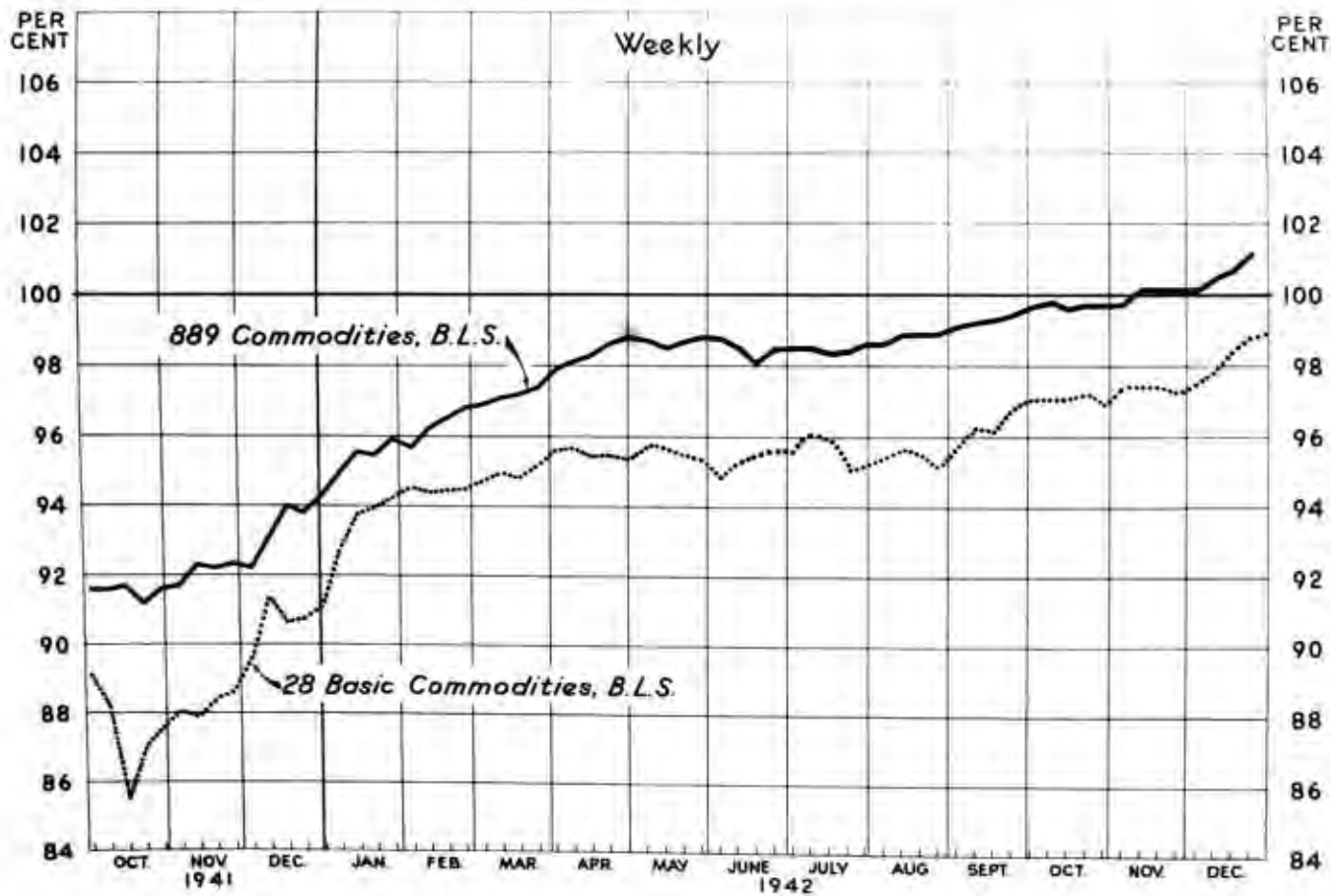
Chart 154

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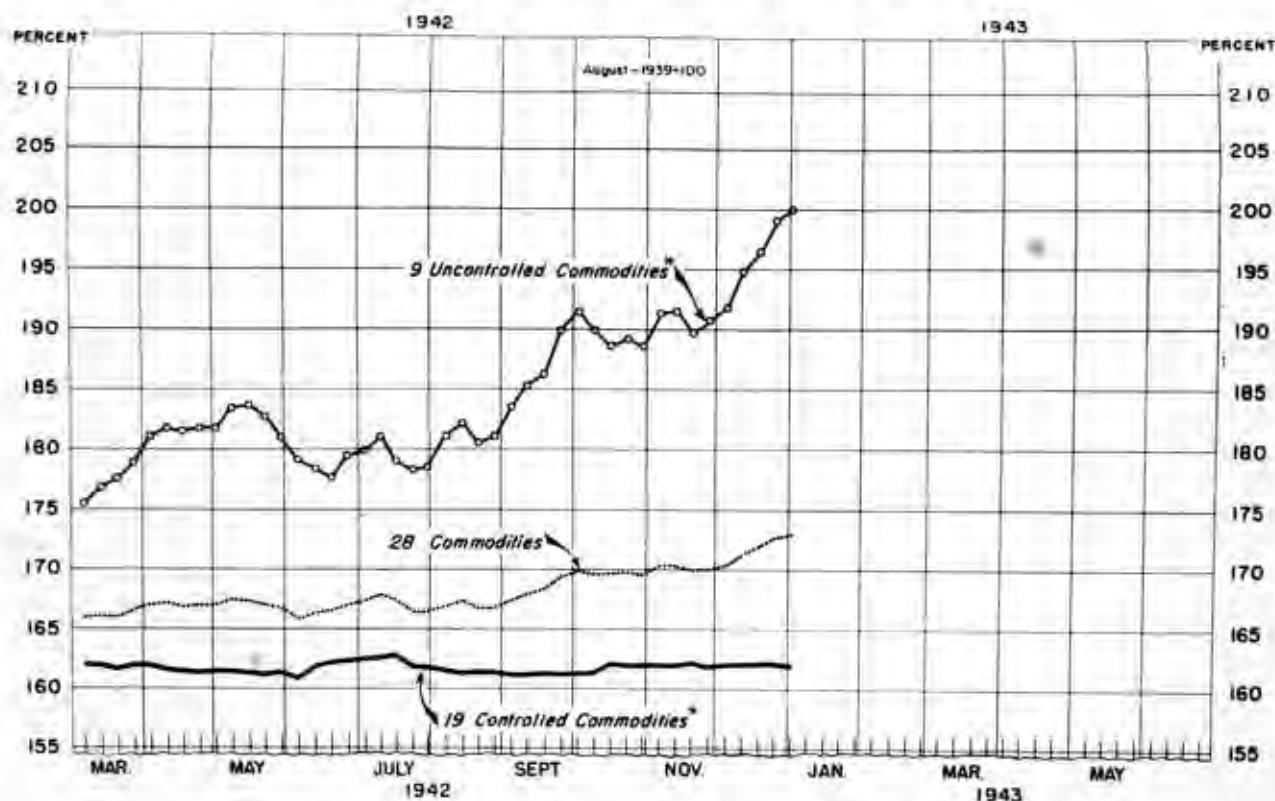
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COMMODITY PRICES

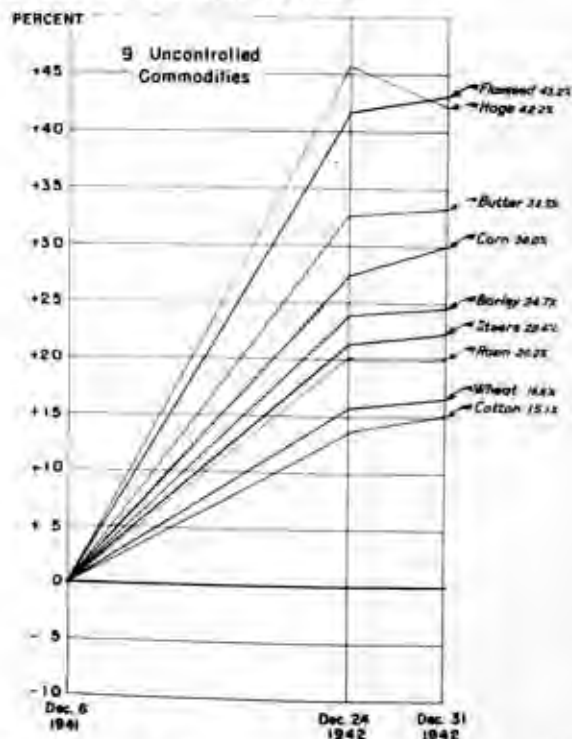
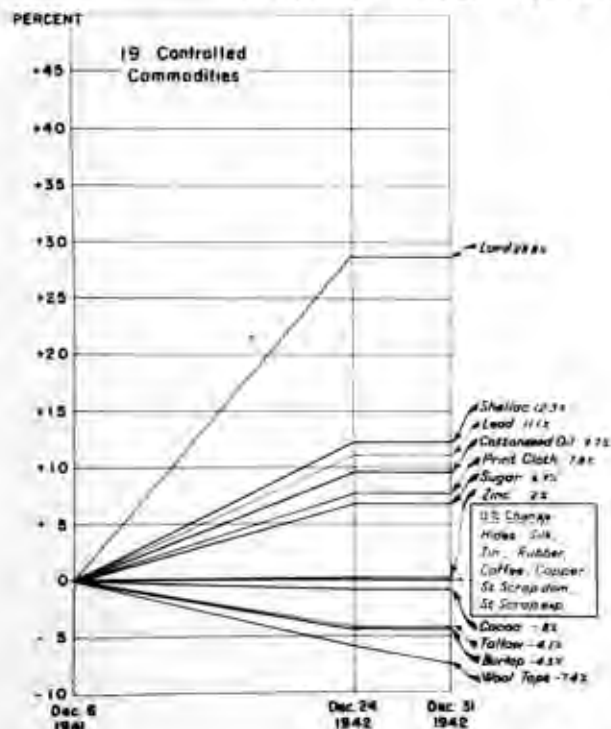
1926=100



MOVEMENT OF BASIC COMMODITY PRICES



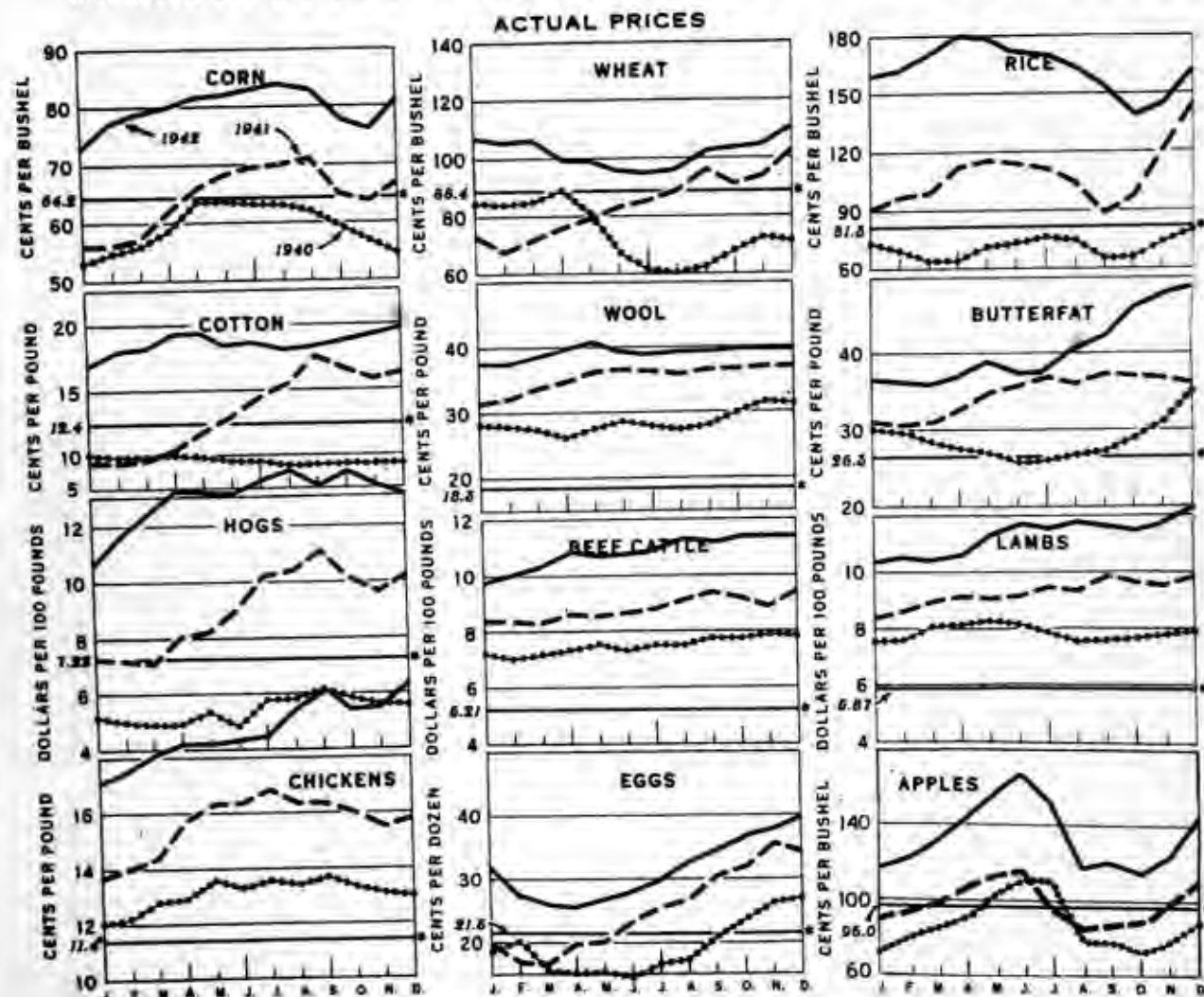
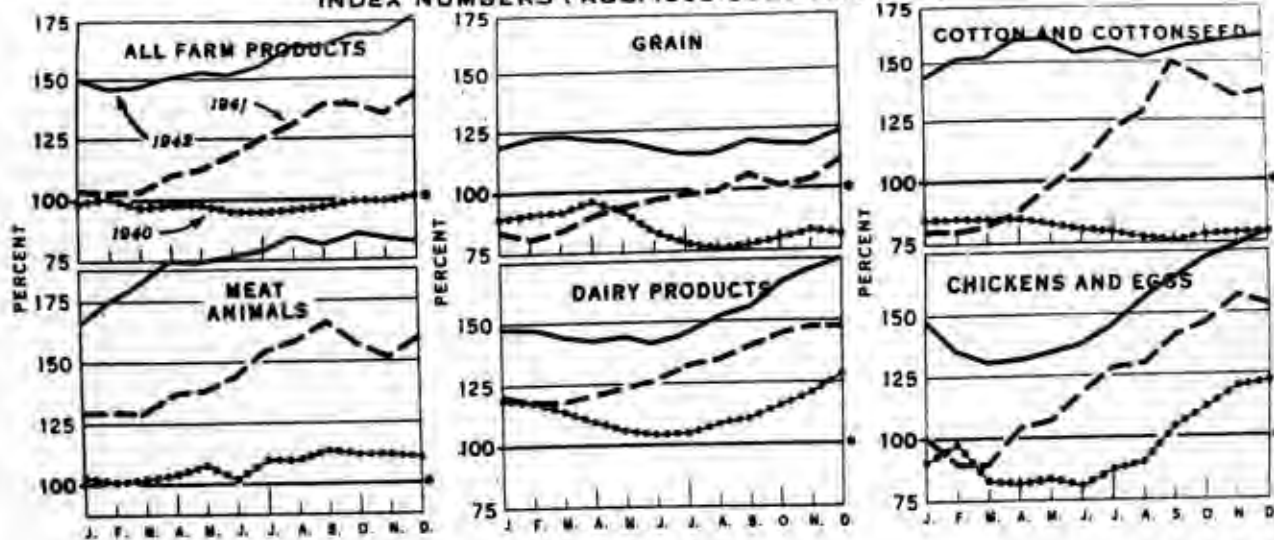
PERCENTAGE CHANGE DEC. 6, 1941 TO DEC. 24 AND DEC. 31, 1942



*20 Controlled and 8 Uncontrolled previous to June 26

AVERAGE PRICES RECEIVED BY FARMERS: GRAPHIC SUMMARY FOR THE UNITED STATES

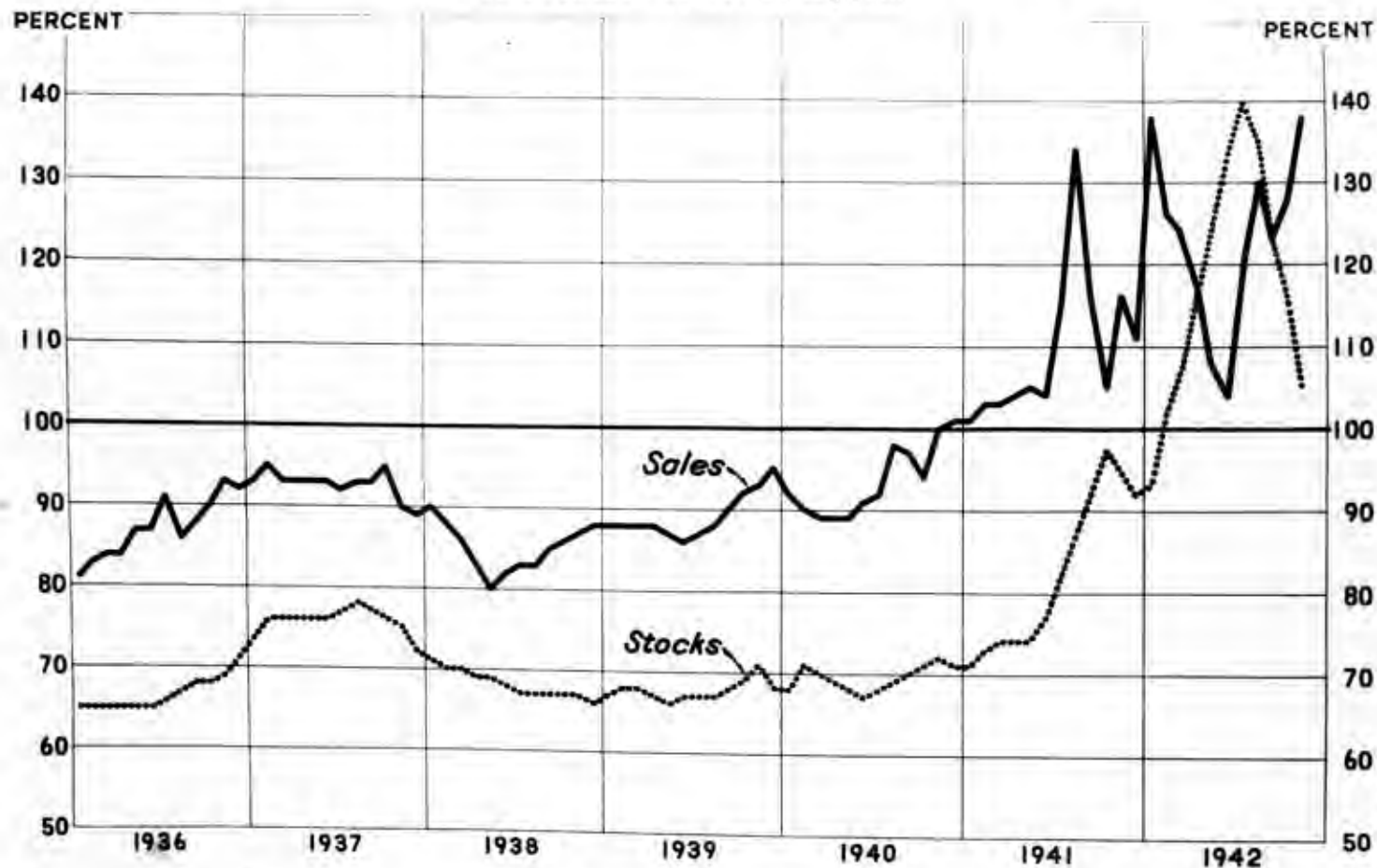
INDEX NUMBERS (AUG. 1909-JULY 1914=100)



* 4-YEAR AVERAGE, AUGUST 1909-JULY 1914

DEPARTMENT STORE SALES AND STOCKS

Dollar Values. 1923-25 = 100, Adjusted



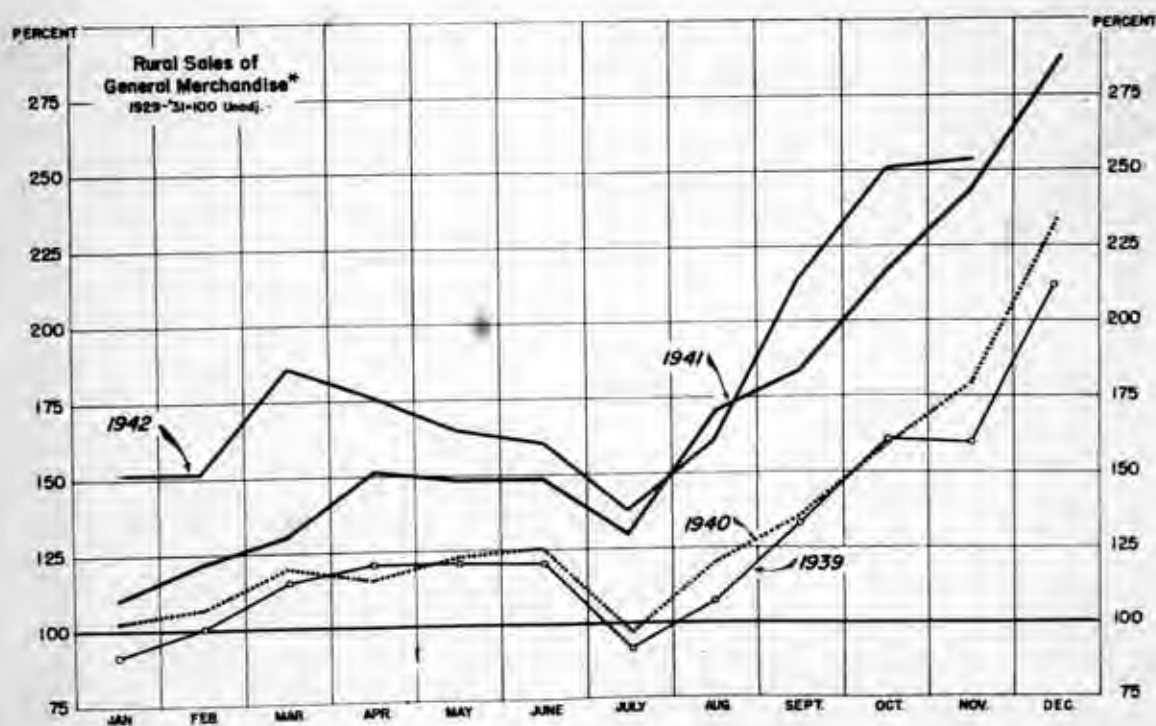
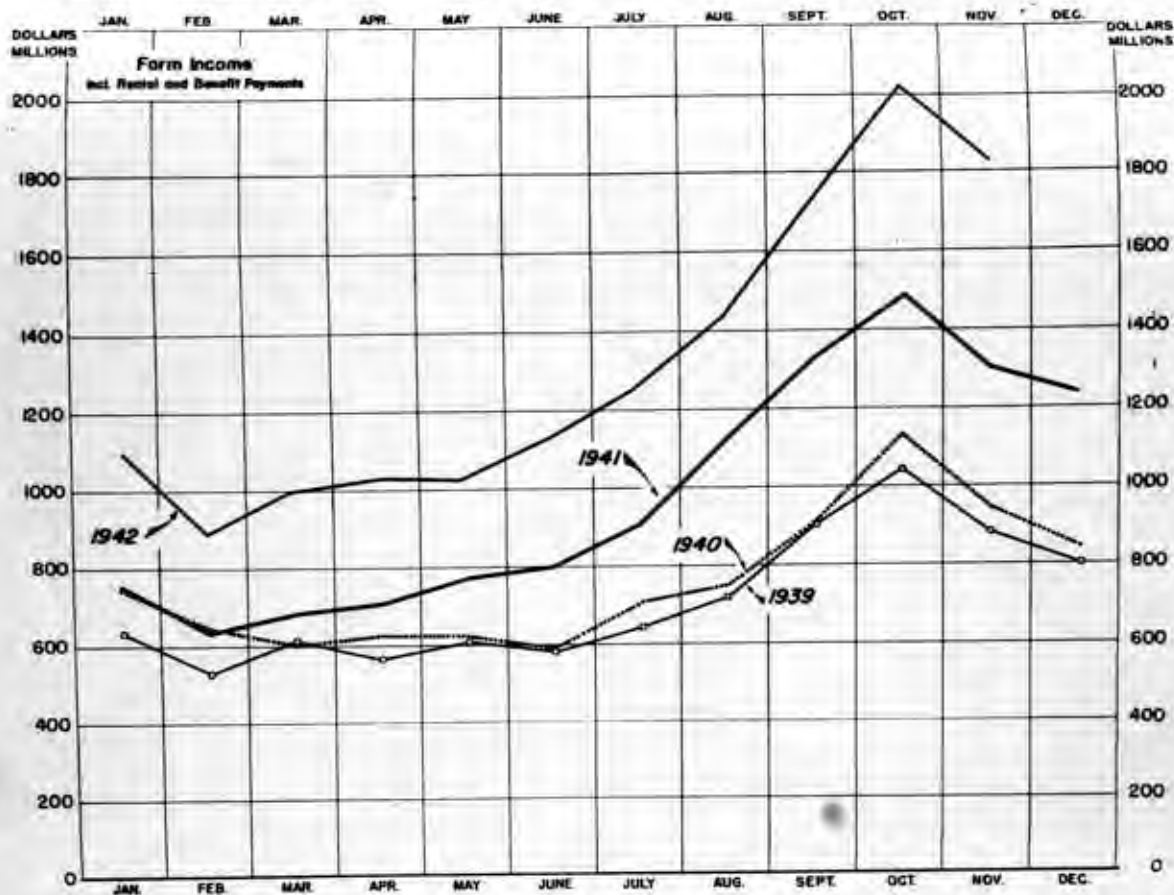
Source: Federal Reserve Board

Chart 5
158

Regraded Unclassified

C-430

FARM INCOME AND RURAL SALES OF GENERAL MERCHANDISE



*Dept. of Commerce index of dollar sales of general merchandise in small towns and rural areas

1 the Desk of
ROBERT M. HANES

1-4-4
160

I thought you might be
interested in seeing this.

Recht.

WE PUBLISHED
THIS ADVERTISEMENT
A YEAR AGO

Now it
calls for
these changes:

Now 77

Hundreds

Your Loans made—
over \$75,000,000

does

Wachovia now holds
nearly \$80,000,000 U. S.
Bonds—almost double the
amount held a year ago.

\$12,000,000

We stand by these princi-
ples as strongly as ever!

ONE BANK'S WORK IN WARTIME

In times like these, it is natural to find the Wachovia's energies dedicated to the service of the nation. These are some of the ways in which it is making its efforts increasingly felt:

1. ~~Twenty~~ members of the Wachovia staff are already serving in the nation's armed forces; others soon will follow.

2. ~~Scores~~ of Wachovia individuals are, ~~or~~ will be, engaged in civilian defense, the Red Cross and other community war efforts.

