DIARY

Book 565

September 1, 1942

September 1, 1942
9:00 a.m.

TAXES

Present: Mr. White
Mr. Paul
Mr. Blough
Mr. Kuhn
Mr. Gaston
Mr. Stewart
Mr. Sullivan
Mr. Friedman
Mr. Haas
Mr. Tickton
Mr. Viner
Mr. Shoup
Mr. Graves
Mrs. Klotz

(First part of meeting not reported.)

(Statement of Randolph E. Paul before the Senate Finance Committee, copy attached, distributed.)

MR. BLOUGH: At page four, "Persons subject to the spendings surtax would also be subject to the spendings normal tax whether or not they had any income subject to income taxation."

The idea is that there are some people who would not qualify otherwise who should be subject to the normal tax because they have not enough to be subject to the surtax.

H.M.JR: I don't understand that.

MR. BLOUGH: Suppose a man had no income at all, and he spent five thousand dollars a year. He would be subject to the spendings surtax because of that expenditure. He would also be subject to the normal tax even though he did not have an income. But that will have to be cleared up. You and Randolph have both missed it.

H.M.JR: You will have to explain this through the middle of four, just what happens. You are using these fancy terms now.

MR. BLOUGH: This spendings normal tax is the successor to this refundable tax we were talking about yesterday, with its face lifted, and an individual is subject to that if he has over five hundred dollars of income, a married couple a thousand dollars in income, two hundred and fifty for each dependent; and the qualifications for being subject to the spendings normal tax are these minimum incomes.

H.M.JR: I said I would see everybody at nine o'clock. Where is everybody?

(Mr. Gaston entered the conference.)

H.M.JR: What I said was that it wasn't plain and that you people should go in and talk it over and I would meet you at nine.

MR. GASTON: That is right, I just recalled it as I came in.

H.M.JR: All right, now start over.

MR. BLOUGH: The point was this, this spendings normal tax--

H.M.JR: You might just as well wait a minute; Stewart is coming in. Have they taken care of what you wanted in this, Harry?

MR. WHITE: Partly. I think this is a considerable improvement, and there is one major point that I would like to raise which you can decide quickly one way or the other, and which won't require much of a change here at all. But as it is now, I think it is a considerable improvement, and I think it is good, with one important difference of opinion.

H.M.JR: What is that, Harry?

MR. WHITE: I think that they ought to change the five percent to a ten-percent tax on spending and make it returnable, a post-war credit. I would like to go into the reasons for it, because I think it is kind of important.

(Mr. Stewart and Mr. Sullivan entered the conference.)

H.M.JR: Go ahead.

MR. WHITE: I think the way the tax is now, any one of the taxes, in my opinion it will practically eliminate any voluntary contributions under the pay-roll allotment plan.

These taxes, plus the additional taxes that were in the offing anyway, and the bill with the lowered exemptions, make such a big difference to persons of two, three, or four-thousand-dollar incomes that in my opinion they will practically stop the voluntary contributions. You can depend upon their saying, "This is too much." If it won't stop it, it will greatly reduce it. I think that leaves the Treasury in a rather embarrassing position in which they have proposed a tax measure which has torpedoed their own voluntary program.

Therefore, I think that we ought to be in the lead of the army on this thing rather than the rear, and I think we ought to take the bull by the horns and say that we will just raise this another five percent; that it will become a compulsory saving in the sense that it will be returnable. In this case the fact that the voluntary part of the program has been torpedoed merely in the lower brackets, and not below fifteen hundred, means there will still be adequate need for a voluntary program to tap the people in the very lowest income below this and to encourage additional savings. But at least you will be in a position to say that we have come out with a program which will mean increased savings, as well as increased taxes, and I think it will make a well-rounded--

(Mr. Haas entered the conference.)

H.M.JR: George, didn't you understand it was nine o'clock?

MR. HAAS: I never heard anything about it.

H.M.JR: I think I told everybody. Should I send everybody an engraved invitation? Paul and Blough understood it.

Just hold your fire a minute, White. Stewart is getting this cold. Just start in at the beginning, Blough, and irrespective of what you said, just go through and explain it once more, and then I will let White come in and make his suggestion. I mean the way the thing is - give it to us once more, will you please? Either at the beginning or at the end of the explanation explain how much of the gap - I think maybe it would be better at the end - say this takes care of so much of the gap; and if we did it, adopted White's suggestion, it would do so much more. At the end give us the figures, the breakdown on a hundred million income. I will give you a chance, Harry.

MR. BLOUGH: This is a spendings tax program. I will not go into the reasons why we have arrived at this conclusion. Most of you have been through it with us. It consists of a spendings normal tax and a spendings surtax. The spendings normal tax is sort of a mass tax applied to all people, all individuals with incomes above five hundred dollars, married couples with incomes above a thousand dollars, and two hundred and fifty dollars for each additional dependent. The tax would apply to their total spendings, and not simply to an amount above these limits. They will be protected against having their incomes pulled below the limits, but aside from that they would be subject to this tax on their total spendings. The tax would be at the rate of five percent, and would be collected annually.

In those cases where the tax could be collected at the source it would be five percent collected at the source, and at the end of the year the taxpayer would file a return. In that return he would make his computation for expenditures as against the tax which was computed to be deducted in the amount that had been collected at the source, and the remainder he would pay.

H.M.JR: That is up to how much, the five percent, up to what income?

MR. BLOUGH: Up to the top; that is, throughout, no variation from top to bottom.

Under the spendings normal tax, the great mass of tax payers would file a short form and file the sort of short income tax form they now file, except they would be allowed deductions, additional deductions, for savings, bond purchases, payment of debt, and insurance premiums. That would be allowed as a deduction. It would be on the balance that the spendings tax would be computed.

If the Secretary and the Committee feel that the time has come for refundable taxes, a proportion of this normal tax would be refunded. I would suggest that it should not exceed a hundred and fifty dollars. which would carry the refundable portion up to three thousand dollars of income, but it might be desirable either higher or lower. Three thousand dollars seemed about right to me, because it would mean that no family would have to have a permanent tax on the amount of its spendings below the limits of five hundred, a thousand, and two hundred and fifty.

H.M.JR: Explain that a little bit more.

MR. BLOUGH: Take, for example, a married man, no children, with thirteen hundred dollars of income; and, assuming he spent it all, for purposes of this discussion, or as much as he could, he would have the tax imposed not on, roughly, three hundred dollars over his thousand-dollar exemption, but on his whole spendings, which would be, for example, roughly, thirteen hundred dollars, less the tax.

That would all be refundable under this plan, if it were seen fit to make it refundable, but it is particularly desirable to have refundable the part on the income below the thousand dollars, since the man who does not have a thousand dollars of income is not subject to this tax at all. Therefore, when he is over a thousand dollars and we are going to put the tax on his whole spendings; it seems desirable that at least that portion below the exclusion be given back to him.

H.M.JR: It would be on all the spendings above a thousand dollars?

MR. BLOUGH: It is on all of his spendings if he has above a thousand dollars of income, but not just on the amount above a thousand dollars, on the whole business.

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

MR. PAUL: It is the exclusion idea.

H.M.JR: Yes, but I mean if he has fifteen hundred, he pays a tax on fifteen hundred.

MR. BLOUGH: Fifteen hundred, that is right, and the refundable amount then would run up to a hundred and fifty dollars, which would be the tax on three thousand dollars, and above that it would not be refundable because the only basic reason for refundability is that you feel you are putting too heavy a burden on the small income to have it a permanent burden.

H.M.JR: Let me interrupt you. On the three thousand dollars - fifty times three is a hundred and fifty, but a man with three thousand dollars - under three thousand dollars he would take out his insurance premiums, and so forth, and so on--

MR. BLOUGH: Before the tax is deducted.

H.M.JR: ... and his bond purchases.

MR. BLOUGH: That is right. All those things would come out. That is the spendings normal tax. It is designed for revenue, and also designed to withdraw purchasing power and thus reduce spending. It is not designed particularly to repress spending although it induces people not to spend.

The spendings surtax is designed for the purpose of not so much for revenue, although it will raise revenue, but for the purpose of repressing or discouraging large expenditures or expenditures over basic standards. That tax would have exemptions, not exclusions. We have made that change due to the discussion yesterday. It would have exemptions of a thousand dollars for a single person, two thousand dollars for a married couple, and five hundred dollars for each dependent.

H.M.JR: When he gets above three thousand dollars - that doesn't apply if a man had four thousand dollars?

MR. BLOUGH: That is right. If a married man with two children spent four thousand dollars he would be taxed on one thousand above the three; he would be allowed two thousand exemption for his marital status and five hundred for each dependent. That is three thousand dollars; and then if he had four thousand dollars in spendings, he would be taxed on the thousand dollars. The rates would be very substantial. We suggest rates starting with ten percent on the first five hundred dollars above the exemption, and running to one hundred percent above twenty-five thousand dollars, on his spendings above twenty-five thousand dollars.

H.M.JR: One hundred percent?

MR. BLOUGH: One hundred percent above twenty-five thousand dollars. You may have heard those figures before. The burden on families would be made more equitable by, in effect, taking the spendings over the exemptions, dividing it by the number of members of the family, and computing a tax, you might say, for each member of the family, and then adding them all up.

H.M.JR: What time do you have to go on the Hill?

MR. PAUL: Very soon.

H.M.JR: You will have to move a little faster.

MR. BLOUGH: This surtax would be collected not at the source. A quarterly return would be filed, a very simple quarterly return. At the end of the year, along with the income tax return--

H.M.JR: This is changed; yesterday it was at the source.

MR. BLOUGH: Not on this surtax. This is exactly the same as it was yesterday. The surtax is exactly the same as it was yesterday.

H.M.JR: And this is not at the source?

MR. BLOUGH: No.

H.M.JR: The five percent?

MR. BLOUGH: The five percent is at the source.

H.M.JR: What do you call that?

MR. BLOUGH: Spendings normal tax. The spendings normal tax is just the same as the refundable tax of yesterday, with one or two changes and gadgets, but the change in name seemed to give it a good deal more acceptability.

H.M.JR: The other part above the three thousand dollars, the surtax, is that the same?

MR. BLOUGH: That is the same as it was yesterday, except yesterday we were talking in terms of an exclusion. Now we think it is more logical to make it a true exemption, and tax on the amount above the exemption.

H.M.JR: That makes an awful lot of difference.

MR. BLOUGH: It makes a lot of difference in the amount of money.

H.M.JR: More or less?

MR. BLOUGH: It means less money, but it means more pressure because we can put higher rates to bear right away on the margin above spending; and since we are saying that the surtax is for the purpose of bringing pressure to bear to cut down spending, the logic of it is not to impose that tax until you have reached the point where you want to exert that pressure.

H.M.JR: It is awfully hard to have to settle something like this in fifteen minutes.

MR. BLOUGH: I quite agree with you. This is a major matter.

MR. PAUL: Of course we have been at it for several days.

H.M.JR: But it was only written last night.

MR. BLOUGH: That is right. I must say that until last night I felt very badly about this whole thing. When we got this thing straightened out last night my mind was at rest. I am satisfied now.

H.M.JR: I can't absorb it under this pressure; you had better tell them you can't do it this afternoon. I can't work like this.

MR. BLOUGH: I think it would be desirable if we could do that.

H.M.JR: I can't work like this. I mean, everybody comes in late; nobody is here; I am here at quarter to nine and I am supposed to hear that - everybody wants his day in court. I can't work like that. It is impossible; nobody can work like that. I mean, I can't settle a thing that affects everybody.

MR. PAUL: Suppose I go and call Senator George. It is better to do those things before the hearing.

H.M.JR: Tell him you can't do it before lunch. I have got to hear this thing. It isn't my fault; I was here at twenty minutes of nine. Tell him you won't be ready until this afternoon.

MR. PAUL: If possible we ought to mimeograph it.

H.M.JR: Tell him you will be ready after lunch. Randolph, if you want to give any excuse you can say you were fussing with that radio speech.

MR. PAUL: I will fill in this morning with depletions; I won't have any trouble.

(Mr. Paul left the conference.)

H.M.JR: Go ahead. You have got these fancy names which I think are silly, and nobody is going to catch onto them. Your five percent tax is on three thousand dollars or less?

MR. BLOUGH: The five percent tax is one--

H.M.JR: The whole business?

MR. BLOUGH: Yes.

H.M.JR: What is the change you made above three thousand dollars?

MR. BLOUGH: We have made no change.

H.M.JR: Yes, you have on exemptions.

MR. BLOUGH: Except on exemptions.

H.M.JR: What are the changes on the exemptions?

MR. BLOUGH: The changes on exemptions are these: Sunday we suggested that the person be taxed on his whole spendings once he got above the exemption level - for the purposes of the surtax he would be taxed on his whole spendings. These people, especially Dr. Viner, talked us out of it on the grounds that it was not logical. I agree that it was a misunderstanding of the function of this tax, and that for purposes of the surtax you want it on the amount over a basic exemption, which would be free of this particular element of tax.

H.M.JR: You have got to simplify it.

MR. BLOUGH: Well, here we are saying that we want to put rates from ten percent to a hundred percent on people who spend too much, not any more but too much at the present time so far as our present economic situation is concerned; and yet we turn around and put that tax on everything they spend, and not simply on the too much, necessarily, which they spend.

Now, yesterday we proposed to put the tax on everything they spent.

H.M.JR: As of Sunday, you mean?

MR. BLOUGH: As of Sunday. Viner said, "No, don't put it on everything they spend, because you don't want them to cut down that bottom spending. The spending you want them to cut down on is the top spending. It is the top spending you want them to cut, so put it on the amount over, and not the total amount of their spending."

H.M.JR: So you gave them the exemptions?

MR. BLOUGH: For the purpose of the surtax, we gave them the exemptions.

MR. GASTON: But not for the normal?

MR. BLOUGH: No, that is a mass tax which applies to all of their spendings, whatever they are.

H.M.JR: Now just let me go over it a minute. Let's take a hundred-million-dollar figure. Let's say we take last night's revised plan, how much do the various groups reach - how much do you reach?

MR. BLOUGH: Well, we reach through the normal tax, this refundable tax, say, thirty-six or thirty-seven million tax-paying units, people and families.

We reach around sixty-five billion dollars or thereabouts, out of the hundred, with the normal tax.

H.M.JR: That is the five percent?

MR. BLOUGH: That is the five percent. We reach just the same people that we reached yesterday and the day before, exactly. There is no difference in that, and we reach exactly the same people as we did before with the spendings surtax, but the spendings surtax will not apply to the sixty-five billion dollars, but only to possibly - I should have brought Friedman along, he has these figures - possibly twenty-five, but the surtax would apply to a base of twenty to twenty-five billion dollars. That is the rates, ten to a hundred percent.

H.M.JR: Is the twenty-five within the sixty-five?

MR. BLOUGH: It is part of the sixty-five. Of course, the sixty-five is inclusive; we don't go beyond that. Sixty-five billion subject to the five percent is all we reach. We reach that through this, and we reach it through the income tax if you lower the personal exemptions of the income tax.

H.M.JR: Well then, on your so-called surtax it runs up to a hundred percent.

MR. BLOUGH: That reaches a smaller level, twenty to twenty-five billion dollars of income, but its purpose is to try to wipe out that spending, to discourage that spending.

H.M.JR: Is that within the sixty-five?

MR. BLOUGH: That is part of the sixty-five. That is the upper twenty to twenty-five billion in the sixty-five.

H.M.JR: Why can't you reach the thirty-five that is left?

(Mr. Paul entered conference.)

MR. BLOUGH: We can reach the thirty-five - well, we can't - you mean above the sixty-five?

H.M.JR: Yes.

MR. BLOUGH: We can't because we are leaving out the best part of - half the population - from this tax in order to protect them. They are at the very bottom and have such very small incomes that we don't think they should be subject to this tax.

H.M.JR: So you will cause me less nervous tension, just walk out when you are ready to go.

MR. PAUL: I couldn't get Senator George. I would like to leave now, because I have to glance over all this depletion material.

H.M.JR: O.K.

MR. PAUL: If you should be earlier, so much the better.

H.M.JR: As of what he has given me, leaving out White's suggestion for the moment, where do you stand as to what he has been - have you been brought up to date?

MR. PAUL: Yes, I am up to date.

H.M.JR: How do you feel?

MR. PAUL: I feel this is an improvement over what we had. I feel quite satisfied with it.

H.M.JR: Sunday you fellows said it was what Friedman wanted, but you couldn't do it.

MR. PAUL: That was just on extending the spendings tax all the way down; that was having a spendings tax instead of a normal spending, instead of the five percent.

H.M.JR: Where do you stand on White's suggestion that this should be at ten percent?

MR. PAUL: I am inclined to think that that is going to be too hard. If the magnitudes of these figures are about the same as I heard yesterday, this will about double the present House bill.

MR. BLOUGH: No.

MR. PAUL: Well, you have changed the figures.

MR. BLOUGH: The figures don't do that. It will be within the five billion total - less than five billion total.

MR. PAUL: Well, close to five.

MR. BLOUGH: The figures have changed.

MR. PAUL: I think if it is in the neighborhood of five or a little under that you ought not to shoot higher than that at this time, particularly in the form it is in now, where you just make the suggestion of post-war rebate.

H.M.JR: Where you have what?