3. The Wachovia ~~will~~ do its utmost to finance all types of war production.

4. The Wachovia is helping to finance the war by continuing its purchases of Government bonds, and fostering the sale of Defense Bonds and Stamps among its customers—who have already bought more than \$3,000,000 worth.

5. The Wachovia stands ready, also, to aid

individuals and businesses in meeting the increased tax load. Wachovia offers savings and checking accounts for accumulation of tax funds; sells the Treasury's tax anticipation certificates for the same purpose; and makes direct loans to meet tax payments when they fall due.

6. The work of banks is even more vital in war than in peace. The financial and industrial structure must remain sound and vigorous, to support the war effort. The Wachovia will continue to serve business and banks throughout its area to its utmost ability. It seeks every opportunity to make sound, useful loans, and does not expect to change its credit policies, or restrict its services in any way by reason of the war situation.

Whatever *your* part in the war may be, Wachovia's experience and facilities are here to help you do it better, faster, and with a greater sense of accomplishment.



WACHOVIA
BANK AND TRUST COMPANY



WAR!

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION • MEMBER FEDERAL RESERVE SYSTEM

The Wachovia advertisement above, which is appearing in current newspapers, may be of interest to you.

Jan. 4, 1943

To: Dr. T. V. Soong,
Minister for Foreign Affairs
for the Republic of China,
Chungking, China.

From: Secretary of the Treasury.

Thank you for your seasons greetings. May
1943 bring good fortune and great victories to our
common cause.

ISV/eds
12/31/42

12/31 - to Miss Channing



OFFICE OF
MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

1601 V STREET, N. W.
WASHINGTON, D. C.

December 24, 1942

Dear Mr. Secretary:

We have received a cable from Dr. Soong
in Chungking asking that we convey the following
message to you:

"Season's Greetings Warm Regards"

Sincerely yours,

Lancey Castle
Secretary to
DR. T. V. SOONG

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury

January 4, 1945

Dear Mrs. Castle:

The Secretary has asked me to thank you for transmitting the message from Dr. Soong. He much appreciated your letter of December 24, passing on this word of greeting. He has sent the following message to Dr. Soong through the United States Embassy in China:

"Thank you for your season's greetings. May 1943 bring good fortune and great victories to our common cause."

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mrs. Rancey Castle,
Office of Minister of
Foreign Affairs,
Republic of China,
1601 V Street, N. W.,
Washington, D. C.
GHS:faf

JAN 4 - 1943

My dear Mr. Secretary:

This is to acknowledge your letter of December 23, 1942, informing us that Mr. Eugene A. Marquais has been designated by the French High Commissioner as the representative in the United States of the French West Indies and French Guiana in financial and economic matters.

The Treasury will deal with Mr. Marquais in this capacity on financial and economic matters concerning the French West Indies and French Guiana.

Sincerely yours,

Dw Bell
acting Secretary of the Treasury

The Honorable

The Secretary of State.

Orig. file direct to White
Photo file in Diary
Sent by Sturgis 4:55 1/4/43

EMB/jm
12/28/42



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Bu 012.3/9281

December 23, 1942

My dear Mr. Secretary:

The American Consul General at Fort-de-France, Martinique reports that the French High Commissioner at that place has designated Mr. Eugene A. Marquais as the representative in the United States of the French West Indies and French Guiana in financial and economic matters.

A letter has been addressed to Mr. Marquais informing him that this Department is prepared to deal with him in the above mentioned capacity.

Sincerely yours,

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.



NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
J.C. SECRETOPTAL No. 4Information received up to 7 A.M., 4th January, 1942.1. NAVAL

78 ratings and an unknown number of officers were rescued from H.M. Destroyer which was reported sunk in OPTAL No. 3. One of H.M. Submarines on patrol in ALGERIA sank a 5,000 ton northbound ship on the 14th, a 150 ton colique on 22nd, and shelled shipping in POUK KUMI (east coast of GREECE) on 23rd. Another of H.M. Submarines has sunk a small motor boat and a schooner off east coast of TUNISIA. As a result of air raids on BONE on 1st and 2nd, 2 tankers are a total loss and about 22,000 tons of shipping damaged.

2. MILITARY

BURMA. On the Arakan Coast our troops have now reached a line some 20 miles north of AKYAB Island after slight opposition.

3. AIR OPERATIONS

WESTERN FRONT. 3rd. 72 United States Fortresses and 13 Liberators were sent out - 53 attacked ST. NAZAIRE which was partially obscured by smoke screen. Subsequent photographs reveal much damage to rolling stock and building in sidings at the docks. 7 Fortresses missing, provisional enemy casualties by bombers - 38, 10, 4. 19 Squadrons of Fighters carried out supporting operations without incident. Mosquitos successfully attacked railway objectives at AMIENS and between ST. QUENTIN and LAON. 10 enemy aircraft operated over coastal districts of southern ENGLAND. 13 persons were killed at SHANKLIN. 3rd/4th. 82 aircraft sent out - ESSEN 22 (3 missing), sea mining 45, Intruders 12, leaflets 3. Visibility at ESSEN good, 6 large fires started. 2 enemy aircraft operated over HULL, 1 crashed from unknown cause.

FRENCH NORTH AFRICA. 2nd. Fortresses bombed LA GOULETTE, a ship was probably sunk and an oil fire started. In engagements with 45 enemy fighters, 2 Fortresses were shot down, enemy casualties reported 17, 10, 15. United States fighters in addition claimed 6, 2, 7 during sweeps in the forward area. Spitfires and Hurricanes accounted for 9, 5, 1 enemy for the loss of 5 aircraft. Most of these casualties occurred during two attacks on BONE Harbour by a total of 76 aircraft on the 2nd.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

January 5, 1942.

MEMORANDUM FOR THE FILES:

Under date of December 23 we handed to the Bureau of the Budget a draft of a section covering taxation for inclusion in the President's Budget Message. This was a copy of the draft sent to the President with the Secretary's letter of that date.

Although we had known that the Budget Bureau had had a complete draft of the message for some time, we heard nothing from it until Friday morning (January 1) when Weldon Jones said that the first section of the Budget message had been completed and that the Director had asked him to bring it over as soon as possible and discuss it with Paul, Blough and me. He came at 3:30 Friday afternoon. The three of us went over this section rather hurriedly and after we had finished we said that we did not feel that the Treasury was so much interested in that section; it was rather well written - there were one or two spots that might be ironed out, but generally speaking it was a good document although much of the material might be more properly included in the State of the Union message. No copy of this section was left with the Treasury.

Mr. Jones said that he hoped to have the second section dealing with fiscal policies available sometime over the weekend and he would give me a ring just as soon as it had been completed. It was hard to believe that this piecemeal presentation of the Message to the Treasury and their insistence upon discussing it in conference with Budget people without leaving it for study was not a deliberate attempt to keep the Treasury from going over the Message too carefully and judging the effects of the whole Message.

The following day (Saturday, January 2) Mr. Jones again called me about noon saying he was prepared to



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come over and discuss the second section. He came at 3:30 accompanied by Wayne Coy, Assistant Director, and Mr. Gerhard Colm. Paul, Blough and I read this document over. When we had finished Mr. Blough discussed at some length with Gerhard Colm the forms of taxes proposed by this draft. He criticized some of them and Mr. Colm stated that he had discussed these proposals with a great many people in town and he thought that, generally speaking, the economists in every place except the Treasury were in general agreement on them. Mr. Paul asked him how Dick Gilbert felt about the deterrent tax on consumption and he said Gilbert was in favor of it. He also said that Leon Henderson was in favor of it and, generally speaking, he thought that Cohen was in line. Mr. Paul said he did not believe that that expressed Mr. Henderson's or Mr. Gilbert's opinion because he had talked with them very recently about the matter. Paul also said that this draft, with the exception of some minor changes, was virtually the same as he had seen the previous Saturday at his home.

I asked the Budget representatives if the President had gone over the draft and if so did it represent his policies. They said that Mr. Smith was then at the White House going over the Budget Message with the President. I said that I did not believe that we ought to be required to go over a document of this importance in a group of this size but that we should be permitted to have time to study every aspect of it and then discuss such changes as we might want to suggest. I asked Mr. Coy just how much time we had. He said it had to go to the printer in final form on Monday evening and they hoped to have a final draft that could be submitted to the President Monday morning, which meant that we had to discuss it with the Bureau of the Budget not later than Sunday evening (January 4). I told him that I should like to know as soon as possible just what reaction the President had to this section and if it represented his policies, we were rather limited in our suggested changes. I told him we would work on the document and be prepared to discuss it with them late Sunday afternoon.

That evening at 6:15 when Mr. Smith returned from the White House he called me on the telephone and said that he had just come from the President who had been

over the draft in great detail. He had made some changes but he had not altered the basic policies set out in this draft. Mr. Smith said that we were precluded from making any changes in the policies set out in this draft and that on that point, so far as we were concerned, he thought the door was closed.

I said to him that the whole procedure just did not make sense. Here is the Secretary of the Treasury, the chief fiscal officer of the Government, who has to defend all of the President's fiscal policies before the Congress and after they are adopted by the Congress he has to administer and execute them and yet when the President makes the decisions on those policies the Secretary isn't even present to present his views. Mr. Smith didn't like this approach and stated that he was also a little disgusted with many procedures around Washington where he was pulled and hauled and stabbed from the back and that he probably could get a little mad too if he wanted to do so. I told him I didn't want to quarrel with him, but I didn't see how the Secretary could perform his function without letting the President know his views on the matter. Anyway I said if the decision has been made by the President we would do our best with the draft, but I felt that I had to take the matter up with the Secretary. He said something like this, "Well, I don't know whether you know it or not, but while I was with the President, Ross McIntire came in and told the President that the Secretary was not feeling very well and that he had been taken to the hospital for a few days' rest," and that the President told Smith to tell me not to bother the Secretary of the Treasury about this Budget Message as he was to get complete rest.

I then called Mrs. Morgenthau and told her the story and told her I thought the Secretary ought to know about it, either that night or the next morning if he was able to hear it; I appreciated that it was a terrible subject to bring up at this time, but I was sure that the Secretary would feel badly about it if he read it in the paper on Friday when the Budget Message was supposed to have been sent to Congress, without having had it discussed with him beforehand, and told her I would let her think it over for the evening and we could talk about it the next morning.

In thinking about it over Saturday night I came to the conclusion that in view of the fact we could not make any changes in policy items, there was no sense in the Treasury undertaking to correct the draft which the Budget Bureau had sent to us; the language seemed to be fairly good and I did not think it was worth our time, and that we should do no more than send to the Bureau of the Budget a memorandum criticizing the policy decisions, and Mr. Smith could do with it as he pleased. About nine o'clock Saturday night I called Paul and also Gaston, who hadn't been in on the discussion up to this time, but I brought him up to date; and asked them to meet me at the Treasury at eleven-thirty on Sunday, January 3. I told them the way I felt about submitting the memorandum and they both agreed. I asked them to think over the question of whether we should call Ben Cohen, Leon Henderson, Dick Gilbert and Lauch Currie and ask them to come to the Treasury on Sunday to discuss this section of the Budget Message. I said I was not quite sure that we should do it in view of the charges that were directed at us last year, but when we were in a situation such as this we might have to use tactics that we don't like. Later we decided not to call them.

At 8:45 on Sunday morning the Secretary called me and said that Mrs. Morgenthau had told him the story and he wanted to see me just as soon as I could come out. I went out at 9:45. The Secretary was asleep when I arrived and I waited until 10:30 to see him. At that time I related the story of the trend of events and told him that I had made up my mind, if he would approve, to tell the Bureau of the Budget that we did not care to make any suggested changes in the last draft that had been given us the day before, but we would submit a memorandum containing our criticisms of the policy matters in that draft.

The Secretary said he thought this was the right thing to do but he had another suggestion also and that he wanted to send a letter to the President setting forth what he had been doing with George and Doughton with the President's approval and that it was now quite embarrassing to him to find that the Budget Message was going to contain specific proposals on taxes when it had been agreed with George and Doughton that it would not contain them.

Upon returning to the Treasury with Gaston and Paul, whom I had picked up enroute, I dictated a draft of a letter to the President from the notes which I had taken down when conferring with the Secretary. I also called Harold Smith on the phone and told him of the decision not to make the suggested changes in language in his draft, but to submit a memorandum of our criticisms of the policy decisions which apparently had already been made by the President.

Smith said that he was worried all evening Saturday and didn't get any sleep because he had been quite sarcastic on the telephone when he was talking to me about the message. I told him he needn't apologize, that I didn't think he had been sarcastic; as a matter of fact, I told him, I had been more emphatic than he. He said anyway he didn't feel very good about it and if we were going to be here for some time he would like to come over and discuss some of these matters. I said we would be here until five and possibly six and we would be glad to talk with him; in the meantime we would work on the memorandum and hoped to have it ready by the time he could get here.

We were also working on the draft of the letter to the President, which we finished about 3:45, at which time I took it to the Secretary for his signature. We took it in alternate form; one draft contained everything up to and including the second paragraph on page 3 and the last paragraph on page 4. The other draft is the letter which was signed by the Secretary. That letter left the Treasury with a copy of the memorandum of criticism about 5:45 Sunday (January 3) to be delivered to the President by a Secret Service man. I had my secretary call Miss Tully (I didn't want to phone her as Smith had come in just before the letter left) and tell her it was on the way and would she please tell the President that Gaston, Paul and I, who have fairly complete knowledge of the Secretary's views on the matter, were here in the office and would be here all day Monday if he cared to discuss any of the points with us.

Not more than thirty minutes later I was called out of the room to answer the telephone. Miss Tully was calling and said she had a message from the President

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which was that he had read the letter and he wanted me to tell the Secretary not to worry about the Budget Message, that it was not in final form by any means; that he had already changed it in many respects and expected to make many more changes tomorrow (Monday) and he wanted to see Mr. Bell at eleven o'clock on Monday. At that time it was not clear whether he wanted to see me alone, but the message came back the next morning changing the hour to eleven-thirty and giving the definite information that I was to come alone.

There was quite a discussion of the Budget Message with Mr. Smith. Mr. Gaston, I believe, started the discussion by saying that it seemed to him that the Secretary of the Treasury, who was responsible for carrying out fiscal policies, should be in on the decisions when they are made and he didn't see how such decisions could be made without him being present. Smith said that he had tried to get some semblance of agreement out of everybody around town on this fiscal program; it was almost physically impossible to get a complete agreement but he had been led to believe that in the discussions his representatives had had with everybody in Washington concerned with the subject, there was rather complete agreement. He realized that there might be differences, but he thought there was substantial agreement on all of these. He said he probably had made the mistake of assuming that agreement at staff levels was agreement at top levels. He discussed the difficulty he had had with all of his problems in confused Washington and left about seven o'clock with the original of our memorandum of criticism.

The following day at 11:30 (Monday, January 4) I saw the President as scheduled. I was with him for over an hour and a quarter. He started the conversation by saying that he was quite worried when he got the Secretary's letter Sunday evening for fear that he had become excited over the Budget Message. He said he did not know how anybody got the idea that the Budget Message was final. He had gone over it for the first time on Saturday afternoon with Harold Smith and fully intended calling the Secretary Saturday evening so that he could go over it Sunday or Monday, but while he was going over the Message with Director Smith, Admiral McIntire came

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into the room and advised him of the Secretary's illness and that he had taken him to the hospital for a few days' rest and treatment. The President said when he heard this he fully intended calling me in before he considered the Budget Message final. He said that he had sent for a copy of the Budget Message before I came into the room and he wanted to go over it with me. He rang for Miss Tully and asked where it was and she said she had been trying to get it for the last half hour but the Budget said there were still two or three changes to be made. The President said he had been trying to get it for some time and he was tired of asking for it and he was now giving them three minutes to get it over there. Within a few minutes the Budget Message was delivered in printed form.

I asked the President, in view of the statements he had just made about the finality of the Budget Message, if I could give him our side of the story. He said I could, so I told him what had happened and of the word we had received from Director Smith at 6:15 p.m. Saturday about the policy decisions having been made by the President and that the door was closed so far as the Treasury's making any changes in those decisions.

He said he never had any such intention and one of the troubles all along here has been that Smith has led the President to believe that these suggestions in the Budget Message were approved by the Treasury. When he received the Budget Message from Miss Tully it had a little note on it from some one in the Budget Bureau. I did not see it but the President said, "See, here again they say that these changes now have had the approval of the Treasury."

I told him that I thought maybe that came out of the fact that Mr. Blough had spent Sunday evening in the Bureau of the Budget helping them on the language, but he made it very clear that in helping in this way it could not be considered as an approval of the policy matters by the Treasury.

The President then said that he had an idea on taxes which he wanted the Treasury to study. I told him that we would be glad to. His idea was something like the procedure

he found in France in 1918. He said furnish every person a book of coupons for \$500 for food, clothing, et cetera. Anyway, he said that he would give an example of what he had in mind as to the type of tax he wanted the Treasury to study. He said if he went down town here and wanted to buy a small piece of jewelry for his wife costing, say, \$5, he would be required to pay fifty cents tax. If he wanted to buy a \$25 piece he would be required to pay 25 per cent tax, and if he wanted to buy a fur piece, say for \$50, he should be required to pay a 50 per cent tax. He said he did not want necessarily to stick to those percentages, but that was the idea he had in mind.

I told him that we had a conference in the Treasury about two weeks ago with many Government officials in Washington who were interested in the tax problem, and a somewhat similar proposal came up for discussion at that conference. As I recall, it was suggested by Ben Cohen. I told him I thought that as I remembered it, the proposal contemplated delivery of a book to each person or family containing a certain amount, say \$500 or \$1,000, worth of coupons free, the second book he would get by paying a certain tax, and the third book would be a higher tax, and so on.

He said that was the same idea he had and he wanted it studied.

The President started reading the Message and scratching up the first section, with which the Treasury is not very much concerned. He asked me what I thought about the Message. I told him we were not concerned with sections 1 and 3 but as long as he had asked me my views on it, I thought the only comment I could make was that a great deal of the information in sections 2 and 3 could more properly go in the State of the Union Message, and it sounded, in reading the whole document, as if there was an attempt being made to make the "book of the month club".

He said he was inclined to agree with me on both points, but as to the State of the Union Message, it was now longer than it should be and the information here just "slopped" over into the Budget Message.

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Lunch time was approaching and he did not get very far in revising the Budget Message. He rang for Miss Tully and told her to advise Director Smith that he would see him at three o'clock with Mr. Bell to revise the Budget Message.

He said after he had sent this Message to Congress he intended to see George and Doughton, and if the Secretary was not available, Paul and I should be there.

I went to the White House again at three o'clock after having talked with Gaston and Blough (Paul was attending a conference out of the building) and gotten some views on the tax matters set out in the draft Budget Message. There were present at that conference besides the President, Justice Byrnes, Director Smith, Assistant Director Coy, and myself. We went over the draft which the President had corrected in our morning conference. When he came to that part of the Message which referred to the \$16 billion additional funds split between taxes and enforced savings, he stopped and said something like this:

"Now, Harold, we might just as well come to grips with this problem. The Secretary of the Treasury, as you well know, is the chief financing officer of the Government who has to go up on the Hill and defend these fiscal programs. He also has to collect the taxes so that he has to be consulted when we put any tax and borrowing proposals into the Budget. He has," he said, "with my approval consulted with Senator George and Congressman Doughton on the matter of procedure for tax legislation in the next Congress and they have agreed that the Budget Message should contain no specific proposals on taxes, that an attempt should be made to work out a tax program between the Executive Branch of the Government and the leaders on the Hill before any program is submitted to the Congress. I have approved this arrangement."

He said further, "I have never put into my Budget Message any specific proposals on taxes and I have never put any amount in the Budget Message." He was corrected on this last statement by referring to the amount of \$7

- 10 -

billion included in last year's Budget. But he said he did not want to put anything on taxes in the Budget document. He wanted the committees in Congress to make the recommendations this year. He said he was having a conference the next day with George and Doughton on procedure. I was not asked to be present.

He then proceeded to strike out all of the recommendations that the Budget had included on tax proposals. He did leave in the statement that:

"We should strive to collect not less than 16 billion dollars of additional funds"

but added "by various methods" instead of "through taxation and enforced savings." He also changed the paragraph which followed (page XVI of the draft) which concerns percentages of taxes to total expenditures. The last sentence concerning the 50 per cent does not make much sense to us in the Treasury. I called attention to this but the President let it stand.

He also left in the deterrent tax on consumption, but changed it around at the suggestion of Justice Byrnes so that it could be interpreted to mean sales tax, spending tax, or the coupon tax which the President has asked the Treasury to study. He also eliminated practically all of Section 3, which is what we have referred to here in the Treasury as "our future world", and he added a paragraph at the end saying that he would be happy to meet with the appropriate committees of Congress at any and all times with regard to the methods by which they propose to attain the objectives outlined in the Message.

The changes were made so fast by the President that no one could follow them and I felt rather confused when I left the conference as to just what was in and what was out. Mr. Smith and Mr. Coy felt the same way only they felt that great violence had been done to their Budget Message.

The next morning (Tuesday, January 5), Mr. Coy called Mr. Paul at about 10:30 and said they had a

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revised draft back from the printer with the changes made by the President and he would send over a copy right away so that we could start working on it and if we wanted a conference later in the day he would be glad to come over. I called him later and made an appointment for a conference in the afternoon at 4:30. Gaston, Paul, Blough and I went over the revised Message. We saw that we really got more than we asked for because it had left out the collection at the source, which is one thing we wanted in the Message, but the part about enforced savings was entirely out of the Message and the only place that you might draw the conclusion that he meant to raise funds through this method was the confused sentence referred to above about meeting 50 per cent of the expenditures.

In order to get back into the Message something on collection at the source, I read to Mr. Coy the following paragraph drafted by Mr. Blough which was to be added to the deterrent tax on consumption:

"The deterrent effects on spending of the individual income tax should be increased by collecting as much as is feasible at the source. This will remove the income from the spending stream before it can be used to bid up prices. It will also make the tax easier to bear and will bring the money into the Treasury more quickly and more certainly."

At about four p.m. Tuesday Mr. Smith called Mr. Paul and said he thought that the changes in the Budget Message would be regretted very much by both the Treasury and the Bureau of the Budget. Paul told Smith that this is an example of what happens because of the lack of cooperation on the part of the Budget. He asked Smith if we were not going to have a conference at 4:30 as planned with Mr. Coy to discuss changes that we might make in the message as revised in the previous day's conference to make it more nearly in accord with what the two organizations feel should be in. Mr. Smith said he did not see any reason for it now as he had just had another draft from the President with certain changes in it and with the word that it was now final. He said he had talked to Jimmie Byrnes about it and he said

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that it was his opinion that the President meant it as the final draft and that no changes could be made. Apparently the President made these changes after conferring with Senator George or Congressman Doughton, or both, and Justice Byrnes. At this conference the paragraphs on deterrent taxes were also stricken from the Message. Neither the Treasury nor the Bureau of the Budget was in this conference. The draft also indicates that Justice Byrnes got back the words "taxation, savings, or both," in the place of "various methods" on page 16 of the draft message. This was not strictly in accord with the understanding reached at the previous day's conference, but in view of the word the Budget Bureau had received, there wasn't anything we could do about it.

I called Miss Tully at 6:30 p.m. Tuesday (January 5) to find out if the President had really okayed the final draft of the Budget Message and she said it was her opinion that he had and she was quite certain I couldn't get to the President until the following morning. I assumed then that it was too late to make any suggested changes in the sentence regarding the fifty per cent of expenditures. She said I could send over a memorandum of suggested changes and she would take it up the first thing the next morning. I dictated a memorandum of the changes that I would suggest and kept it till the following morning at which time I talked to Wayne Coy as to whether I should, on my own, undertake to get the President to make this change. A copy of my intended memo to Miss Tully is attached. He said he would like to talk to Smith and call me back. He did talk to Smith and called me back to say that Smith felt that we should not attempt to make any further changes; there were five or six changes that should be made in other parts of the Message which are much more important than the one suggested by me and that Smith did not feel free to go back to the President on those and he did not feel I should go on the one I wanted to make. With that statement I dropped the whole matter, although I felt very strongly that the change should be made for the sake of the President more than anything else.

There are attached to this document copies of the

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first drafts of sections 2 and 3 of the Budget Message submitted to the Treasury; a copy of the Secretary's letter to the President of January 3; a copy of the Treasury's criticism of section 2 covering fiscal policies; a copy of the draft of the message in galley proof received Sunday and a copy of the draft, also in galley proof, received Tuesday morning after the President's revision, and copies of two suggested changes by the Treasury for pages 16 and 17 of the last draft which we had. These, however, were never adopted. There are also attached copies of transcripts of two telephone conversations between Mr. Paul and Wayne Coy, and Mr. Paul and Harold Smith on January 5, and a memorandum, with enclosures, of the conferences which Mr. Paul had with Congressman Doughton and Senator George on January 11.

sub

January 5, 1943

TO MISS TULLY:

In accordance with our telephone conversation I am submitting this memorandum on the Budget Message as I understand it was revised in today's conference.

Two paragraphs on page XVI read as follows:

"I believe that we should strive to collect not less than 16 billion dollars of additional funds by taxation, savings, or both, during the fiscal year 1944.

"On the basis of present tax legislation, we expect to meet 34 percent of total estimated Federal expenditures by receipts during the fiscal year 1944. If the objective proposed in this Message is adopted we shall meet approximately 50 percent of expenditures during the fiscal year 1944."

The last sentence of this quotation does not mean anything. I suggest that it be stricken out and the following substituted:

"I believe that this percentage can be and should be substantially increased."

III. PREPARING FOR TOTAL VICTORY

Political and economic reconstruction must start now, not at war's end. Preparing for total victory includes preparing the ground on which a happier world can be built. The tremendous productive capacity of our country, of all countries, has been demonstrated. Freedom from want for everybody, everywhere, is no longer a Utopian dream. It can be translated into action when the fear of aggression has been allayed by victory. The soldiers of the fighting forces and the workmen engaged in military production want to be assured that they will return to a life of opportunity and security in a society of free men. The nations participating in the fight for freedom want to be assured of opportunity and security in a world of good neighbors. Such assurance can be given only if the work of reconstruction starts now, at home, and in international cooperation.

Postwar Policies - Now

The economic stabilization program, although essentially born of war necessity, will greatly facilitate postwar reconstruction. A determined policy of war taxation will aid in making postwar problems manageable by reducing the volume of required borrowing and supporting the stabilization program. Because of the unavoidable magnitude of interest-bearing debt, taxes probably will never revert to their prewar level. But substantial reduction from the war level will, nevertheless, be possible. Tax reduction combined with an overhauling of our tax structure after the war may contribute toward a balanced economic development.

III-2

The social security program

I recommended in last year's Budget Message an extension in coverage and scope of the social security program. I repeat that recommendation today. Social security has evolved from an experiment into a generally accepted institution in the short period of seven years. The social security system is, however, still in its developmental stage and must be expanded if it is to provide the bulwark which will be needed for the postwar period.

At present some types of employment, even employment vital to war effort, are not covered by the social security system. Men and women in the armed services or temporarily going into Government war work are unable to build up benefit rights. The soldiers returning from the battlefields and the workers returning from war work all must be assured of full protection by social security provisions against hazards beyond their control. The social security system must be adapted to war and postwar needs.

Many businessmen who are making social security contributions for their employees have expressed a desire to be included in the social security system themselves. I favor including the self-employed in the social security coverage as far as practicable.