MR. PAUL: You are just suggesting a rebate of that five percent.

MR. BLOUGH: I want to make that clear, that because of some views in the group it would be unfortunate to make that a strong point in the plan, it is put in as a suggested point in the plan.

H.M.JR: Which is?

MR. BLOUGH: The refundable portion of it.

MR. PAUL: In view of that, I don't think you ought to go beyond.

H.M.JR: You mean you are not making it as a firm recommendation?

MR. PAUL: I am firmly recommending it; we have got to do something, and it seems to be--

H.M.JR: No, as to the refund on the five percent.

MR. PAUL: No, we have changed that here.

MR. WHITE: Did you change it? You made a suggestion instead of a definite recommendation.

MR. PAUL: That is right. Therefore I think you shouldn't go any higher than--

MR. WHITE: On that basis, yes; but I didn't agree with that.

MR. BLOUGH: I thought you did. May I read that paragraph, Mr. Secretary?

MR. PAUL: I am for it.

H.M.JR: If we get through earlier, I will let you know.

(Mr. Paul left the conference.)

MR. BLOUGH: In the light of the group discussion this is what I wrote; I would like to read it if I may. It is on page ten.

"At some time during this war it will very likely prove necessary to resort to post-war credits for individual taxes, that is, to impose some taxes which will be refundable after the war. That time will arrive when it is found necessary to impose taxes so heavy on incomes so low that the resulting burden on people with small incomes should not be a burden permanently, but only for the duration of the war. Refundable taxes should not be imposed under other circumstances. When imposed the refunds should be made available only to the low income groups.

"Your Committee may feel that the suggested spendings tax would, for the time being, and in the light of the magnitude of other tax increases, push tax burdens on low income groups to the point where it is desirable to provide for the repayment after the war of some part of the increase in tax. In that case, it is suggested that the spendings normal tax up to a maximum of $150 for each year be made refundable without interest after the war. The amount collected in the first year of operation of the tax might be refunded in the first year following the close of the war; the amount collected in the second year might be refunded in the second year following the close of the war, and so on."

H.M.JR: Well now, just so as to see that I thoroughly understand it, give me an example of a married man, no children, two thousand dollars; a married man with two children, with an income of five thousand dollars.

MR. BLOUGH: Have any of those illustrations been worked out in detail?

MR. FRIEDMAN: No.

MR. BLOUGH: A married man with no children and two thousand dollars - you want everything he would pay, is that the idea, or just this particular part of the spendings tax?

H.M.JR: Just the spendings tax.

MR. BLOUGH: A married man with two children and an income of two thousand dollars would not be subject to the spendings surtax, assuming he didn't spend more than the two thousand. He would be subject to the spendings normal tax. Let's assume, for purposes of simplicity, that he was able to spend two thousand dollars - maybe he found a hundred some place else - he would have one hundred dollars of spendings normal tax; and if this suggestion were adopted, he would get one hundred dollars back after the war.

H.M.JR: But you are leaving it up in the air. I will hit that afterwards. Give me the other one, the five thousand dollar one.

MR. BLOUGH: A man with five thousand dollars and two children, assuming again he can get the money some place else--

H.M.JR: Let me say that this fellow has a hundred dollars' worth of insurance, and maybe he has bought four hundred dollars' worth of bonds.

MR. BLOUGH: Well now, he would have an income tax to pay, but--

H.M.JR: Well, just make a stab at what it would be.

MR. BLOUGH: Five hundred dollars for his income - he has to pay an income tax of five hundred dollars; he has one hundred dollars insurance; he has four hundred dollars in bonds; and he has five thousand dollars to begin with. We deduct those items, and it leaves him four thousand dollars. Let us say that he succeeds in spending four thousand dollars. He would have to have income from some other source. That four thousand dollars would be subject to the five-percent normal refundable tax, two hundred dollars. For the surtax he would have--

H.M.JR: May I interrupt you? Would he get his one hundred and fifty dollar post-war credit?

MR. BLOUGH: He would get the one hundred and fifty dollar post-war credit, and he would have fifty dollars left out of that tax that he would not get back--

H.M.JR: That is right.

MR. BLOUGH: ... because it was two hundred. He would get a hundred and fifty post-war refund. Now, from that four thousand dollar spendings we would give him a deduction or an exemption of three thousand dollars, two thousand for a married man, and five hundred for each of his dependents; that is three thousand dollars. That leaves him one thousand dollars subject to the spendings surtax. The first five hundred dollars of that is subject to tax at ten percent under this plan, which is fifty dollars.

MR. FRIEDMAN: The whole of that at ten percent.

MR. BLOUGH: I beg your pardon, that is correct. He would be subject to the ten percent tax. He would have a one hundred dollar tax, and his total payments on the spendings tax would be three hundred dollars, of which he would have a post-war credit of one hundred and fifty dollars.

H.M.JR: No, supposing this is the revised plan; do this same thing as it was, say, yesterday morning.

MR. BLOUGH: The basic difference between this and the plan we had yesterday morning is that this man would have the spendings surtax applied to four thousand dollars and not to the one thousand dollars. That four thousand dollars - can you make that computation?

MR. FRIEDMAN: His spendings surtax would have been three hundred dollars instead of a hundred and fifty dollars - instead of a hundred dollars.

MR. BLOUGH: You divide the four thousand by three.

MR. FRIEDMAN: The first one thousand dollars would have been at five percent.

MR. BLOUGH: That is a hundred and fifty. His spendings surtax, instead of being one hundred dollars, would have been three hundred dollars; his spendings surtax would have been three hundred instead of one hundred, and his total tax would have been five hundred; he would have gotten back the whole two hundred.

H.M.JR: Now, as long as Viner has talked these fellows out of it, would you mind giving me the benefit first hand of how you succeeded in changing them?

MR. VINER: I did it by asking questions rather than arguing. I think they convinced themselves. I understood that the major function of the spendings tax was to force saving rather than to collect revenue. Therefore, it ought to fall with increasing heaviness on marginal expenditures, but it ought not to fall at all on expenditures that you want them to make. You want people to eat bread and pay their rent up to some basic minimum. There is no sense in taxing spending - if you want to tax that amount of income, call it income tax; but it is ridiculous to tax people on their expenditures for bread. Even if they are wealthy, you don't tax them on their expenditures for their bare living. Therefore, I say start taxing at the margin that you want to stop - where you want to suppress spending, and increase the rate of the tax as they increase their level of spending. Well, yesterday's scheme was a scheme, which, as I saw it first, did not do that, and I was puzzled as to what the objective was.

I don't think it is right to say that I proposed this change, but I may have disturbed the thinking so that as a group I think we moved on to this version, isn't that correct?

MR. BLOUGH: I wasn't blaming you, I was giving you credit for it.

MR. VINER: I am sharing it, that is all.

H.M.JR: As I understood, you have been there right along, haven't you, Friedman, so to speak, in Viner's corner?

MR. FRIEDMAN: No, not on this particular point.

MR. WHITE: We considered this the day before it was turned down. The same arguments were used, but it didn't have the additional weight that Viner's further questioning had.

H.M.JR: Stewart, I don't know whether you are too cold on this.

MR. STEWART: I have got to think about it for a while.

H.M.JR: Let's put it this way, because this is a terrifically important change - for a better name we will call it the Viner principle, just to label it for the minute. Going around the room, who does not agree with it?

MR. GASTON: I think this is progress. I think it is better than the scheme we discussed yesterday. I still have the same basic objections to this that I had to the other plan. I think it is, superficially at least, too complicated. I would much prefer a straight spendings tax with an exemption that applied to everybody, an exemption, not an exclusion, an exemption on the basis of five hundred dollars, a thousand dollars, and two hundred and fifty, and make the income tax the same, and straight progressive rates above that. Make it one tax, a simple spendings tax on all spendings over one thousand dollars for the family of two or five hundred for the individual, and make the first bracket--

H.M.JR: Well, Herbert, what happened to your argument?

MR. WHITE: The administration says that that can't be done. We are all in favor of that. We were in favor of it.

MR. VINER: I certainly am in favor of it.

MR. WHITE: The administration says it cannot be done.

MR. GASTON: I am not convinced by those statements. I don't see why it cannot be done as well as this. My objection is that it will appear to everyone to whom it is presented as being excessively complicated; and I think it imperils the success of the whole plan, that it is on the face of it an exceedingly complicated plan, whereas there is a simple plan that could be substituted for it.

H.M.JR: Who is the administration who says that?

MR. BLOUGH: I.

H.M.JR: What do you say on this?

MR. BLOUGH: Well, let's take the problem of the man paying his tax on a simple spendings tax. This has got to be one united fabric from top to bottom.

MR. GASTON: By the way, I would make the first bracket a withholding tax.

MR. BLOUGH: All right, you collect the first bracket at the source for some people, and for some people you don't because their income is not subject to collection at the source. That means some people have to file quarterly returns. Well, will everybody have to file a quarterly return? Under the plan we have here relatively few people - perhaps seven million people will file quarterly returns. If you have this a straight spendings tax from top to bottom, you can't tell who should file a quarterly return. A man whose income is all being withheld at the source, and whose tax is being withheld at the source, and who is only subject to the bottom rate, ought not to file a quarterly return; but if he has more spendings and is subject to the higher rate, or he doesn't happen to be subject to collection at the source, he should file a quarterly return.

How is the Bureau to know who is to file a quarterly return, and who isn't? Then when a man pays his tax on the quarterly basis, how does he know how much to deduct for the amount that has been paid at the source so he knows how much to pay over to the Treasury each three or four months? Those are the things that bothered me.

MR. WHITE: Plus the forty million returns.

MR. BLOUGH: Plus the fact that it is forty million instead of seven million or thereabouts.

H.M.JR: I don't see how you can overcome forty million returns, Herbert.

MR. GASTON: I don't see why you wouldn't have just the same difficulties with this arrangement.

MR. BLOUGH: In this one there are two taxes, and as to the first one, nobody files a quarterly return; you just have no return at all.

H.M.JR: Is the first tax a withholding tax?

MR. BLOUGH: That is a withholding.

H.M.JR: At the source?

MR. BLOUGH: At the source.

MR. GASTON: But you don't get that from everybody.

MR. BLOUGH: That is correct, you do not, and the remainder file it as they do now with their income tax.

H.M.JR: How do you mean?

MR. BLOUGH: A farmer; the self-employed; but with respect to them treat it precisely the same as their income tax at the present time; they file it on the same return, with an additional paragraph or page, and they will pay it at the same time. The collection at source will be handled just the same as it is with the income tax. This will be handled just the same, the two being tied closely together. Then if the expenditures are higher, everybody subject to the tax has to file his quarterly return and has to make his annual return. He has to handle it in that manner. It does not confuse the people in the high brackets, and the low ones; it doesn't confuse those who have collection at the source and those who do not.

H.M.JR: I can settle this very quickly. If what Gaston proposes is going to require forty million returns, it is out.

MR. GASTON: On the collection basis and the return basis, it could be handled the same as this proposal you have here.

H.M.JR: Well, how many increased returns would you have the way it is in the mimeographed form?

MR. BLOUGH: In either this form or the mimeographed, it is the same. You will have the additional returns due to lowering the personal exemption. Let's say there will be six or seven million, but that is simply a matter of lowering exemptions. It has nothing to do with the spendings tax, and for each of those returns you will have an additional paragraph or an additional page covering the spendings tax; better call that a return. So there is one return for each of your thirty-five or forty million taxpayers, annually, as part of the income tax return.

For the seven to ten people subject to the spendings surtax, you will have four returns or three. Some of them thought three would be enough. Personally, I think four, four returns a year, or twenty-eight to forty million returns. Three of the four can be simple returns, and the fourth will be fairly complicated.

MR. GASTON: But you are going to have the same number of annual returns, aren't you, under this scheme as you are going to have income tax returns with the lowering of exemptions to a thousand and five hundred - you are going to have that forty million income tax returns anyway, and that can be combined with a spendings tax return - annual return - so you are not increasing the number of returns under this plan I am suggesting.

MR. BLOUGH: But the plan you suggest involves this confusion, who files quarterly returns, and on how much?

MR. GASTON: All right, you could have just exactly the same number of quarterly returns - you could have people file quarterly returns only above the first bracket.

MR. BLOUGH: On how much, and at what rates?

MR. GASTON: That is just a question of the rates that you have on the various brackets.

MR. BLOUGH: Then you do, in effect, make it two taxes, although you call it one.

MR. GASTON: You would have a different collection system for the first rate; but if you present it as just a single scheme and not as two separate taxes, you have something much easier to understand.

MR. BLOUGH: I have no objection to further integrating this thing and making it one tax with two parts. We have gone a long ways in changing the name already. We can change it once more and say this is a spendings tax and that the first bracket of the spendings tax is handled in such a manner and the rest in another manner. But I would point out that you almost certainly have to use the exemption principle on that instead of exclusion; and that if it means anything to be reaching directly sixty-five billion dollars of income, you wouldn't be doing it with the exemptions applied, and I don't see how you can very well get away from - I guess you could.

MR. GASTON: You are speaking about revenue, rather than reaching income, aren't you?

H.M.JR: Herbert, haven't you had this all out? What were you doing after you left my office, Herbert?

MR. GASTON: I did suggest my idea pretty strongly.

MR. WHITE: In fairness it was argued, but we merely were forced back into the position where those who know most about the administration and who are responsible for the administration felt that the weight of the argument, pros and cons, were in favor - from the point of view of administration, against the proposal, but I think we are all agreed that the simpler you can make the tax, the better.

MR. BLOUGH: I would very much like to do it Herbert's way.

H.M.JR: I am not trying to shut Herbert off. I had hoped that this argument would be settled last night. Just let me ask, did you want to say something else?

MR. GASTON: No, I was just arguing for a scheme that would look as simple as it could be made to the public and to the Committees of Congress, because I am afraid that the more complicated they make it, the more danger there is that we will be stopped before we get started.

H.M.JR: Let me ask Sullivan - from the standpoint of the Bureau - the thing that Roy has got now, practically settled, and what Herbert Gaston is talking about, from the standpoint of the Bureau, which would be - never mind the reception of Congress--

MR. SULLIVAN: I think from the standpoint of the Bureau Roy is right, but I don't think that the matter should be judged that way. There is a good deal of confusion in this room this morning about this tax, but it isn't anything compared with the confusion the people of the country are going to be under. I don't think that there is any administrative difficulty that is not worth while if it is going to simplify this tax for the people of the country. We have all been talking about this pro and con for a long, long while, and I think any of us would have a little difficulty making out our return this afternoon, for that matter. Here you have all these millions of people, Mr. Secretary, many of whom have never made out but one income tax return, and I say that anything that has to be done by the Bureau should be done if it is going to make it simpler for the people of the country.

H.M.JR: Well, I am going to say this, as I understand the thing, and as I say, I am not - I hoped that the people had gotten together, but evidently they haven't. As I understand the thing, you really divide your people up into three classes, the lower class that is going to be exempt because they can't afford to pay this thing, then there is a middle class, up to three thousand dollars, that will be treated in one way--

MR. BLOUGH: They will be treated only in one way.

H.M.JR: Then you have a third group from three thousand dollars and over. I don't see - now, I have sat here since last November and have heard these various people talk, saying that we didn't hit the second group, the middle group, hard enough, and that that was where the inflation would come from. Well now, you are setting them off by themselves and giving them special treatment, and I don't think it is very difficult to explain that this group - and the thing where I differ - I am sorry, Herbert, if I haven't got time, but I - this thing was supposed to have been settled Sunday night. They started a week ago Saturday, and I have given them all the time they have asked me for. As I say, I am not going to apologize for myself, because I have nothing to apologize for; I have been available any time anybody wanted to see me, and the fact that you other people weren't consulted over the week-end also is not my fault.

Now, we have been talking about doing something about this group. The reason why I differ from the other people is this: I read the Times and Tribune editorials. They don't wait even to hear the thing; what they want is a poor tax. They want a tax on the poor people so that the rich can escape. Now the way this thing is set up, and what it appeals to me for - and I have gotten it now after questioning you - is that for the Times and the Tribune and all the rest to oppose this thing they have got to say, "Well, what we really want is to tax the poor." A man like Taft has got to say, "Now this is no good because it does not reach the poor." Now, you can't say what the purchasing power of a single man is with five hundred dollars or less; you can't say what the purchasing power is of a married man with a thousand dollars or less, is that right, Friedman? Are we on safe grounds on that?

MR. FRIEDMAN: Absolutely.

H.M.JR: Where we have been weak, as I understand it, is that I have resisted here taxes on the group who earn from a thousand to three thousand.

MR. FRIEDMAN: That is absolutely right.

MR. BLOUGH: You have never resisted it.

H.M.JR: Yes, I have resisted it.

MR. WHITE: Resisted lowering exemptions.

H.M.JR: What you are doing here also is you are taking care of the thing that the President has talked about so much - Lord Beaverbrook, with five hundred thousand dollars of income, is living on twenty-two thousand dollars. Now, if this thing goes through - I mean, we can at least make a start - with this readjustment, up to a hundred percent on anybody that wants to spend above twenty-five thousand dollars, we are making it very expensive. I personally like it the way it is now. I like it.

Now, my apologies to you, Herbert, for not listening to you longer; but, on the other hand, I am not making any apologies, because I have been at this since Saturday, a week ago, and I have been available, see. But there comes a time when these people have got to go up and present this thing; and, as I understand it, I think this last plan is an improvement, what came out of this thing - I mean, you are making it progressive, the tax up to a hundred percent over twenty-five thousand. I think that is an improvement, as I understand it, and it still takes care of my interest in the people. I mean, with this plan Mr. Taft - using him as a proponent of the sales tax - has got to say, "What I really want to do is to tax the man on what he eats, who has a thousand dollars or less to maintain a family," and I am willing to go to the country with him on that. There are three groups.

MR. WHITE: You are quite right, I think. You put Taft in an untenable position.

MR. GASTON: As a matter of principle and economics and justice of the tax, I agree completely with what you say. My only point is just simply this, that the tactics of selling a tax - I am just afraid of something that appears on the face to be too complicated, that we won't be able to put it over as to the justice of the tax and meet any valid arguments they have. I think it is fine.

H.M.JR: Well now, when we started - Stewart, do you want to say anything?

MR. STEWART: No.

MR. VINER: I have one thing more that I feel I ought to say. That is that I am not in favor of this refundable portion. I am not even in favor of any mention of it.

H.M.JR: I am going to take that up now, if you don't mind. Harry has been very good; he has been waiting for forty-eight hours to talk, which is a time record. (Laughter)

MR. WHITE: Which is a miracle. (Laughter)

H.M.JR: It is almost a miracle. Go ahead, and, Tickton, come up here, because I am going to ask you some questions, particularly on what White is going to ask.

MR. WHITE: Let me first say that I like that. I think it is perfect if it goes up in its present form. I, myself, think it will be well received by the various writers, and I think it meets a great deal of the criticism which has been directed in general against our tax bill. I personally don't think it is as difficult to explain to the public as Herbert seems to feel. They are accustomed to the idea of a normal and surplus tax.

(Mr. Shoup entered the conference.)

H.M.JR: How are the people of a thousand dollars or less on the bond buying? Have we ever divided them up that way?

MR. TICKTON: We have not divided them up that way.

H.M.JR: I thought what's-his-name made a survey showing the group.

MR. HAAS: Likert.

H.M.JR: I thought Likert made a survey.

MR. TICKTON: We turned down some of his figures.

H.M.JR: Will you tell me--

MR. TICKTON: The experience of the people selling pay roll savings plans is that when they get the people down to a thousand dollars they have one terrific job in getting them to come in at all. When we get them to come in in a great many cases they are just token payments. I was impressed with that.

(Mr. Graves entered the conference.)

H.M.JR: Repeat that again for Graves.

MR. TICKTON: The Secretary asked, Mr. Graves, to what extent do people making a thousand dollars or less buy Savings Bonds, and I said that from the experience I had had in talking to various people carrying on pay-roll-savings campaigns, people of a thousand dollars or less are very difficult to bring in for any substantial amount. I was impressed with some figures I saw in this New York pledge campaign, Mr. Secretary, in which between twenty and thirty percent of the total number of pledges, based on a sample of more than a million pledges, were for amounts less than a dollar a month, which means twelve dollars a year. That would indicate that in a great many cases they are primarily token contributions, ten cents a week, twenty-five cents a week, or something of that general neighborhood.

People in that income level cannot buy bonds unless they cut out something that is very vital to their livelihood. Even with the sales campaign and all the publicity, it is still impossible for them to do very much more, to buy very, very nominal amounts.

H.M.JR: O.K., Harry, now go ahead.

Thank you, Tickton.

MR. WHITE: I said that I think the bill as it stands presently is very good, even if no change is made except as to minor technical parts. I think in any case it can be modified later and doesn't apply to the proposal which you are making at this time. Even if no change is made, it is highly desirable to present that in the present form. I, however, have what to me is a basic objection. It is a change that I would like to see, which would be extremely simple to make if you agree on the argument.

As the bill is at present, how does it affect the voluntary purchase program? It doesn't affect at all those below the exemptions of five hundred, a thousand, and two hundred fifty, because they won't pay any more taxes under this, and they will buy just as much or just as little as they are now. You can continue to appeal to them. They should be appealed to; because even if you only get a small amount, it is to the good, if only because of the fact that they feel they are making a contribution to the war effort. They are people who should be subjected to educational propaganda and programs such as your present program prosecutes and should continue to prosecute.

In the group above the lowered exemptions, between this five hundred and thousand dollar group and the three thousand dollar group, however, they are going to be hit much harder by the lowering of the income tax exemptions, which substantially increases their total plus the additional increase. If you were to take the amount which they have paid this year and then place along side of it the amount which they will have to pay out under this tax, I think, in my opinion, there is such a large increase the the consequence of that on them will be that there will be an enormous reduction in their contributions to the bond program. The consequence will be, it seems to me, that the Treasury will be recommending a tax program which it should recommend, and yet which greatly vitiates the voluntary savings program. That leaves it vulnerable to the continued criticism on the part of those who have been demanding compulsory savings that the Treasury's program of voluntary saving is getting much worse, is not delivering what it was supposed to deliver, and that the Treasury is subject to criticism because it is standing in the way of a necessary absorption of purchasing power for savings.

I think we can meet that criticism by another step, which to me would make this bill perfect, namely, increase the normal spendings tax to ten percent, instead of five as it is now - from five to ten - and make that up in the lower groups, a returnable fund, so that it becomes the equivalent of compulsory saving. Whether you want to pay interest or not can be postponed until some later time.

H.M.JR: I don't want to pay interest.

MR. WHITE: Then that is all right, but I mean a post-war credit, returnable, I believe, when the President declares the end of the emergency, or something of that character. Then we will be in a position to say--

H.M.JR: One second - what I said was I didn't want to pay interest. My suggestion was - they evidently hadn't told you that if this tax was applicable in '42 the post-war credit would be on--

MR. BLOUGH: '43.

H.M.JR: Let's say '42 for argument's sake. If it was in '42, you get a post-war credit after cessation of fighting - what you did in '43 you get one year later, '44, two years later.

MR. WHITE: That has some advantages; it has this particular advantage, which you may want to reconsider, that you are depriving yourself of a very powerful fiscal weapon in the post-war year in which you may either be running into a situation of inflation and you will not want to give that back, or you may be running into a situation of a depression, in which case you will want to give them back as much as possible. So I should be inclined to leave some flexibility. Maybe you can combine it unless the President directs otherwise. Aside from that I think it is a good idea.

Now then, if we had that ten percent tax and made it postponable, then we could take the position that we are hitting all the points of criticism. We are striking at the mass purchasing power group by the tax; we are discouraging spending on the large groups by the progressive rate; we are increasing the compulsory savings. Therefore, the diminution in voluntary savings was not only expected, but we have more than made up for that by the fact that we have had compulsory savings to an extent which you will never reach by voluntary savings at most levels.

One further argument, and I am through. The justification for going to those lower levels, Mr. Secretary, has been an inflationary argument. It has not been chiefly a fiscal argument. It isn't that we want to meet the debt. At least I think that the chief basis has been that in order to prevent price rises you have got to soak the sulk of the purchasing power. Let us keep that objective in mind. If that is the objective, then we are doing it. Let's give them the money back. If we don't give them the money back, we are pursuing the other objective, which is a fiscal one, merely to reduce the outstanding debt. We are also coming down very low. We are reducing the exemptions to five hundred, two hundred and fifty, and a thousand dollars on income taxes, which they are going to pay anyhow, which they don't get back; and in addition to that, we are putting a spendings tax on that very low bracket.

MR. BLOUGH: You mean down to zero in the spendings tax if you follow this suggestion?

MR. WHITE: That is right, on both counts.

H.M.JR: Wait a minute, how do you go down to zero?

MR. BLOUGH: For those people, their compulsory savings would start with their first dollar of spendings.

H.M.JR: I understood it started only at a thousand dollars.

MR. WHITE: Not if we change this five percent to ten. There is no other change except doubling.

H.M.JR: Wait a minute. The way it is now we do not touch the man at all - the married man who has less than a thousand dollars.

MR. WHITE: That is right. He is out of the picture.

H.M.JR: Then you do not go down to zero.

MR. BLOUGH: If he has more than that we go down to zero.

H.M.JR: You fellows slipped up on something. You say you go down to zero, then you don't. As I understand it, on a thousand dollars or less, this so-called--

MR. WHITE: For a married man, a thousand dollars.

H.M.JR: Yes, and a single man five hundred dollars.

MR. BLOUGH: Nothing.

H.M.JR: Then you do not go down to zero. Was Harry right or wrong?

MR. GASTON: When he has a fifteen-hundred-dollar income, then you tax him on all of it.

H.M.JR: That is the point. Yes, I follow on that.

MR. BLOUGH: I withdraw my remark. I think it is all right.

MR. WHITE: A man with less than five hundred dollars has nothing to do with this.

H.M.JR: As I get it, Harry, the thing that you have been so self-contained about - it is a marvelous demonstration - I am going to say, "Remember, Harry, that time? Why can't you always be like that?" (Laughter)

MR. WHITE: I am getting old. You have me meeting - what is her name?

H.M.JR: One day - my Gawd! Did you read the Wall Street Journal where the fellow wrote a wonderful story about Hedy Lamarr?

MR. WHITE: About the economical value of her legs? That is what he said to me. (Laughter)

H.M.JR: "Hedy Lamarr Sells War Bonds and Booms Voluntary Savings. Movie stars don't bother about economic philosophies - they just go out and sell." (Laughter)

Harry, what I understand you are talking about is this: You are saying instead of making it five, make it ten. Is that right?

MR. WHITE: That is right.

H.M.JR: And everything else is the same except - plus a firm position on the part of the Treasury, that there be a post-war credit?

MR. WHITE: A definite position.

H.M.JR: Is that the point?

MR. WHITE: Yes, and I think that then the Treasury jumps right in the lead of the whole program and takes away all grounds for criticism from those asking compulsory savings, from those who want to go down to maximum purchasing power, and from those who say we have to curtail the man who has a lot of money to spend. We are hitting them on three fronts.

MR. GASTON: Does it make any difference whether there is a post-war credit or not? You are allowing an offset on both the taxes for investments in Government bonds, are you not?

MR. BLOUGH: You are allowing a deduction from the spendings, not a tax offset.

MR. GASTON: It is a deduction from the spendings. Consequently, nobody is going to take a no-interest loan if he can go out and buy a two and nine-tenths interest loan, is he?

MR. BLOUGH: Yes, because he goes out and buys a two and nine-tenths percent interest loan and it reduces his spendings tax five percent of that, but the no-interest loan is at a hundred percent. You see, this is not a tax offset for savings and bond purchases.

MR. GASTON: It is not an offset?

MR. BLOUGH: It is a deduction from spendings.

MR. GASTON: But not from the tax? If he takes his five hundred - if he invests five hundred dollars in war savings bonds, then that is deducted from the amount of the spendings? That is five hundred dollars that is not subject to the tax?

MR. WHITE: That is right, some incentive.

MR. BLOUGH: Suppose you have two thousand dollars of income, and he buys five hundred dollars' worth of bonds, that leaves him fifteen hundred dollars on which a five percent or a ten percent tax would be applied. At the ten-percent rate that would be a hundred and fifty dollars.

Well, now, the amount of tax he has saved is ten percent of five hundred dollars. He had to buy a five-hundred-dollar bond to save fifty dollars with the ten-percent rate. With the five percent rate he would have to buy a five-hundred-dollar bond to save twenty-five dollars.

MR. VINER: He has to avoid spending five hundred dollars; he does not have to buy the bond.

MR. BLOUGH: He has to avoid spending.

MR. WHITE: He cannot always avoid that spending.

MR. KUHN: Would you make it refundable all the way up the line, or stop at three thousand dollars or five thousand dollars?

MR. WHITE: That is open to discussion. I think it should be stopped somewhere along the line. I do not think a man of large income should be given any large amount of rebate.

MR. BLOUGH: I would take the five percent off the surtax.

MR. WHITE: I think it is well to point out that we are violating a principle which you would adhere to until recently - and to which I am still adhering - that we are getting down extremely low when you take the rising cost of living and the indirect taxes, and what not, when you are taxing the man who earns eleven dollars a week, or something like that - I do not care what you are taxing him, if he only earns eleven dollars a week - and taxing a married man who is earning eighteen dollars a week. We ought to do that with compunction. We certainly ought to do it for fiscal reasons, if we do it, and there is a very real reason for doing it in war time for inflationary reasons; in which case they should get it back. It seems to me you are on strong ground when you stick to your principle.

H.M.JR: Let me ask a question. If you did what White is suggesting, how much difference would it make in revenue, roughly, as opposed to what you have?

MR. FRIEDMAN: Two and a half billion dollars.

H.M.JR: You mean you would put this last figure you gave me - this last figure you gave me was five and a half billion dollars, and this would boost it another two and a half?

MR. FRIEDMAN: Approximately. That is a very rough figure.

MR. BLOUGH: Of course that would be reduced somewhat if we took that five percent out of the surtax on the ground that that, since it is not going to be refundable - but you thought of that.

MR. FRIEDMAN: I tried to allow for that. It is a very rough figure.

H.M.JR: I do not know whether - you (Graves) came in cold on this, and I do not know whether you want to ask some questions or not. What do you think it would do to the voluntary plan?

MR. GRAVES: Well, I think it would practically put an end to the pay-roll savings. It would leave us with a substantial market, I believe, in the moderate income class, but it would, as I understand it, in my opinion, put an end to it.

H.M.JR: If it went to ten?

MR. GRAVES: That is right. I think it would if it were left at five.

H.M.JR: You do?

MR. GRAVES: I think it would if it were left at five.

H.M.JR: They would get their credits. You see, if the man is now taking his ten percent, he would get his credit on his five. You would be shooting for five percent.

MR. GRAVES: That is right, but, as I understand, you would have, really, a ten-percent deduction in all, wouldn't you Roy, five percent on the withholding of income and this five?

MR. BLOUGH: That is right. Next year there would be a ten percent deduction at source.

MR. GRAVES: I think the second logical effect of that would be this, that people whould say, "Well, the Government is taking that ten percent."

MR. WHITE: The lowered income brackets - let's not forget that we are lowering them.

H.M.JR: But you would have the ten percent next year, and if we stuck to Blough's thing it would be five percent which would go into compulsory saving. The withholding tax he does not get back.

MR. BLOUGH; He does not get it back, and it is not five percent of the total income, but only five percent of the amount above exemptions.

H.M.JR: Tickton, what do you think?

MR. TICKTON: I think Mr. Graves is right. That may mean something in the neighborhood of, say, forty percent less on your savings bonds, because the pay-roll savings may be somewhere between twenty-five and fifty percent of your total savings bonds program. That would not hurt your F and G or your E bonds going to incomes, say, in the neighborhood of five thousand dollars to twenty or twenty-five thousand dollars. On the other hand, you knock off your savings bonds going to incomes over twenty-five thousand dollars because you would - there would be heavy taxes for some of these people to pay, and they would not put in the amount into savings bonds that they might otherwise put in.

MR. WHITE: On the contrary, with the spendings tax they will put more in. Your higher brackets will save more.

MR. TICKTON: Except that he has to use other forms of investment. I said something in the neighborhood of forty percent. It would cut out the pay-roll savings, about forty percent.

H.M.JR: Tickton, somebody had me write a speech for the bankers and I said on pay-roll deductions next year, three hundred and fifty to four hundred. Wasn't that it?

MR. TICKTON: That is a good order of magnitude.

H.M.JR: Let's put it - what is your guess it is for August.

MR. TICKTON: The month of August it will be about two hundred and twenty-five million.

H.M.JR: Do you think it will go to three hundred by the end of the year?

MR. TICKTON: By the end of the year it ought to go to three hundred.

H.M.JR: Three hundred?

MR. TICKTON: Yes, sir.

H.M.JR: How much will it average for next year, three hundred and fifty? Let's be on the generous side.

MR. TICKTON: You mean for next year?

H.M.JR: For the calendar year '43.

MR. TICKTON: For the calendar year '43 - assuming none of this would happen, for the calendar year '43, three hundred and fifty would be a low average.

H.M.JR: Wait a minute, you count on your five percent deduction at source. Let's say that that goes in.

MR. TICKTON: I still think you will probably get three hundred and fifty because of the reduced volume of consumer's goods that are going to be available. The rationing will make various people more willing to put their money into pay-roll savings. Three hundred and fifty is a good figure.

H.M.JR: That is four billion two. What would the five percent - this five percent tax that we are talking about, how much would that--

MR. FRIEDMAN: Somewhere in the neighborhood of three billion dollars.

MR. TICKTON: That is gross, Mr. Secretary. There are going to be some reductions on those.

MR. BLOUGH: You mean your figures are gross?

MR. TICKTON: Yes.

H.M.JR: I will tell you something. I read Viner's article in the Yale Review, and I don't know anybody who differs with him. I think at the rate we are going that if we do the five percent instead of the ten that White has suggested, and definitely make it a post-war credit up to a hundred and fifty, I think that is about all the traffic will bear.

MR. WHITE: It is an awful lot of traffic. I quite agree with you.

H.M.JR: I think that is all it will bear. Excuse me, would that start January 1, all of this?