I am also convinced that the social security program of the future should be broadened to include protection against hazards not covered in our present system, such as maternity, sickness, and disability. I propose an amendment of the social security laws broadening the coverage to become effective immediately and providing for an expanded scope of

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benefit payments to become effective in the postwar period. Additional contributions for expanded coverage and for new benefit payments should start as soon as possible. The people participating in the social security system thus have an opportunity to build up claims at a time of full and steady employment and high incomes. Such an expanded program would give participants and their families their full money's worth in increased social security. The social security program is, as I have said before, in accord with fiscal and social needs, with war and postwar requirements.

Beyond social security

In addition to protecting everyone against economic hazards, we shall aim to minimize the need for measures of social assistance by making the most effective use of our resources. Freedom from want must be achieved mainly by providing continuous opportunity to earn the comforts of life by productive work. The soldiers returning from the battle-fronts should be assured that they will be trained for productive work just as they have been trained for their war tasks. Full peacetime production will enable us to realize for the whole nation what has always been known as the American standard of living. It will enable us to develop our resources, our educational and health opportunities for children and youth, to improve our means of transportation, and to rebuild the blighted areas of city and country.

By virtual cessation of nonmilitary public works necessitated by the war shortage of men and materials, we are building up a reservoir of urgent and useful work which can be undertaken in the postwar period whenever private industry cannot maintain full employment.

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In this connection I commend the foresighted action of state and local governments. Many of these governments, taking advantage of a temporary excess of revenues over immediate needs, are paying off debts and creating reserves. Such policy will aid them in financing postwar construction and services. This policy supports the economic stabilization program now and will help cushion the postwar transition later.

Likewise, private industry, unable to maintain and expand its equipment for nonmilitary production during the war, will have a great back-log of urgent investment needs in the postwar period.

These plans for the future cannot be realized before we have secured the victory which must be the basis for any reconstruction. We must, however, begin now to plan for that day. Otherwise, we may be caught unprepared for the great task. The formation of one or several Congressional committees to work with the executive branch, would in my judgment contribute materially to the preparation of legislation for postwar reconstruction.

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International Relief and Rehabilitation

The policy of international reconstruction also cannot wait until Armistice Day. As American troops go forward in Africa and in the Pacific and on to the mainland of Europe and Asia, we must be prepared to do our part in fighting starvation, stopping the spread of disease, and building up the strength of those populations we have helped to free.

At present, our share of the cost of providing necessary relief and rehabilitation is being borne by lend-lease and army funds. It will be necessary in the near future to submit to the Congress programs for financing our part in the costs of relief and rehabilitation of areas freed by our forces.

As the waging of war is a common enterprise of free peoples, so the construction of a lasting peace and the planning of a world where men may live in security must also be the common enterprise of free peoples. Conversations are under way with representatives of the United Nations directed towards a united effort in the field of relief and rehabilitation. It is my confident hope that the friends of peace and security and orderly living shall work side by side in bringing comfort and health back to the stricken homes of Europe, Africa, and Asia.

But much more is involved in building a secure and peaceful world than providing measures of relief and rehabilitation. There must be careful planning and positive action for the establishment of conditions which will permit free peoples to realize their ideals and aspirations. Such planning and action must be jointly conceived and executed by partners in a great constructive enterprise.

Such planning must start with international relief, to be transformed as soon as possible into international rehabilitation and with the ultimate aim of international reconstruction and development of a world in which each nation can use all its resources for the mutual benefit of all. Thus we shall truly lay the basis for a secure world.

Total victory requires that the enemies of a free world be utterly destroyed. Destruction, however, is not enough. Unless we succeed in rebuilding a free and secure world, total victory will not be won and the promise will not have been fulfilled which a democracy makes by sending its citizens into battle.

January 2, 1943

II. FINANCING TOTAL WAR

The Need for Additional Funds

Financing expenditures which will exceed 100 billion dollars is a task of tremendous magnitude. By meeting this task squarely, we will contribute substantially to the war effort and clear the ground for successful reconstruction after the war. An adequate financial program is essential both for winning the war and for winning the peace.

Financing total war involves two fiscal problems. One problem is supplying the funds currently required to pay for the war and keeping the increase in Federal debt within bounds. The second problem is caused by the disbursement of 100 billion dollars a year to contractors, war workers, farmers, soldiers and their families, thus adding many billions to the peoples' buying power, at a time when the amount of goods to be bought is declining substantially. A large portion of this excess buying power must be recovered into the Treasury to prevent the excess from being used to bid up the price of scarce goods, undermining the stabilization program by breaking price ceilings, creating black markets, and increasing the cost of living.

We cannot hope to increase tax collections as fast as we step up war expenditures or to absorb by fiscal measures alone all excess purchasing power created by these expenditures. We must, therefore, provide a substantial portion of the needed funds by additional borrowing, and we must also use direct controls, such as price ceilings and rationing, for the protection of the consumer. Nevertheless, the more nearly

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increases in tax receipts follow the increase in expenditures, the better we safeguard our financial integrity and the easier the administration of price control and rationing. All of these measures are interrelated. Each increase in taxes and each net increase in savings will lessen the upward pressure on prices and reduce the amount of rationing and other direct controls we shall need.

The revenue acts of the past three years, particularly the Revenue Act of 1942, have contributed greatly toward meeting our fiscal needs. In the fiscal year 1944, total general and special receipts under present law are estimated at 35 billion dollars, or almost six times those of the fiscal year 1940. But the increase in expenditures has been even more rapid.

I believe that we should strive for not less than 10 billion dollars of new revenue annually from taxation. To assist in the anti-inflationary effort, I also propose compulsory savings to yield 10 billion dollars in a twelve-months' period. Finally, I recommend an expansion in coverage and scope of the social security plan from an increase in contributions to yield about 4 billion dollars in additional accumulation in trust funds in the first full year of operation. The proposed tax and savings proposals would yield a total of 24 billion dollars if applied to a full year of operation.

I propose that the new tax measures, compulsory saving, and contributions become effective not all at once but over a period of time in order to give the citizen opportunity to adjust to rapidly mounting levies.

I am convinced, however, that 16 billion dollars of these additional funds can be and should be collected during the fiscal year 1944.

(TENTATIVE)

Summary of Proposed Federal Financing, Fiscal Year 1944
(billions)

Classification	Present Revenue Legislation	Proposed Legislation (net addition)	Total under Proposed Legislation
Total expenditures, including net outlays of Government corporations	\$107.0		\$107.0
Financing expenditures			
Tax and misc. receipts			
Total receipts (including refundable tax, compulsory savings, and employment taxes)	\$ 35.4	\$16.0	\$ 51.4
Deduct net appropriations for Federal old-age and survivors' insurance trust fund	(1.5)	(3.0)	(4.5)
Deduct postwar credits and compulsory savings	(1.0)	(6.0)	(7.0)
Net tax and miscellaneous receipts	32.9	7.0	39.9
Borrowing (net)			
Trust fund accumulation	3.0	3.0	6.0
Postwar credits and compulsory savings	1.0	6.0	7.0
Voluntary borrowing	70.1	16.0 ^{a/}	54.1
Borrowing	74.1	7.0 ^{a/}	67.1
Total financing	\$107.0		\$107.0

^{a/} Deduct

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On the basis of present tax legislation, we would meet 35 percent of the total estimated Federal expenditures by current receipts during the fiscal year 1944. We shall meet about 50 percent of all expenditures by current collections in taxes or compulsory savings if the legislation proposed in this message is adopted.

The Need for a Balanced and Flexible Revenue System

It is important to set up now a basic revenue system which will yield not only the amount of funds necessary at the present time but which will permit the Congress to adjust revenues to expenditures in the future without changes in the basic tax structure and tax administration. I see great advantages both for taxpayers and for tax administration in enactment now of a comprehensive and well-balanced program of tax and compulsory saving measures which can be used for the duration of the war with only such adjustments in rates as may prove later to be necessary.

I hope that the Congress in working out the revenue program will consider that the fiscal measures must be designed not only to provide revenue but to support the stabilization program as well. The cost of the war should be distributed in an equitable and fair manner, and care should be taken that the fiscal measures do not impair but rather promote maximum war production. Finally, it is more important than ever before to simplify taxation both for taxpayers and for those collecting the tax, in order to conserve scarce manpower.

An effective program of war finance must strike a balance among a variety of war objectives, some of which conflict with others. Any program can be criticized by using only one of the objectives as the standard. The real test of a program is whether all objectives have been considered in proper perspective.

The program proposed in this message includes collection of the income tax at the source but no increase in basic individual income tax rates for this calendar year. Corporation, estate, and gift taxes should be increased, however, and certain loopholes and inequities in our tax laws should be eliminated. A system of compulsory saving and a war tax on consumption are recommended in order to strengthen war production and to reinforce the stabilization program. The revenue objective is, I believe, the very minimum goal in face of expenditures running currently at 6 billion dollars per month and expected to exceed 8 billion dollars per month before long. The proposed revenue program should be appraised in the light of the increasing level of individual and corporate incomes created by these mounting expenditures.

The Revenue Program in Outline

Collection of the income tax at the source

As the first and most urgent measure, I propose shifting the individual income tax to a current basis with collection at the source wherever feasible. The income tax has developed in recent years from a tax on the few to a tax on the many. This development makes necessary a change in the method of collection. To shift to immediate source collection of the income tax without collecting two years' taxes in one year, it will be necessary and proper to cancel the 1942 tax liability for the normal tax and the surtax rate on the first bracket. The Congress

should duly consider the extent to which cancellation of incomes in the middle brackets, particularly earned income, is necessary and proper.

should duly consider whether cancellation or deferment for the higher incomes also is desirable. If the tax liability on 1942 incomes should be cancelled generally, provision should be made to prevent windfall gains for those who had extraordinarily high incomes in that year.

With the income tax collected currently and at the source, the taxpayer can pay more easily, and the Treasury receives the money more quickly. The income tax thereby will become the flexible fiscal instrument which is needed in time of war and which also may be needed in time of peace. Delinquencies and enforcement problems will be reduced, and the burden of filing a return will be eliminated for millions of taxpayers. To simplify tax collection further, the victory tax should be combined with the regular income tax and both should be collected as one tax.

It would ~~be a great relief to~~ ^{simplify the problems of} many millions of taxpayers, especially those who are paying an income tax for the first time, if legislation to accomplish such a shift in the income tax were passed before the March / ^{first} (income tax returns for the calendar year 1942 fall due.) I urge the Congress to consider this recommendation separately from the other revenue proposals for early enactment.

Rates, exemptions, and deductions for the individual income tax

I cannot ask the Congress to impose the necessarily heavy financial burdens on the lower and middle incomes unless the taxes on higher and very large incomes are increased sharply and made fully effective. At

a time when wages and salaries are stabilized, the receipt of very large incomes constitutes a gross inequity undermining national unity. The present limit of \$25,000 (which means approximately \$67,000 before taxes) which applies to salaries should be extended to all types of income, whether earned or unearned, from whatever source derived. This, however, can be done only by taxation. I recommend making the retention of incomes above that size virtually impossible by a special and ~~separate~~ ^{steeply} graduated wartime tax applicable to incomes in excess of \$25,000, from whatever sources derived, remaining after all other taxes have been paid. As soon as such action is taken, the regulation placing a limit on salaries above \$25,000 after taxes would no longer be necessary.

Fairness requires the closing of loopholes and the removal of inequities which still exist in our tax laws. Taxpayers can gain an advantage under the present law by splitting family property and incomes. I believe that income for the typical American is family income and that the legal definition of income should be brought as close as possible to the concept of income used by the average citizen.

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In last year's budget message I recommended the taxation of interest from future issues of state, local, and other public bonds. I repeat that recommendation today.

The tax advantage of holders of tax-exempt securities has increased with the increase in income tax rates. This injustice can be reduced only by at least partial taxation of these bonds which were issued in the past. We should recognize that the person who purchased tax-exempt bonds in the past anticipated, and paid for, a tax advantage measured by a much lower level of tax rates than now exists. Equity requires that increasing tax rates should not increase this advantage beyond any possible anticipation of the owners. In any event, income from tax-exempt securities should not be exempt from the special wartime tax proposed in this message for incomes above \$25,000 after taxes.

For the calendar year 1943 I propose no other change in the basic individual income tax rates because of the other imposts which I propose to become effective at an early date. I do recommend, however, that the exemptions for the individual income tax be lowered and the rates increased applicable to incomes received in the calendar year 1944. I can recommend this deferment of the increase in basic income tax rates, however, only if collection of the income tax is shifted to a current basis.

Corporate taxes

I recommend an increase in the surtax rates on normal corporate profits to become effective on profits of the calendar year 1943. As a partial offset to this increase in taxes, I propose to allow corporations to set up a limited amount of tax-free contingency and maintenance reserves. Our present tax system encourages corporations to spend money

for nonessential purposes because the expenditures are deductible from taxable profits. A corporation which defers such expenditures and thereby aids in conserving manpower and scarce materials might be permitted to put a limited amount of such deferred expenditure into a reserve invested in non-interest-bearing bonds or deposited with the Treasury Department for postwar use.

Compulsory saving

Many millions of Americans are now buying war savings bonds through pay roll savings plans and otherwise. To insure full participation in such saving by all whose incomes are above the subsistence level, I recommend a system of compulsory savings to become effective at the earliest possible time. So far as feasible the money should be collected at the source in a way similar to that used so successfully for the pay roll savings plan. The bonds issued should be non-interest-bearing and generally not redeemable until a period beginning, at the earliest, one year after the war. Immediate redemption should be permitted only for relief of hardship, for payment of life insurance premiums/ ^{and debts} and for ~~repayment of debt~~ in certain cases, extending thereby the principle adopted in the Victory tax. In determining the rate for compulsory saving, the Congress should consider that adoption of this plan will reduce the amount of voluntary bond purchase and that compulsory saving should yield a considerably larger amount than is provided at present by the pay roll savings plan.

Compulsory saving, like voluntary saving, can contribute greatly toward deferring the use of purchasing power from wartime when goods are scarce to peacetime when they will be plentiful again. Such deferment

in the use of purchasing power is desirable when kept within limits. In a financial program of total war, however, compulsory saving must supplement rather than replace tax measures.

A tax deterrent on war consumption

In last year's budget message I stated that we might later be compelled to consider tax deterrents on consumption for war emergency use.

I believe that the time has come to supplement income taxation and specific excise taxes by a tax deterrent on consumption as an extraordinary war measure. Such a tax may be an effective support for the stabilization program because it absorbs purchasing power and discourages spending on the broadest possible front. Such a tax should not be regarded as a substitute for progressive taxation but as a supplementary measure designed to reduce the volume of inflationary borrowing for financing the huge program of war expenditures. I oppose, however, even deterrent taxes on consumption unless the other major measures recommended in this message also are adopted.

The basic objection to a general sales tax is as valid in time of war as it is in peace. A general sales tax imposes the heaviest relative burden on the people with the lowest incomes, those who are least able to bear the tax.

I am confident, however, that a feasible method can be worked out by which subsistence spending may be exempt from a deterrent tax on consumption or by which taxes paid on subsistence spending may be refunded. Deterrent taxation must not be allowed to impair the health and efficiency of our people.

With such exemptions or refunds for subsistence spending, a war deterrent tax on consumption should not be included in cost-of-living indices used to determine wage rates or parity prices. Otherwise the anti-inflationary effect of the tax would be negated. The tax should expire automatically six months after the end of the war.

Other tax measures

I repeat last year's recommendation that exemptions for estate and gift taxes be lowered and rates increased. Increases in certain excise taxes, especially on liquor and tobacco, should be considered. Also, postal rates and excises on communication and passenger transportation might be increased in order to provide additional revenue and to discourage the use of scarce manpower and materials for nonessential uses.

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I am convinced that this program of taxation and compulsory saving will assist greatly in solving our problems of war finance and in supporting the stabilization program. In the past, wars have usually been paid for mainly by means of inflation, thereby shifting the greatest burden to the weakest shoulders and inviting postwar collapse. We shall be able to avoid both if the measures outlined in this message are adopted. I admit that the program is harsh. We should remember, however, that it is total war, not the taxes, which compels us to devote more than one-half of all our

resources to war use. An effective program of war finance does not add to the sacrifices necessitated by total war, but it does assure that those sacrifices are distributed equitably and with a minimum of friction.

We should remember, furthermore, that helping to finance the war is the privilege mainly of those who still enjoy the receipt of incomes as civilians during the war. It is a modest contribution toward victory compared with the contribution of those in the fighting forces.

The Borrowing Program

The program of taxation and compulsory saving outlined here is the minimum required to achieve the necessary objectives. This program, together with investment by Government trust accounts, will still leave expenditures of 54 billion dollars to be financed by borrowing from other sources.

Borrowing this unprecedented sum requires the cooperation of every one of us. I commend the millions who have invested in war bonds, and I hope that every American will continue to buy bonds voluntarily in addition to those acquired under the compulsory saving plan. The bonds for voluntary purchase will continue to yield interest and to be redeemable as are the present bonds.

Borrowing from individuals and non-banking institutions, however, will not remove the need for considerable reliance upon the commercial banks. In financing through the commercial banks, we shall emphasize the sale of securities with low interest rates in order to keep the interest burden of such borrowing at a minimum. We

shall also strive to maintain the monetary controls in workable shape, so that the banking system can provide adequate credit for industry, agriculture, and the consumer in the postwar period.

As the volume of borrowing increases, it may be advisable for the Federal Reserve banks to absorb an increasing share of the bonds offered. I have asked the Board of Governors of the Federal Reserve System to consider the need for changes in existing laws in connection with such a policy.

By the end of the current fiscal year, the public debt will total 140 billion dollars. By June 30, 1944, it will be more than 200 billion dollars. Before the present debt limit of 125 billion dollars is reached, the Congress will be requested to extend that limit. A large increase consistent with the large war expenditures is one more way of showing the Axis that we mean business.

C
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P
Y

January 3, 1943

My dear Mr. President:

Under date of December 23, 1942, I wrote you sending you a draft for a section covering taxes to be incorporated in your Budget Message. Last Tuesday I went over this draft with you. At the same time you also read two memoranda of my conferences with Senator George and Congressman Doughton, held with your approval, at which we discussed the tax program for 1943 and the problems connected with the submission of this program to Congress. At these conferences, these gentlemen both agreed with our view that the Budget Message should not contain any detailed proposals.

You fully agreed with our suggestion that the tax section of the Budget Message should be in general terms and that it should omit specific proposals. You will recall that I said I felt sure that the Bureau of the Budget would not agree with what the Treasury had submitted. You said that did not matter as our draft was what you wanted.

Immediately after leaving the White House on Tuesday, carrying out your suggestion, I sent to the Director of the Budget a copy of the draft you had approved and advised him that the Treasury was prepared to consult with him on it.

We heard nothing from the Budget Bureau until late Friday afternoon, when we received the first section of the proposed Budget Message. Late Saturday, representatives of the Budget Bureau came over with a copy of the second section, covering taxation and borrowing, and Mr. Bell, Mr. Paul and Mr. Blough discussed with them the policy questions involved. We were told at 6:15 Saturday evening by the Director of the Budget that you had been over the Budget Bureau draft of the section of the Message dealing with taxation and borrowing, that the policies were all fixed, and that so far as any changes in policies were concerned the door was closed. We were asked to go over the language and make suggestions, but not to submit any basic changes.

We are in no position to do this because we disagree with the whole plan of making such detailed tax and borrowing proposals in the Budget Message, and, further, because we object specifically to several of the proposals contained in the Budget draft.

We have still another basis of objection which we believe to be of great importance. We in the Treasury feel very strongly, as expressed in my letter of December 23, that the Congressional leaders should be fully consulted in the initial stages of working out a tax program. For several weeks, representatives of the Treasury have also

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been in frequent consultation with all officials of the Executive Branch of the Government who are interested in taxation and inflation, in order that, to the fullest extent possible, we might have agreement with other Executive Departments as well as with Congressional leaders before any recommendations were submitted to Congress. Your Budget Message in the form prepared by the Bureau of the Budget would completely frustrate this plan.

If I had known that you wanted detailed suggestions for a full fiscal program to be included in your Budget Message, we were prepared to give them to you at once. As late as last Tuesday, you told me that you looked to me to carry for you the responsibility for a tax and fiscal program and that you did not think the Bureau of the Budget should be interested in the details of such a program.

If, as we have been informed, decision has been reached on the main outlines of the tax section in the form submitted to us by the Bureau of the Budget and the door is closed to policy suggestions, I am convinced that a grave mistake is being made. If this is the situation I shall be seriously embarrassed in any attempts to carry on any further negotiations with Congressional leaders and even more greatly embarrassed in attempting to advocate before committees of Congress a program devised under such circumstances and one which I believe to be in several fundamental respects unsound.

In that situation I feel that I would have to consider myself free not only to criticize the Budget Message publicly, but also to state publicly the Treasury views as to how to meet the inflation problem on the fiscal front.

There is another phase of this matter that I regard as even more fundamental and I think you will want to give it most serious consideration. The Secretary of the Treasury, as chief fiscal officer of the Government, is responsible for maintaining the public credit on a sound basis. He, in conjunction with the Federal Reserve System, is responsible for an orderly Government security market. He is required to defend your fiscal policies before the Congress. He is required under the law to administer and execute the fiscal laws adopted by the Congress. It seems to me to be basically wrong in principle for the Director of the Bureau of the Budget -- who does not keep in touch with the Government security market, who can not appraise the effect of recommendations as to taxes and borrowing on the public credit, who never has to go before a Congressional committee to defend your fiscal policies, who never has anything to do with the administration and execution of these laws, and whose office is not equipped to handle problems of this kind -- to be able to use his strategic position in connection with the Budget Message to become your chief adviser in the crucial work of laying out a fiscal program for presentation by you to Congress and to the Nation.

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For your further information I am enclosing a memorandum to the Bureau of the Budget commenting on its proposals.

Faithfully,

The President,

The White House.

January 3, 1943

To: Under Secretary Bell

From: Mr. Paul
Mr. Blough

Subject: Bureau of Budget draft of Budget Message,
received January 2, 1943.

We believe that the fiscal program proposed has serious defects and will be inadequate to remove inflationary pressure on prices during calendar year 1943. Moreover, neither the obvious legislative and administrative difficulties involved nor the probable effects of some of the proposals seem to have been given adequate consideration.

1. Individual income tax

(a) As we interpret the plan outlined for moving into the collection of income tax at source, there would be a serious initial loss of revenue and a decrease in the anti-inflationary effects of the income tax in 1943. The cancellation of part of 1942 liabilities and the delay in starting collection at source would reduce income tax collections substantially in the fiscal year 1943. The increases in revenue from the other elements in the program are inadequate in the light of inflationary prospects, although the message gives the contrary impression.

(b) The increased spending out of accumulated tax reserves, which would undoubtedly accompany the forgiveness of the tax liabilities, would cancel some of the anti-inflationary effects of the additional revenue in the program.

(c) There is no point in suggesting that further forgiveness might be granted in the case of the larger incomes. The allowance of such forgiveness would be a concession and as such should be used in securing desired measures and not sacrificed by premature announcement.

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(d) The desirability of eliminating for future years the returns of small income taxpayers may be questioned on administrative and compliance grounds. There seems no reason to have the President include this debatable point in this year's Budget Message.

(e) We believe it unwise, in effect, to promise the country that no increases in income tax rates will be asked for, applicable to 1943. Increases in rates may become highly desirable. Moreover, it should be made clear that the requested increases in 1944 rates would have to be enacted during 1943 under the plan proposed.

2. Compulsory saving

(a) The justification for compulsory lending is largely vitiated unless the amount is sufficient to give a substantial net increase in collections. We seriously doubt whether the net amount of collections under the proposed plan would be sufficiently large to justify its adoption. Its net effect will be greatly reduced by the provision for offsets and by the decline in voluntary bond purchases. Offering at this time immediate offsets for all payments of life insurance premiums and debts will mean that an extremely large amount of "compulsory savings" would be on paper only. The decline in bond purchases will not be merely in the payroll deduction plan but will include other purchases as well.

(b) It would seem unwise to refer to the immediate offset or redemption as an extension of the principle adopted in the Victory tax. Under the Victory tax it appears almost certain that the great majority of the taxpayers will be entitled to full current use or refund of the post-war credit. Moreover, under the Victory tax voluntary bond purchases are allowed as a credit, thereby eliminating the injustice of allowing immediate redemption for persons making insurance and debt payments. It is apparently not intended to follow this principle in the "compulsory savings" plan.

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3. Tax deterrent on consumption

(a) The section on "A tax deterrent on consumption" is so written as implicitly to recommend a flat rate retail sales tax, with some provision for exempting subsistence spending. Before we suggest such an inequitable tax as the sales tax, we should be very sure of the administrative feasibility and the efficacy of the methods for mitigating its impact on subsistence. After extensive study, we have found no practicable method for exempting subsistence spending from a retail sales tax adequate to make even approximate allowances for regional differences and for farm and urban differences. Two suggested methods which have been brought to our attention do not appear to be sufficiently thought through to justify a confident statement from the President in his Budget Message.

(b) In our view the most satisfactory deterrent tax on consumption is a progressive tax on individual spending, collected from the individual and not through retail dealers. Consideration of this type of tax seems to be ruled out by the language of the message.

(c) We believe you are sufficiently familiar with our general objections to a sales tax that no discussion of this is necessary.

4. Corporation taxes

(a) The corporate tax proposals give the impression that unnecessary business expenses are at present allowed as a deduction. The intent is undoubtedly to refer to postponable rather than unnecessary expenses and should be made clearer.

(b) More important, the setting up of tax-free contingency and maintenance reserves is subject to a number of difficult technical problems which led the last Congress to abandon the attempt. The two-year loss carryback provision and certain other provisions were substituted for such reserves. It scarcely seems wise to promise reserves of this kind, however desirable in principle, in the light of Congressional experience in attempting to allow them.

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(c) It is noted that no reference is made to alleviating the difficult situation which would be produced by still higher corporate rates for corporations obligated to retire indebtedness under commitments made when tax rates were lower.

5. Joint income tax returns

The Congress has in two successive years flatly rejected the proposal to eliminate joint income tax returns. It may be that this year a variation should be proposed which would arrive at substantially the same solution, so far as married couples are concerned, by allowing community property returns to all married couples and making corresponding changes in either rates or rate brackets. Accordingly, it is suggested that the discussion of joint returns should stress the discriminations under present law and avoid any commitments which would be inconsistent with the use of the community property method.

6. Tax exempt securities

(a) It is believed that too great a concession is offered in the discussion of the taxation of interest on State and local securities. It is impossible to ascertain what tax savings holders of securities may have anticipated, individually or on the average, when they bought them or when they decided not to sell them. Moreover, the recent shifts in rate structure would place large incomes in a comparatively protected position since the rates of tax on the larger incomes have not increased nearly as much in recent years as have the rates on smaller incomes. A great deal of the inequitable tax advantage afforded by tax exempt securities to persons with large incomes will remain if the legislation follows the language in the proposed Budget Message.

(b) If concessions to taxpayers are to be mentioned, the limit of relief might well be the amount which tax exemption has cost the taxpayer by his acceptance of a lower interest rate.

(c) Since the influential opponents of eliminating tax exempt securities are State and municipal officials, any concessions to be offered might well be directed to absorbing their cost increase.

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7. This message grants a number of concessions which in our opinion, if to be agreed to at all, could be granted with greater effectiveness during the course of the legislative process. This is particularly true of the current collection and sales tax points. Mentioning concessions now assures the necessity of allowing still greater concessions later.

8. Finally, we believe it unwise that the Congress and the country should be given the impression that the tax program proposed in this message will make unnecessary the imposition of other taxes or of basic changes in existing taxes during and after the war period.