MR. BLOUGH: Yes, except the surtax which we had better start right away.

H.M.JR: I think that is about all, Harry.

MR. WHITE: Well, Mr. Secretary, there is just this one point to consider. How are you going to meet the argument that I believe will be made in large part, that the voluntary savings program is a flop, because it will become more so.

H.M.JR: I would answer that argument because I would not say that was true.

MR. WHITE: It won't be true and is not true in my opinion, either, if you measure the success of it on the basis of the excellent educational work that is being done. In my opinion that has been very successful, but from the point of view of quantity--

H.M.JR: The mistake I made was in fixing quotas. Now, if we did not have quotas we would have sold seven or eight billion dollars' worth of bonds and everybody would have said, "Wonderful". Because we had quotas so high, they measured the whole business by the quotas. I made that mis take, but I think it is a long way from a flop.

MR. WHITE: Not from the way you are considering it; and from the way I consider it, it has been very successful, and it has been the only campaign which has made much spread of selling the war to the people. But from the point of view of absorbing purchasing power it seems to me that candidness would require that - "flop" is a little too strong a word, but I will say not too successful.

H.M.JR: Look at your Department of Commerce savings figures.

MR. VINER: Something has succeeded; if it isn't that, something has.

H.M.JR: Look at your Department of Commerce figures. I mean, you have not inflation now and there is nothing immediately in sight.

MR. WHITE: Well, I do not know as you could allocate that form of savings to--

H.M.JR: But look at the savings. Put it the other way. I mean there is nothing - I cannot get any economist to produce anything to get me excited for the rest of this year. If the President, on Labor Day, will go

H.M.JR: I would answer that argument because I would not say that was true.

MR. WHITE: It won't be true and is not true in my opinion, either, if you measure the success of it on the basis of the excellent educational work that is being done. In my opinion that has been very successful, but from the point of view of quantity--

H.M.JR: The mistake I made was in fixing quotas. Now, if we did not have quotas we would have sold seven or eight billion dollars' worth of bonds and everybody would have said, "Wonderful". Because we had quotas so high, they measured the whole business by the quotas. I made that mistake, but I think it is a long way from a flop.

MR. WHITE: Not from the way you are considering it; and from the way I consider it, it has been very successful, and it has been the only campaign which has made much spread of selling the war to the people. But from the point of view of absorbing purchasing power it seems to me that candidness would require that - "flop" is a little too strong a word, but I will say not too successful.

H.M.JR: Look at your Department of Commerce savings figures.

MR. VINER: Something has succeeded; if it isn't that, something has.

H.M.JR: Look at your Department of Commerce figures. I mean, you have not inflation now and there is nothing immediately in sight.

MR. WHITE: Well, I do not know as you could allocate that form of savings to--

H.M.JR: But look at the savings. Put it the other way. I mean there is nothing - I cannot get any economist to produce anything to get me excited for the rest of this year. If the President, on Labor Day, will go out and say something definite on agricultural prices, and something definite on labor - the trouble in the agricultural prices is practically entirely in the uncontrolled prices. On the controlled prices, the line is almost as level as this table, and has been since March, and all the rises have been in the uncontrolled prices. Now, if he would do something on Labor Day, and take a firm stand, and apply the Little Steel formula to all labor, and do something about uncontrolled prices, and reduce parity down to a hundred percent, I think the country is going to settle back. But if I was back out on the farm - it would be most pleasant - and read everything that came out of Washington - and the President has been talking for, I think, almost six weeks now, about making the statement on inflation. I think it is at least six weeks, and nothing happens. Every time he does the people raise all these other things, and Henderson hollering his head off about ceilings being bursted and Wickard criticising the hundred and ten percent, which he helped to get through. He saw the light later, but he saw it. Everything has been going against the person making the voluntary investment in a Government bond by this. But notwithstanding that, all the figures show that people are saving their money.

MR. GASTON: Mr. Secretary, on the other hand, the figures we discussed down there with the group show that the spending, on the other hand, is at the highest rate we have ever had in the country. Making allowances on the one side for the inability to get automobiles, which is a very big figure, and, on the other side, for the increase in prices, we never have seen anything greater than the rate of spending for 1941.

H.M.JR: Well, that is true because your national income is up to a hundred billion dollars.

MR. GASTON: Yes, that is very true. It is the increased income. In other words, what you have in additional spending is a reflection of the increased income.

H.M.JR: But also your increased savings have gone up.

MR. GASTON: Increased spending and increased savings out of increased income.

MR. VINER: But the increase in savings has been quite abnormal in terms of any previous experience.

MR. GASTON: It has been quite abnormal, but still, our spending, with the pressure on prices - our consumer spending is way up.

MR. VINER: The figures I see in newspapers do not confirm that. There are smaller sales to consumers than last year.

MR. GASTON: Mr. Friedman, with the exception of automobiles, don't they show a lower volume than '41?

MR. FRIEDMAN: If you leave out the heavy durable goods.

MR. VINER: Why should you? Next year you will leave out sixty percent of what they were buying in '41.

MR. GASTON: You still have the pressure on prices of the goods that remain and a buying demand greater than the volume of goods.

MR. WHITE: Of course this controlled price index is a little misleading. You cannot get anything but a flat index. Those are the prices. That does not mean that the goods are available, that you have the same quality, and that they get appropriate figures. It helps.

MR. VINER: I have been looking at sales figures. The aggregate figures, making my own allowance for any rise in price, show a physical volume somewhat less; and the interesting thing is that in Canada, with all that Canada has done, the physical volume of sales to consumers has not yet fallen in any month.

H.M.JR: Well, now, let me just ask a simple question. I am going to do something which is simpler and a little cruel. I am going to ask people to vote who want to vote. Nobody has to vote who does not want to. I said it is cruel because I am going to make them hold up their hands without giving me their reasons. Who in this room, I mean of those who want to vote, are in favor of making this a ten percent instead of a five percent, as so ably presented by Dr. Harry White? Those in favor will raise their right hands. (White, Sullivan, and Stewart raised their right hands.)

MR. SULLIVAN: This is assuming you are going to have something.

MR. GRAVES: Assuming at least five?

H.M.JR: Assuming five percent and a post-war credit. The vote is on ten. (Graves raised his hand.)

Those opposed to White? (Blough, Shoup, Friedman, Hass, and Gaston raised their hands.)

MR. VINER: I am not voting.

H.M.JR: That is refundable.

MR. SHOUP: I do not want to refund it, either. I am voting just on the rate.

MR. VINER: I know that if it is ten percent it is refundable; if five percent, possibly it will not be. I prefer five percent refundable to ten percent not refundable.

H.M.JR: I am putting it the way White put the proposition. As White put it, it is ten percent refundable.

MR. WHITE: That is right.

H.M.JR: I want to know--

MR. SULLIVAN: As against the five percent refundable?

H.M.JR: As against the five percent refundable. (White, Stewart, Viner, Graves, Haas, Kuhn, and Sullivan and Blough raised their hands.)

MR. BLOUGH: I changed over for this reason--

MR. WHITE: There is something fishy here.

MR. BLOUGH: You did not want any explanation. I will give you my explanation if you will let me. My explanation is that you will never get ten percent, but I am not so sure that it would not be a good idea to ask for it.

MR. WHITE: If they do not get it that is their responsibility.

H.M.JR: In other words, you want to kill it by asking for ten percent?

MR. BLOUGH: I do not want to kill the plan.

MR. VINER: He thinks they will cut it to five.

MR. BLOUGH: I prefer five. I think it might be wiser to go up and ask for five, but I am not particularly objecting to asking for five, although I know--

MR. WHITE: Why vote for it then, if you are for five?

MR. BLOUGH: What I want is five percent to come out of this bill.

H.M.JR: Who wants five percent refundable? (Blough and Friedman raised their hands.)

MR. WHITE: As against nothing, yes.

H.M.JR: No, no, five percent refundable as against ten percent refundable.

MR. GASTON: I am for five percent non-refundable, and all these other votes puzzle me. I am for five percent non-refundable.

H.M.JR: I will come to you. Who is for five percent refundable?

MR. FRIEDMAN: I am for five percent refundable in preference to ten percent refundable. I am for five percent non-refundable in preference to five percent refundable.

H.M.JR: Who wants five percent non-refundable? (Viner, Tickton, Blough, Shoup, Friedman, Haas, Kuhn, and Gaston raised their hands.)

H.M.JR: Who wants ten percent non-refundable? (Sullivan and Graves raised their hands.)

One fellow who has to do his explaining is Mr.Graves.

MR. GASTON: He is tired of savings bonds. (Laughter)

MR. GRAVES: I asked you what the alternatives were; I say, if you are going to have a five-percent spendings tax withheld from pay rolls, you might then go the whole way, that is my position.

MR. BLOUGH: It was non-refundable he was asking for. It is ten percent non-refundable.

MR. GRAVES: He started in with the proposition we were to have five percent refundable or ten percent refundable. I voted for ten.

MR. BLOUGH: This vote was five percent refundable, ten percent non-refundable.

H.M.JR: There are two separate votes. The first vote was White's proposal, ten percent refundable.

MR. WHITE: That is my first preference, but I have a second preference if I cannot get my first.

H.M.JR: Let's go through this thing once more because I love to watch Viner. I am wondering who is pulling the strings on Viner. His hand goes up and down so fast I cannot tell. Let's go back again once more. This is not so dumb as I thought it was. I did not think it was dumb when I suggested it.

We go back to the White plan, ten percent refundable, as opposed to five percent refundable. Who is for White? (Viner, Tickton, White, Graves, Sullivan, Stewart, and Haas raised their hands.)

Who is for five percent refundable? (Friedman and Shoup raised their hands.) Friedman and Shoup, they are two good men.

Now, who is for five percent non-refundable?

MR. GRAVES: As opposed to ten?

H.M.JR: Who is for ten percent non-refundable? (Graves and Sullivan raised their hands.)

If you don't mind, Carl Shoup, will you state your position and your reasons, please?

MR. SHOUP: Yes, Mr. Secretary, I feel that the tax should be five percent non-refundable, because I think that not only is the inflationary situation a difficult one, but I am worried about the post-war situation with respect to both the amount of bank deposits that we are going to have and with respect to the transfer problem that the interest charge will involve.

I do not think that I would like to go above five percent right today because this is on the so-called exclusion basis, and it is quite a jolt to put in at once, I think, more than five percent at these very low levels, refundable or non-refundable, on top of what we are going to have anyway in the bill.

I should rather, as a matter of fact, like to see us go up right away to possibly six or seven percent non-refundable, with still further increases up around the two, three, and four-thousand-dollar levels.

But if we take ten percent, let's see what that means. Suppose we have a ten percent on this exclusion basis, then a married couple with fifteen hundred dollars will pay a hundred and fifty dollar tax. That is equivalent to a thirty-percent initial blanket rate under our typical exemption kind of plan. You see, thirty percent of that five hundred dollars is in excess of a thousand. That gives us some measure of the kind of thing we would be doing. I think we will have to do it sooner or later, but right away I would prefer to stay at the five percent level at those very low levels - maybe six percent, maybe seven percent. I would like to go up to the higher rate on the higher levels. I would like to keep it non-refundable for the reasons I have given.

H.M.JR: Friedman?

MR. FRIEDMAN: I think the issue is very largely one of how big a bite you can take at the one time, and I have to admit this is a field in which I do not have competence because it is a field of political judgment, but I have the feeling that if we went up with ten percent that would strike the Committee and other people as so utterly unreasonable that our whole proposal would not get a fair hearing.

I have the feeling, on the other hand, that if we go up with five percent we will impress the Committee as presenting a reasonable and practical program, and that they will give it fair consideration. In addition, from the point of view of the individual, I agree entirely with Mr. Shoup, that it is essential that we take it in steps - large steps, but still, not tremendous steps. And so I have the feeling that this is a big jolt to begin with, and it is as big as we can really take in one step.

I would like to add just one more thing, that I think that the effect of this on the savings bond program has been exaggerated. I do not doubt for a moment that it will affect the savings bond program, but as you know, we had this survey made of employees in connection with the withholding tax. That showed that seventy-six percent of them expressed the feeling that they would not reduce their savings bond allotment.

H.M.JR: On the five percent withholding?

MR. FRIEDMAN: On the five percent withholding.

MR. WHITE: Lower exemptions on the income tax?

MR. FRIEDMAN: And fourteen percent, only, said they would reduce the amount. Now, I don't doubt for a moment that that is an exaggeration - that the people are over-optimistic, but it seems to me to indicate a very real desire on their part to participate in the savings bond program as much as they possibly can, and while I think they will reduce their allotments, I do not think they will eliminate them, and so I think that the effect on the savings bond program has been exaggerated.

H.M.JR: Well, now, did you vote to refund it on a post-war credit, or not?

MR. FRIEDMAN: I would prefer not to have it a post-war credit at this time.

H.M.JR: Why?

MR. FRIEDMAN: Because I think that it is essential that we go as far as we possibly can in the direction of real taxes before we come to the post-war credit. I think that at some time we will have to come to the post-war credit, but I would like to save the sugar as long as we possibly can.

MR. WHITE: How long do you think this war is going to last? What do you mean, "save the sugar as long as we possibly can"? Do you think this war is going to last ten years?

MR. FRIEDMAN: I think it very well may.

MR. VINER: You may have to have a new program by June 1943.

MR. SHOUP: Yes, I think the point that Milton has, as I have, is while we are saying five percent now, we are saying, also, more soon, within a few months, maybe; and that would be the time, possibly, to consider post-war credits.

MR. WHITE: I think there is a fundamental split of opinion that hovers around this, and that is the distinction between fiscal needs and inflation needs. They are stressing the fiscal needs, namely, the question of how high the outstanding debt shall be, or how low it shall be eventually. I think that we have reached the level at which that becomes a secondary consideration.

H.M.JR: Walter, you voted so you must have some ideas.

MR. STEWART: Well, from what Shoup and Friedman say, apparently there is no difference in principle. It is a matter of timing and of degree. I am not politically adept in judging that. My position, as you know, for a long time has been that you were going to have to depart from the income-tax structure for the purpose of the war economy for fiscal and inflationary needs, and when you made that departure it ought to be in large steps. I think the ten percent makes it.

So far as the refunding is concerned, I see no reason for a war economy, as to why that might not be left up with the community - the right to spend afterwards, which is all this does. It prevents their spending during the war. It gives the right to spend afterwards.

The further point is I am persuaded by what Harold Graves says about the savings campaign. I think my belief is it would make a real difference there; and what Harry White says about the logic of this position -

if the Treasury is to take a position of this kind, then I think it is very important that it should be buttressed in the strongest kind of logic you can have, so that you aren't just defeating a sales tax, you are moving out with a whole financial - with a perfect fiscal and financial program.

H.M.JR: Harry, I am not being sarcastic, and if you don't want to answer you don't have to, but isn't your thinking - I mean I am being very earnest now - isn't your thinking for my sake being tempered by the fact, on the ten percent, that you think that this will answer, for a better name, the Director of Budget group?

MR. WHITE: That is a fair question, and I think it deserves a very fair and frank answer. I think that the Treasury has been in the forefront in the war effort in every area except this one. I think that when it comes to WPB and the others we have said they did not recognize there is a war on; that they are not willing to be drastic; that they are playing too much with "business as usual." I think our criticism has been wholly justified and if anything on the under side. We have been persistent and intense among ourselves. We have held our own practice up to light which we can see most clearly by another person's criticism. But about taxes, I think we are inclined to treat ourselves gently. We have said, "Let's not go too far - take too big a bite."

It is true WPB can operate on administrative grounds whereas we have to wait for legislation, but that should not affect what we recommend. I think we ought to be in the forefront of the war effort in our own field first just as we think we are in the forefront of fields which are not our direct responsibility; and being in the forefront of this issue means to me to advocate the kind of measures which a war of this character calls for.

Sure they are drastic, sure they are tough; if Congress mitigates them, that is Congress' business, not ours. We ought to fight for what we think is right, and

I think, to be sure, when this new committee - if a new committee is going to be formed, I think that is the point of view they are going to take. They will say, "Look at this savings program. It has been a failure. They only delivered X number of bonds!" I think that is the point of view they are going to take. They will not be charitable in this. They will not even be reasonable, from my point of view, but they are going to say that the thing the Treasury has stood in the way of is a real program of absorbing savings from the lower groups, and I think we have to beat them to the gun. I think it is time.

I do not think the war is going to last forever. There are one, two, or three years left. We are speaking now of taxes that will apply in '43, and I think we have got to be tough.

H.M.JR: Well, now, what I would like - it is pretty well established. You and Friedman, maybe Shoup, could figure - take a family of twenty-five hundred dollars, if that is an easy figure to figure, with two children, with the five-percent withholding tax, and for their income tax let's use a round figure. Say there will be five hundred dollars in a twenty-five hundred dollar family for things for which they would get a credit under this plan. Would that be a fair figure, five hundred dollars, for doctors, insurance, and one thing and another?

MR. WHITE: Possibly rent, also.

H.M.JR: For whatever it would be, five hundred dollars would be a fair figure. Figure five hundred dollars credit for one thing and another - twenty-five hundred dollar income, two children, and I want to know what percentage.