9. In the conference of Saturday afternoon it was stated by Mr. Colm that the representatives of other Executive agencies with whom he had discussed the program expressed in the Budget draft generally approved that program. On the basis of many contacts with the representatives of other agencies Mr. Paul is in a good deal of doubt as to whether the Budget draft, in the form in which it is now written, is on important points consistent with the views of other interested agencies.

The deterrent effects on spending of the individual income tax should be increased by collecting as much as is feasible at the source. This will remove the income from the spending stream before it can be used to bid up prices. It will also make the tax easier to bear and will bring the money into the Treasury more quickly and certainly.

I believe that we should further increase taxes just as rapidly as economic conditions will permit so that in as short a time as possible we shall approach the goal of meeting approximately 50 percent of our expenditures from taxation. I believe that this percentage can be and should be substantially increased.

I believe that we should further increase taxes as rapidly as economic conditions will permit and that we should, within the shortest time possible, be meeting 50 percent of our expenditures under new fiscal measures to be adopted by this Congress.

Call from Harold Smith at 4:05, January 5, 1943.

S: I was trying to get Dan Ball.

P: I thought we were meeting at 4:30.

S: That's what I called about. Apparently there is no need for a meeting except for an unpleasant post mortem.

P: Why? We had two or three little inserts which we thought would help it, one of which I am sure you would want.

S: I think the whole thing is kind of a mess. I checked with the White House a little while ago to see whether the Boss had gone over the thing again after talking to these folks this morning and found that while I was talking it was sent back over here and was given to understand, and I have just now checked with Byrnes, that the door is closed with a slam. I don't think any of us are going to be very happy about it. But there it is and that's the word that has come to me. Wayne was telling me - I got tied up with a group outside and I left arrangements - and so I suggested that Wayne go over. Well, now I just wonder.

P: I don't see any point in it in view of that.

S: I just checked with Byrnes to be sure that was the answer and I checked with Miss Tulley, or rather she called me, and she said it's on the way.-- the Boss told me so and so.

P: He didn't want to hear any more about it? Could we have a copy of the final form you have there?

S: Do you want us to put the corrections on and send it over? Wayne can still come over.

P: I don't see any point in taking his time.

S: This has upset the whole thing.

P: You are not going on until Monday now.

S: I assume so but we haven't even that straightened out yet.

P: Wayne sent us one this morning. I don't know whether it is changed.

S: Oh yes, it's changed. He changed it. I don't know whether it is better or worse. Will you tell Dan what has happened.

P: I will go in to see him the minute he gets back.

S: Some time I want to sit down with you fellows and talk this whole thing over.

P: You send that over to me. You better get home tonight. I think I will leave early myself.

Mr. Paul's conversation with Wayne Coy at 10 o'clock January 5, 1943.

- C: What do you think of the message?
- P: Its in a mess. I think it is a pretty good example of how we should have gotten together earlier.
- C: I thought it over over night; it seems its just being institutional in the matter and I think the Treasury
- P: There are a couple of things that aren't in we both wanted.
- C: Yes, collection at the source, and you get protection of the Secretary's voluntary saving.
- P: That's no victory to me personally. He hadn't made up his mind in favor, or one way or the other.
- C: I have a new proof of the thing and I tried to get Danny a minute ago.
- P: I would love to see it. It seems to me if possible we should try to retrieve the situation jointly.
- C: We would be glad to work out with you what we could and correct it. One thing we are stopped on is
- P: Dan said you and he couldn't
- C: The President gave me a copy and I will read it to you.
- P: If it is very messy we could perhaps fix it.
- C: Here is the revenue program as it is now (Coy read from copy which he later sent to Mr. Paul).
- P: That whole thing isn't as bad as it might be.
- C: The point is it seems to me, here he makes a reference to deterrent tax and makes no recommendation.
- P: I agree completely. It stands out like a sore thumb that he hasn't backed collection at the source, which I am sure is a thing that will go through because Congress is for it now and he won't get any of the credit.
- C: I feel the same way. If we can put that in and expand it like we had it - we had it in pretty good shape.

- 2 -

- P: But for this deterrent tax I was pretty well satisfied with that.
- C: On the question of compulsory saving, I am not too concerned about that, but I am concerned about collection at the source.
- P: As a matter of fact, I would like to tell you and Smith and Jones and Colm about a couple of meetings I have had with people on the other side, even including the NAM. I know we could trade them into a position where we will get their support on the separate bill to go through by March 15 with very high collection at the source - as high as 30%. I hate to see the President let them steal a march on him.
- C: I will send a couple copies over to you right away.
- P: I will be glad to have them and will be glad to make any suggestions. I was wondering if we could be more constructive and write a joint memorandum that will knock the President over - a joint memorandum recommending restoration of collection at the source.
- C: You and Dan get together and see what you want to do. By then Harold will be in, and have Dan call Harold. If you could reach Byrnes or Hopkins, somebody who can reach the President, and tell them your own particular views and what the Treasury's views will be, when Dan gets in, saying it looks like you might be able to get together with us on the program....
- P: I can't do it with Byrnes, maybe with Hopkins. I will talk that over with Dan. When does it have to go to the printers?
- C: Thursday night for delivery of copies to the press on Saturday. We had to send a revised copy of the proof to the White House half an hour ago. He may send that back okay.
- P: If he does we can still hammer on it. I will do what I can.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am transmitting herewith a war Budget exceeding 100 billion dollars for the fiscal year beginning July 1, 1943. Last year I called the Budget an instrument for transforming a peace economy into a war economy. This Budget presents a maximum program for waging war.

We wage total war because our very existence is threatened. Without that supreme effort we cannot hope to retain the freedom and self-respect which give life its value.

Total war is grim reality. To the unhappy peoples in the battle zones of Europe, Asia, Africa, and the Pacific this war means that the soldiers and also the civilians—the men and women, the aged and the young—are all exposed to death, mutilation, and servitude. To us it means the dedication of our lives and resources to a single objective: Victory.

Ordinarily when a fire breaks out, we leave the fire-fighting job to the men and equipment assigned for that purpose. But if a forest fire endangers the lives and homes of a community, then every man and woman becomes a fire fighter and all available resources are used, regardless of ownership. Everyone then expects to be told where he can be most useful and where his property is most needed. The catastrophe leaves no room for individual safety or advantage. Total war in a democracy is a violent conflict in which everyone must anticipate that both lives and possessions will be assigned to their most effective use in the common effort—the effort for community survival—nation survival.

In total war we all are soldiers whether in uniform, overalls, or shirt sleeves. In total war we need not only discipline of the armed forces but also discipline of production and consumption to avoid confusion and to deal with haggards. Such discipline in a democracy is the will of the people, expressed in laws enacted by constitutional procedures and subject to revocation by the same method.

BUDGETING FOR TOTAL WAR

WAR EXPENDITURES

The huge and expanding rate of war expenditures shows our determination to equip our fighting forces and those of our Allies with the instruments of war needed for victory. Monthly expenditures for

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war purposes amounted to 2 billion dollars just after Pearl Harbor; they now exceed 6 billion dollars and they will average more than 8 billion dollars a month during the fiscal year 1944. For the whole of the current fiscal year total war expenditures are estimated at 77 billion dollars; for the next fiscal year, at 100 billion dollars. These estimates include the net outlays of Government corporations for war purposes and assume only a small rise in prices.

Victory cannot be bought with any amount of money, however large; victory is achieved by the blood of soldiers, the sweat of working men and women, and the sacrifice of all people. But a 100-billion-dollar expenditure program does reflect a national effort of gigantic magnitude. It calls for vision on the part of those in charge of war production, ingenuity of management, and the skill, devotion, and tenacity of the men on the farms and in the factories. It makes possible the expansion of our armed forces necessary to offensive operations, the production of planes and munitions to provide unquestioned superiority, and the construction of ships which will make it possible for us to strike at the enemy wherever he may be. It reflects the determination of the civilians to "pass the ammunition." Moreover, consumers' goods and services will have to be produced in an amount adequate to maintain the health and productivity of the civilian population. And all of this will have to be done while we are withdrawing millions of men from production for service in the armed forces.

Some persons may believe that such a program is fantastic. My reply is that this program is feasible. If the Nation's manpower and resources are fully harnessed, I am confident that the objective of this program can be reached, but it requires a complete recognition of the necessities of total war by all—management, labor, farmers, consumers, and public servants—regardless of party. Production short of these military requirements would be a betrayal of our fighting men.

This Budget does not include the detailed estimates of war expenditures which would reveal information to our enemies. An additional reason for such action at this time is that rapid developments on far-flung battlefronts make it impossible to submit a detailed war Budget for a year ending 18 months hence. I shall continue, however, to report on the broad categories of war expenditures, thus providing a basis for an informed discussion of our war effort and of our fiscal situation. The following table summarizes our present estimates of war expenditures from general and special accounts and by Government corporations.

MESSAGE TRANSMITTING THE BUDGET

Estimates of total expenditures for war, fiscal years 1943 and 1944

(Billions)

Object of expenditures	Fiscal 1944	Fiscal 1943
Munitions	800	642
Military and civilian pay, subsistence, and travel	71	10
Industrial construction	2	8
Other construction	5	8
Other, including agricultural land lease	8	5
Total	886	773

This spring I shall submit the necessary detail upon which the Congress can base war appropriations for the fiscal year 1944. In the meantime there are available about 170 billion dollars of unspent war appropriations and authorizations; about two-thirds of this amount is already obligated or committed. Further appropriations will soon be needed to permit letting of contracts with industry for the next year.

THE PROCUREMENT OF MUNITIONS

Total mobilization of all our men and women, all our equipment, and all our materials in a balanced production program will enable us to accomplish the production goals underlying this war Budget.

Manpower.—Marked progress has been made in mobilizing manpower. In spite of the increase in the armed services, industrial production rose by 46 percent, and agricultural production by 15 percent between calendar years 1940 and 1942. Industrial production has not been delayed and crops have not been lost because of lack of manpower except in a few isolated cases. More than 10 million people have been added to those actively employed or the armed forces since 1940, 7 million of whom were unemployed and more than 4 million of whom are additions to the Nation's labor and armed forces.

Manpower mobilization is now entering a much more difficult phase. During the calendar year 1943 approximately 10 million people will be needed above present requirements for the armed services and war production. This number can be obtained by transferring from less essential occupations, and by drawing into the working force people who have not recently sought employment. Vigorous action is required to mobilize and train our reserve of women and young people, to accelerate the transfer of workers to

essential industries, and to reduce harmful turn-over and migration of workers in essential industries. It also requires prevention of labor hoarding and elimination of hiring restrictions based on sex, creed, or race. I reiterate my previous recommendation for a unified and adequate rehabilitation service to make available a million persons for war industry and to restore to civil employment persons who are being disabled in the armed forces.

Manpower needs of the armed forces and of war production during the calendar year 1943 can be met without impairment of essential civilian requirements. I stress the important distinction between "essential requirements" and the thousand and one things that are nonessentials or luxuries. The production of these nonessentials wastes manpower at a time when careful economy and greater efficiency in the use of our manpower resources is imperative. Private thought and public discussion of this subject is very necessary.

Equipment.—Were it not for an unprecedented program of conversion and the building up of a new war industry during the past two and one-half years, we could not expect to fulfill the war-production program outlined in this Message.

Some progress, but not enough, has been made in spreading war contracts more widely among medium-sized and smaller plants. Further efforts are necessary. In certain cases, of course, saving of manpower and materials requires concentration in those plants best equipped to produce a given commodity.

Materials.—Furthermore, war production is limited by our supply of raw materials. The available materials must be transformed into the maximum of striking power. The production of less urgent items or the wrong quantity of items, or of poor timing in any plant or in the munitions program as a whole results in waste of precious materials. The Nation's war production must be so scheduled that the right items are produced in the right amounts at the right time.

War contracts.—The procurement program must achieve maximum production with minimum waste, consistent with the speed essential in time of war. This is the controlling objective not only for the original negotiation of contracts but also for the renegotiation required by law. The law provides for the prevention or recapture of excessive profits, thus supplementing and reinforcing the objectives of the excess-profits tax. I believe that control of the costs of production is of equal importance.

The proper negotiation and renegotiation of contracts must strive to reconcile the avoidance of excessive profits with the maintenance

and

MESSAGE TRANSMITTING THE BUDGET

of incentives to economical management. I am asking the Chairman of the War Production Board to collaborate with the procurement agencies in developing standards for the review of war contracts, under the terms of the renegotiation clause, which will assure control of the costs of production as well as the recapture of excessive profits. ~~Thereby~~ we will not only hold down the costs of the war program but also reduce waste of manpower and material.

FARM AND FOOD PROGRAM

Food is a primary weapon of war. An adequate food supply is, therefore, a basic aspect of a total war program. I have placed in the hands of the Secretary of Agriculture full responsibility for determining and fulfilling the food requirements in this war. Our agricultural production is larger than ever in our history but the needs of our armed services and our Allies are so great that a shortage of certain foods is inevitable. The production of the less-needed commodities must be reduced while the production of commodities essential for war and civilian use must be increased. It is imperative also that this increased demand for food be adjusted to available supplies. There will be sufficient volume in our bill of fare but less variety. That may hurt our taste but not our health.

To facilitate this program, I am recommending appropriations for aids to agriculture totaling 837 million dollars for the fiscal year 1944. Among the major items included in the 837-million-dollar total are 400 million for conservation and use of agricultural land resources; 194 million for parity payments on the 1942 crops; and 98 million for exportation and domestic consumption of surplus commodities. Other large items included are 64 million dollars for payments under the Sugar Act; 38 million for the Farm Security Administration; and 31 million for reductions in interest rates on farm mortgages.

Prior to the 1943 appropriation acts, annual appropriations for parity payments were made a year in advance of actual need, and acreage allotments for the year ahead were used as a factor in determining payments on the crops of the current year. In the 1943 Budget and appropriation acts, provisions were made to insure that all factors used in determining the amount of parity payments on the crops of a given year would pertain to the program of that year. Also, to bring this item into conformity with our general budgetary practice, the annual cash appropriation for parity payments was omitted, but the Secretary was authorized, ~~however~~ to incur contractual obligations assuring the cooperating producers of cotton,

corn, wheat, rice, and tobacco that such payments would be made, if and as necessary, on their 1942 crops.

The appropriation now requested, therefore, is simply the amount estimated to be necessary to make up to the producers of corn, wheat, and certain minor types of tobacco, the disparity between the market returns from the normal yield of their 1942 allotted acreage and the parity price return from that production. It is expected that no parity payments will be necessary on the 1942 crops of cotton and most types of tobacco.

Since the established national policy is to assure the cooperating producers of these basic crops parity prices on the normal yields of their allotted acreages, I am again recommending that the authority to incur contractual obligations for such payments on future crops be renewed.

On the other hand, I am recommending a reduction of 50 million dollars in the appropriation for Conservation and Use of Agricultural Land Resources. I am also directing the Secretary of Agriculture to utilize the 400 million dollars still provided under this heading as fully and effectively as the basic law will permit to encourage greater production of the crops essential to the war effort. This fund will not be used for restriction of production except ~~(in the production)~~ of less-needed crops. Payments will be made only to those producers who comply fully in their plantings with the stated war-production goals.

For Exportation and Domestic Consumption of Agricultural Commodities the Budget includes only the permanent annual appropriation of 30 percent of customs revenues provided by law, plus reappropriation of unobligated balances. The food-stamp plan, which is a major item of the current program, will be discontinued shortly. Although other items such as school lunch and school milk projects, and the direct distribution of surplus commodities are somewhat expanded, there will be an over-all reduction of about 30 million dollars.

Provision for operations under the Farm Tenant Act and for Loans, Grants, and Rural Rehabilitation are continued on about the same level as for the current year. Small farms, like other small war plants, must be encouraged to make a maximum contribution to the war. I hope the Congress will give as much sympathetic consideration to these smaller and poorer farmers as it has given to the smaller and ~~the~~ poorer industrial concerns.

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No one can ~~foresee~~ foresee all the needs we may encounter in fulfilling our essential requirements for agricultural production. But they must be met, insofar as is humanly possible, ~~and this may necessitate a later request to the Congress for additional funds to be made available to the Secretary of Agriculture for use where and in such ways as will best promote accomplishment of our war-production goals. Various loan and purchase operations will be necessary, and these involve contingent liabilities which cannot be exactly predetermined.~~

Making these requirements involves various loan and purchase operations which create contingent liabilities that can not be exactly predetermined. Also, it may be necessary to make

CIVILIAN CONSUMPTION

In spite of a 100-billion-dollar war program, civilians can be supplied with an average of about \$500 worth of goods and services during the next year. This implies an average reduction of almost 25 percent in civilian consumption below the record level of the calendar year 1941. Even then most of us will be better fed, better clothed, and better housed than other peoples in the world. Do not let us assume from that statement, however, that there is no need for great improvement in the living conditions of a large segment of our population.

It is the responsibility of the Government to plan for more production of essential civilian goods and less of nonessential goods. Production and distribution of goods should be simplified and standardized; unnecessary costs and frills should be eliminated. Total war demands simplification of American life. By giving up what we do not need, all of us will be better able to get what we do need.

In order to distribute the scarce necessities of life equitably we are rationing some commodities. By rationing we restrict consumption, but only to assure to each civilian his share of basic commodities.

The essentials for civilian life also include a good standard of health and medical service, education, and care for children in wartime as well as in peace.

THE STABILIZATION PROGRAM

We must assure each citizen of the necessities of life at prices which he can pay. Otherwise, rising prices will lift many goods beyond his reach just as surely as if those goods did not exist. By a concerted effort to stabilize prices, rents, and wages we have succeeded in keeping the rise in the cost of living within narrow bounds. We shall continue these efforts, and we shall succeed. By making effective use of all measures of control, we shall be able to stabilize prices with only a limited use of subsidies to stimulate needed production.

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Some would like to see the controls relaxed for this or that special group. They forget that to relax controls for one group is an argument to relax for other groups, thereby starting the cost-of-living spiral which would undermine the war effort and cause grave post-war difficulties. Economic stabilization for all groups—not for just the other fellow—is the only policy consistent with the requirements of total war. I have read of this bloc, and that bloc, and the other bloc, which existed in past Congresses. May this new Congress confine itself to one bloc—a national bloc.

Stabilization goes beyond effective price control. Prices cannot be held if incomes are permitted to rise freely. Under war conditions a rise in profits, wages, and farm incomes unfortunately does not increase the supply of goods for civilians; it merely invites excess purchasing power to bid up the prices of scarce commodities. The stabilization of incomes and the absorption of excess purchasing power by fiscal measures are essential for the success of the stabilization program. I am confident that the Congress will implement that program by adequate legislation increasing taxes and savings. Thus we will help to "pay-as-we-go" and make the coming peace easier for ourselves and our children.

CIVILIAN CONTROLS IN TOTAL WAR

Total war requires nothing less than organizing all the human and material resources of the Nation. To accomplish this all-out mobilization speedily, effectively, and fairly we have had to adopt extensive controls over civilian life. We use the Selective Service System to man the armed forces. We are systematizing the movement of labor to assure needed manpower to war industries and agriculture. We regulate prices, wages, salaries, and rents; we limit consumer credit; we allocate scarce raw materials; and we ration scarce consumer goods—all to the end of providing the materials of war and distributing the sacrifices equitably.

Such regulations and restrictions have greatly complicated our daily lives. We save rubber, metal, fats, everything. We fill out forms, carry coupons, answer questionnaires. This is all new. We have overdone it in many cases. By trial and error we are learning simpler and better methods. But remember always that reaching the objective is what counts most. There is no easy, pleasant way to change the living habits—the eating, heating, traveling, and working habits—of 130 million people. There is no easy, pleasant way in wage total war.

MESSAGE TRANSMITTING THE BUDGET

XIII

About 400,000 civilian employees of the Federal Government are engaged in the task of civilian administration for total war. They direct and schedule war production; handle the procurement of food, munitions, and equipment for our armed forces and our Allies; supervise wartime transportation; administer price, wage, rent, labor, and matériel controls and commodity rationing; conduct economic and propaganda offensives against our enemies and do necessary paper work for the armed forces.

Besides these Government employees, millions of men and women volunteers - who draw no pay - are carrying out tasks of war administration, many of them after long hours at their regular occupation. These patriotic citizens are serving on draft boards, on war price and ration boards, in the civilian defense organization, the war bond campaign, and many other activities. They deserve the gratitude of their countrymen.

More than 1,000,000 - or approximately three-fifths - of all Federal civilian employees are engaged directly in war production. They build and load ships, make guns and shells, repair machines and equipment, build arsenals and camps, sew uniforms, operate airports and signal systems. These are the workers in navy yards, arsenals, storage depots, military airfields, and other operating centers. It is scarcely ethical to try to make people believe that these workers are holding down armchair or unnecessary Government jobs.

Compensation of Federal employees. This huge organization, created overnight to meet our war needs, could not be expected to function smoothly from the very start. Congressional committees and many individuals have made helpful suggestions. Criticism is welcome if it is based on truth. We continue our efforts to make the organization more fully effective.

Last month the Congress took temporary and emergency action, which will expire April 30, 1943, relative to compensation for Federal employees. The legislation removed inequities, lengthened the workweek to conserve manpower, increased payment for longer hours, and provided bonus payments for certain employees. The pay increases should be met largely by reducing the total number of employees proportionate to the increase in the workweek.

In the present appropriation requests and expenditure estimates for the fiscal years 1943 and 1944, no allowance has been made for any cost increase resulting from the adjustment in Federal salaries.

The problems of Federal salary administration need further study in the early days of the new Congress for enactment of more permanent legislation for the duration of the war.

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"NONWAR" EXPENDITURES

I am making recommendations in the usual detail for so-called "nonwar" appropriations for the fiscal year 1944. This classification includes the same items as in former years.

Actually, the "nonwar" classification now has little, if any, meaning. Most of these expenditures are related to the war effort and many are directly occasioned by it. This "nonwar" category includes, for instance, expenditures for war tax collections, for budgeting, disbursing, and auditing war expenditures, and for statistical and scientific services to war agencies. It includes also such items as the control of white pine blister rust, which I recently discussed. Expenditures for controlling this threat to our timber resources are necessary to avoid possible loss of millions of dollars in lumber from trees which require as much as 50 years to reach maturity.

All counted, there are less than 850,000 civilian employees of the Federal Government including the Postal Service, who are engaged in these so-called "nonwar" activities.

A few weeks ago I transmitted to the Congress a comprehensive report on "nonwar" expenditures during the past decade. This document demonstrated the important reductions which had been made in these expenditures, especially since the start of the defense program.

The following table summarizes reductions analyzed in the report, to which it is now possible to add revised estimates for the fiscal year 1943 and estimates for 1944 as developed in this Budget.

"Nonwar" expenditures, fiscal years 1939-44 (excludes interest and statutory debt retirement)

(Millions)		
Fiscal year	Total non-war expenditures	Reduction below 1939
1939	\$6,316	
1940	8,246	820
1941	5,206	1,110
1942	5,123	1,193
1943 (estimated)	4,498	2,018
1944 (estimated)	3,404	2,912

The table shows a reduction of 36.7 percent in "nonwar" expenditures in the next fiscal year compared with 1939. In appraising these reductions, it should be borne in mind that large items, such as vet-

grants' pensions and social-security grants, are controlled by legal or other commitments.

The most important reductions recommended for the coming year relate to work relief and general public works. Because of present high levels of employment, I am able to recommend elimination of the Work Projects Administration. This action under present conditions does not rest upon the State and local governments more than the proper burden of financing the relief of those who are unable to work. Expenditures for general public works will be greatly curtailed. Continuing projects are directly related to war needs. Others have been discontinued as rapidly as this could be done without risking the loss of the investment already made.

I shall continue to welcome the help of the Congress in effecting further reductions in "nonwar" expenditures through the necessary revision of underlying legislation. It should be pointed out to the Congress and to the Nation, however, that we are fast approaching the subsistence level of government—the minimum for sustaining orderly social and economic processes—and that further reductions will necessarily be of much smaller magnitude than those already achieved.

My recommendations contemplate that in the fiscal year 1944, 96 cents of every dollar expended by the Federal Government will be used to pay war costs and interest on the public debt, and only 40 cents for all the so-called "nonwar" purposes.

INTEREST

War financing has raised the requirement for interest on the public debt from 1,041 million dollars in 1940, the fiscal year before the defense program started, to 1,850 million dollars for the current year and 3,000 million dollars for the fiscal year 1944.

FINANCING TOTAL WAR

THE NEED FOR ADDITIONAL FUNDS

Financing expenditures which will exceed 100 billion dollars is a task of tremendous magnitude. By meeting this task squarely we will contribute substantially to the war effort and clear the ground for successful reconstruction after the war. An adequate financial program is essential both for winning the war and for winning the peace.

Financing total war involves two main fiscal problems. One problem is to supply the funds currently required to pay for the war

and to keep the increase in Federal debt within bounds. The second problem is caused by the disbursement of 100 billion dollars a year to contractors, war workers, farmers, soldiers, and their families, thus adding many billions to the peoples' buying power, at a time when the amount of goods to be bought is declining substantially. A large portion of this excess buying power must be recovered into the Treasury to prevent the excess from being used to bid up the price of scarce goods, to undermine the stabilization program by breaking price ceilings, to create black markets, and to increase the cost of living.

We cannot hope to increase tax collections as fast as we step up war expenditures or to absorb by fiscal measures alone all excess purchasing power created by these expenditures. We must, therefore, provide a substantial portion of the needed funds by additional borrowing, and we must also use direct controls, such as price ceilings and rationing, for the protection of the consumer. Nevertheless, the more nearly increases in tax receipts follow the increase in expenditures, the better we safeguard our financial integrity and the easier the administration of price control and rationing. All of these measures are interrelated. Each increase in taxes and each increase in savings will lessen the upward pressure on prices and reduce the amount of rationing and other direct controls we shall need.

The revenue acts of the past 3 years, particularly the Revenue Act of 1942, have contributed greatly toward meeting our fiscal needs. In the fiscal year 1944, total general and special receipts under present law are estimated at 35 billion dollars, or almost six times those of the fiscal year 1940. But the increase in expenditures has been even more rapid.

I believe that we should strive to collect not less than 16 billion dollars of additional funds during the fiscal year 1944. I propose new tax legislation to yield 7 billion dollars during the next fiscal year. To assist in the anti-inflationary effort, I also propose compulsory savings to yield 6 billion dollars. Finally, I recommend an expansion in coverage and scope of the social-security plan to yield 3 billion dollars in trust fund accumulations from an increase in contributions during the next year.

I propose that the new tax measures, compulsory savings, and contributions become effective not all at once but over a period of time, in order to give the citizen opportunity to adjust to rapidly mounting levies. As there is a lag in tax collections and as I have in mind that not all measures will be effective for the whole fiscal year 1944, the

new legislation should establish rates which would produce, on a full year's basis, an amount substantially above 16 billion dollars.

On the basis of present tax legislation, we expect to meet 33 percent of total estimated Federal expenditures by receipts during the fiscal year 1944. If the legislation proposed in this Message is adopted, we shall meet approximately 50 percent of expenditures during the fiscal year 1944 by the collection of taxes, contributions, and compulsory savings.

*objections
prepared*

THE NEED FOR A BALANCED AND FLEXIBLE REVENUE SYSTEM

It is important to develop the revenue system basically in accord with increasing war needs—a development which will yield not only the utmost revenue that it is feasible to raise at the present time but will permit the Congress to adjust revenues in the future without major changes in the basic tax structure and tax administration. I see great advantages, both for taxpayers and for tax administration, in the enactment now of a comprehensive and well-balanced program of tax and compulsory saving measures which can be used for the duration of the war with only such adjustments in rates as may prove later to be necessary.

I hope that the Congress in working out the revenue program will consider that the fiscal measures must be designed not only to provide revenue, but also to support the stabilization program as well. The cost of the war should be distributed in an equitable and fair manner. Furthermore, care should be taken that the fiscal measures do not impair but actually promote maximum war production. Finally, it is more important than ever before to simplify taxation both for taxpayers and for those collecting the tax, in order to conserve scarce manpower.

An effective program of war finance must strike a balance among a variety of war objectives, some of which conflict with others. Any program can be criticized by using only one of the objectives as the standard. The real test of a program is whether all objectives have been considered in proper perspective.

The program proposed in this Message includes collection of the income tax at the source, but no increase in basic individual income-tax rates for this calendar year. Corporation, estate, and gift taxes should be increased, however. Certain loopholes and inequities in our tax laws should be eliminated. A system of compulsory saving and a tax deterrent on consumption above a vital minimum level are

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recommended in order to strengthen war production and to reinforce the stabilization program. The 4-billion-dollar objective is, I believe, the very minimum goal in the face of war expenditures running currently at 6 billion dollars per month and expected to exceed 8 billion dollars per month in the fiscal year 1944. The proposed revenue program should be appraised in the light of the increasing level of individual and corporate incomes created by these mounting Government expenditures.

** new paragraph here*

THE REVENUE PROGRAM IN OUTLINE

Collection of the income tax at the source.—It is important that so far as possible we shift individual income taxes to a current basis, with collection at the source wherever feasible. The income tax has developed in recent years from a tax on the few to a tax on the many. This development makes desirable a change in the method of collection.

With part of the income tax collected currently and at the source, the taxpayer can pay more easily, and the Treasury receives the money more quickly. The income tax thereby will become the flexible fiscal instrument which is needed in time of war. Delinquencies and enforcement problems will be reduced, and the burden of filing a complex return will be eliminated for many millions of taxpayers. To simplify tax collection further, the Victory tax should be combined with the regular income tax and both should be collected as one tax.

It would simplify the problems of many taxpayers, especially those who are paying an income tax for the first time, if legislation to accomplish such a shift in the income tax were passed before March 1, 1943. I suggest that the Congress consider this recommendation separately from the other revenue proposals for early enactment.

Rates, exemptions, and deductions for the individual income tax.—I cannot ask the Congress to impose the necessarily heavy financial burdens on the lower and middle incomes unless the taxes on higher and very large incomes are ~~increased sharply and made fully effective.~~ At a time when wages and salaries are stabilized, the receipt of very large net incomes from any source constitutes a gross inequity undermining national unity. The present limit of \$25,000 net, which in reality means approximately \$67,000 before taxes, applies only to salaries and should be extended to all types of income, whether earned or unearned, from whatever source derived. This extension, however, can be accomplished only by taxation. For the duration of the war, I recommend making the retention of incomes above \$25,000

If the Congress should find it impossible to adopt any one of financial proposals of this message, consideration should be given other measures which would bring the total up to the minimum objective which I believe is necessary for the fiscal year 1944.

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*I have an idea
spoken in
subject-matter*

after taxes virtually impossible by a special and steeply graduated wartime tax applicable to incomes from whatever source derived beginning with the calendar year 1943. As soon as such action is taken, the regulation placing a limit on net salaries of \$25,000 will no longer be necessary.

Tax Fairness requires the closing of loopholes and the removal of inequities which still exist in our tax laws. Taxpayers can gain an advantage under the present law by splitting family property and incomes. I believe that income for the typical American is family income and that the ~~best~~ definition of income should be brought as close as possible to the concept of income used by the average citizen.

In last year's Budget Message I recommended the taxation of interest from future issues of State, local, and other public bonds. I repeat that recommendation today. The American public does not understand why any form of investment income should be free from taxation.

The tax advantage of holders of tax-exempt securities has increased with the increase in income-tax rates. We should recognize that the person who purchased tax-exempt bonds in the past anticipated, and paid for, a tax advantage measured by a much lower level of tax rates than now exists. With respect to bonds now outstanding, this injustice can be reduced only by taxing in some measure the income which they yield. In any event, income from tax-exempt securities should not be exempt from the special wartime tax proposed in this message for incomes above \$25,000 after taxes.

For the calendar year 1943 I am not now proposing any other change in the basic individual income-tax rates because of the other imposts which I propose to become effective at an early date. I do recommend, however, that the exemptions for the individual income tax be lowered and the rates increased, these changes to be made at this time to apply to incomes received in the calendar year 1944. I can recommend the deferment of the increase in basic income-tax rates, however, only if collection of the income tax is shifted to a more current basis.

Corporate taxes.—I recommend an increase in the surtax rates on normal corporate profits to become effective for the calendar year 1943. As a partial offset to this increase in taxes, I propose that corporations be allowed to set up a limited amount of tax-free reserves. A corporation which defers such expenditures, now deductible from taxable profits, and thereby aids in conserving manpower and scarce materials might be permitted to put a limited amount of such deferred expenditure into a reserve invested in non-interest-bearing bonds or

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deposited with the Treasury Department for post-war use. A limited amount of similar reserves might be set up for reconversion of plant after the war.

Compulsory saving.—Many millions of Americans are now buying War Savings bonds through pay-roll savings plans and otherwise. To insure full participation in such saving by all whose incomes are above the lower levels, I recommend a system of compulsory savings to become effective at the earliest possible time. So far as feasible the money should be collected at the source in a way similar to that used so successfully for the pay-roll savings plan. The bonds issued should be non-interest-bearing and generally not redeemable until a period beginning, at the earliest, 1 year after the war. Immediate redemption should be permitted only for relief of hardship, for payment of life-insurance premiums and debts within reasonable limits and in certain cases. In determining the rate for compulsory saving, the Congress should consider that adoption of this plan will reduce the amount of voluntary bond purchase and that compulsory saving should yield a considerably larger amount than is provided at present by the pay-roll savings plan.

Compulsory saving, like voluntary saving, can contribute greatly toward deferring the use of purchasing power from wartime, when goods are scarce, to peacetime, when they will be plentiful again. Such deferment in the use of purchasing power is desirable, but if the post-war repayments are to be kept within proper limits, compulsory saving must supplement rather than replace tax measures.

A tax deterrent on consumption.—I believe that the time has come to supplement income taxation and specific excise taxes by a tax deterrent on consumption as an extraordinary war measure. Such a tax may be an effective support for the stabilization program because it absorbs purchasing power and discourages spending on the broadest possible front. Such a tax should not be regarded as a substitute for progressive taxation but as a supplementary measure designed to reduce the volume of inflationary borrowing to finance the huge program of war expenditures. I oppose, however, even deterrent taxes on consumption unless the other major measures recommended in this message also are adopted.

The basic objection to a general sales tax is as valid in time of war as it is in peace. A general sales tax imposes the heaviest relative burden on the people with the lowest incomes, those who are least able to bear the tax.

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I believe that a feasible method can be worked out by which subsistence spending at a vital minimum level may be exempt from a deterrent tax on purchases. Deterrent taxation must not be allowed to impair the health and efficiency of our people.

I therefore ask the Congress to consider the possibilities of a tax on consumption which exempts the minimum spending vitally necessary for the average individual or family. It would be desirable if the Congress should find that a method could be devised by which purchases above that vital minimum could be taxed on a progressive basis.

With such exemptions for subsistence, a deterrent tax on consumption should not be included in cost-of-living indices used to determine wage rates or parity prices. Otherwise the anti-inflationary effect of the tax would be largely negated. The tax should expire automatically 6 months after the end of the war.

Other tax measures.—I repeat last year's recommendation that exemptions for estate and gift taxes be lowered ~~and rates increased~~. Increases in certain excise taxes, especially on liquor, tobacco, and new taxes on nonvital commodities, should be considered. Also, postal rates and excises on communication and passenger transportation might be increased in order to provide additional revenue and to discourage the use of scarce manpower and materials for nonessential uses.

I am convinced that this program of taxation and compulsory ~~saving~~ ~~will assist~~ greatly in solving our problems of war finance and in supporting the stabilization program. In the past, wars have usually been paid for mainly by means of inflation, thereby shifting the greatest burden to the weakest shoulders and inviting post-war collapse. We shall be able to avoid both if the measures outlined in this Message are adopted. I admit that the program is harsh. We should remember, however, that it is a war for existence, and not the taxes, which compels us to devote more than one-half of all our resources to war use. An effective program of war finance does not add to the total sacrifices necessitated by war, but it does assure that these sacrifices are distributed equitably and with a minimum of friction.

We should remember, furthermore, that helping to finance the war is the privilege mainly of those who still enjoy the receipt of incomes as civilians during the war. It is a modest contribution toward victory.

Such a tax, collected at the time of purchase or even in advance of purchase, would immediately deter consumption.

I also believe that rates should be increased.

when we compare it with the contribution of those in the fighting forces.

THE BORROWING PROGRAM

The program of taxation and compulsory saving outlined here is the minimum required to achieve the necessary objectives. This program, together with investment by Government trust accounts, will still leave expenditures of 53 billion dollars to be financed by borrowing from other sources.

Borrowing this huge sum requires the cooperation of every one of us. I commend the millions who have invested in war bonds, and I hope that every American will continue to buy bonds voluntarily in addition to those acquired under the compulsory saving plan. The bonds for voluntary purchase will continue to yield interest and to be redeemable as are the present bonds.

Borrowing from individuals and nonbanking institutions, however, will not remove the need for considerable reliance upon the commercial banks. In financing through the commercial banks, we shall emphasize the sale of securities with low interest rates in order to keep the interest burden of such borrowing at a minimum. We shall maintain the monetary controls in workable shape, so that the banking system can provide adequate credit for industry, agriculture, and the consumer in the post-war period.

By the end of the current fiscal year, the public debt will total 135 billion dollars. By June 30, 1944, it will be more than 200 billion dollars. Before the present debt limit of 125 billion dollars is reached, the Congress will be requested to extend that limit. To do this is sound, for such a debt can and will be repaid. The Nation is soundly solvent.

Incidentally, this is one way of showing the Axis that we are moving on inexorably to victory.

PREPARING FOR TOTAL VICTORY

Political and economic reconstruction must start now, not at war's end. Preparing for total victory includes preparing the ground on which a happier world can be built. The tremendous productive capacity of our country, of all countries, has been demonstrated. Freedom from want for everybody, everywhere, is no longer a Utopian dream. It can be translated into action when the fear of aggression has been allayed by victory. The soldiers of the fighting forces and the workmen engaged in military production want to be assured that they will return to a life of opportunity and security in a society of

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free men. The nations participating in the fight for freedom want to be assured of opportunity and security in a world of good neighbors. Such assurance can be given only if the work of reconstruction starts now, at home and in international cooperation.

POST-WAR POLICIES—NOW

The economic stabilization program, although essentially born of war necessity, will greatly facilitate post-war reconstruction. A determined policy of war taxation will aid in making post-war problems manageable by reducing the volume of required borrowing and supporting the stabilization program. Because of the unavoidable magnitude of interest-bearing debt, taxes probably will never revert to their pre-war level. But substantial reduction from the war level will, nevertheless, be possible. Tax reduction combined with an overhauling of our tax structure after the war would contribute toward a balanced economic development.

The social-security program.—I recommended in last year's Budget Message an extension in coverage and scope of the social-security program. I repeat that recommendation today. Social security has evolved from an experiment into a generally accepted institution in the short period of 7 years. The social-security system is, however, still in its developmental stage and must be expanded if it is to provide the bulwark which will be needed for the post-war period.

At present some types of employment, even employment vital to the war effort, are not covered by the social-security system. Men and women in the armed services or temporarily going into Government war work are unable to build up benefit rights. The soldiers returning from the battlefields and the workers returning from war work all must be assured of full protection by social-security provisions against hazards beyond their control. The social-security system must be adapted to war and post-war needs.

Many businessmen who are making social-security contributions for their employees have expressed a desire to be included in the social-security system themselves. I favor including these and other self-employed in the social-security coverage as far as practicable.

I am also convinced that the social-security program of the future should be broadened to include protection against hazards not covered in our present system, such as maternity, sickness, and disability. I propose an amendment of the social-security laws broadening the coverage to become effective immediately and providing for an expanded scope of benefit payments to become effective in the post-war

period. Additional contributions for expanded coverage and for new benefit payments should start as soon as possible. The people participating in the social-security system thus have an opportunity to build up claims at a time of full and steady employment and high incomes. Such an expanded program would give participants and their families their full money's worth in increased social security. The social-security program is, as I have said before, in accord with fiscal and social needs, with war and post-war requirements.

Beyond social security. In addition to protecting everyone against economic hazards, we shall aim to minimize the need for measures of social assistance by making the most effective use of our resources. Freedom from want must be achieved mainly by providing continuous opportunity to earn the comforts of life by productive work. The soldiers returning from the battle fronts should be assured that they will be trained for productive work just as they have been trained for their war tasks. Full peacetime production will enable us to realize for the whole Nation what has always been known as the American standard of living. It will enable us to develop our resources, our educational and health opportunities for children and youth, to improve our means of transportation, and to rebuild the blighted areas of city and country.

By virtual cessation of nonmilitary public works necessitated by the war shortage of men and materials, we are building up a reservoir of urgent and useful work which can be undertaken in the post-war period to aid in maintaining full employment.

In this connection I commend the foresighted action of State and local governments. Many of these governments, taking advantage of a temporary excess of revenues over immediate needs, are paying off debts and creating reserves. This policy will aid them in financing post-war construction and services. It supports the economic stabilization program now and will help cushion the post-war transition later.

Likewise, private industry, unable to maintain and expand its equipment for nonmilitary production during the war, will have a great backlog of urgent investment needs in the post-war period.

These plans for the future cannot be realized before we have secured the victory which must be the basis for any reconstruction. We must, however, begin now to plan for that day. Otherwise, we may be caught unprepared for the great task. The formation of one or several congressional committees to work with the executive branch would in my judgment contribute materially to the preparation of legislation for post-war reconstruction.

INTERNATIONAL RELIEF AND REHABILITATION

The policy of international reconstruction also cannot wait until Armistice Day. As American troops go forward in Africa and in the Pacific and on to the mainland of Europe and Asia, we must be prepared to do our part in fighting starvation, stopping the spread of disease, and building up the strength of those populations we have helped to free.

At present our share of the cost of providing necessary relief and rehabilitation is being borne by lend-lease and Army funds. It will be necessary in the near future to submit to the Congress programs for financing our part in the costs of relief and rehabilitation of areas freed by our forces.

As the waging of war is a common enterprise of free peoples, so the construction of a lasting peace and the planning of a world where men may live in security must also be the common enterprise of free peoples. Conversations are under way among representatives of the United Nations directed toward a united effort in the field of relief and rehabilitation. It is my confident hope that the friends of peace and security and orderly living shall work side by side in bringing comfort and health back to the stricken homes of Europe, Africa, and Asia.

But much more is involved in building a secure and peaceful world than providing measures of relief and rehabilitation. There must be careful planning and positive action for the establishment of conditions which will permit free peoples to realize their ideals and aspirations. Such planning and action must be jointly conceived and executed by partners in a great constructive enterprise.

Such planning must start with international relief, to be transformed as soon as possible into international rehabilitation with the ultimate aim of international reconstruction and development of a world in which each nation can use all its resources for the mutual benefit of all. Thus we shall truly lay the basis for a secure world.

Total victory requires that the enemies of a free world be utterly destroyed. Destruction, however, is not enough. Unless we succeed in rebuilding a free and secure world, total victory will not be won and the promise will not have been fulfilled which a democracy makes by sending its citizens into battle.

FRANKLIN D. ROOSEVELT.

JANUARY 6, 1943.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am transmitting herewith a war Budget exceeding 100 billion dollars for the fiscal year beginning July 1, 1943. Last year I called the Budget an instrument for transforming a peace economy into a war economy. This Budget presents a maximum program for waging war.

We wage total war because our very existence is threatened. Without that supreme effort we cannot hope to retain the freedom and self-respect which give life its value.

Total war is grim reality. To us it means the dedication of our lives and resources to a single objective: Victory.

Total war in a democracy is a violent conflict in which everyone must anticipate that both lives and possessions will be assigned to their most effective use in the common effort—the effort for community survival—Nation survival.

In total war we all are soldiers whether in uniform, overalls, or shirt sleeves.

BUDGETING FOR TOTAL WAR

WAR EXPENDITURES

The huge and expanding rate of war expenditures shows our determination to equip our fighting forces and those of our Allies with the instruments of war needed for victory. Monthly expenditures for war purposes amounted to 2 billion dollars just after Pearl Harbor; they now exceed 6 billion dollars and they will average more than 8 billion dollars a month during the fiscal year 1944. For the whole of the current fiscal year total war expenditures are estimated at 77 billion dollars; for the next fiscal year, at 100 billion dollars. These estimates include the net outlays of Government corporations for war purposes and assume only a small rise in prices.

Victory cannot be bought with any amount of money, however large; victory is achieved by the blood of soldiers, the sweat of working men and women, and the sacrifice of all people. But a 100-billion-dollar expenditure program does reflect a national effort of gigantic magnitude. It calls for vision on the part of those in charge of war production, ingenuity of management, and the skill, devotion, and tenacity of the men on the farms and in the factories. It makes possible the expansion of our armed forces necessary to offensive operations, the production of planes and munitions to provide unquestioned superiority, and the construction of ships which will make

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it possible for us to strike at the enemy wherever he may be. It reflects the determination of the civilians to "pass the ammunition." Moreover, consumers' goods and services will have to be produced in an amount adequate to maintain the health and productivity of the civilian population. And all of this will have to be done while we are withdrawing millions of men from production for service in the armed forces.

Some persons may believe that such a program is fantastic. My reply is that this program is feasible. If the Nation's manpower and resources are fully harnessed, I am confident that the objective of this program can be reached, but it requires a complete recognition of the necessities of total war by all—management, labor, farmers, consumers, and public servants—regardless of party. Production short of these military requirements would be a betrayal of our fighting men.

This Budget does not include the detailed estimates of war expenditures which would reveal information to our enemies. An additional reason for such action at this time is that rapid developments on far-flung battlefronts make it impossible to submit a detailed war Budget for a year ending 18 months hence. I shall continue, however, to report on the broad categories of war expenditures. The following table summarizes our present estimates of war expenditures from general and special accounts and by Government corporations.

Estimates of total expenditures for war, fiscal years 1943 and 1944

(Millions)

Object of expenditure	Fiscal 1943	Fiscal 1944
Munitions	643	866
Military and civilian pay, subsistence, and travel	18	21
Industrial construction	5	2
Other construction	5	4
Other, including agricultural lend-lease	2	6
Total	77	120

This spring I shall submit the necessary detail upon which the Congress can base war appropriations for the fiscal year 1944. In the meantime there are available about 170 billion dollars of unspent war appropriations and authorizations; about two-thirds of this amount is already obligated or committed. Further appropriations will soon be needed to permit letting of contracts with industry for the next year.

THE PROCUREMENT OF MUNITIONS

Total mobilization of all our men and women, all our equipment, and all our materials in a balanced production program will enable us to accomplish the production goals underlying this war Budget.

Manpower.—Marked progress has been made in mobilizing manpower. In spite of the increase in the armed services, industrial production rose by 46 percent, and agricultural production by 15 percent between calendar years 1940 and 1942. Industrial production has not been delayed and crops have not been lost because of lack of manpower except in a few isolated cases. More than 10 million people have been added to those actively employed or the armed forces since the summer of 1940, 7 million of whom were unemployed and more than 3 million of whom are additions to the Nation's labor and armed forces.

Manpower mobilization is now entering a much more difficult phase. During the calendar year 1943 approximately 6 million people will be needed above present requirements for the armed services and war production. This number can be obtained by transferring from less essential work, and by drawing into the working force people who have not recently sought employment. Vigorous action is required to mobilize and train our reserve of women and young people, to accelerate the transfer of workers to essential industries, and to reduce harmful turn-over and migration of workers in essential industries. It also requires prevention of labor hoarding and elimination of hiring restrictions based on sex, creed, or race. I reiterate my previous recommendation for a unified and adequate rehabilitation service to make available a million persons for war industry and to restore to civil employment persons who are being disabled in the armed forces.

Manpower needs of the armed forces and of war production during the calendar year 1943 can be met without impairment of essential civilian requirements. I stress the important distinction between "essential requirements" and the thousand and one things that are nonessentials or luxuries. The production of these nonessentials wastes manpower at a time when careful economy and greater efficiency in the use of our manpower resources is imperative. Private thought and public discussion of this subject is very necessary.

Equipment.—Were it not for an unprecedented program of conversion and the building up of a new war industry during the past two and one-half years, we could not expect to fulfill the war-production program outlined in this Message.

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Some progress, but not enough, has been made in spreading war contracts more widely among medium-sized and smaller plants. Further efforts are necessary. In certain cases, of course, saving of manpower and materials requires concentration in those plants best equipped to produce a given commodity.

Materials.—Furthermore, war production is limited by our supply of raw materials. The available materials must be transformed into the maximum of striking power. The production of less urgent or the wrong quantity of items, or poor scheduling of production in any single plant, or in the munitions program as a whole, results in waste of precious materials. The Nation's war production must be so scheduled that the right items are produced in the right amounts at the right time.

War contracts.—The procurement program must achieve maximum production with minimum waste and with the speed essential in time of war. This is the controlling objective not only for the original negotiation of contracts but also for the renegotiation required by law. The law provides for the prevention or recapture of excessive profits, thus supplementing and reinforcing the objectives of the excess-profits tax. I believe that control of the costs of production is of equal importance.

The proper negotiation and renegotiation of contracts must strive to reconcile the avoidance of excessive profits with the maintenance of incentives to economical management.

FARM AND FOOD PROGRAM

Food is a primary weapon of war. An adequate food supply is, therefore, a basic aspect of a total war program. I have placed in the hands of the Secretary of Agriculture full responsibility for determining and fulfilling the food requirements in this war. Our agricultural production is larger than ever in our history but the needs of our armed services and our Allies are so great that a shortage of certain foods is inevitable. The production of the less-needed commodities must be reduced while the production of commodities for war and essential civilian use must be increased. It is imperative also that this increased demand for food be adjusted to available supplies. There will be sufficient volume in our bill of fare but less variety. That may hurt our taste but not our health.

To facilitate this program, I am recommending appropriations for Aids to Agriculture totaling 837 million dollars for the fiscal year 1944. Among the major items included in the 837-million-dollar total are 400

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million for Conservation and Use of Agricultural Land Resources; 194 million for Parity Payments on the 1942 crops; and 96 million for Exportation and Domestic Consumption of Surplus Commodities. Other large items included are 64 million dollars for payments under the Sugar Act; 38 million for the Farm Security Administration; and 31 million for reductions in interest rates on farm mortgages.

Prior to the 1943 appropriation acts, annual appropriations for parity payments were made a year in advance of actual need, and acreage allotments for the year ahead were used as a factor in determining payments on the crops of the current year. In the 1943 Budget and appropriation acts, provisions were made to insure that all factors used in determining the amount of parity payments on the crops of a given year would pertain to the program of that year. Also, to bring this item into conformity with our general budgetary practice, the annual cash appropriation for parity payments was omitted, but the Secretary was authorized to incur contractual obligations assuring the cooperating producers of cotton, corn, wheat, rice, and tobacco that such payments would be made, if and as necessary, on their 1942 crops.

The appropriation now requested, therefore, is simply the amount estimated to be necessary to make up to the producers of corn, wheat, and certain minor types of tobacco, the disparity between the market returns from the normal yield of their 1942 allotted acreage and the parity price return from that production. It is expected that no parity payments will be necessary on the 1942 crops of cotton and most types of tobacco.

Since the established national policy is to assure the cooperating producers of these basic crops parity prices on the normal yields of their allotted acreages, I am again recommending that the authority to incur contractual obligations for such payments on future crops be renewed.

On the other hand, I am recommending a reduction of 50 million dollars in the appropriation for Conservation and Use of Agricultural Land Resources. I am also directing the Secretary of Agriculture to utilize the 400 million dollars still provided under this heading as fully and effectively as the basic law will permit to encourage greater production of the crops essential to the war effort. This fund will not be used for restriction of production except of less-needed crops. Payments will be made only to those producers who comply fully in their plantings with the stated war-production goals.

For Exportation and Domestic Consumption of Agricultural Commodities the Budget includes only the permanent annual appropri-

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tion of 30 percent of customs revenues provided by law, plus reappropriation of unobligated balances. The food-stamp plan, which is a major item of the current program, will be discontinued shortly. Although other items such as school lunch and school milk projects, and the direct distribution of surplus commodities are somewhat expanded, there will be an over-all reduction of about 30 million dollars.

Provision for operations under the Farm Tenant Act and for Loans, Grants, and Rural Rehabilitation are continued on about the same level as for the current year. Small farms, like other small war plants, must be encouraged to make a maximum contribution to the war. I hope the Congress will give as much sympathetic consideration to these smaller and poorer farmers as it has given to the smaller and poorer industrial concerns.

Because no one can immediately foresee all the needs we may encounter in fulfilling our essential war requirements for agriculture, various loan and purchase operations involving contingent liabilities which cannot be exactly predetermined, may be necessary.

CIVILIAN CONSUMPTION

In spite of a 100-billion-dollar war program, civilians can be supplied with an average of about \$500 worth of goods and services during the next year. This implies an average reduction of almost 25 percent in civilian consumption below the record level of the calendar year 1941. Even then most of us will be better fed, better clothed, and better housed than other peoples in the world. Do not let us assume from that statement, however, that there is no need for great improvement in the living conditions of a large segment of our population.

It is the responsibility of the Government to plan for more production of essential civilian goods and less of nonessential goods. Production and distribution of goods should be simplified and standardized; unnecessary costs and frills should be eliminated. Total war demands simplification of American life. By giving up what we do not need, all of us will be better able to get what we do need.

In order to distribute the scarce necessities of life equitably we are rationing some commodities. By rationing we restrict consumption, but only to assure to each civilian his share of basic commodities.

The essentials for civilian life also include a good standard of health and medical service, education, and care for children in wartime as well as in peace.

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THE STABILIZATION PROGRAM

We must assure each citizen of the necessities of life at prices which he can pay. Otherwise, rising prices will lift many goods beyond his reach just as surely as if those goods did not exist. By a concerted effort to stabilize prices, rents, and wages we have succeeded in keeping the rise in the cost of living within narrow bounds. We shall continue those efforts, and we shall succeed. By making effective use of all measures of control, we shall be able to stabilize prices with only a limited use of subsidies to stimulate needed production.

Some would like to see the controls relaxed for this or that special group. They forget that to relax controls for one group is an argument to relax for other groups, thereby starting the cost-of-living spiral which would undermine the war effort and cause grave post-war difficulties. Economic stabilization for all groups—not for just the other fellow—is the only policy consistent with the requirements of total war. I have read of this bloc, and that bloc, and the other bloc, which existed in past Congresses. May this new Congress confine itself to one bloc—a national bloc.

Stabilization goes beyond effective price control. Under war conditions a rise in profits, wages, and farm incomes unfortunately does not increase the supply of goods for civilians; it merely invites the building up of prices of scarce commodities. The stabilization of incomes and the absorption of excess purchasing power by fiscal measures are essential for the success of the stabilization program. I am confident that the Congress will implement that program by adequate legislation increasing taxes and savings. Thus, we will help to "pay as we go" and make the coming peace easier for ourselves and our children.