Now, wait a minute. Do it two ways. With five percent it does not make any difference whether we return it or not - five percent spendings and a ten percent spendingstax. Do it both ways with the five and the ten, and I want to know where that twenty-five hundred dollar family comes out.

MR. FRIEDMAN: I can give you the figures here. A twenty-five hundred family with two children, and with five hundred dollars credit on the spendings tax and the collection at source under the regular income tax, the five-percent withholding would be fifty dollars.

H.M.JR: Wait a minute. The withholding is how much?

MR. FRIEDMAN: Fifty dollars. The income tax, at the rates passed by the House, would be a hundred and seventy-five dollars. The spendings surtax, assuming the same rates, whether you have a five or ten percent compulsory savings - I mean five or ten percent normal tax, it would be fifty dollars.

MR. VINER: If they spend--

MR. FRIEDMAN: Two thousand dollars out of twenty-five hundred.

MR. VINER: If they spend--

H.M.JR: That is all they can. They are given a five hundred dollar credit.

MR. FINER: If they spend twenty-five hundred dollars.

MR. FRIEDMAN: This is a family with two children - I beg your pardon, the surtax is zero.

MR. BLOUGH: But his normal tax is a hundred dollars.

H.M.JR: Wait a minute. I have got withholding fifty, income tax a hundred and seventy-five, spending tax zero.

MR. FRIEDMAN: The normal tax, a hundred dollars at a five-percent rate, and two hundred at a ten-percent rate.

H.M.JR: Let me just add this up. That is three hundred and twenty-five dollars on the five percent.

MR. FRIEDMAN: That is right.

H.M.JR: On the ten percent it would be four hundred and twenty-five.

MR. BLOUGH: That is right.

H.M.JR: What is that in the way of percentage? Do you figure it percentage-wise on twenty-five hundred dollars?

MR. BLOUGH: It would be about thirteen percent at the five-percent rate, and about seventeen percent at the ten-percent rate.

H.M.JR: Four hundred and twenty-five is a sixth, isn't it?

MR. BLOUGH: Yes, it is a sixth.

H.M.JR: That is lower than I thought. That surprises me. I mean we have all been talking--

MR. WHITE: He would get two hundred back.

MR. KUHN: Can we take it just a little higher so we can see what would happen if the surtax applied, taking a married couple with two children, at four thousand dollars?

H.M.JR: Try it at four thousand dollars.

MR. BLOUGH: Of course that only leaves him - if he has this five hundred dollars of deductible items and has around fourhundred dollars here, that leaves him sixteen hundred dollars to live on.

MR. VINER: The five hundred is living, too.

MR. BLOUGH: The five hundred is living, but it is not the type of living that you would ordinarily consider living. It is insurance and investments.

MR. VINER: Yes.

MR. GASTON: Are your rents going to be an offset?

MR. WHITE: I definitely think it should be included.

H.M.JR: Do it at four thousand, Milton.

MR. BLOUGH: On that I think it should be for the surtax but should not be for the normal tax. If the Ruml Plan, in some form, should pass, this would be fifty dollars lower.

H.M.JR: What is that?

MR. BLOUGH: If the Ruml Plan, in some form, should pass, that fifty dollars withholding would not double up with a hundred and seventy-five income tax. That would be fifty dollars less.

MR. FRIEDMAN: For a man with four thousand dollars, assuming again that he spends five hundred dollars on items already deductible, two children - a married man with two children, the withholding at the five percent would be a hundred and twenty-five dollars; the income tax would be four hundred and seventy dollars.

H.M.JR: A hundred and twenty-five and four hundred?

MR. FRIEDMAN: Four hundred and seventy. The spendings surtax would be fifty dollars. The spendings normal tax at a five percent rate would be a hundred and seventy-five dollars. At a ten percent rate--

H.M.JR: How much does that total?

MR. FRIEDMAN: Eight hundred and twenty dollars.

H.M.JR: Eight hundred and twenty?

MR. FRIEDMAN: At a ten percent rate you would have to add a hundred and seventy-five more which would make it nine hundred and ninety-five dollars, practically a thousand dollars.

MR. WHITE: A fourth of his income, of which he would be saving three hundred and fifty dollars. That is what I think war calls for.

MR. VINER: You mean three hundred and fifty would be refundable?

MR. WHITE: Yes, he would be saving more if he had insurance and some of the others.

H.M.JR: Now, wait a minute. Would this all be - would the whole ten percent be refundable? I thought you were going to limit it to a hundred and fifty.

MR. WHITE: We have not raised that problem, but I assume it would cover the man somewhere between three and four thousand.

MR. BLOUGH: We would have to raise the limit in any event, since you are doubling the rate. It would have to be three hundred instead of a hundred and fifty.

MR. WHITE: It would provide one of the best kinds of a backlog for the possibility of a post-war depression.

H.M.JR: How would you do on the refunding? How would you treat that?

MR. WHITE: I think ~~the~~ President would have the power to declare, if business conditions warranted, fifty percent or twenty-five percent this year, maybe.

H.M.JR: I don't mean that. I mean how much of this on your ten percent?

MR. WHITE: What you think is fair to get back. I think somebody getting up to three thousand dollars ought to get it all back, and maybe graduate it off - maybe the maximum somewhere around three hundred dollars a year on twenty-five or thirty-five hundred dollars.

H.M.JR: As steep as this, I would go higher than that.

MR. KUHN: You had a scheme, Roy, the other day for tapering off that refunding, or paying it all back up to a certain point; then for paying it part back and people over - was it a five or ten thousand dollar salary, income, would get no refund at all?

MR. BLOUGH: They would - you can either have them getting none, or you can have them getting some. That was another wrinkle. I don't even want to mention it this morning.

H.M.JR: Herbert, what do you think about this when you see these schedules?

MR. GASTON: Well, largely for the reasons that Carl Shoup and Mr. Friedman stated, I would still prefer the non-refundable five percent. I would like to see the war savings effort continued, and I would like to see an area in which it can operate for propaganda reasons. I think this is digging pretty deep if you go to ten percent as compared to what we are doing now.

H.M.JR: Let me vote once more. I hate to work against the clock, but I have the Fed coming in at eleven o'clock. Let's vote once more. Who is for five percent, refundable, as against ten percent refundable? Who is for five? (Blough, Friedman and Shoup raised their hands.)

Who is for ten percent refundable, as against five? (White, Viner, Kuhn, Stewart, Haas, Tickton, and Graves raised their hands.)

MR. VINER: Refundable?

H.M.JR: Both refundable. Who is for five percent non-refundable? (Haas, Viner, Tickton, Kuhn, Blough, Friedman, Shoup, Gaston, and Sullivan raised their hands.)

Who is for ten percent non-refundable, as against five? (Graves raised his hand.)

Wait a minute, there are four different plans here: Five percent refundable, five not, ten, and so forth. There are four different suggestions here. We will start out, and of the four plans I want each person to say which of the four plans he chooses, one against the other three.

Now, who is for five percent, non-refundable? (Tickton, Viner, Blough, Shoup, Friedman, Haas, Sullivan, Kuhn, and Gaston raised their hands.)

Now, who is for five percent, refundable, as your first choice? (None)

Who is for ten percent, refundable, as your first choice?

MR. GRAVES: Non-refundable?

MR. WHITE: No, refundable.

(White and Stewart raised their hands.)

H.M.JR: Where were you, Tickton?

MR. TICKTON: The first one.

H.M.JR: Let me do it once more. Five percent, non-refundable? (Haas, Viner, Tickton, Kuhn, Blough, Friedman, Shoup, Gaston, and Sullivan raised their hands.)

Who is for first choice for five percent, refundable? (None)

Who is for ten percent, non-refundable? (Graves raised his hand.)

Who is for ten percent, refundable? (White, Stewart, and Mrs. Klotz raised their hands.)

MR. GASTON: If this is first choice, I am not for it.

H.M.JR: And I have got to decide now.

MR. WHITE: Now, if you can try the second choice that might be helpful--

H.M.JR: No, it would not influence me.

MR. WHITE: Because I think it is very important to have it refundable, whether it is five or ten percent, myself.

MR. BLOUGH: I think it is very important to indicate to the Committee that you recognize that refundability is on the way.

MR. WHITE: You haven't made up your mind; why should you expect the Committee to?

H.M.JR: Now, Roy, I have got to stop now, but this thing with the Fed will run about a half an hour. I will make it short. Could you and Shoup and Friedman, who are technicians on this, come back - and I will let the others know when it is time - with a suggestion, if we are going to do either the five or the ten percent refundable, and up to how much. How would you handle that? You see what I mean? Supposing you and Shoup and Friedman go into a huddle, and I will let the others know. But at either five or ten percent, how would you handle it? For a little guidance, I would be on the generous side - if we are going up to ten percent refundable, I would be on the generous side as to how much you would refund.

MR. BLOUGH: I would also like, if you will, the opinion of members of the group here on the language of certain sections of this on which I am taking a position.

H.M.JR: All right, you can call on anybody you want, but I will try to keep this meeting down to a half to three quarters of an hour, then I will let the others know.

Statement of Randolph E. Paul,
General Counsel of the Treasury Department,
before the Senate Finance Committee
in Executive Session
on the Treasury plan for an individual
spendings tax

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The Treasury has stressed the great need for revenue throughout the consideration of this tax bill by the Congress. It has recommended higher tax rates than those appearing in the House bill for all the major taxes, including individual income, corporation, estate and gift, and excise taxes. Those recommendations were reaffirmed by Secretary Morgenthau in his statement before this Committee. Subsequent events all point to even greater revenue needs.

In recent months, expanding individual incomes have been exerting increasing pressures on prices and the cost of living. At the same time, the supply of consumer goods and services continues to dwindle in the face of our tremendously accelerated war production. This points clearly to the necessity for resolute action along more than one front, including the enactment of a tax program well above the $8.7 billion of additional revenue originally recommended by the Treasury.

(further)

The large increases in taxation which we need at this time to combat inflation should, insofar as possible, satisfy the following requirements:

1. The tax should operate to withdraw purchasing power and, insofar as practicable, should actively discourage the use of the remaining purchasing power for consumer spending. Purchasing power exerts a pressure on prices and the cost of living through the efforts of individuals to spend their incomes.

2. The tax should be designed so that the burden will fall very lightly if at all on the millions whose standard of living is inadequate to support productive efficiency and decent living. The burden should increase as the standard of living rises so that the inducement to reduce spending will be greatest with respect to those elements of spending which are least necessary to the individual and to the war effort.

3. The tax, being an addition to an already existing tax structure, should not interfere any more than is necessary with the ability of individuals to meet commitments to pay debts, purchase insurance, and make regular savings, which were undertaken when tax levels were lower.

4. The tax should not hinder and, insofar as possible, should facilitate the exercise of direct price controls, rationing, and other methods of combatting inflation.

5. The tax should be reasonably capable of administration in the light of its importance as an anti-inflationary and revenue measure.

The Treasury has come to the conclusion that these requirements would be most nearly met by a progressive tax above exemptions to be imposed on the amount of individual spendings for consumption goods and services.

This individual spendings tax would be in two parts, comprising a spendings normal tax and a spendings surtax.

The individual spendings normal tax

The spendings normal tax would be imposed at a flat rate of 5 percent on the total spendings of individuals for consumer goods and services. It would apply to all individuals who had income subject to the individual income tax.

Persons liable for the tax

In order that the tax may have a broad base, it is suggested that single persons be excluded from the tax only if their income is less than $500, married couples only if their income is less than $1,000, and that the exclusion be increased an additional $250 for each dependent. Although the tax is based on spending, it is suggested that the exclusion be in terms of income, in order to facilitate the administration of the tax in conjunction with the income tax.

Persons subject to the spendings surtax would also be subject to the spendings normal tax whether or not they had any income subject to income taxation.

Tax base

The tax would be levied on total spendings of persons subject to tax without the deduction of any exemption.

Method of collection

The spendings normal tax would be collected in the same manner and at the same time as the income tax. A tentative tax would be collected at source from wages, salaries, and dividends in the same manner as it is proposed to collect part of the regular income tax. A spendings tax return would be made part of the annual income tax return and on that return would be computed the amount of spendings and the tax on that amount. The tax payable would be ascertained by deducting a credit for the tax collected at source. If the tax collected at source exceeded the combined amount due on the income tax and the spendings tax a refund would be made.

Computation of amount of spendings

The amount of spendings would be computed indirectly by subtracting from the total amount of funds at the disposal of the taxpayer the amounts used for purposes other than current consumption. Disbursements for repayment of debt, premiums paid on life insurance, expenditures for the purchase of bonds or other capital assets, gifts and contributions, and payment of taxes would not be taxable. The attached schedule lists the items involved in computing the amount of individual spendings subject to tax. (Exhibit 1.)

Short income and spendings tax form

The great majority of taxpayers would be eligible to file a simplified spendings normal tax return as part of their simplified income tax return. On this return, their spendings would be computed simply by deducting from their incomes repayments of debt, payments of insurance premiums, and purchases of war bonds and other investments.

Tax rate

The spendings normal tax would be levied at a rate of 5 percent on all spendings. In order to avoid large differences between the tax of persons just below and just above the exclusion limits, the tax on persons just above the exclusion limits would be limited to half of the excess of their spendings over the exclusion amount.

The individual spendings surtax

The individual spendings surtax would be imposed at progressive rates on expenditures in excess of an exemption of $1,000 for a single person, $2,000 for a married couple, and an additional $500 for each dependent.

Computation of the amount of spendings

The spendings would be calculated in the same manner as for the spendings normal tax, that is, by subtracting from the total amount of funds at the disposal of the taxpayer the amounts used for purposes other than current consumption.

Method of collection

The tax would be collected currently by requiring individuals to report the approximate amount of spending at short intervals, say quarterly, with a final adjustment after the close of the year. The quarterly report might contain no more than a single item -- approximate amount of spending during the preceding quarter -- or might contain a more detailed statement.

Tax rates

The tax rates would be progressive. The following surtax rate is suggested for the spendings of single persons:

Spendings	Tax rate
$ 0 - $ 500	10%
500 - 1,000	20
1,000 - 2,000	30
2,000 - 3,000	40
3,000 - 5,000	50
5,000 - 10,000	60
10,000 - 25,000	80
25,000 and over	100

The direct application of this progressive spendings tax schedule to a family as a unit would be unduly harsh on larger families and would favor single persons, since, the larger the family, the greater is the necessary amount of spendings and the higher the rate at which the spendings would be taxed. This difficulty can be overcome by putting the family's tax on a per capita basis. The family's total spendings would be divided by the number of persons in the family. The progressive rate schedule would be applied to the resulting per capita spendings. The per capita tax computed in this way would be multiplied by the number of persons in the family to get the total family tax. For this purpose, a dependent child would be counted as equivalent to a one-half person.

For example, a married couple with one dependent would comprise 2.5 taxable persons. If this family spent $5,000, spendings in excess of the exemption would be $2,500 or $1,000 per taxable person. According to the above rate schedule, the tax would be $150 per person, or $375 for the family. Married couples would be permitted to file either joint returns or separate returns. This would not lead to any discrimination under this method of computing spendings per taxable person.

The amounts and effective rates of tax under the above rate schedule are shown in Exhibits 2, 2a, 2b, and 2c.

Effective date of surtax

The spendings surtax would be made effective as of September 1, 1942. It is essential that this be done in order to prevent any buying in anticipation of the enactment of the spendings tax. In addition, unless the spendings tax is made effective as of the date on which it is announced, individuals would be given an opportunity to convert their bank deposits into currency, hoping thereby to set aside spendable funds upon which an adequate check cannot be made. These and similar problems can be entirely prevented only by making the spendings surtax effective as of September 1, 1942. The dangers are not of great importance with respect to the spendings normal tax and this could go into effect January 1, 1943.

Reduction of exemptions for the regular income tax

The exclusions of $500, $1,000, and $250 for the spendings normal tax are believed to be desirable in order that a very large volume of consumer spendings may be brought into the tax base. For purposes of simplicity the income tax exemptions and the spendings normal tax exclusions should be the same amounts of income. Accordingly, it is suggested that the personal income tax exemptions be lowered to $500 for single persons, $1,000 for married couples, and $250 for each dependent. This is a step that would probably need to be taken in any event as the impact of the war on the economic and fiscal systems increases. If, despite the growing need for revenue and for reduction of spending power, it is felt that this change would make the income tax burden on the low income groups excessive, the bottom bracket of income could be narrowed and the tax rate reduced for that bracket.

Refunding of spendings normal tax

At some time during this war it will very likely prove necessary to resort to post-war credits for individual taxes, that is, to impose some taxes which will be refundable after the war. That time will arrive when it is found necessary to impose taxes so heavy on incomes so low that the resulting burden on people with small incomes should not be a burden permanently but only for the duration of the war. Refundable taxes should not be imposed under other circumstances. When imposed the refunds should be made available only to the low income groups.

Your Committee may feel that the suggested spendings tax would, for the time being, and in the light of the magnitude of other tax increases, push tax burdens on low income groups to the point where it is desirable to provide for the repayment after the war of some part of the increase in tax. In that case, it is suggested that the spendings normal tax up to a maximum of $150 for each year be made refundable without interest after the war. The amount collected in the first year of operation of the tax might be refunded in the first year following the close of the war; the amount collected in the second year might be refunded in the second year following the close of the war, and so on.

Place of the spendings tax in the revenue and anti-inflation program

The individual spendings tax will raise very substantial amounts of revenue and will accordingly be valuable in financing the war. More important, the spendings tax will be particularly helpful as an anti-inflation measure. It will do this in two ways: (1) by withdrawing consumer purchasing power and thus reducing the demand for goods, and (2) by erecting a tax barrier against spending, thus discouraging spending and encouraging saving.

The spendings normal tax and the spendings surtax differ in the emphasis placed on these two methods of reducing spending. The normal tax, applying to the bulk of total individual spending at a 5-percent rate, will be effective primarily by withdrawing purchasing power and only secondarily by discouraging spending, since the rate is not high enough to have much discouraging effect.

The spendings surtax, on the other hand, is intended to discourage spending rather than to absorb mass purchasing power. For this reason it is imposed only on spending above a fairly adequate living level, but is imposed at increasingly heavy rates so that unnecessary and luxury spending will be discouraged; and if they do continue, will result in substantial payment into the Treasury.

The spendings tax should therefore be a powerful instrument for combating inflation through reducing the immediate cause of inflation. It is, moreover, an adjustable instrument which, once put in operation, can be increased or decreased as may be found needed in the light of the current economic situation. The spendings tax is therefore suggested not merely as a source of additional revenue badly needed for financing the war but also as a major instrument for preventing the inflation with which we are threatened.

Like any new tax, and perhaps more than some taxes, the spendings tax necessarily involves administrative and compliance problems. These problems are somewhat reduced by the fact that the spendings tax can be administered in conjunction with the income tax. Nevertheless it will create an administrative problem in securing compliance, in checking information not now required on income tax returns, in educating the public to an entirely new type of tax, and in helping the public to fill out the forms which they will be required to submit. Compared with other measures of comparable importance in meeting the inflation and revenue problems, however, the administrative difficulties should not prove disproportionately large. In time of war, administrative difficulties cannot be allowed to stand in the way of measures vital to the Nation's welfare.

RB-mr/dsd

September 1, 1942

September 1, 1942
9:15 p.m.

TAXES

Present: Mr. Gaston
Mr. White
Mr. Sullivan
Mr. Graves
Mr. Kuhn
Mr. Paul
Mr. Stewart
Mr. Viner
Mr. Haas
Mr. Blough
Mr. Friedman
Mr. Shoup
Mr. E. M. Bernstein
Mr. Shere

H.M.JR: Well, we had a very successful meeting with the Federal Reserve. They told me that they were just where they were this morning, and George Haas and his group said that they are where they were when they wrote their memorandum last week. So we had a complete understanding. (Laughter)

MR. GASTON: That makes it perfect all around, because we are where we were when we left you. (Laughter)

H.M.JR: The only difference is that I have a little good news. I got hold of Oscar Cox, and he said that I had been misinformed, that the Attorney General had advised the President that this thing could be done legally, and I think Oscar Cox said they were - at least he was, anyway - very emphatically recommending to the President that he use his War Powers Act to do the thing. He said that if Wickard had told me otherwise, I had been misinformed, that they had definitely told the President he had the power to go ahead and regulate agricultural prices any way he wanted, up or down. This is all very much in the room.

(Mr. Shere entered the conference.)

H.M.JR: Mr. Shere, is he all right? (Laughter)

MR. GASTON: He is the author of the spendings tax; he ought to be all right.

MR. WHITE: He is one of the oldest men here, with the exception of George Haas.

MR. VINER: What do you mean, George Haas? I was here before George, and I brought you here, didn't I?

MR. SHERE: That is right.

MR. BLOUGH: You see, he is all right. Viner brought him here. He couldn't be anything else. (Laughter)

H.M.JR: Did you bring Shere here? Did you come here in '34?

MR. SHERE: '34, yes.

H.M.JR: You fellows ought to have a club, the '34 club.

MR. VINER: They would club me if they could. (Laughter)

H.M.JR: What do you have, twenty-seven fellows?

MR. VINER: No, just about a dozen.

MR. WHITE: About a dozen.

H.M.JR: Well, have you got it all settled? Where is Paul? There he is.

MR. PAUL: I am afraid we have not got it settled.

H.M.JR: Well, let's flip for it. (Laughter)

MR. SULLIVAN: Those are the best odds they have been offered yet; go ahead and flip. (Laughter)

H.M.JR: Do you think you might get an even break?

MR. SULLIVAN: An even break is all I can hope for.

H.M.JR: Well, Paul?

MR. PAUL: We went over our previous conclusions in the light of the last conference, and we were of the same mind that we were at the beginning.

H.M.JR: Just like the Federal Reserve.

MR. PAUL: Well-- (Laughter)

H.M.JR: I forgot you were a member.

MR. PAUL: I am not any more.

H.M.JR: All right, you and Ruml. (Laughter)

MR. PAUL: We drew it up in written form.

H.M.JR: What I want to know is, did Ruml get the ideas on this thing from you? (Laughter)

MR. PAUL: I was with him when he got them.

(Proposal, copy attached, read by the Secretary.)

H.M.JR: Well now, look, you can't go up there with a suggestion to increase this five and a half billion dollars and tell them that we are watching it carefully; and if it gets worse, we are going to come up and ask for another five and a half billion.

MR. PAUL: We don't want to say anything about that.

H.M.JR: You can't. I mean, it is a little - when are you going to know your own mind?

MR. PAUL: We don't want to say that.

H.M.JR: What?

MR. BLOUGH: We don't particularly want to say that, but that was in the nature of a compromise with those who wanted higher rates. It didn't work, so I guess there is really no point in saying it.

H.M.JR: No. Look, we have got to go right back where I was before, I guess. Where is Harold Graves? Pull your chair up, Harold, I can't see you.

What I was asking for before I had supper was how much under this spendings tax - what could I do to assure myself of four billion dollars to offset the four billion dollars I might lose under the volunteer plan if I go into this thing. Let's just start there. That is where we left off.

Now, as I get it, this five percent the way you talked - how much would it raise, the five percent?

MR. FRIEDMAN: Two and a half to three billion dollars.

H.M.JR: Where did you get the three?

MR. BLOUGH: We get a billion dollars from the lowering of the income tax exemptions, and we get about a billion and a half dollars from the surtax, and that made five billion dollars. Previously we had a somewhat higher estimate because we had not taken into adequate consideration the deductions for savings, insurance, and payment on debt on the five percent tax, so it is five billion dollars.

H.M.JR: But the straight five percent?

MR. BLOUGH: That is two and a half billion dollars.

H.M.JR: Well, if you made all of that post-war, it would only be two and a half.

MR. BLOUGH: That is right, it could not be any more than that or whatever it turned out to be.

H.M.JR: That is why I said that in order to equal four, it would have to be six or seven.

MR. BLOUGH: That is right, or seven or eight.

MR. PAUL: Of course, we have it as a tax now.

H.M.JR: What?

MR. PAUL: It is in as a tax now.

H.M.JR: What do you mean, it is in as a tax?

MR. PAUL: To a certain extent. We only give a rebate in those brackets.

H.M.JR: I know, but it is still fluent.

MR. BLOUGH: That is right. Another thing which can be mentioned that I don't think Mr. Paul would enjoy having me mention, but there was the matter of the increased income tax due to lowering of personal exemptions. We thought at one time that that might be refundable, also. There was general feeling in the group that it ought not to be because we got too much in refundable taxes at the same time, but there was that in the picture at one time.

H.M.JR: Irrespective, what is the objection to making the five percent tax on spending both a tax on spending and a - we can call it that - a post-war credit, or compulsory savings, or whatever you want - the whole thing.

MR. BLOUGH: There is no particular objection. There is the feeling that when you really come down to it, when people are being asked to give money for the war on a compulsory basis, we don't really need to give it back to them unless in taking it away from them you cut their standard of living below what you wish permanently to take away from them.

H.M.JR: You are cutting their standard of living way below anything we have had since '34.

MR. BLOUGH: For those people at the bottom, yes, and for those people we want to give it back.

MR. PAUL: It is somewhat immaterial. You take it now, anyway, from their standpoint of their standard of living, and that is immaterial.

MR. VINER: I would say there is another objection. The function of the spendings tax is to cut down spending. You tell a man, "If you spend, you will have to give us a certain sum of money in addition, which we will keep for you and then return to you." How much of a deterrent to spending is there?

MR. PAUL: This doesn't connect itself with the spendings tax, Jake.

H.M.JR: Oh, I don't know - if you take the money away from the man and lock it up and say that he cannot have it until the war is over, that is a pretty good way of deterring him.

MR. VINER: But, on the other hand, it is quite possible that a ten-percent tax on spending may stop -

say a ten-dollar tax on spending may stop fifty dollars or a hundred dollars of spending.

H.M.JR: What are you arguing for, Jake, I don't follow you?

MR. VINER: I would say that if you want refundable taxes, the least logical tax to refund is a tax on spending, and tentatively a deterrent tax rather than a revenue measure.

H.M.JR: Let me give you a little - this is what happened this afternoon: My "White wing" - he doesn't even know what it is - was arguing for ten percent; and after all, he agreed to it this morning, and Stewart agreed to it, and I agreed to it. I don't think we had anybody else, did we? Graves, were you with us or not?

MR. GRAVES: No.

H.M.JR: You were on ten percent, but not refunding?

MR. GRAVES: That is right.

H.M.JR: Then Paul called me up after my session with Wickard and said, "This is too stiff, if I went up there, and it is so extreme," - this isn't his language, but he said, "They will laugh me out of court." That was the idea, "and the whole thing would fall by its own weight." "I can't do anything about it," he said. Well then, we argued back and forth, and back and forth, and with Paul taking that position, and I pointing out that he has got to present it. We can make the plans at headquarters, but he has got to execute them. Then we were trying to go some place in between, and we had asked for various suggestions, and somebody else pointed out - it may have been Graves, I don't know - somebody pointed out that one of the troubles with the five-percent plan was that it wouldn't produce as much revenue for the Treasury as the present pay-roll deduction plan, because they figured that that would produce about four billion dollars and, therefore, I said, "Before I give that up - " I didn't want to swap that four billion dollars, which is a pretty good bet, for something which might only produce two and a half, on the basis that Graves feels that this five percent, plus the five percent withholding, will kill his volunteer pay-roll-deduction plan.

Well, he may be right, and he may be wrong, but I think in my figuring I have always got to figure the worst, so there we are, and I gather that they have not made any progress, nobody has.

MR. PAUL: That is an assumption that it will annihilate the four billion. I disagree with that. I can see twenty billion of savings around, and I don't know why the whole four billion should go because we put on this two and a half billion, partly tax.

H.M.JR: You assume that; Graves assumes the opposite, and I have got to take the full responsibility publicly. I have got to take the worst viewpoint. I have got to assume that Graves is right and we are going to lose the four billion.

MR. PAUL: I think if Graves is right we had better be--

H.M.JR: I mean, I have got to assume the worst.

MR. PAUL: The logic of Graves' position is perfectly simple to me. Let's not do anything, or let's have a complete program of compulsory saving to replace the voluntary bond campaign.

H.M.JR: All right, but what would be a complete program?

MR. PAUL: When I say complete, I mean something to get a lot more than four billion.

H.M.JR: All right, let me have a suggestion. That is what I was asking for. That is what I was asking for the last time I saw you fellows around quarter of six, wasn't it?

MR. PAUL: I don't think we can go in with something here in between and try to--

H.M.JR: Well, somebody give me a compulsory savings plan.

MR. WHITE: I think you can get a compulsory savings plan, one that is simplified or as good--

H.M.JR: Just hold your fire a minute, will you, Harry - just a second, please - let me get these so-called tax experts--

MR. BLOUGH: I knew Harry had one; that is the reason I didn't speak up.

H.M.JR: I am trying to set an example. Let's all keep cool and in good humor as long as we can.

MR. BLOUGH: I knew Harry had one. I preferred to have him go ahead and give it.

MR. WHITE: There are two kinds of compulsory saving. One is a plan that we have all worked on as one of the suggestions. It is a very comprehensive compulsory lending plan which we can dig out if you want to look at it. I don't think it is necessary, because I think that the spendings tax plan, certainly on its upper bracket, will have a very drastic effect on curtailing expenditures and it will be practically forcing saving, that is, anything above several thousand dollars.

On the lower brackets, I think that if we could improvise a very simple - it seems to me to be simple, at least - tax of fifteen percent above exemptions, and it may be necessary to modify that. We have not gone into the details, and they have some objections to some of the aspects of the fifteen percent tax above exemptions, which shall be returnable to everybody, whether he gets a million dollars or whether he gets anything.

H.M.JR: This is in place of the five percent?

MR. WHITE: In place of the five for exclusion, but the five percent meant that a man of two thousand dollars paid five percent on all the two thousand, whereas the fifteen percent means he pays fifteen percent only on that part above.

H.M.JR: You said that this afternoon.

MR. WHITE: I raised it from ten to fifteen - no, I guess I had fifteen. Well, I haven't changed my mind. It is a very excellent - with this important difference that they get it all back now, and it is a compulsory saving feature, and I think you have got your compulsory saving feature.

H.M.JR: What is the difference between that and saying the five percent is all returnable, or make it seven percent with exclusions?

MR. WHITE: Well, the only difference is that a five percent, or seven percent is better than five, but I don't think the five percent will yield any more than what you have now.

H.M.JR: Well, let's say seven.

MR. WHITE: On an exclusion basis, the closer you come to ten, the closer you come to the kind of compulsory tax we started with - seven may be enough. I don't know what it will yield, but I personally feel that as you get closer to ten on an exclusion basis, it does happen to soak the two thousand and the twenty-five-hundred-dollar man unusually hard. It so happens that that bracket is hit harder than any of us think they should be hit. That is why I prefer the exemption; and I think the exemption is simpler to explain and the simpler tax; but if you have exemptions, you have to step up the rates.

H.M.JR: Well now, let me just ask - supposing we had never talked about a tax on spending and I had asked you people for a plan on compulsory savings, what would you give me, you or one of these other people?

MR. BLOUGH: We would undoubtedly have given you a collection at the source tax measured by income. I am not sure, but we have been playing with both exemptions and exclusions. It probably would have been on the basis of the exclusions, with a very low tax credit which has the effect of very small exemptions of, say, two hundred, two hundred, and one hundred, just enough to give some protection in those brackets that Harry is talking about, and at the same time not to cut the revenue down seriously and not to leave too great a gap in your base. That is probably what we would present.

H.M.JR: Let me ask you another question. Going back to the five percent and with the table that you have of the amount that you would return, how much of that two and a half billion dollars would be returned, roughly?

MR. BLOUGH: It figured roughly that about two billion of the two and a half would be returned.

H.M.JR: Under this and--

MR. BLOUGH: Yes, sir.

MR. PAUL: That is where all the money is.

H.M.JR: About two billion?

MR. BLOUGH: Yes, sir, about two billion of the two and a half is our guess.

MR. GASTON: Out of the four, four and a half?

MR. BLOUGH: No, out of two and a half.

MR. GASTON: On the five percent only, the normal only?

MR. BLOUGH: On the five percent, with the fifty, one hundred, and twenty-five limits.

MR. GASTON: Then you would have another two billion in your surtax?

MR. BLOUGH: Oh yes, that is the normal tax only. But about three-fourths to four-fifths of that normal tax, even with those limits, would be given back because that is where the great bulk of the tax is. You could give it all back without changing the effect too much.

H.M.JR: That surprises me.

MR. BLOUGH: That is not a firm estimate.

H.M.JR: That is rough, two billion out of the two and a half?

MR. PAUL: Of course, we are getting that billion in large part - that billion is entirely gained in revenue.

MR. BLOUGH: That billion comes from lowering the personal exemptions.

MR. VINER: But you still have in mind a graduated spending tax above this?

MR. BLOUGH: Above that, yes.

Now, I feel, despite what Mr. Viner said a while ago, that the spendings tax base is a good base for a compulsory savings tax from another point of view, that it does not have quite the same objection of seriously interfering with the other savings which the taxpayer is making, which are likewise anti-inflationary since those savings do not appear in the base on which the compulsory savings is based. Anything he buys in war bonds is deducted from the base; anything he pays in insurance or pays in debts is deducted from the base. It therefore makes the compulsory savings less of a pressure on his unfree income, as you might call it. The pressure would be on his free income, and not on the income he is already saving. It is a little more complicated, but I think it has, aside from the complications, a considerable amount to be said in favor of it.

MR. VINER: But this tax is to be levied on what?

MR. BLOUGH: Spending.

MR. VINER: But, withheld as five percent of what?

MR. BLOUGH: Income - adjustments at the end of the year.

MR. PAUL: Only the other tax is to be withheld, not the spendings tax?

MR. BLOUGH: What we have called the normal spendings tax, that is right.

MR. FRIEDMAN: Any excess could be credited against the regular income tax.

(The Secretary left the conference.)

MR. VINER: Your argument is that the amount withheld depends on the amount of income spent?

MR. BLOUGH: The amount withheld depends on the income.

MR. VINER: Spent?

(Mr. Graves left the conference.)

MR. BLOUGH: No, on the income.

MR. VINER: I mean the amount of tax permanently held.

MR. BLOUGH: On the amount spent.

MR. VINER: But then this part is not intended to be in there for a spendings tax of the narcotics type.