CIVILIAN CONTROLS IN TOTAL WAR

Total war requires nothing less than organizing all the human and material resources of the Nation. To accomplish this all-out mobilization speedily, effectively, and fairly we have had to adopt extensive controls over civilian life. We use the Selective Service System to man the armed forces. We are systematizing the movement of labor to assure needed manpower to war industries and agriculture. We regulate prices, wages, salaries, and rents; we limit consumer credit; we allocate scarce raw materials; and we ration scarce consumer goods—all to the end of providing the materials of war and distributing the sacrifices equitably.

Such regulations and restrictions have complicated our daily lives. We save rubber, metal, fats—everything. We fill out forms, carry coupons, answer questionnaires. This is all new. We have overdone it in many cases. By trial and error we are learning simpler and better methods. But remember always that reaching the objective is what counts most. There is no easy, pleasant way to restrict the living habits—the eating, clothing, heating, travel, and working habits—of 130 million people. There is no easy, pleasant way to wage total war.

About 400,000 civilian employees of the Federal Government are engaged in the task of civilian administration for total war. They direct and schedule war production; handle the procurement of food, munitions, and equipment for our armed forces and our Allies; supervise wartime transportation; administer price, wage, rent, labor, and material controls and commodity rationing; conduct economic and propaganda offensives against our enemies and do necessary paper work for the armed forces.

Besides these Government employees, millions of men and women volunteers—who draw no pay—are carrying out tasks of war administration, many of them after long hours at their regular occupation. These patriotic citizens are serving on draft boards, on war price and ration boards, in the civilian defense organization, the war bond campaign, and many other activities. They deserve the gratitude of their countrymen.

More than 1,600,000—or approximately three-fifths—of all Federal civilian employees are engaged directly in war production. They build and load ships, make guns and shells, repair machines and equipment, build arsenals and camps, sew uniforms, operate airports and signal systems. These are the workers in navy yards, arsenals, storage depots, military airfields, and other operating centers. It is scarcely ethical to try to make people believe that these workers are holding down armchair or unnecessary Government jobs.

This huge organization, created overnight to meet our war needs, could not be expected to function smoothly from the very start. Congressional committees and many individuals have made helpful suggestions. Criticism is welcome if it is based on truth. We will continue our efforts to make the organization more fully effective.

Compensation of Federal employees.—Last month the Congress took temporary and emergency action, which will expire April 30, 1943,

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relative to compensation for Federal employees. The legislation removed inequities, lengthened the workweek to conserve manpower, increased payment for longer hours, and provided bonus payments for certain employees. The pay increases should be met largely by reducing the total number of employees proportionate to the increase in the workweek.

In the present appropriation requests and expenditure estimates for the fiscal years 1943 and 1944, no allowance has been made for any cost increase resulting from the adjustment in Federal salaries.

The problems of Federal salary administration need further study in the early days of the new Congress for enactment of more permanent legislation for the duration of the war.

"NONWAR" EXPENDITURES

I am making recommendations in the usual detail for so-called "nonwar" appropriations for the fiscal year 1944. This classification includes the same items as in former years.

Actually, the "nonwar" classification now has little, if any, meaning. Most of these expenditures are related to the war effort and many are directly occasioned by it. This "nonwar" category includes, for instance, expenditures for war tax collections, for budgeting, disbursing, and auditing war expenditures, and for statistical and scientific services to war agencies. It includes also such items as the control of white pine blister rust, which I recently discussed. Expenditures for controlling this threat to our timber resources are necessary to avoid possible loss of millions of dollars in lumber from trees which require more than 50 years to reach maturity.

All counted, there are less than 850,000 civilian employees of the Federal Government, including the Postal Service, who are engaged in these so-called "nonwar" activities.

A few weeks ago I transmitted to the Congress a comprehensive report on "nonwar" expenditures during the past decade. This document demonstrated the important reductions which had been made in these expenditures, especially since the start of the defense program.

The following table summarizes reductions analyzed in the report, to which it is now possible to add revised estimates for the fiscal year 1943 and estimates for 1944 as developed in this Budget.

THE BUDGET FOR FISCAL YEAR 1944

"Nonwar" expenditures, fiscal years 1939-44
(Excluding interest and statutory debt retirement)
(Millions)

Fiscal year	Total non-war expenditures	Reduction below 1939
1939	\$6,417	
1940	5,347	\$1,070
1941	4,296	2,121
1942	3,125	3,292
1943 (estimated)	2,963	3,454
1944 (estimated)	2,125	4,292

The table shows a reduction of 36.7 percent in "nonwar" expenditures in the next fiscal year compared with 1939. In appraising these reductions, it should be borne in mind that large items, such as veterans' pensions and social-security grants, are controlled by legal or other commitments.

The most important reductions recommended for the coming year relate to work relief and general public works. Because of present high levels of employment, I am able to recommend elimination of the Work Projects Administration. This action under present conditions does not cast upon the State and local governments more than the proper burden of financing the relief of those who are unable to work. Expenditures for general public works will be greatly curtailed. Continuing projects are directly related to war needs. Others have been discontinued as rapidly as this could be done without risking the loss of the investment already made.

I shall continue to welcome the help of the Congress in effecting further reductions in "nonwar" expenditures through the necessary revision of underlying legislation. It should be pointed out to the Congress and to the Nation, however, that we are fast approaching the subsistence level of government—the minimum for sustaining orderly social and economic processes—and that further reductions will necessarily be of much smaller magnitude than those already achieved.

My recommendations contemplate that in the fiscal year 1944, 96.0 cents of every dollar expended by the Federal Government will be used to pay war costs and interest on the public debt, and only 4.0 cents for all the so-called "nonwar" purposes.

MESSAGE TRANSMITTING THE BUDGET

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INTEREST

War financing has raised the requirement for interest on the public debt from 1,041 million dollars in 1940, the fiscal year before the defense program started, to 1,850 million dollars for the current year and 3,000 million dollars for the fiscal year 1944.

FINANCING TOTAL WAR

THE NEED FOR ADDITIONAL FUNDS

Financing expenditures which will exceed 100 billion dollars is a task of tremendous magnitude. By meeting this task squarely we will contribute substantially to the war effort and clear the ground for successful reconstruction after the war. An adequate financial program is essential both for winning the war and for winning the peace.

Financing total war involves two main fiscal problems. One problem is to supply the funds currently required to pay for the war and to keep the increase in Federal debt within bounds. The second problem is caused by the disbursement of 100 billion dollars a year to contractors, war workers, farmers, soldiers, and their families, thus adding many billions to the peoples' buying power, at a time when the amount of goods to be bought is declining steadily. A large portion of this excess buying power must be recovered into the Treasury to prevent the excess from being used to bid up the price of scarce goods, to undermine the stabilization program by breaking price ceilings, creating black markets, and increasing the cost of living.

We cannot hope to increase tax collections as fast as we step up war expenditures or to absorb by fiscal measures alone all excess purchasing power created by these expenditures. We must, therefore, provide a substantial portion of the needed funds by additional borrowing, and we must also use direct controls, such as price ceilings and rationing, for the protection of the consumer. Nevertheless, the more nearly increases in tax receipts follow the increase in expenditures, the better we safeguard our financial integrity and the easier the administration of price control and rationing. All of these measures are interrelated. Each increase in taxes and each increase in savings will lessen the upward pressure on prices and reduce the amount of rationing and other direct controls we shall need.

The revenue acts of the past 3 years, particularly the Revenue Act of 1942, have contributed greatly toward meeting our fiscal needs.

THE BUDGET FOR FISCAL YEAR 1944

In the fiscal year 1944, total general and special receipts under present law are estimated at 35 billion dollars, or almost six times those of the fiscal year 1940. But the increase in expenditures has been even more rapid.

I believe that we should strive to collect not less than 16 billion dollars of additional funds by various methods during the fiscal year 1944.

On the basis of present tax legislation, we expect to meet 34 percent of total estimated Federal expenditures by receipts during the fiscal year 1944. If the objective proposed in this Message is adopted, we shall meet approximately 50 percent of expenditures during the fiscal year 1944.

Principles of Revenue

THE NEED FOR A BALANCED AND FLEXIBLE REVENUE SYSTEM

I hope that the Congress in working out the revenue program will consider that the fiscal measures must be designed not only to provide revenue, but also to support the stabilization program as well. The cost of the war should be distributed in an equitable and fair manner. Furthermore, care should be taken that the fiscal measures do not impair but actually promote maximum war production. Finally, it is more important than ever before to simplify taxation both for taxpayers and for those collecting the tax, in order to conserve scarce manpower.

THE REVENUE PROGRAM IN OUTLINE

I cannot ask the Congress to impose the necessarily heavy financial burdens on the lower and middle incomes unless the taxes on higher and very large incomes are made fully effective. At a time when wages and salaries are stabilized, the receipt of very large net incomes from any source constitutes a gross inequity undermining national unity.

Fairness requires the closing of loopholes and the removal of inequities which still exist in our tax laws. I have spoken on these subjects on several previous occasions.

In order to help to deter luxury or nonessential spending and thus assist stabilizing consumption and prices as a war measure I suggest that the Congress study a tax to meet this end.

The basic objection to a general sales tax is as valid in time of war as it is in peace. A general sales tax imposes the heaviest relative burden on the people with the lowest incomes, those who are least

MESSAGE TRANSMITTING THE BUDGET

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A > able to bear the tax. I am confident, however, that there can be worked out a deterrent tax on purchases with a provision for the exemption of subsistence spending. Deterrent taxation must not be allowed to impair the health and efficiency of our people.

I am convinced that the Congress can assist greatly in solving our problems of war finance and in supporting the stabilization program. In the past, wars have usually been paid for mainly by means of inflation, thereby shifting the greatest burden to the weakest shoulders and inviting post-war collapse. We seek to avoid both. Of necessity, the program must be harsh. We should remember, however, that it is a war for existence, and not taxation, which compels us to devote more than one-half of all our resources to war use. An effective program of war finance does not add to the total sacrifices necessitated by war, but it does assure that those sacrifices are distributed equitably and with a minimum of friction.

We should remember, furthermore, that helping to finance the war is the privilege mainly of those who still enjoy the receipt of incomes as civilians during the war. It is a modest contribution toward victory when we compare it with the contribution of those in the fighting forces.

By the end of the current fiscal year, the public debt will total 135 billion dollars. By June 30, 1944, it will be more than 200 billion dollars. Before the present debt limit of 125 billion dollars is reached, the Congress will be requested to extend that limit. To do this is sound, for such a debt can and will be repaid. The Nation is soundly solvent.

PREPARING FOR TOTAL VICTORY

Preparing for total victory includes preparing the base on which a happier world can be built. The tremendous productive capacity of our country, of all countries, has been demonstrated. Freedom from want for everybody, everywhere, is no longer a Utopian dream. It can be translated into action when the fear of aggression has been removed by victory. The soldiers of the fighting forces and the workmen engaged in military production want to be assured that they will return to a life of opportunity and security in a society of free men.

The economic stabilization program, although born of war necessity, will greatly facilitate post-war reconstruction. A determined policy of war taxation will aid in making post-war problems manageable by

THE BUDGET FOR FISCAL YEAR 1944

reducing the volume of required borrowing and supporting the stabilization program. Because of the unavoidable magnitude of interest-bearing debt, taxes probably will never revert to their pre-war level. But substantial reduction from the war level will, nevertheless, be possible and will go hand in hand with a greater human security if the underlying fiscal structure is kept sound.

I shall be happy to meet with the appropriate committees of the Congress at any and all times in regard to the methods by which they propose to attain the objectives outlined in this Message. We are at one in our desire quickly to win this war and to avoid passing on to future generations more than their just share of its sacrifices and burdens.

FRANKLIN D. ROOSEVELT.

JANUARY 6, 1943.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am transmitting herewith a war Budget exceeding 100 billion dollars for the fiscal year beginning July 1, 1943. Last year I called the Budget an instrument for transforming a peace economy into a war economy. This Budget presents a maximum program for waging war.

We wage total war because our very existence is threatened. Without that supreme effort we cannot hope to retain the freedom and self-respect which give life its value.

Total war is grim reality. To us it means the dedication of our lives and resources to a single objective: Victory.

Total war in a democracy is a violent conflict in which everyone must anticipate that both lives and possessions will be assigned to their most effective use in the common effort—the effort for community survival—Nation survival.

In total war we all are soldiers whether in uniform, overalls, or shirt sleeves.

BUDGETING FOR TOTAL WAR

WAR EXPENDITURES

The huge and expanding rate of war expenditures shows our determination to equip our fighting forces and those of our Allies with the instruments of war needed for victory. Monthly expenditures for war purposes amounted to 2 billion dollars just after Pearl Harbor; they now exceed 6 billion dollars and they will average more than 8 billion dollars a month during the fiscal year 1944. For the whole of the current fiscal year total war expenditures are estimated at 77 billion dollars; for the next fiscal year, at 100 billion dollars. These estimates include the net outlays of Government corporations for war purposes and assume only a small rise in prices.

Victory cannot be bought with any amount of money, however large; victory is achieved by the blood of soldiers, the sweat of working men and women, and the sacrifice of all people. But a 100-billion-dollar expenditure program does reflect a national effort of gigantic magnitude. It calls for vision on the part of those in charge of war production, ingenuity of management, and the skill, devotion, and tenacity of the men on the farms and in the factories. It makes possible the expansion of our armed forces necessary to offensive operations, the production of planes and munitions to provide unquestioned superiority, and the construction of ships which will make

THE BUDGET FOR FISCAL YEAR 1944

it possible for us to strike at the enemy wherever he may be. It reflects the determination of the civilians to "pass the ammunition." Moreover, consumers' goods and services will have to be produced in an amount adequate to maintain the health and productivity of the civilian population. And all of this will have to be done while we are withdrawing millions of men from production for service in the armed forces.

Some persons may believe that such a program is fantastic. My reply is that this program is feasible. If the Nation's manpower and resources are fully harnessed, I am confident that the objective of this program can be reached, but it requires a complete recognition of the necessities of total war by all—management, labor, farmers, consumers, and public servants—regardless of party. Production short of these military requirements would be a betrayal of our fighting men.

This Budget does not include the detailed estimates of war expenditures which would reveal information to our enemies. An additional reason for such action at this time is that rapid developments on far-flung battlefronts make it impossible to submit a detailed war Budget for a year ending 18 months hence. I shall continue, however, to report on the broad categories of war expenditures. The following table summarizes our present estimates of war expenditures from general and special accounts and by Government corporations.

Estimates of total expenditures for war, fiscal years 1943 and 1944

(Billions)

Object of expenditures	Fiscal 1943	Fiscal 1944
Munitions.....	543	666
Military and civilian pay, subsistence, and travel.....	18	25
Industrial construction.....	8	3
Other construction.....	2	6
Other, including agricultural lend-lease.....		
Total.....	71	100

This spring I shall submit the necessary detail upon which the Congress can base war appropriations for the fiscal year 1944. In the meantime there are available about 170 billion dollars of unspent war appropriations and authorizations; about two-thirds of this amount is already obligated or committed. Further appropriations will soon be needed to permit letting of contracts with industry for the next year.

MESSAGE TRANSMITTING THE BUDGET

VII

THE PROCUREMENT OF MUNITIONS

Total mobilization of all our men and women, all our equipment, and all our materials in a balanced production program will enable us to accomplish the production goals underlying this war Budget.

Manpower.—Marked progress has been made in mobilizing manpower. In spite of the increase in the armed services, industrial production rose by 46 percent, and agricultural production by 15 percent between calendar years 1940 and 1942. Industrial production has not been delayed and crops have not been lost because of lack of manpower except in a few isolated cases. More than 10 million people have been added to those actively employed or the armed forces since the summer of 1940, 7 million of whom were unemployed and more than 3 million of whom are additions to the Nation's labor and armed forces.

Manpower mobilization is now entering a much more difficult phase. During the calendar year 1943 approximately 6 million people will be needed above present requirements for the armed services and war production. This number can be obtained by transferring from less essential work, and by drawing into the working force people who have not recently sought employment. Vigorous action is required to mobilize and train our reserve of women and young people, to accelerate the transfer of workers to essential industries, and to reduce harmful turn-over and migration of workers in essential industries. It also requires prevention of labor hoarding and elimination of hiring restrictions based on sex, creed, or race. I reiterate my previous recommendation for a unified and adequate rehabilitation service to make available a million persons for war industry and to restore to civil employment persons who are being disabled in the armed forces.

Manpower needs of the armed forces and of war production during the calendar year 1943 can be met without impairment of essential civilian requirements. I stress the important distinction between "essential requirements" and the thousand and one things that are nonessentials or luxuries. The production of these nonessentials wastes manpower at a time when careful economy and greater efficiency in the use of our manpower resources is imperative. Private thought and public discussion of this subject is very necessary.

Equipment.—Were it not for an unprecedented program of conversion and the building up of a new war industry during the past two and one-half years, we could not expect to fulfill the war-production program outlined in this Message.

THE BUDGET FOR FISCAL YEAR 1944

Some progress, but not enough, has been made in spreading war contracts more widely among medium-sized and smaller plants. Further efforts are necessary. In certain cases, of course, saving of manpower and materials requires concentration in those plants best equipped to produce a given commodity.

Materials.—Furthermore, war production is limited by our supply of raw materials. The available materials must be transformed into the maximum of striking power. The production of less urgent or the wrong quantity of items, or poor scheduling of production in any single plant, or in the munitions program as a whole, results in waste of precious materials. The Nation's war production must be so scheduled that the right items are produced in the right amounts at the right time.

War contracts.—The procurement program must achieve maximum production with minimum waste and with the speed essential in time of war. This is the controlling objective not only for the original negotiation of contracts but also for the renegotiation required by law. The law provides for the prevention or recapture of excessive profits, thus supplementing and reinforcing the objectives of the excess-profits tax. I believe that control of the costs of production is of equal importance.

The proper negotiation and renegotiation of contracts must strive to reconcile the avoidance of excessive profits with the maintenance of incentives to economical management.

FARM AND FOOD PROGRAM

Food is a primary weapon of war. An adequate food supply is, therefore, a basic aspect of a total war program. I have placed in the hands of the Secretary of Agriculture full responsibility for determining and fulfilling the food requirements in this war. Our agricultural production is larger than ever in our history but the needs of our armed services and our Allies are so great that a shortage of certain foods is inevitable. The production of the less-needed commodities must be reduced while the production of commodities for war and essential civilian use must be increased. It is imperative also that this increased demand for food be adjusted to available supplies. There will be sufficient volume in our bill of fare but less variety. That may hurt our taste but not our health.

To facilitate this program, I am recommending appropriations for Aids to Agriculture totaling 837 million dollars for the fiscal year 1944. Among the major items included in the 837-million-dollar total are 400

million for Conservation and Use of Agricultural Land Resources; 194 million for Parity Payments on the 1942 crops; and 96 million for Exportation and Domestic Consumption of Surplus Commodities. Other large items included are 64 million dollars for payments under the Sugar Act; 38 million for the Farm Security Administration; and 31 million for reductions in interest rates on farm mortgages.

Prior to the 1943 appropriation acts, annual appropriations for parity payments were made a year in advance of actual need, and acreage allotments for the year ahead were used as a factor in determining payments on the crops of the current year. In the 1943 Budget and appropriation acts, provisions were made to insure that all factors used in determining the amount of parity payments on the crops of a given year would pertain to the program of that year. Also, to bring this item into conformity with our general budgetary practice, the annual cash appropriation for parity payments was omitted, but the Secretary was authorized to incur contractual obligations assuring the cooperating producers of cotton, corn, wheat, rice, and tobacco that such payments would be made, if and as necessary, on their 1942 crops.

The appropriation now requested, therefore, is simply the amount estimated to be necessary to make up to the producers of corn, wheat, and certain minor types of tobacco, the disparity between the market returns from the normal yield of their 1942 allotted acreage and the parity price return from that production. It is expected that no parity payments will be necessary on the 1942 crops of cotton and most types of tobacco.

Since the established national policy is to assure the cooperating producers of these basic crops parity prices on the normal yields of their allotted acreages, I am again recommending that the authority to incur contractual obligations for such payments on future crops be renewed.

On the other hand, I am recommending a reduction of 50 million dollars in the appropriation for Conservation and Use of Agricultural Land Resources. I am also directing the Secretary of Agriculture to utilize the 400 million dollars still provided under this heading as fully and effectively as the basic law will permit to encourage greater production of the crops essential to the war effort. This fund will not be used for restriction of production except of less-needed crops. Payments will be made only to those producers who comply fully in their plantings with the stated war-production goals.

For Exportation and Domestic Consumption of Agricultural Commodities the Budget includes only the permanent annual appropri-

THE BUDGET FOR FISCAL YEAR 1944

tion of 30 percent of customs revenues provided by law, plus reappropriation of unobligated balances. The food-stamp plan, which is a major item of the current program, will be discontinued shortly. Although other items such as school lunch and school milk projects, and the direct distribution of surplus commodities are somewhat expanded, there will be an over-all reduction of about 30 million dollars.

Provision for operations under the Farm Tenant Act and for Loans, Grants, and Rural Rehabilitation are continued on about the same level as for the current year. Small farms, like other small war plants, must be encouraged to make a maximum contribution to the war. I hope the Congress will give as much sympathetic consideration to these smaller and poorer farmers as it has given to the smaller and poorer industrial concerns.

Because no one can immediately foresee all the needs we may encounter in fulfilling our essential war requirements for agriculture, various loan and purchase operations involving contingent liabilities which cannot be exactly predetermined, may be necessary.

CIVILIAN CONSUMPTION

In spite of a 100-billion-dollar war program, civilians can be supplied with an average of about \$500 worth of goods and services during the next year. This implies an average reduction of almost 25 percent in civilian consumption below the record level of the calendar year 1941. Even then most of us will be better fed, better clothed, and better housed than other peoples in the world. Do not let us assume from that statement, however, that there is no need for great improvement in the living conditions of a large segment of our population.

It is the responsibility of the Government to plan for more production of essential civilian goods and less of nonessential goods. Production and distribution of goods should be simplified and standardized; unnecessary costs and frills should be eliminated. Total war demands simplification of American life. By giving up what we do not need, all of us will be better able to get what we do need.

In order to distribute the scarce necessities of life equitably we are rationing some commodities. By rationing we restrict consumption, but only to assure to each civilian his share of basic commodities.

The essentials for civilian life also include a good standard of health and medical service, education, and care for children in wartime as well as in peace.

MESSAGE TRANSMITTING THE BUDGET

II

THE STABILIZATION PROGRAM

We must assure each citizen of the necessities of life at prices which he can pay. Otherwise, rising prices will lift many goods beyond his reach just as surely as if those goods did not exist. By a concerted effort to stabilize prices, rents, and wages we have succeeded in keeping the rise in the cost of living within narrow bounds. We shall continue those efforts, and we shall succeed. By making effective use of all measures of control, we shall be able to stabilize prices with only a limited use of subsidies to stimulate needed production.

Some would like to see the controls relaxed for this or that special group. They forget that to relax controls for one group is an argument to relax for other groups, thereby starting the cost-of-living spiral which would undermine the war effort and cause grave post-war difficulties. Economic stabilization for all groups—not for just the other fellow—is the only policy consistent with the requirements of total war. I have read of this bloc, and that bloc, and the other bloc, which existed in past Congresses. May this new Congress confine itself to one bloc—a national bloc.

Stabilization goes beyond effective price control. Under war conditions a rise in profits, wages, and farm incomes unfortunately does not increase the supply of goods for civilians; it merely invites the bidding up of prices of scarce commodities. The stabilization of incomes and the absorption of excess purchasing power by fiscal measures are essential for the success of the stabilization program. I am confident that the Congress will implement that program by adequate legislation increasing taxes and savings. Thus, we will help to "pay as we go" and make the coming peace easier for ourselves and our children.

CIVILIAN CONTROLS IN TOTAL WAR

Total war requires nothing less than organizing all the human and material resources of the Nation. To accomplish this all-out mobilization speedily, effectively, and fairly we have had to adopt extensive controls over civilian life. We use the Selective Service System to man the armed forces. We are systematizing the movement of labor to assure needed manpower to war industries and agriculture. We regulate prices, wages, salaries, and rents; we limit consumer credit; we allocate scarce raw materials; and we ration scarce consumer goods—all to the end of providing the materials of war and distributing the sacrifices equitably.

Such regulations and restrictions have complicated our daily lives. We save rubber, metal, fats—everything. We fill out forms, carry coupons, answer questionnaires. This is all new. We have overdone it in many cases. By trial and error we are learning simpler and better methods. But remember always that reaching the objective is what counts most. There is no easy, pleasant way to restrict the living habits—the eating, clothing, heating, travel, and working habits—of 130 million people. There is no easy, pleasant way to wage total war.

About 400,000 civilian employees of the Federal Government are engaged in the task of civilian administration for total war. They direct and schedule war production; handle the procurement of food, munitions, and equipment for our armed forces and our Allies; supervise wartime transportation; administer price, wage, rent, labor, and material controls and commodity rationing; conduct economic and propaganda offensives against our enemies and do necessary paper work for the armed forces.

Besides these Government employees, millions of men and women volunteers—who draw no pay—are carrying out tasks of war administration, many of them after long hours at their regular occupation. These patriotic citizens are serving on draft boards, on war price and ration boards, in the civilian defense organization, the war bond campaign, and many other activities. They deserve the gratitude of their countrymen.

More than 1,600,000—or approximately three-fifths—of all Federal civilian employees are engaged directly in war production. They build and load ships, make guns and shells, repair machines and equipment, build arsenals and camps, sew uniforms, operate airports and signal systems. These are the workers in navy yards, arsenals, storage depots, military airfields, and other operating centers. It is scarcely ethical to try to make people believe that these workers are holding down armchair or unnecessary Government jobs.

This huge organization, created overnight to meet our war needs, could not be expected to function smoothly from the very start. Congressional committees and many individuals have made helpful suggestions. Criticism is welcome if it is based on truth. We will continue our efforts to make the organization more fully effective.

Compensation of Federal employees.—Last month the Congress took temporary and emergency action, which will expire April 30, 1945,

relative to compensation for Federal employees. The legislation removed inequities, lengthened the workweek to conserve manpower, increased payment for longer hours, and provided bonus payments for certain employees. The pay increases should be met largely by reducing the total number of employees proportionate to the increase in the workweek.

In the present appropriation requests and expenditure estimates for the fiscal years 1943 and 1944, no allowance has been made for any cost increase resulting from the adjustment in Federal salaries.

The problems of Federal salary administration need further study in the early days of the new Congress for enactment of more permanent legislation for the duration of the war.

"NONWAR" EXPENDITURES

I am making recommendations in the usual detail for so-called "nonwar" appropriations for the fiscal year 1944. This classification includes the same items as in former years.

Actually, the "nonwar" classification now has little, if any, meaning. Most of these expenditures are related to the war effort and many are directly occasioned by it. This "nonwar" category includes, for instance, expenditures for war tax collections, for budgeting, disbursing, and auditing war expenditures, and for statistical and scientific services to war agencies. It includes also such items as the control of white pine blister rust, which I recently discussed. Expenditures for controlling this threat to our timber resources are necessary to avoid possible loss of millions of dollars in lumber from trees which require more than 50 years to reach maturity.