MR. BLOUGH: We have never intended the five percent to be of the narcotics type.

MR. VINER: It is the drawing-cash-in type.

MR. BLOUGH: The regulatory one.

MR. VINER: I would say that is a milder form of deterrent than is the other, the narcotics type. I would be inclined to think that I would leave that five percent out on that basis.

MR. BLOUGH: What do you mean, leave it out?

MR. VINER: Rather than have it on that basis and refunding eight percent of it.

MR. KUHN: You mean just have the surtax?

MR. VINER: Just a graduated surtax.

MR. KUHN: Beginning where?

MR. VINER: Beginning at two thousand dollars for a family.

MR. BLOUGH: Then what would you do for that low group?

MR. VINER: Under two thousand?

MR. BLOUGH: Sales tax?

MR. SULLIVAN: This isn't doing anything to them.

MR. PAUL: Five percent is.

MR. SULLIVAN: No, it is an adjustment.

MR. VINER: It is not five percent of their income, it is five percent of less than their income, say four percent of their income.

MR. BLOUGH: Well, O.K.

MR. VINER: It is four percent of their income, and they know they are getting it back. They get some sort of a document for it. They feel their estate is not being impaired by payment of that tax; they feel just as free to borrow. They can't use it as collateral, but they know they have that to pay --

MR. BLOUGH: Do you really feel they will feel as free to borrow when it is in the distant future, some time when the war is over, that they are going to get this back?

MR. VINER: Not as free as if they had it in cash in their pockets.

MR. BLOUGH: And the Federal Reserve regulates the installment purchases, and so on.

MR. VINER: Now you are telling me the installment regulation is going to force the savings - oh, I see what you mean - they wouldn't be able to do that sort of borrowing. You mean that sort of borrowing is closed to them by that, but of course they have other types of borrowing.

MR. KUHN: Jake, suppose they didn't get the money back?

MR. VINER: Then they also have cash. I don't mean they all have, but there are large chunks of cash in that class.

MR. GASTON: They will increase their taxes by spending that tax.

MR. BLOUGH: The very bottom two thousand or fifteen hundred?

MR. VINER: Sure. What is your guess as to who is doing all the hoarding? My guess is that a very large part is done in the lower--

MR. WHITE: Nobody knows. It may be the small people who are hoarding cash.

MR. SULLIVAN: I think Jake is right, Harry.

MR. VINER: No person of means will put one-dollar and five-dollar bills in his box. Just look at the circulation of one and five-dollar bills.

MR. SULLIVAN: They keep them in the bureau drawer.

MR. KUHN: You mean that because of the refundable feature the five percent is not a deterrent to spending?

MR. VINER: It is a less deterrent - I am not saying it is not a deterrent.

MR. KUHN: If the refundable feature were off, do you feel it would have a greater deterrent--

MR. VINER: It is a tax based on spending, so it is, both a tax and a tax based on expenditure - it is a deterrent placed on the amount of money expended.

MR. BLOUGH: Most all of us this morning voted for five percent tax, non-refundable; but having been driven from that position, we agreed with you on that to say there is no value in getting this principle into the law, and so I wonder if that isn't carrying it too far.

MR. VINER: If you want to get a principle in the law - I, myself, am not even convined it is the thing to do. I don't know enough about the situation on the Hill. The thing would be not to let Congress go through with a thing they will pass and start on them immediately after November 4, possibly, so that on those tactics - then I would say by all means, if this is just introducing a principle, let them know the Treasury does not think this is adequate or by any means important, except as introduced as an installment, and they can expect the Treasury to be back again for more measures soon. That is, I don't want the Treasury to let Congress feel that it has met the reasonable requirements unless Congress feels that it has. So you may be able to handle this in the way that would satisfy me on the ground that you can't get anything real out of Congress before November 4. If you can't, don't pretend that you have - that is all I say on that point.

MR. BLOUGH: Two and a half billion is not quite pretending.

MR. VINER: No. If you know what the size or the proportion of the job is, and that also--

MR. BLOUGH: I agree, yes.

MR. VINER: Also it may be that you are introducing an easier kind of measure now. If you have to move further by introducing an easier measure, they will build on that rather than the harder, and yet the harder may be necessary.

MR. GASTON: What would you think of a ten percent totally refundable tax in this lower group, taking your exclusions up to the exemption level that you fixed, making it ten percent instead of five percent, and making it totally refundable? You see, you have got your withholding tax, and you have got these increased social security taxes besides. Of course, that ten percent would be taken in lieu of your pay-roll deduction. There is no question about that, but it would come pretty near - it would sell your securities without interest to an amount more than equal to your--

MR. BLOUGH: ... five billion dollars if you took it all the way up.

MR. GASTON: It is probably equal to your ceiling on the E bonds.

MR. HAAS: You don't have to worry about having them redeemed.

MR. GASTON: No, you don't have to worry about the pressure. What do you think about that ten percent totally refundable within that area between exclusions and exemptions, and let the surtaxes ride as they are?

MR. BLOUGH: Then you are getting right back to the problem of what about the man with income above that area.

MR. GASTON: No. I think - I take that back. I think you shouldn't limit it to that area. I think you should carry it right through.

MR. VINER: I would like to ask Randolph whether you could limit it to that area legally?

MR. GASTON: No, I don't think you could.

MR. VINER: Is it reasonable to impose forced savings on the poor and exempt the rich?

MR. GASTON: I was thinking particularly of the effect on that area. I wouldn't limit it to that area.

MR. BLOUGH: Mr. Shoup was one of the proponents of that ten percent.

MR. SHOUP: The fact that it is totally refundable still doesn't meet the objection about the harsh effect it would have on those in the fifteen-hundred or two-thousand dollar area. It does not meet the objection about going up to Congress with a ten-percent rate and with a total amount of money which exceeds the old amount of money by a very large figure. It seems to me the two chief stumbling blocks of the ten percent as against the five percent depend very little on the refundable feature.

MR. GASTON: You can modify your surtax rates in consideration of the ten percent.

MR. BERNSTEIN: Couldn't a notch device be used to minimize the hardship from fifteen hundred to two thousand?

MR. GASTON: I think there should be.

MR. BERNSTEIN: By making it--

MR. BLOUGH: Instead of making the notch fifty percent of the income, you could make it thirty-three and a third percent; you could make it twenty-five percent; you could spread that out over three, four, or five hundred dollars without any great difficulty.

MR. BERNSTEIN: So it wouldn't press the two-thousand-dollar area.

MR. WHITE: I am all for that.

MR. FRIEDMAN: That combination with that notch loses you most of the benefit of your ten percent, and at the same time it has all of the difficulties of the ten percent.

MR. BERNSTEIN: No, it gives you the ten percent for the two thousand - three thousand - which is quite important.

MR. SHOUP: The notch should be low enough to make it sort of tenable for the folks at the sixteen hundred and seventeen hundred dollar level. It automatically tapers off so slowly that you are up in the stratosphere before you are out of the notch.

MR. BLOUGH: We propose to have the notch go up fifty percent. That would mean that for a married couple with two children, fifteen hundred dollar exclusion, it would take about, what, three hundred dollars to get out of the notch?

MR. GASTON: The notch relief is not so important if it is a totally refundable proposition.

MR. BLOUGH: It would take a hundred and fifty to get out of the notch at five percent, and three hundred to get out of the notch at ten percent. We were talking about ten percent here.

MR. WHITE: Let us remember that the voluntary savings program went out with the slogan - I think that is true, Ferdie, isn't it - of getting ten percent of a man's wages. Well, if it was all right then, why isn't it all right when you are even making it less than that, because you are allowing exemptions and exclusions?

MR. GASTON: Whether you are repudiating it or not, this would be taking the ten percent and not giving him interest.

MR. WHITE: But you are not going down as low. Am I correct in saying, Ferdie, that when you went out hoping to get a ten percent pay-roll-deduction that you--

MR. SULLIVAN: That was on gross.

MR. HAAS: Ten percent average at two thousand, less than ten percent below two thousand, and more above two thousand.

MR. WHITE: I thought you were trying to get ten percent from everybody.

MR. VINER: They had a graduated schedule.

MR. WHITE: I didn't know that. I thought they were going to try to get ten percent from everybody.

(The Secretary and Mr. Graves reentered the conference.)

H.M.JR: Graves and I have come to a fairly important decision, and that is that we feel the time has come for me to say that the volunteer savings, as far as the pay-roll deduction plan is concerned, has not produced the amount of money that we hoped it would. The rate of expenditures of the war is increasing so much faster than what we could do to keep up with it. I said to the President and the Senate that if the time came when I felt that the volunteer plan was not producing results, I would say so. I think the time has come. I want to say to everybody here - I have said it privately - I would like to say it here, and I will say it louder, that nobody could have done more than Harold Graves, and the people working with him,to make this thing a success. You never can place a dollar value on what he and his people have done in the way of morale building. You just can't place a dollar value on it.

Unfortunately the Treasury is the only organization that is doing anything nationally along those lines. Everybody else has fallen by the wayside. I think in years to come it will be remembered what the Treasury did in 1942 in its radio programs, and so forth, for morale building. You never can measure that. But I said in the beginning that sixty percent of the effort, as far as I was concerned, was for morale building and forty percent was the money.

Well, the money has gone ahead faster than anybody thought it has - the spending - and we just have not been able to keep up with it. And the answer is that if you were in Hawaii or Alaska you feel that way, and the rest of the country does not - I mean, you just can't do anything about it.

When I give this up, though, I want something at least as good. See? I mean, I am not going to swap a perfectly good horse, a perfectly sound horse, and a most willing horse, for a Shetland pony.

Now, taking the figures that Roy Blough gave - if five percent will do two and a half billion, and two billion of it will be refunded, then ten percent would produce five billion dollars, with four billion refunded, which is about the figure which I can count on Graves to give me.

Now, I have listened to the arguments that if you are going to have a compulsory savings have it a tax withheld at the source on income. What we are talking about - we have got ourselves jockeyed in the position that we are talking about a tax on spending rather than income, withheld at the source, which is the important thing, and which is the thing which hurts our pay-roll deduction.

I am willing to consider here tonight and pretty near ready to make up my mind to say to Congress just what I have said here or, rather, have you (Paul) say it, that we feel that we have very good reasons to believe that out of pay-roll deduction we can raise four billion dollars the next calendar year, and on this tax on spending, ten percent, we recommend that it be refunded on this basis, which will refund about four billion dollars.

Now, what the Treasury would be gaining would be four billion dollars exchangeable for non-interest-bearing securities as against four billion dollars on pay-roll deduction for two point nine.

MR. PAUL: Non-redeemable.

H.M.JR: And non-redeemable. Then I feel on that basis that this would be worthwhile. Now I know that people in the room say, "Well, if you want a compulsory savings, then you should have ten or fifteen or twenty percent withheld at the source on total income." We have gotten ourselves jockeyed in this position, that we can't do it. We are talking about - you can't switch between tonight and tomorrow from the spendings tax to a different one. You have got to go through with the spendings tax.

MR. BLOUGH: Mr. Secretary, if you really want to do that, we have a spendings tax on this higher exemption basis which we can go through with as a deterrent - if you really prefer to go back to the other, we are certainly not estopped from doing so.

MR. GASTON: Combine the two.

H.M.JR: All I am saying is this, that Graves and I had a very long talk, and it wasn't a question of my trying - you can say for yourself - are you--

MR. GRAVES: I am satisfied.

H.M.JR: But the point that he made to me is, "Don't swap for something else unless it is at least as good."

MR. PAUL: Maybe we ought to get better than that.

H.M.JR: Well, that would not displease me, but I am willing to have you say this; now if you people say you want the five percent, or something else, I am willing to listen to suggestions, but I have arrived at that point now. I practically had arrived at that before my Roanoke speech, and that was the temper I was in then. Right?

MR. KUHN: Right.

H.M.JR: And word came back that people up here didn't want me to say it. It isn't fair for me, riding the plane alone by myself, to come to a decision by myself, so I wanted to wait until I could talk this thing over with the people who have fought and bled on this thing. So, that is what I am doing now.

Roy, if you say, "If that is the way you feel, I can give you a better thing than the ten percent tax on spending, wholly returnable - " you can give me something better than that?

MR. BLOUGH: I think, Mr. Secretary, not very much better. I think that you really ought not to allow deductions for other types than war bonds purchased from such a tax, probably some of these other things, like debt repayment, and so on. It complicates the issue. You certainly would have an easier tax to administer if you just said income and be done with it.

H.M.JR: How do you mean?

MR. BLOUGH: Ten percent of income, and that is that.

H.M.JR: Not ten percent on spending?

MR. BLOUGH: Without these spendings deductions - I said that would be simpler. I think personally that it would be better to have these deductions of savings and make it on spendings. There may be a difference of opinion on that.

H.M.JR: Well, it just so happens that that was the reason that it worked out; that ten percent on spending is four billion dollars. It was the figure that I asked for at six o'clock, and it happens that the four billion dollars which would give back to the taxpayers - give them a non-interest-bearing, non-redeemable certificate, which would have that added virtue over the present plan.

MR. BLOUGH: If this is a definite change-over, you may wish to consider - I would not recommend it personally, but you may wish to consider making it all refundable instead of putting limits on it.

H.M.JR: No, no, I think that there are certain things that you men told me and talked about - you said that in the higher-income group there is not the same argument to make on refunding. I have got to take that position because that is consistent when something - it would be a windfall for me, and I have got to take it. If somebody thinks that that isn't - why would you make it all refundable?

MR. BLOUGH: I didn't say I would, but I say that you may wish to consider - I wouldn't want you to make a decision without considering it.

H.M.JR: No. Let Congress do that.

MR. BLOUGH: They are much more likely to try to do that.

H.M.JR: Now, just before I go any further, Herbert, do you think--

MR. GASTON: That was the idea that, by strange coincidence, I threw out when you were discussing the idea of a ten percent above the exclusion limits, and I suggested the proposition of making it entirely refundable.

H.M.JR: Did you?

MR. GASTON: Yes.

H.M.JR: While I was outside the room?

MR. GASTON: Yes.

H.M.JR: How many years have we worked together?

MR. GASTON: I think it is feasible. I think it is combinable. I would retain the spendings tax on the higher levels.

H.M.JR: You mean that is what you said when I was out of the room?

MR. GASTON: I suggested it as a thing to consider.

H.M.JR: All right.

MR. PAUL: I suggested an additional five after our conference this afternoon, based on the principle, the same as Herb suggested, that we were abandoning voluntary savings.

H.M.JR: Before I go around the room, because there is no use going all around the room and then you saying, "Mr. Morgenthau, I can't present that to Congress." See? I mean, I might just as well start with you and go around that way, unless you want to hear the others. I don't want to go all around the room--

MR. PAUL: This puts an entirely new light on the whole proposition as far as I am concerned. If we are going up to replace voluntary savings with compulsory savings, the doubt I have is whether ten percent is high enough.

MR. HAAS: It is just replacing the pay-roll deduction part of your program, isn't it?

MR. GASTON: This scheme would not totally replace it. Maybe we want to consider a total replacement.

MR. PAUL: It would, except for the higher brackets.

H.M.JR: Listen, I saw those figures on the two thousand. This is plenty high enough, don't worry about that.

MR. GASTON: Combined with a spendings tax, you mean, on the upper levels?

H.M.JR: I mean this program. The only suggestion I am making is that this thing be ten and refundable, and we had the figures this afternoon on the ten. What it does to the two and three thousand-dollar fellow - the fact that it is refundable, it still takes the money away from them, four hundred, and four hundred and fifty dollars. I don't want to hear any arguments above ten. That is steep enough.

MR. GASTON: I think there is still room for the voluntary campaign, however, with this inducement to saving.

H.M.JR: Graves and I agree on that.

MR. PAUL: I agree on that, too.

H.M.JR: Do you want me to go around the room?

MR. PAUL: Well, yes, I want to hear everybody.

H.M.JR: I mean, I am not going to go around the room and then have you say what you said at two-thirty, that you couldn't do it. Do you want to think about it a little bit?

MR. PAUL: Let's go around the room first.

MR. STEWART: Exemptions or exclusions, Mr. Secretary, which is the base?

H.M.JR: Exclusions.

MR. SULLIVAN: I think it is a much better trade than the proposal this afternoon. I still have my feeling against compulsory saving, but I think the alternative you are inquiring about over the proposal we had this afternoon is preferable.

H.M.JR: Jake, I will tell you. What do you want to know?

MR. VINER: What is the difference? I have lost track.

H.M.JR: The difference is that we started out this morning with a five-percent plan, some part of it post-war and some not, you see. Then White came in and said what he has been trying to say for two days, that that wasn't enough, that he wanted ten percent, but none of it redeemable. Is that right, Harry?

MR. WHITE: But what?

H.M.JR: None of it redeemable.

MR. WHITE: All of it redeemable.

H.M.JR: I am sorry, all of it.

MR. WHITE: Not redeemable, but returnable.

H.M.JR: Post-war credit. Then we found ourselves in the position - that is, White and Stewart and myself, and Mrs. Klotz, were for that, and then Paul said it was too steep, that he couldn't do it.