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The following table summarizes reductions analyzed in the report, to which it is now possible to add revised estimates for the fiscal year 1943 and estimates for 1944 as developed in this Budget.

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 (Excluding interest and statutory debt retirement)
 (Millions)

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The table shows a reduction of 36.7 percent in "nonwar" expenditures in the next fiscal year compared with 1939. In appraising these reductions, it should be borne in mind that large items, such as veterans' pensions and social-security grants, are controlled by legal or other commitments.

The most important reductions recommended for the coming year relate to work relief and general public works. Because of present high levels of employment, I am able to recommend elimination of the Work Projects Administration. This action under present conditions does not cast upon the State and local governments more than the proper burden of financing the relief of those who are unable to work. Expenditures for general public works will be greatly curtailed. Continuing projects are directly related to war needs. Others have been discontinued as rapidly as this could be done without risking the loss of the investment already made.

I shall continue to welcome the help of the Congress in effecting further reductions in "nonwar" expenditures through the necessary revision of underlying legislation. It should be pointed out to the Congress and to the Nation, however, that we are fast approaching the subsistence level of government—the minimum for sustaining orderly social and economic processes—and that further reductions will necessarily be of much smaller magnitude than those already achieved.

My recommendations contemplate that in the fiscal year 1944, 96.0 cents of every dollar expended by the Federal Government will be used to pay war costs and interest on the public debt, and only 4.0 cents for all the so-called "nonwar" purposes.

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We cannot hope to increase tax collections as fast as we step up war expenditures or to absorb by fiscal measures alone all excess purchasing power created by these expenditures. We must, therefore, provide a substantial portion of the needed funds by additional borrowing, and we must also use direct controls, such as price ceilings and rationing, for the protection of the consumer. Nevertheless, the more nearly increases in tax receipts follow the increase in expenditures, the better we safeguard our financial integrity and the easier the administration of price control and rationing. All of these measures are interrelated. Each increase in taxes and each increase in savings will lessen the upward pressure on prices and reduce the amount of rationing and other direct controls we shall need.

The revenue acts of the past 3 years, particularly the Revenue Act of 1942, have contributed greatly toward meeting our fiscal needs.

THE BUDGET FOR FISCAL YEAR 1944

In the fiscal year 1944, total general and special receipts under present law are estimated at 35 billion dollars, or almost six times those of the fiscal year 1940. But the increase in expenditures has been even more rapid.

I believe that we should strive to collect not less than 16 billion dollars of additional funds by ~~various methods~~ during the fiscal year 1944.

On the basis of present tax legislation, we expect to meet 34 percent of total estimated Federal expenditures by receipts during the fiscal year 1944. If the objective proposed in this Message is adopted, we shall meet approximately 50 percent of expenditures during the fiscal year 1944.

THE NEED FOR A BALANCED AND FLEXIBLE REVENUE SYSTEM

I hope that the Congress in working out the revenue program will consider that the fiscal measures must be designed not only to provide revenue, but also to support the stabilization program as well. The cost of the war should be distributed in an equitable and fair manner. Furthermore, care should be taken that the fiscal measures do not impair but actually promote maximum war production. Finally, it is more important than ever before to simplify taxation both for taxpayers and for those collecting the tax, ~~in order to conserve scarce manpower.~~

~~THE REVENUE PROGRAM~~

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Fairness requires the closing of loopholes and the removal of inequities which still exist in our tax laws. I have spoken on these subjects on several previous occasions.

~~In order to help to deter luxury or nonessential spending and thus assist stabilizing consumption and prices as a war measure I suggest that the Congress study a tax to meet this end.~~

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Handwritten: and to put on bills as far as feasible as a pay-as-you-go basis

able to bear the tax. ~~I am confident, however,~~ that there can be worked out a deterrent tax on purchases with a provision for the exemption of subsistence spending. Deterrent taxation must not be allowed to impair ~~the health and efficiency~~ of our people.

I am convinced that the Congress can assist greatly in solving our problems of war finance and in supporting the stabilization program. In the past, wars have usually been paid for mainly by means of inflation, thereby shifting the greatest burden to the weakest shoulders and inviting post-war collapse. We seek to avoid both. Of necessity, the program must be harsh. We should remember, however, that it is a war for existence, and not taxation, which compels us to devote more than one-half of all our resources to war use. An effective program of war finance does not add to the total sacrifices necessitated by war, but it does assure that those sacrifices are distributed equitably and with a minimum of friction.

We should remember, furthermore, that helping to finance the war is the privilege mainly of those who still enjoy the receipt of incomes as civilians during the war. It is a modest contribution toward victory when we compare it with the contribution of those in the fighting forces.

By the end of the current fiscal year, the public debt will total 135 billion dollars. By June 30, 1944, it will be more than 200 billion dollars. Before the present debt limit of 125 billion dollars is reached, the Congress will be requested to extend that limit. To do this is sound, for such a debt can and will be repaid. The Nation is soundly solvent.

PREPARING FOR TOTAL VICTORY

Preparing for total victory includes preparing the base on which a happier world can be built. The tremendous productive capacity of our country, of all countries, has been demonstrated. Freedom from want for everybody, everywhere, is no longer a Utopian dream. It can be translated into action when the fear of aggression has been removed by victory. The soldiers of the fighting forces and the workmen engaged in military production want to be assured that they will return to a life of opportunity and security in a society of free men.

The economic stabilization program, although born of war necessity, will greatly facilitate post-war reconstruction. A determined policy of war taxation will aid in making post-war problems manageable by

aid savings

reducing the volume of required borrowing and supporting the stabilization program. Because of the unavoidable magnitude of interest-bearing debt, taxes probably will never revert to their pre-war level. But substantial reduction from the war level will, nevertheless, be possible and will go hand in hand with a greater human security if the underlying fiscal structure is kept sound.

I shall be happy to meet with the appropriate committees of the Congress at any and all times in regard to the methods by which they propose to attain the objectives outlined in this Message. We are at one in our desire quickly to win this war and to avoid passing on to future generations more than their just share of its sacrifices and burdens.

JANUARY 6, 1943.

FRANKLIN D. ROOSEVELT.

Pages 264-274, dated 1/11/43,
placed in Book 603.



TREASURY DEPARTMENT

WASHINGTON

January 5, 1943.

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

A meeting was called at 10:00 A.M., Tuesday, January 5, 1943, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senators:
Byrd
Eyre
McKellar
Bureau of the Budget:
Mr. Lawton.

Senator Byrd arrived at 10:15 at which time the meeting began. Senator Eyre arrived at 10:30 and left about 1:00. The Committee reporter made a stenographic transcript of the meeting. Reporters were present.

Senator Byrd opened the meeting and said the Committee would hear testimony of members of the staff of the Bureau of the Budget concerning the Federal Works Agency. At 10:30 General Fleming of the Federal Works Agency and his staff, and Mr. Williams of the National Youth Administration and his staff arrived.

Mr. Aubrey Williams, Administrator, National Youth Administration, and members of his staff were present. At 12:30 P.M., when it became apparent there would be no opportunity for Mr. Williams to testify, he was excused and requested to return at 10:00 o'clock on Friday morning next.

Practically all of the interrogation of witnesses was done by Senator McKellar.

Federal Works Agency

Messrs. Dodd and Rigby of the Bureau of the Budget were present to furnish information concerning the Federal Works Agency. Mr. Dodd presented an overall tabular statement showing appropriations for regular and National Defense purposes for 1941, 1942 and 1943. Total appropriations, exclusive of WPA, in 1941 amounted to



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\$194,000,000, in 1942 to \$587,000,000, including National Defense activities, and in 1943 to \$143,000,000. The 1942 increase included \$320,000,000 for the Community Facility program.

In reply to inquiries from Senator McKellar Mr. Dodd furnished considerable detailed information concerning the appropriations for the Federal Works Agency. He stated there has been no new public building construction undertaken for 1943 and that \$8,000,000 will be spent this year for completing projects previously started. Senator McKellar was interested in the Public Roads program and was informed that of the amount authorized there is unappropriated \$240,000,000. Mr. Dodd said that \$330,000,000 was authorized for access and strategic roads, flight strips and advanced planning, of which \$54,000,000 has been appropriated.

Senator McKellar inquired as to the status of the action in freezing the Public Roads appropriations and Mr. Dodd explained the nature of budgetary reserves. He distinguished between reserves from current-year appropriations for savings and contingencies and reserves for obligations in future years. Senators McKellar and Byrd seemed to be quite surprised that the Budget Bureau and agencies could set aside appropriations made for specific purposes for a number of years and spend such funds without further action by the Congress. Mr. Dodd pointed out that this was only possible in those cases where appropriations are made to be available until expended and also pointed out as an illustration appropriations for reclamation projects. Mr. Dodd was asked to furnish the Committee a complete statement in detail showing amounts held in reserve under these categories.

General Fleming testified at 11:23 A.M. He said he had only a short general statement to make and that the Commissioners in charge of the various constituent units of the Federal Works Agency were present and would testify with respect to their particular activities.

General Fleming confined his testimony to a statement in connection with the data previously furnished to the Committee in reply to its questionnaire for information relative to personnel. He called attention to the accomplishments of the Federal Works Agency and particularly of the Office of the Administrator of Federal Works in reducing personnel and predicted that a further reduction would be made during the calendar year 1943. He also criticized the Classification Act and said many of the difficulties in personnel administration are traceable to this Act. He pointed out that the classification formula in effect at the present time encourages supervisors and section chiefs to build up large organizations because in that way they are able to get higher grades for their positions. He recommended that agencies be allowed to employ persons and to fix their classification in accordance with the importance of their

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work, such action to be subject to a post-review by the Civil Service Commission. He also recommended that agencies be allowed to carry forward amounts which they can save from their appropriations from one year to another. He pointed out that there is no incentive to practice economy because if any funds are saved in one year, appropriations for the subsequent year are reduced by the amount of the savings and, therefore, there is a general practice at the end of a fiscal year to spend all available funds.

General Fleming also pointed out that it cost his agency \$2,520.17 to compile the information required by the Committee's questionnaire. Senator Byrd was quick to state for the benefit of the reporters present that the Committee was forced to request the information from various agencies because it was not obtainable from any other part of the Government.

Senator Byrd said he understood the Federal Works Agency made a grant of \$2,500,000,000 to build a water system in Mobile, Alabama, notwithstanding the fact that the City of Mobile had raised funds through a bond issue for this purpose. He also said he understood the Federal Works Agency had acquired certain barges which it was unable to use.

Mr. Baird Snyder, Assistant Administrator of Federal Works Agency, explained the details of these transactions to the Committee.

Commissioner Thomas H. MacDonald of the Public Roads Administration made a short statement in which he pointed out that the blanks furnished by the Committee were so arranged as not to reflect a correct status of the personnel of his organization. He said the blanks as filled out show that Public Roads Administration personnel increased from 3,026 in September, 1939 to 3,474 on October 31, 1942. He stated this was not a true picture because the Public Roads Administration had 1,474 employees assigned to special projects, such as the Alaska Road and the Inter-American Highways, and that as a matter of fact the regular employees at present are only 1,996 as compared to 3,026 in 1939.

Mr. MacDonald said that no new road projects had been started since December 2, 1941 unless they were previously certified by the War, Navy, or other defense agency as being necessary for war purposes. He furnished certain details as to the extent of public roads activities at the present time, and in reply to an inquiry from Senator McKellar he stated there was approximately \$230,000,000 of road appropriations authorized for allotment to States in the current year, of which approximately \$50,000,000 will be used and about \$170,000,000 will not be used. Some of the unused authorizations will expire on July 1, 1943 unless carried forward by the next appropriation bill. Senator McKellar asked that the matter be looked into so that Mr. MacDonald when presenting his 1944 appropriation be

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the Appropriations Committee will be in a position to show what is needed for road purposes.

Commissioner W. E. Reynolds of Public Buildings Administration made a brief statement pointing out the extent to which personnel of his organization had been reduced in so far as construction personnel was involved, but pointed out that the increase in the space occupied in Federal buildings in Washington and the Field accounted for a large increase in operating and maintenance personnel.

Colonel Gilmore, Commissioner of Public Works Administration, made a brief statement concerning the activities of his organization. He said at the present time there were only 22 uncompleted projects and most of these were large. Funds have been allocated and remain available until expended for the completion of these projects. He estimated that practically all of the projects would be completed by the end of the present fiscal year except the project involving the Chicago subway. He said his organization was practically liquidated and at the present time had nearly completed microfilming its records which were contained in about 15,000 file cases.

Mr. George H. Field, Deputy Commissioner of Work Projects Administration, submitted a statement concerning the status of the liquidation of that organization. He said arrangements had been made to turn over to the War and Navy Departments on February 1, 1943 all defense projects and that it would probably be necessary to complete some projects after that date, especially those which involve contributions by State and local sponsors. In any event he estimated that projects would be terminated in all States by June 1, 1943 and that approximately \$50,000,000 of the current appropriation would be saved. He said it is estimated that Work Projects Administration has an inventory of about \$20,000,000 in furniture and other equipment and arrangements were being made to transfer this equipment to other Federal agencies or to the Procurement Division of the Treasury.

Mr. Field stated that because of the situation in Puerto Rico personnel on WPA projects in that area had increased from 18,955 on September 1, 1942 to 37,180 on December 2, 1942, and that through June 30, 1943 the monthly employment would average approximately 40,000. He said he thought some other agency would have to take over the situation in Puerto Rico when WPA was through. He stated that one of the Pennsylvania statistical projects had been taken over in its entirety by the Selective Service System and that other projects would be taken over by local sponsors. Senator McKellar observed that he understood the President had directed the organization to liquidate its activities, but if such

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activities were going to be turned over to other agencies, he thought this was a mistake because he believed the Work Projects Administration could probably carry them on at a much lesser cost than new agencies.

The Committee adjourned at 1:45 P. M.

W. Heffelfinger

January 5, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Harold Thomas arrived this morning in accordance with your previous agreement with him and I discussed with him the project that you had outlined in your earlier talks with him. While he was in my office Dan Bell called to tell me that you wished me to have Messrs. Graves, Thompson, Buffington and Crampton in to discuss the project with him and I sent for them and all came to my office except Crampton, who was ill at home.

Mr. Thomas understands that his assignment is to survey our machinery for promoting the sale of Government securities, including both the War Savings organization and the Victory Fund organization and to make recommendations to you; that his work is to be in no sense administrative but merely an inquiry for the purpose of making recommendations. He is to survey the organizations not only for the purpose of bringing about a better integration of their work, but is also to take a look at the promotional media used and the content of the promotional copy and ideas.

Mr. Thompson arranged to provide an office for him, which will probably be the one vacated by Crampton, who is moving into Kuhn's former office. Mr. Thomas will not go on the Treasury payroll but Mr. Thompson will make arrangements for his traveling and subsistence expenses. He is to begin his inquiry by talking with the various people here and later is to make some field inquiries. We stressed that to be of greatest value the work should be completed and recommendations made to you as early as possible. I told him that anything that he could report within a month would be immeasurably more valuable than any later report. Crampton came in during the afternoon and I reported to him your desire that he should assist Thomas in making his contacts.

MS

SEATTLE POST-INTELLIGENCER

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OFFICE OF THE PUBLISHER

January 5, 1943

Dear Henry:

Many thanks for sending me the copy of the letter from the alleged economists opposed to advertising.

Anna and I are leaving on Thursday for Washington, and expect to arrive Sunday. We hope very much that you and Elinor might be able to spare an evening for us.

We will call you when we get in.

With warm personal regards,

Sincerely,

John
John Boettiger.

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



Established 1863

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Miss Clancy ✓
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JAN 5 - 1943

My dear Senator:

I refer to your letter of December 4, 1942, requesting certain information concerning Foreign Funds Control. I am pleased to note your interest in this important part of the Government's economic warfare activities.

I am enclosing a memorandum relating to the operation and policy of Foreign Funds Control which we have prepared in response to your request. For your further information I am also enclosing the following documents relating to Foreign Funds Control:

- (1) Pamphlet entitled "Administration of the Wartime Financial and Property Controls of the United States Government";
- (2) Pamphlet entitled "Documents Pertaining to Foreign Funds Control";
- (3) "Justification of Estimates, Foreign Funds Control" furnished on December 5, 1942, to the Subcommittee of the Committee on Appropriations, House of Representatives, in Charge of the Treasury Department Appropriation Bill.

Please be assured that we will do our utmost to furnish you with information regarding Foreign Funds Control. I know you will appreciate that many of the activities of Foreign Funds Control are highly confidential both from the point of view of economic warfare and our foreign relations, and that you will appreciate my reluctance in terms of the public interest in furnishing a detailed report to Congress on such matters at this time. However, I would welcome the

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opportunity to go over these matters with you personally at any time you suggest and, of course, we will be glad to furnish further data upon any particular case or class of cases upon request.

Very truly yours,

(Signed) Randolph Paul

Acting Secretary of the Treasury.

Honorable Walter F. George,
Chairman, Committee on Finance,
United States Senate,
Washington, D. C.

Enclosures.

AFL:lhb 12/21/42

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MEMORANDUM FOR SENATOR GEORGE CONCERNING FOREIGN FUNDS
CONTROL OPERATIONS AND LICENSING POLICIES

I. Transactions prohibited by the freezing orders.

Under the freezing orders all funds held by any individual, business enterprise, bank, or other person for any blocked foreign country or national are frozen and may not be paid or withdrawn unless licensed by Foreign Funds Control. Furthermore, no financial transaction with a blocked country or national or in which either has an interest may be effected unless licensed by Foreign Funds Control. As a general rule, it may be stated that any transaction involving the property of a blocked country or national requires a Foreign Funds license. This control relates not only to international transactions but also governs purely domestic transactions in which a blocked country or national has an interest.

In addition to the foregoing, certain special prohibitions apply to securities and currency. Securities having a stamp or seal indicating that they have been in a blocked country may not be dealt in unless a Foreign Funds Control clearance certificate has been attached. Securities or currency being brought into the United States from any foreign country must be placed in a special blocked account from which they may be released only pursuant to license. The freezing order also prohibits persons within the United States from acquiring an interest in securities physically located outside of the United States. These regulations are to prevent the disposition by the Axis of securities and currency looted from the occupied countries.

At present about 35 countries are blocked. This includes all of the countries of continental Europe (except Turkey and Russia) as well as China and Japan and all territories and possessions of such countries.

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A person is a national of a blocked country if he has been domiciled in or has been a citizen, resident, or subject of such country since the date on which the country was frozen. Corporations or other forms of business organizations are nationals of a country if they were organized in, or have been doing business in, such country or if the organization is substantially owned or controlled by persons who are nationals of a blocked country. The freezing order further specifies that all persons are nationals of blocked country to the extent that they are acting for the benefit of or on behalf of nationals of such blocked country. The Secretary of the Treasury is empowered to determine, upon reasonable cause, that any person is a national of a blocked country. In addition to the foregoing some 18,000 persons in Latin America and elsewhere named on the Proclaimed List are subject to the freezing controls.

II. Licensing Procedure.

In view of the objectives of the freezing orders, the field of financial and commercial operations which were made subject to control is necessarily broad in scope. As a consequence, it was necessary to develop a flexible system for authorizing those transactions which are desirable or unobjectionable when effected in a prescribed manner and subject to appropriate limitations and controls. For this purpose, the Treasury Department developed its system of licensing under the freezing order.

The broad policies of Foreign Funds Control are formulated by the Secretary of the Treasury in conjunction with other agencies of the Government having an interest therein. This includes in particular the Department of State, the Board of Economic Warfare, and the Department of Justice. As the general policies are developed, reviewers are authorized to act upon applications for transactions in accordance with these policies. Many of these policies are embodied in 14 general rulings, 20 public circulars, 90 general licenses, and eight public interpretations which have been published. In this connection, see the attached pamphlet entitled Documents Pertaining to Foreign Funds Control. At present the great bulk

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of the transactions being effected pursuant to license under the freezing order are effected under the general licenses, and specific licenses are issued with respect to only the small percentage of permitted transactions which do not fall within their scope.

Since the inception of the freezing control approximately 600,000 applications for licenses have been filed. These applications are filed with the twelve Federal Reserve Banks, which act as agents of the Treasury Department in the administration of the freezing orders. In order to decentralize the operations of the control, the Federal Reserve Banks have been empowered to act, without prior reference to Washington, upon all applications in areas in which the Foreign Funds Control policy is well defined. At present the bulk of the applications filed are handled in the Federal Reserve Banks, which forward to the Treasury Department for action only those cases which, by virtue of their unusual or strategic character, require special attention. Thus, during the month of November 1942, 17,754 applications were acted on by the Foreign Funds Control. Of this number only 4,387 were forwarded to the Treasury Department and 13,367 were acted on by the Federal Reserve Banks without prior reference to Washington. Approximately 30 percent of all applications were denied.

To review these applications, the Federal Reserve Banks maintain technical staffs totalling approximately 100 well-trained persons who are organized into sections specializing in particular types of transactions. The Foreign Funds Control maintains in Washington approximately 80 additional technical experts who review problem cases forwarded to the Treasury for action and who direct the Federal Reserve Banks as to licensing policy. Under the administrative procedure difficult applications are referred to senior members of the staff and instructions concerning policy are constantly given to reviewers. The more important cases and questions of policy are passed on by the Assistant to the Secretary directly in charge of the administration of Foreign Funds Control, and many of them are cleared with the General Counsel and the Secretary of the Treasury as well as with other divisions of the Treasury Department, and with other appropriate governmental departments or agencies.

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It is to be noted that when an application is denied, it is the policy of Foreign Funds Control to give renewed consideration to the case upon receiving a new application containing such additional facts and supporting data as may have been required. Applications for reconsideration are reviewed by members of the staff who are senior to the persons passing upon the original denial. The control has consistently been liberal in affording ample opportunity for persons to obtain reconsideration of applications which have been denied. Any applicant or his agent may appear in person at the Treasury Department or any Federal Reserve Bank to be heard in connection with his application.

All legal questions in connection with the administration of Foreign Funds Control, as well as all public documents, are handled by the Office of the Chief Counsel of Foreign Funds Control, acting under the supervision of the General Counsel of the Treasury Department.

As has been previously stated, the licensing activities of the Foreign Funds Control are designed to permit a wide variety of legitimate transactions to be effected under appropriate safeguards. The licensing activity is, however, only a small part of the work necessary for the effective administration and enforcement of the freezing controls. In this connection it is important to note that less than half of the professional personnel employed by Foreign Funds Control in Washington and in the Federal Reserve Banks is engaged in licensing operations. The majority of the professional staff is concerned with the use and development of other means for preventing our enemies utilizing the financial facilities of the United States. Among the activities, aside from licensing operations, with which Foreign Funds Control is concerned are the following:

1. The analysis and coordination for the purpose of economic intelligence of information obtained from censorship intercepts and numerous other sources with respect to the financial operations in this hemisphere of persons whose activities are suspicious or irregular.

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2. The consideration of persons for listing on the Proclaimed List and the administration of controls relating to such persons. In connection with the Proclaimed List, it is necessary that adequate standards of conduct be laid down concerning the relations of Americans in foreign countries with Proclaimed List nationals and the coordination of the American standard of conduct with that which the British Government requires of their nationals with respect to persons placed on the British Statutory List.

3. The blocking on an individual basis of those persons, either in the United States or abroad, who are acting for the benefit or on behalf of other blocked nationals in a manner such as to require their activities to be brought under control.

4. The investigation and prosecution where desirable of persons engaged in activities in violation of the freezing control.

5. The cooperation with Latin American Governments in the establishment by such Governments of freezing controls and the coordination of such controls for our mutual benefit.

6. The tracing and blocking of assets owned by blocked nationals or persons in enemy territory which went under cover prior to the freezing order.

The foregoing are furnished by way of example of the non-licensing activities of the Foreign Funds Control.

III. Licensing policies of Foreign Funds Control

The policies followed in licensing transactions under the freezing order, many of which are embodied in the general licenses or in other public documents, can be generally summarized as follows with respect to the more important categories of transactions:

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A. Transactions involving communication with enemy territory.

No transaction prohibited by the freezing order is licensed if it involves trade or communication with enemy territory. This restriction cuts across all Foreign Funds Control licenses, both general and specific, and applies to all categories of transactions.

B. Treatment of individuals residing within the United States.

It has been our policy to free the accounts of individuals who are blocked nationals by virtue of citizenship or domicile in a blocked country but who are resident in the United States. In general it may be stated that individuals within the United States are not subject to the control unless they have been blocked on an individual basis by the Treasury Department. General License No. 42 frees the accounts of any person resident in the United States as of February 23, 1942, and blocked nationals entering the United States after that date are freed on an individual basis. American citizens returning from a blocked country are automatically freed under General License No. 28.

Individuals within the United States who are blocked nationals may, prior to having their accounts unblocked, obtain up to \$500 a month for living expenses under General License No. 11.

C. Persons within the United States blocked on an individual basis.

The accounts of persons interned for the duration are blocked and licenses are issued in consultation with the War Department for release of amounts sufficient for the support of dependents and for transfers to internment camp authorities of small amounts for the internees' personal expenditure.

In the case of other persons within the United States whose accounts have been specifically blocked by the Treasury Department, three to six month licenses are issued authorizing withdrawals of amounts necessary for living expenses. Such persons are deprived of the privilege of most general licenses, and any financial transactions are licensed on a specific basis only after careful consideration.

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General Ruling 13 accords to all such persons the right of a hearing on the question of their right to be unblocked.

D. Operation of business enterprises within the United States.

Business enterprises owned or controlled by enemy interests are recommended for vesting by the Alien Property Custodian. When the Alien Property Custodian assumes jurisdiction over such business enterprises, the enterprise is freed from the freezing control.

Business enterprises which are nationals of other blocked countries (neutral or occupied countries) are given three to nine month licenses authorizing their operation subject to appropriate restrictions designed to safeguard the interests of the United States. Before obtaining such blanket operating licenses, the business enterprise must file with the Treasury Department a standard statement giving pertinent information concerning the ownership, control, and operations of the business enterprise. The character of the blanket operating license is varied to fit the characteristics of each enterprise, and occasional reports are required in order to enable the Treasury Department to check on their operations.

E. Remittances.

Persons within the United States are allowed to remit funds to friends and relatives in blocked countries in reasonable amounts through ordinary banking channels. General License No. 32 authorizes monthly remittances not to exceed \$100 per individual or \$200 per household to persons who are not citizens of the United States. General License No. 33 authorizes monthly remittances not to exceed \$500 to any American citizen residing abroad and the sum of \$1,000 travelling expenses to enable him to return to the United States. Remittances for living expenses of larger amounts than those allowed in the general licenses are licensed on an individual basis in exceptional cases.

United States citizens in enemy territory are able to obtain subsistence funds through the State Department.

Remittances of funds to neutral European countries for transit visas and for travel expenses to the Western Hemisphere, in order to permit refugees to leave Europe, are licensed on an individual basis.

F. Transactions with the neutral European blocked countries (Portugal, Spain, Sweden, and Switzerland):

General Licenses (Nos. 49, 50, 52, and 70) have been issued, each of which authorizes transactions with persons within any one of these countries, provided no national of any other blocked country has an interest in the transaction. Three of these neutral countries have established a procedure whereby a representative of the government certifies that the transaction is licensed under the general license. The Swiss Government has established no such procedure and, accordingly, the license is limited to transactions handled by the Swiss Government or through the Central Bank account. Under these licenses remittances, trade transactions, and transactions of a similar character can be effected provided no national of any other blocked country has an interest in the transaction.

G. Foreign Trade transactions.

Inasmuch as effective controls over foreign trade are exercised by other governmental agencies (export control by BEW; priorities by WPB; shipping space by War Shipping Administration), Foreign Funds Control allows most trade transactions to take place under general licenses.

Most trade transactions with the blocked European neutrals are licensed under one of the general licenses referred to in Section E. Trade with blocked nationals in Latin America, the British Empire, or blocked territory under the control of friendly refugee governments (Dutch West Indies, Belgian Congo, St. Pierre and Miquelon, etc.) is authorized by General License No. 53. Applications for trade transactions which cannot be effected under outstanding general licenses are referred to BEW, whose recommendations are followed if the transaction is to be financed in a manner consistent with Foreign Funds policy.

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H. Sale of merchandise held in this country for foreign account.

In this type of case Foreign Funds Control has not only granted the usual permissive licenses authorizing the sale of merchandise for use in the war effort, but in collaboration with BEW has used its powers under section 5(b) of the Trading with the enemy Act to issue licenses of a directive character requiring persons holding such stranded merchandise to sell the merchandise in order to clear needed storage space and to ensure that the materials will be available for immediate use. In all such cases the proceeds of the sale are required to be placed in an appropriate blocked account.

I. Security transactions.

General License No. 4 authorizes the sale at market value of securities held in blocked accounts provided the proceeds are returned to the blocked account. The investment of blocked funds in securities is licensed on a specific basis except that certain of the large banks and security houses which have a substantial number of blocked security accounts possess blanket licenses authorizing them to purchase securities on a security exchange for blocked accounts. In all cases it is required that the securities be returned to the blocked account from which the funds used in their purchase were taken.

Public Circular No. 14 insures that the general licenses specified in Section E, and any blanket security-purchasing license, do not authorize the acquisition by any person of more than 1 percent of the outstanding stock of any corporation, thereby enabling Foreign Funds Control to pass specifically on any purchase of a substantial interest in an American corporation by a blocked national. Applications for licenses authorizing foreigners to purchase substantial interests in strategic industries would be granted only after the matter has been carefully considered by appropriate governmental agencies. In other instances blocked nationals might be allowed to acquire substantial interests in a business enterprise, in which case the business enterprise itself would be blocked and its operation subject to Treasury license.

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Applications for the release of securities imported into the United States are approved only upon receipt of evidence indicating that there is no enemy interest in the securities and that the securities were not looted in occupied countries. (A similar policy is followed with respect to the licensing of currency imported into the United States.)

In the case of securities containing a stamp or mark indicating that they have been within a blocked country, Foreign Funds Control attaches a clearance certificate, upon receipt of evidence that the security has been within the United States since prior to the occupation of the country whose seals or stamps are contained on the security.

General License No. 27 permits the collection of coupons or payment of interest with respect to securities held in blocked account and insures that the proceeds are blocked.

J. Patents.

Jurisdiction over United States patents owned by foreigners is with the Alien Property Custodian (Public Circular No. 15), and General License No. 72 authorizes all transactions incidental to the filing and prosecution within the United States, by a blocked national, of applications for patents. General License No. 72A authorizes persons within the United States to perform the transactions necessary to the obtaining and upkeep of patents in blocked countries.

K. Transactions with China.

Our general objective in cases falling within this category has been that of strengthening the foreign exchange controls and the financial position of the National Government of the Republic of China. General License No. 75 authorizes remittances in any amount to any person in China through channels which will insure that the proceeds accrue to the Central Bank of China. General License No. 58 authorizes all trade transactions between the United States and China under conditions designed to accomplish the objective specified above.

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L. Payments to governmental entities.

General License No. 5 authorizes the debiting of any blocked account to pay taxes to the United States Government or the government of any state, county, city, or any other political subdivision of the United States.

M. Transactions with persons named on the Proclaimed List.

Licenses are issued authorizing persons to engage in new business or to continue to deal with a Proclaimed List national only in the very exceptional case in which such transaction contributes substantially to the war effort. Decisions to approve such applications would be made jointly by the State Department, BEW, and Treasury. Licenses are issued authorizing Proclaimed List nationals to pay American exporters for merchandise exported prior to the date on which the person was placed on the Proclaimed List. American firms, in the process of manufacturing merchandise ordered by a person whose name is subsequently added to the Proclaimed List, are allowed to forward the merchandise to the Proclaimed List national only in the rare case in which the article could not be sold to any other person and failure to allow the consummation of the transaction would impose undue hardship upon the American manufacturer.

N. Transactions of friendly governments and diplomats.

The personal accounts of diplomatic representatives to this country of refugee governments of blocked countries have been freed by specific license.

The operation of the accounts of the governments themselves is licensed by the Treasury in consultation with the Department of State.

WALTER F. GEORGE, GA., CHAIRMAN
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 ROBERT A. TAFT, OHIO

United States Senate

COMMITTEE ON FINANCE

December 4, 1942

CHRISTIE S. KENNEDY, CLERK

Hon. Henry Morgenthau, Jr.

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action taken thereon and with a statement of the procedure followed in determining the questions of policy, fact or law involved.

All reports made to this request will be treated as strictly confidential by the chairman of the Joint Committee on Internal Revenue Taxation and by the committee itself.

Most respectfully,

Walter F. George
Chairman

MEMORANDUM FOR THE FILES

January 5, 1943

Mr. Paul and I called on Senator George on Tuesday, January 5, by appointment.

Mr. Paul handed Senator George a loose-leaf book which contained the following:

1. An unsigned copy of the letter addressed to him by the Secretary, as typed on December 21, 1942.
2. A copy of a memorandum entitled "Memorandum for Senator George Concerning Foreign Funds Operations and Licensing Policies".
3. A copy of Senator George's letter to the Treasury on December 4.
4. The pamphlet entitled "Administration of the Wartime Financial and Property Controls of the United States Government", prepared in June, 1942.
5. A copy of a memorandum of the "Justification of Estimates, Foreign Funds Control", furnished to the House Subcommittee on Appropriations December 5, 1942.

There was also handed to the Senator at the same time a bound volume of the Administration of the Wartime Financial and Property Controls of the United States Government and the pamphlet entitled "Documents Pertaining to Foreign Funds Control".

Mr. Paul explained to Senator George that he was glad to furnish him with full information with regard to any matters of interest to him in connection with Foreign Funds Control, but that certain of his activities had to be treated on a very confidential basis. At Mr. Paul's request, I then elaborated on some of the confidential areas dealt with by the Foreign Funds Control as discussed in the attached Memorandum Concerning Certain Policies of Foreign Funds Control marked "Secret" and which was not handed to Senator George. The Senator said that he was not asking for any confidential information and that he felt sure that what we had furnished to him would take care of the matter. He said that after he had gone over the matter, if he had any further questions, he would get in touch with us.

- 2 -

Mr. Paul said that he would have the Secretary sign the * original of the letter, typed December 21, 1942, and transmit it to the Senator in confirmation of the unsigned carbon which was handed to the Senator. After the conference, I sent to Miss Kennedy, Senator George's secretary, a copy of the public handbook on the administration of our controls to replace the English-Spanish confidential handbook of June, 1942, which was included in the loose-leaf volume handed to the Senator.

/s/ J. W. Pehle

* Note for file

Mr. Morgenthau not here. Paul took letter to D. W. Bell, Acting Secretary, for signature. Paul signed as Acting Secretary, Foreign Funds, at Mr. Bell's suggestion.

JWPehle:mlh 1/6/43

SECRET

THE JOINT CHIEFS OF STAFF
WASHINGTON

299

January 5, 1943.

Mr. Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

I am very sorry to hear that you have been ill and sincerely hope that you have a rapid recovery.

I took up the question of your proposed visit with General Marshall who telegraphed the commander concerned for his comment. A reply was received indicating that a visit from you would be very helpful, but that there were certain considerations which made it inadvisable for you to arrive prior to February 15. General Marshall asked me to inform you that he concurs in this view.

I am very sorry that this note is so obscure and that I am unable to go into the reasons for this decision in more detail, but I shall be pleased to call at your office as soon as you are well and explain the matter to you more openly.

Sincerely yours,


JOHN R. DEANE,
Brigadier General, U. S. Army,
Secretary.



SECRET

File

300

Ordered Comdr. Herford
to tell Adm. W. K. Keoche
"OK - go ahead on
this plan."

9:15 A.M.

1/15/43

Stephen

From: Lieut. Stephens



DIS T 61 E

301

THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

5 January, 1943.

MEMORANDUM FOR - The Secretary of the Treasury.

Subject: Meteorological course for Lieutenant Commander Robert E. McCaffery.

Inclosure: (A) Weather Bureau "Suggested Course of Study (one month) for Pilot Training in Airway Forecasting."

1. Lieutenant Commander Robert E. McCaffery, who has been selected to be Sinton's relief as your pilot, has had, in addition to several years' practical experience with flying weather, the following formal training in meteorology:

(a) General course in weather, clouds, high and low pressure areas, etc., in conjunction with seamanship classes at the Academy while a Cadet.

(b) Aeronautical aerology course included in the ground school curriculum while undergoing flight training at Naval Air Station, Pensacola, Florida.

(c) Completed and awarded diploma by Coast Guard Institute in 1941 for correspondence course in Meteorology prepared by Communication Department of Pan American Airways System.

(d) McCaffery will receive twelve hours aerology instruction supplemented by a reading course in connection with the C.A.A. Instrument Training at Houston, Texas. This aeronautical meteorology course consists of up-to-date information necessary for a pilot to intelligently interpret hourly teletype weather sequences, weather maps, and weather conditions he may encounter in flight.

2. It is believed that you desire that McCaffery take some meteorological course which does not necessarily qualify him as a full fledged weather forecaster but rather a course which will give him sufficient knowledge to intelligently interpret and read weather maps, to thoroughly understand forecasters' "language", to interpret hourly weather sequences, and, to recognise various weather conditions en-

MEMORANDUM FOR
The Secretary of the Treasury

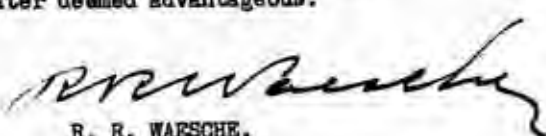
-2-

5 January, 1943.

countered in flight. The investigation of schools available was made with the above in mind.

3. No military meteorology courses are available which are deemed necessary or suitable for McCaffery. Various types of civilian meteorology classes are held in the Washington area, but none of these appear to be what would be desirable for an aviator.

4. In view of the lack of a suitable formal meteorology course, the Chief of the Weather Bureau, Commander F. W. Reichelderfer, was contacted and the situation explained. As a result of a conference between Commander Reichelderfer, Mr. B. C. Haynes, who is the Weather Bureau's airways liaison official, and Lieutenant Commander Sinton, the practical course outlined in Inclosure (A) was suggested. This course will require considerable study and in addition, McCaffery will have the benefit of advice and instruction from the Weather Bureau's leading meteorologists and forecasters. Commander Reichelderfer has taken a personal interest in the matter, and I have been assured McCaffery will have free access to all the various departments of the Weather Bureau here in Washington. The course will be flexible and will continue longer than the proposed month if later deemed advantageous.


R. R. WAESCHE.

UNITED STATES DEPARTMENT OF COMMERCE
WEATHER BUREAU
WASHINGTON

January 6, 1945

MEMORANDUM

Chief of Bureau:

Subject: Suggested Course of Study (1 month) for
Pilot Training in Airway Forecasting.

For Study

1. Analysis of a Series of Surface Weather Maps
2. Instructions for Airway Meteorological Service "Circular N"
3. Circular and Multiple Address Letters relating to Airway Forecasts
4. Correspondence Course - Introduction to Air Navigation -
Lesson IV - Upper Winds (plot upper wind charts and make upper wind forecasts)
5. Codes - a) Symbol Weather Reports
b) Pilot Balloon Code
c) Radiosonde Code
d) Master Analysis Code
6. Ciphers - a) ALAGO
b) AIRMETOO
c) any other in-flight radio ciphers

In-Training

7. Observe Activity at Washington National Airport - W.B. Forecast Office - 3 days
8. After completing (1) above, draw one sectional map per day using Master Analysis - 3 days
9. Study Airway Forecasts - 1 week
10. Make practice Flight Forecasts - 1 week

B. C. Haynes
B. C. Haynes,
Senior Meteorologist.

TREASURY DEPARTMENT

304

INTER OFFICE COMMUNICATION

DATE JAN 5 - 1943

TO Secretary Morgenthau
FROM Randolph Paul

The following is in substance a restatement of what I told you a few days ago regarding the tire plant contract between the Ford Motor Company and the Procurement Division.

In accordance with your instructions, Mr. Mack investigated further the circumstances surrounding the negotiation and execution of the contract. From the explanation made by those in charge of the transaction it seems reasonably clear that the Procurement Division's difficulties were not occasioned by deliberate by-passing of the legal staff but arose because the officials charged with the handling of the contract, in their desire to consummate the transaction promptly in accordance with the President's wishes, overlooked the existence of several important legal problems. Since they thought (erroneously) that no legal problems were involved in the transaction our attorneys were not consulted. No one now disputes that they should have been, or that the facts in the case are as stated in my earlier memorandum to you.

I think that this unfortunate incident reveals clearly the need for a better understanding by the administrative and other non-legal personnel of the Procurement Division of the purposes and functions of a legal staff. Mr. Mack has already taken a very desirable step in that direction in issuing his order No. 175, a copy of which is attached, which defines generally the type of matters that should be submitted

Secretary Morgenthau,

2.

for clearance by the Chief Counsel's office. I am satisfied that this order provides an adequate working basis for the future, and with continuous cooperation between the legal and non-legal personnel of the Division, I believe a recurrence of such an unfortunate situation as that involved in the Ford Motor Company contract may be avoided. I have received Mr. Mack's assurance that there will be the fullest cooperation from personnel under his direct supervision and I have instructed Mr. Hill that he and his attorneys should likewise cooperate with Mr. Mack and his staff and exert the utmost effort to obtain a close and harmonious working arrangement with the non-legal personnel of the Division.

The draft of contract with Ford has been returned to the Procurement Division with instructions that it be re-drafted in acceptable form.



Enclosures.

December 30, 1942.

DIRECTOR'S ORDER NO. 175.

Rapidly changing laws due to the war, and rules, regulations and executive orders supplementing these new laws, make it more imperative than heretofore to secure the approval of our contractual actions by the Chief Counsel's Office.

In order that this be done you are requested to clear through the Chief Counsel -

1. All contracts whose terms provide for

(a) Advance payments

(Definition: An advance payment is one made in excess of the value of the services rendered or a payment made previous to the delivery of the article.)

(b) Progress payments

(c) Escalator price clauses

(d) Recent 3% transportation tax

(e) Drawback claims

(f) Payment of royalties for use of patents

(g) Renegotiation questions in general as affecting our contracts

2. Assignment of all moneys due or to become due under contracts.

3. The Russian refinery, power and tire plant contracts and legal problems incident thereto.

4. Requisitions involving the seizure of materials.

5. Lend-lease warehousing and leases and management contracts.

6. Where there is a material departure from the recently approved General Conditions.

7. Where special conditions are required.

8. All orders and regulations under Executive Order No. 9235 should be submitted before promulgation.

Members of the Chief Counsel's Office will, when requested, be available to contracting officers during negotiations of important contracts.

When the approval of the Chief Counsel is sought in reference to the foregoing problems, if possible submit for approval before the contract is signed by the supplier.

General supply contracts are not to be submitted to the Chief Counsel's Office unless there is a substantial departure from the regular form.

Clifton E. Mack,
Director of Procurement.

TH:mo'b - 12/30/42



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

January 5, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of lend-lease purchases for the week ended January 2, 1943.

There has been a gradual reduction in the volume of lend-lease purchases due primarily to the accumulated stocks which are available for shipment, particularly in the case of USSR and Chinese Governments. It is expected, however, that this shipping picture will materially improve in the near future which will make it possible to release supplies, steel products now in storage in particular.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF JANUARY 2, 1943
(In Billions of Dollars)

	<u>Total</u>	<u>U. S.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$2722.8 (2722.4)	\$1802.4 (1264.8)	\$858.9 (849.1)	\$58.3 (53.3)	\$3.7 (3.7)	\$498.5 (546.5)
Purchase Authoriza- tions (Requisitions)	\$2146.8 (2074.8)	\$1234.5 (1164.2)	\$843.5 (822.4)	\$41.2 (41.2)	-	\$ 27.6 (27.0)
Requisitions Cleared for Purchase	\$1996.4 (1971.0)	\$1167.3 (1153.1)	\$763.3 (750.9)	\$41.1 (41.1)	-	\$ 26.7 (25.9)
Obligations (Purchases)	\$1885.8 (1865.3)	\$1100.7 (1086.3)	\$717.3 (710.1)	\$41.1 (41.1)	\$3.3 (3.3)	\$ 22.9 (22.5)
Deliveries to Foreign Governments at U. S. Ports*	\$ 804.4 (796.3)	\$ 534.9 (523.6)	\$142.7 (140.9)	\$ 20.3 (20.3)	-	\$ 6.5 (6.5)

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

Note: Figures in parentheses are those shown on report of December 26, 1942.

SECRET

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January 5, 1943

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the nine-day period ending December 19, 1942

1. Exports to Russia

Exports to Russia as reported during the nine-day period ending December 19, 1942 amounted to \$53,140,000. Military equipment accounted for \$11,781,000 and included 6 light bombers, 24 one-engine P-40 fighters and 21 tanks.

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to only \$2,000.

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Portugal amounting to \$172,000.

127/cfs
1/5/43

SECRET

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APPENDIX A

**Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations Received
During the Period Indicated 1/**

(In thousands of dollars)

	<u>9-day Period ended Dec. 19, 1942</u>	<u>10-day Period ended Dec. 10, 1942</u>	<u>Total Domestic Exports Aug. 1, 1942 to Dec. 19, 1942</u>	<u>Total Domestic Exports July 28, 1941 to July 31, 1942</u>
U. S. S. R.	\$ 33,140	\$30,635	\$ 617,056	\$ 742,941
Free China	2	822	110,641	97,720
Spain	1	—	771	2,858
Switzerland	1	1,290	6,920	11,537
Union	-	2	2,628	18,056
Portugal	172	590	2,158	9,743
French North Africa 2/	-	—	2,088	6,305

Treasury Department, Division of Monetary Research

January 4, 1943

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria and Tunisia.

PH/cfs 1/4/43

SECRET

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R. 312
 as reported to the Treasury Department
 July 28, 1941 - December 19, 1942 1/
 (Thousands of Dollars)

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942 1942	\$ 32,758	\$ 98,902
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
Oct. 21 - Oct. 31 4/	-	45,701
Nov. 1 - Nov. 10	233	53,144
Nov. 11 - Nov. 20	2,032	45,867
Nov. 21 - Nov. 30	296	88,415
Dec. 1 - Dec. 10	822	30,635
Dec. 11 - Dec. 19 6/	2	33,140
Total	\$110,641	\$1,360,816

- 1/ These figures are in part taken from copies of shipping manifests.
 2/ Beginning with February 1, figures are given for 10-day period
 instead of week, except where otherwise indicated.
 3/ 8-day period.
 4/ 11-day period.
 5/ Due to changes in reporting procedure for the Department of
 Commerce, this report is incomplete for the period indicated.
 6/ 9-day period.

Treasury Department, Division of Monetary Research January 4, 1943

ISF/cfs 1/4/43

SECRET

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APPENDIX C

**Principal Exports from U. S. to U. S. S. R.,
as reported to the Treasury Department
during the nine-day period ending
December 19, 1942**

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of dollars)</u>
TOTAL EXPORTS			\$ 33,140
<u>Military Equipment (\$11,781)</u>			
Ammunition	-	-	3,566
Aircraft			2,374
Light bombers (2 eng. A-20)	No.	6	
Fighters (1 eng. P-40)			
Pursuit and Interceptor	No.	24	
Aircraft parts and accessories	-	-	1,797
Military tanks			1,691
Medium tanks (M4A-2)	No.	16	
Medium tanks, n.e.s.	No.	5	
Firearms			798
Anti-aircraft artillery 90 mm. guns	No.	4	
37 mm. M4 aircraft guns	No.	16	
20 mm. Oerlikon naval artillery guns anti-aircraft	No.	40	
Explosives	Lb.	1,659,330	534
Ordnance combat vehicles			458
Scout cars	No.	502	
All other			563
<u>Non-military goods (\$21,359)</u>			
Motor trucks, motorcycles, auto replacement parts and marine engines	-	-	3,971
Industrial electrical and agricultural machinery and parts	-	-	2,838

APPENDIX C (Continued)

Page 2

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of dollars)</u>
Meat products	-	-	\$ 4,159
Food products, n.e.s.	-	-	1,794
Iron and steel manufactures and semimanufactures	-	-	2,956
Metals and manufactures, n.e.s.	-	-	2,055
Rubber and leather manufactures	-	-	1,371
Wool and cotton	*	-	999
All other			1,236

Treasury Department, Division of Monetary Research January 4, 1945

EPM/efs 1/4/45

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Original returned to Mr. Schwarz, 1/15/43

○

NEW YORK

TELEPHONE: STUYVESANT 9-2024

CABLE ADDRESS

HEYDEN NEW YORK

Heyden Chemical Corporation

50 UNION SQUARE

NEW YORK



January 5, 1943

Mr. Charles Schwartz
Director of Public Relations
Treasury Department
Washington, D.C.

My dear Mr. Schwartz:

Thanks while I am conscious of having conveyed to Secretary Morgenthau, I shall leave for a later paragraph in this letter because I am now obliged to practise a super amount of self-control in the choice of words with which I want to convey to you, Mr. Schwartz, the very warm thanks I feel I owe you for having written me December 30. Please believe me when I say that nothing in all my years has given me more hope that this is, indeed, a world in which it is worth living, than does your letter.

I say this because it proves that right does prevail, that truth will out. And your letter indicates that at least three men in Washington, you, Mr. Schwartz, Mr. Clifton E. Mack, and Secretary Morgenthau are sufficiently interested in your fellow man, are so really big that you have gone on record testifying to the truth, do not feel yourselves too big to right a wrong, in so far as that is in your power. For this, I send you thanks. The word looks cold in type, but it goes to you with warmth, sincerity, and genuineness.

May I say to you, that your letter tell me that Mr. Clifton E. Mack gave you the facts in the case, which the Washington Times Herald and the Chicago Tribune, too, stooped to print in their pages. This is but another indication of what I have always known and respected in Mr. Mack: his fineness, his sincerity, his evaluation of those working with him who do a job for him, his Procurement Division, and our country. It is my firm conviction that Mr. Mack is one of the fine, competent, thoroughly experienced, as well as just administrators in the service of the Government. I am convinced that Secretary Morgenthau has and will have slight headaches, if any, so long as Mr. Mack will be the Director of the Procurement Division of the Treasury Department.

HEYDEN CHEMICAL CORPORATION

- 2 -

Mr. Charles Schwarz

January 5, 1943

I was urged most strongly by outstanding and most successful men in industry to take action against the Chicago Tribune Press Service because of the story appearing in the two newspapers, which you now know to have been "a deliberate smear". That accusation is vile. The ugly, the short word, "liar", is the correct term. One, a president of several large businesses, who really knows me, pleaded with me to be permitted to engage the best lawyer to fight the suit, and even went so far as to say that it would be his pleasure to defray all costs of such a suit. As the Director of Public Relations, you must, I am sure, sense how proud I am, how gratified I am, that I kept my peace, that I had decided, feeling as I did, and which feeling your letter proved to be the correct one, that silence in this instance, that the truth would out, that right would prevail, was the course to pursue. Even if I had not received your letter, I had decided, and told the heads of this business, as well as Mrs. Frankfurter, that I would not dignify either the Chicago Tribune or the Washington Times Herald by paying written or verbal notice to their smear. One does not enter into controversy with a reptile.

Please be good enough to convey to Secretary Morgenthau my deepest and most heart-felt gratitude for his personal interest in me. It is the finest reward I could have possibly received for my earnest effort, gladly and whole heartedly rendered, whilst I was the Lend-Lease Purchasing Officer in Group Three for Mr. Mack in the Procurement Division of the Secretary's Treasury Department.

And to you, Mr. Schwarz, once again my thanks, and the wish that you may have coming to you all the fine things, both temporal and spiritual, during 1943.

Very sincerely yours,

Otto N. Frankfurter

Otto N. Frankfurter,
Director of Exports

GWT:SC

Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
JUSTICE FELIX FRANKFURTER

January 5, 1943

Private

Dear Henry:

London
I have just had a letter from my friend Ed Murrow, from
which I quote the following:

"It seems to me that Governor Lehman's organisation is likely to have more to do than any other with the post-war political complexion of Europe. I only hope he is not too closely surrounded with gentlemen of the State Department!"

Please don't quote this, or refer to it in any way, to Herbert. I just wanted you to have the echo of your own thoughts from London.

Ever yours,

Hon. Henry Morgenthau, Jr.

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TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Contingent Fund, Treasury Department
(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

3-14117

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

DAY LETTER

Honorable Eduardo Suarez
Secretario de Hacienda
Mexico, D. F., Mexico

1/5/43

Please accept my thanks for your kind message on the occasion of the New Year, and allow me to extend my greetings for this season. May the year 1943 bring prosperity and success to your country and mine in their common endeavor.

Henry Morgenthau, Jr.,
Secretary of the Treasury.

JSdB:mgb
1/5/43

Via RCA

Treasury Department

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TELEGRAPH OFFICE

Via RCA

1WN JV 27 MEXGOVT

MEXICO DEC 28 2210 42

1942 DEC 29 AM 7 46

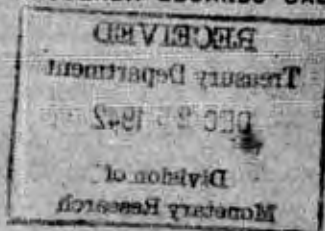
HON HENRY MORGENTHAU

SECRETARY OF THE TREASURY WASHINGTON

HACIENDA SECRETARIO PARTICULAR MENSAJE NUMERO 00883 I AM GLADLY
EXTENDING TO YOU AND YOURS MY SINCERE WISHES FOR A VERY HAPPY
AND PROSPEROUS NEW YEAR KIND REGARDS

SECRETARIO D HACIENDA EDUARDO SAUREZ

743AM DEC 29



NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 5

Information received up to 7 A.M., 5th January, 1943.

1. MILITARY

LIBYA. Fighting French Forces advancing from CHAD are now operating in the Southern FEZZAN some 370 miles south of BUERAT.

TUNISIA. 3rd. In the Southern sector the French Force at FONDOUK, assisted by Allied fighters and light bombers, repelled a German tank attack.

RUSSIA. In the lower Don Sector the Russians have advanced a further 15 miles along the STALINGRAD-TIKHORETSK railway. In the MOZDOK area the Germans are withdrawing before continued Russian pressure.

2. AIR OPERATIONS

WESTERN FRONT. 4th/5th. 33 aircraft were sent to attack ESSEN. Visibility was moderate, two Lancasters are missing. 18 enemy aircraft operated over THE THAMES ESTUARY, probably minelaying. Enemy casualties 1, nil, 1.

FRENCH NORTH AFRICA. 2nd/3rd. Ten Wellingtons bombed BIZERTA Docks. 3rd. United States light bombers and fighters attacked about 50 tanks near FONDOUK and damaged or destroyed a number of vehicles. Enemy casualties 2, 1, 2. Ours, one Lightning.

CRETE. 2nd. Sixty Allied bombers attacked port installations at SUDA BAY and four airfields.