Now, the difference is that we are now talking about the ten-percent tax and all of it in the form of a post-war credit, that is, with this sliding scale. Does anybody over three thousand get any--

MR. BLOUGH: Unless he has a big family, he gets his hundred with the ten percent rate. It would be a hundred or two hundred, or two and a quarter, depending on his marital status and so on.

MR. WHITE: May I suggest another important difference, Mr. Secretary? I think it rests in what I regard as the very courageous statement that the other has not met with the growing needs and that, therefore, you want to replace it with this. I think that statement makes all the difference in the world, because that is what makes this acceptable as a compulsory savings, whereas before it may have been regarded as a tax. I think therein lies the very fundamental difference and therein lies the reason why I think Congress will accept it.

H.M.JR: What I have said is - I mean, it has taken a lot of time, a lot of thought, and a certain amount of guts. I think if you (Paul) do say it, I want you to say it in quotations, "The Secretary of the Treasury has authorized me to say the following;" because I said I would come up and say it, you see. I mean, I want you to say it in direct quotes - I mean, if we decide--

MR. PAUL: I will be glad to say it. I agree with Harry that it is a very courageous statement. It changes the whole emphasis of this.

H.M.JR: I don't want you to say the Secretary of the Treasury says it is very courageous. I want you to say this, "I am up here on behalf of the Secretary of the Treasury, who has authorized me to say the following," if that is agreeable.

MR. PAUL: The reason why I said that puts an entirely different light to me was just what Harry said, that we are shifting from the voluntary savings - we are going over into the line under this theory that this is what we are supposed to do and we are not going to take anything more out. We have got a compulsory savings campaign. Anybody can put in all the voluntary savings they want, but we are not superimposing this on a ten percent program. That makes all the difference in the world.

MR. HAAS: I think it is all right. In the lower income groups I was considerably concerned with the fact that you are selling E bonds, but under pressure they may redeem them. In this case, at least for the duration of the war, you don't have to worry about that.

H.M.JR: Walter?

MR. STEWART: I think I understand it, and I am in favor of what I understand.

H.M.JR: Do you mind, because it is pretty important to me?

MR. STEWART: The only parts that I am not clear about are to make certain about exclusion and exemption and at what rate you begin in that lower part. I am not quite clear.

H.M.JR: Well, let's take plenty of time. Go ahead. Let Roy rest.

MR. STEWART: As it was this morning, I understood it.

MR. BLOUGH: I would be very glad to have these gentlemen do it, but I am not feeling a bit tired at this moment.

H.M.JR: Go ahead.

MR. BLOUGH: Let me give you an example so you can see what rate it amounts to. Take a married couple with two children. If they have less than fifteen hundred dollars of income, they don't come under this proposal at all. Suppose they have two thousand dollars of income, then they would pay two hundred dollars. If, however, they had sixteen hundred dollars of income, they would pay not a hundred and sixty dollars, but fifty dollars, because the increase in the tax - the amount of tax they pay is limited to fifty percent of the amount of their income over fifteen hundred dollars. So you would have there for about four hundred and fifty dollars a gradually rising rate of tax until by the time you have reached about nineteen hundred and fifty or two thousand they would be paying the full ten percent.

With a married man and no children the notch is shorter, of course, because it takes less time to get up by not increasing the tax more than half the amount of the income. But that is the principle by which it goes up.

MR. STEWART: I see.

MR. GASTON: One thing we will have to look at, Roy, is whether in this area between the thousand dollar exclusion and the two thousand or twenty-five hundred dollar exemption on the surtax we will be forcing out redeemable savings bonds, causing them to be cashed. We will have to look at that.

MR. BLOUGH: Well, I don't know whether you can really - either you are going to put on a big enough amount here to get the amount asked for, with the risk of forcing these out, or you are going to get a small amount, less than is asked for, with less risk of getting them out. It seems to me you are up against it and you would have no way, really, of meeting that dilemma.

MR. GASTON: Are we going to have returns under this new plan so we will have a check on their net expenditure?

MR. BLOUGH: Will there be a danger of a man in the low-income bracket selling the bonds they have?

MR. GASTON: That is what I am talking about, especially in that period there between the exclusions and the exemptions.

MR. VINER: You would add to their amount the amount of real savings of cash from disposal of assets.

MR. BLOUGH: They would be penalized under this tax if they cashed them. It would add to their spendings. In asking for deductions they would have to indicate the sales of bonds as related to purchases of bonds outside of this.

MR. GASTON: That is, you would be requiring returns from everybody so that you could check on net expenditure?

MR. BLOUGH: At the end of the year when they ask for their deduction.

MR. STEWART: He clarified my question. I am in favor of the proposal.

MR. SHOUP: Just one question for information, when you say that it is a matter of trading the voluntary program for this, that means, I take it, that someone who has, say, only fifteen hundred dollars of income or two thousand dollars, who has already signed up for ten percent, now finding himself faced with this additional ten percent tax, could, with a pretty clear conscience, stop subscribing further; he could cancel his subscriptions.

H.M.JR: It would be easier than that, because I take it this thing would not go into effect until January 1. Is that right?

MR. BLOUGH: That is right.

H.M.JR: And we would have to come out with a public announcement. I would have to come out with a public statement over my signature and say to these people, "I want to thank you for your loyalty and patriotism during the year of '42 for having signed up for ten percent."

Now, under this legislation, which if passed, that ten percent takes the place of the ten percent on the other. Now if, on the other hand, you feel that you want to go above ten percent, that is fine and dandy. But the answer to your question is I would have to make it plain that this plan is a substitute for the other.

MR. SHOUP: In virtue of that then, I should think that it would be all right, if Mr. Paul thinks it is all right from the point of view of the Committee. That is something on which I don't pretend to give any advice offhand because the whole situation is changed, of course, with this switch around.

One further point, I am still worried about the little fellow just above the line. If a notch will take care of them, Roy, all right. Possibly we can work out something simple on that. That is perhaps a minor point. I think it is important. But given that reservation, I would say let's try it.

MR. KUHN: I am interested in the eighteen or twenty million people who are now buying under the pay-roll savings plan, not after the law has been enacted, but between the time when a proposal is made and the enactment of the bill, which may be two, three, or four months from now. It seems to me that the announcement that you were mentioning would be necessary right off the bat; and until any such scheme is enacted, they can go on subscribing at two point nine percent interest. Otherwise, you are going to have a great uneasiness, or worse, among those people in the cashing in of bonds already in their possession.

MR. BLOUGH: More than that, that they should go on and this would fit right in.

MR. KUHN: It is not a matter for the future, but an immediate one.

MR. WHITE: You could give them credit in the bill - I mean, there are ways of taking care of it.

H.M.JR: You don't have to. I simply tell them I hope they will continue until December 31, '42, at which time this ten percent pledge they have made will cease and this other thing will take its place. If anybody wants to subscribe above ten percent, that is his privilege, and I hope he will do it.

MR. WHITE: I think Ferdie refers not to the people who have ten percent, but a man who has five and figures that is all he can afford, he is faced now with the expectation that he is going to pay ten, so he says to himself, "Well, if I have to pay ten from the first of the year, I had better hold what I can." You might give him a credit. There are ways of handling it.

MR. KUHN: It is not fundamental. It arises out of something you said.

H.M.JR: But it isn't fundamental. It doesn't have to be settled tonight. Anything else?

MR. KUHN: That is all.

MR. BERNSTEIN: I think the plan is desirable. I don't have any criticism whatever.

H.M.JR: No criticism?

MR. BERNSTEIN: No, sir.

H.M.JR: Period?

MR. BERNSTEIN: I am assuming they will work out that little problem from fifteen hundred to two thousand satisfactorily.

MR. WHITE: I am very much for it. I think it is a very desirable step in the right direction. I think you are getting more than you are giving up, because I think that there will be unquestionably some that will come in on the wage plan despite that. For example, our own group here in the Treasury - I think most of the groups have twelve percent on the pay roll, and I think many of them will continue to keep some, and I think it leaves no less, but I would say more opportunity for a real voluntary program. So I am all for it.

H.M.JR: Friedman?

MR. FRIEDMAN: I think the publishing of the ten-percent program with an abandonment of the voluntary program will make it more acceptable politically. At the same time I am afraid I have to confess that I still feel that it would be preferable to continue the volunteer pay-roll allotment plan and put this in at five percent. The main reason I feel that way is because, perhaps wrongly - certainly I am not as competent to judge on this as Mr. Graves - I still feel that there is room for the two of them working together and that with the extra two and a half billion dollars that would be gotten by a five percent program would mean nothing like so large a reduction in the volunteer pay-roll allotment program as two and a half billion dollars. I think that is my feeling.

H.M.JR: I sincerely hope you are right, but in my business I can't afford to take those chances; and if I am swapping for something, I have every right to try to swap for something better, and if not better in program, better in terms of dollars; only if I am going to swap, I want to get something that is going to give me more dollars, not less. White says he thinks I am going to get more. You think I am going to get a great deal more. If I do, fine. We need a lot more. We are talking about four billion dollars which is one month's borrowing, so I hope you are right.

MR. SHERE: The ten percent, as I understand it, replaces a four billion dollar voluntary program. Now, the voluntary program was something very much larger than that in the aggregate as the goal was initially set. I take it, therefore, that we will have to show or, rather, to explain the difference between the original goal and this four billion dollars.

H.M.JR: No, we are just talking about pay-roll deduction only. When we talk about four billion dollars we are talking three hundred and fifty a month beginning with January '43 of pay-roll deduction.

MR. SHERE: I see, just for the pay-roll deduction part of it.

H.M.JR: And the thing Graves and the rest of us are worrying about is if you begin to take five or ten percent tax on spending, also withholding, and that goes for the man, plus maybe an additional two percent on his social security, it pretty well squeezes the voluntary out, but that doesn't mean - still there is the twenty million that Jake Viner talks about. If we set a twelve billion dollar program, that doesn't mean you still can't go out and get a lot of money from people other than the twenty-million people who signed up on the pay rolls.

MR. WHITE: It is going to yield a lot more, because this spendings tax is going to--

H.M.JR: Well then, that will be very nice. If Graves and I could sit back for three long months and see the thing go better each month than we had expected, you fellows would most likely have difficulty keeping us sober. (Laughter)

MR. WHITE: I don't mean on the pay-roll tax. I mean on the rest of the upper brackets.

H.M.JR: If there should be eight or ten billion dollars roll in on the volunteer basis after this thing went in, it would be difficult to keep Graves and me sober.

MR. SHERE: On the whole I think I would favor the plan.

H.M.JR: Roy?

MR. BLOUGH: It is not a one-sided decision at all, it seems to me. I should like to write a long memorandum on the subject, which I would not want you to read, because you would be bored with it. But on balance I think it is a wise move to make. I am in favor of it.

H.M.JR: Harold?

MR. GRAVES: I would like to see this announcement done very carefully. I think if it is feasible to do it, we ought to avoid giving the public the impression that we are necessarily discontinuing anything. This, it seems to me, ought to be described as a supplement.

MR. VINER: You will have to discontinue quotas there. You ought to keep up the campaign with all the force, but discontinue, certainly, the ten percent quota.

MR. GRAVES: I mean, I don't think we ought to give people the impression that we are abandoning pay-roll allotment, because many companies may want to continue that.

MR. GASTON: You are in great danger. You are going to get a lot of pledges repudiated between now and the first of the year unless it is handled right.

MR. GRAVES: That was Ferdie's point. He is right about it. It would be too bad if we used such words as "supersede" in talking about it.

MR. GASTON: I would question the desirability of having any admission that the voluntary plan is a failure.

MR. BLOUGH: I don't think it has been a failure. I think it has been a great success and a very fine thing.

H.M.JR: Well, I will come to the wording of it a little bit later. Do you want to say something else, Harold?

MR. GRAVES: No.

MR. PAUL: There are a lot of questions of mechanics. I think they are out of the picture now. Let's not bother with them now, because we are not going to make those announcements tonight. I am enthusiastic. I think it is a step very distinctly in the right direction. I think when you made this announcement, however it may be phrased, you have got a wholly different atmosphere about the whole thing. I would take it you are coupling this with a spendings tax. I think the point you just raised is an important one, but it is again a detail.

H.M.JR: What is that?

MR. PAUL: The point about whether it should all be refundable or not, and then the point I suggested that perhaps there should be a refund in connection with this lowering of the exemptions. Those, again, are questions of detail.

We come finally to the immediate point, which I can't help but be interested in handling because it happens tomorrow morning, which is what do we do tomorrow morning. There are a lot of these things that can't be covered by that time.

Our spendings tax is set up. We could go up with that, but I think it would probably be a mistake to go up with a spendings separate from this other announcement. Therefore, we have got the practical picture of whether we should - I think, for instance, you and I might see George and explain just what our decision is, and we can fill up all day tomorrow and go up Thursday or Friday.

Maybe you ought to go up on this important sort of a thing. I am not trying to get out of going up; I am just suggesting it.

H.M.JR: Here is my schedule for tomorrow. At nine-thirty I see the President of the United States, and immediately after that-I have promised for two weeks to go over and say a few words to these hundred women who have come here for the war bonds, and then at eleven o'clock I have got these bankers coming in from all over the United States.

MR. PAUL: I am perfectly willing to go up tomorrow, but the point is we are really not ready to go up tomorrow. I can explain this to George, but I do think that we should put this thing away for tomorrow and not deal with it until we have gotten all the details worked out.

H.M.JR: I am free for lunch. I could have lunch with George.

MR. PAUL: That would be fine.

MR. GASTON: Randolph, I don't think you can go up there and give them only a part of the picture.

MR. PAUL: I agree with you. That is what I said just now.

MR. BLOUGH: It needs a thorough rewriting, very carefully done. I should rather think you would want to do it yourself.

MR. WHITE: I am very much in favor of that suggestion of Randolph's and Roy's that you make this yourself.

MR. PAUL: I will do it. I am not trying to get out of doing it.

H.M.JR: You are a bunch of bums. (Laughter)

MR. PAUL: It is a very vital decision, but if you want me to do it, I would be enthusiastic about doing it.

MR. BLOUGH: It will need rewriting - very careful rewriting.

MR. PAUL: Whether you or I do it, there are practical things to be done.

H.M.JR: There is one thing you didn't say, and I want to say it. If this tax is going to produce five billion dollars, and we are talking about refunding four, then I mean let's be a little practical here and talk about how we can get a good press. Now, it leaves one billion dollars for all the rest of the people, and we are also being accused here of being socialistic and so forth, and so on. Now, if we had the courage to say we are going to refund all of the five billion dollars instead of just the four, we would - our chances of getting good press would be increased two-fold, wouldn't they?

MR. GASTON: I think probably they would be increased, yes.

H.M.JR: I mean, just take a look - here is the Times and the Tribune and the Wall Street Journal, and they don't want to see - they all jump on us before we open our mouths.

MR. KUHN: The real reason they will howl is that you are not applying the compulsory savings right down to the bottom of the income scale. That is something we wouldn't do, and the press insists that we have got to do it.

H.M.JR: Well, I am just throwing it out.

MR. WHITE: You don't mean the surtax, Mr. Secretary, merely the normal tax rebate.

H.M.JR: The ten percent.

MR. WHITE: Yes, and the surtax would be a soak for the rich.

MR. PAUL: I think there is much in what the Secretary says, and I would like to offer, as they say up at the Committee, a substitute for the proposal, that not only do we do what the Secretary just indicated, but that we reintroduce the element of refundable tax that we had in this before with respect to that part of the tax attributable to the reducing of the exemptions.

MR. SULLIVAN: Now you are getting complicated, Randolph.

MR. GASTON: I am afraid so.

MR. PAUL: We had that in before.

H.M.JR: Wait a minute, you used these terms normal and surtax. You are talking, as far as the ten percent goes--

MR. WHITE: As far as the ten percent goes, I thought you suggested giving all that back.

H.M.JR: Wait a minute, we are talking about five billion dollars, which would be produced by the ten percent. Is that right, Roy?

MR. BLOUGH: That is correct.

H.M.JR: Which would go the whole--

MR. BLOUGH: That is correct, all the way up to the top.

H.M.JR: I am just talking about the whole business.

MR. WHITE: Then there is the surtax part.

MR. VINER: How would a ten-percent tax produce five billions minus the adjustments at the end of the year?

MR. BLOUGH: Well, the spendings in the United States must be around seventy-five billion, and the people who don't come under this must spend around twenty-five billion of that, so it leaves you about fifty billion dollars which would fall. If the spendings fell substantially, of course that would fall. But to the extent it fell, the spendings fell, they would have to do something with their money.

MR. VINER: Not exempt spending?

MR. BLOUGH: Not from that normal tax. I think the surtax might have some exempt spending, but not that normal tax.

MR. WHITE: You mean you won't exempt for insurance and that sort of thing?

MR. VINER: That is saving; that is not spending.

MR. WHITE: Medical services?

MR. SHERE: That should go in.

H.M.JR: Where does the ten percent start?

MR. GASTON: For a married man with no children the exemptions are, personal, for the two people - for the family income it would start at two thousand.

MR. PAUL: That is the spendings tax; the other tax starts entirely differently. The other tax is a flat ten percent tax above the exemptions, and the exclusions are five hundred, a thousand, and two hundred fifty, just the same as recommended for the income taxes.

H.M.JR: How much does that produce?

MR. BLOUGH: That flat tax is the five billion dollars.

MR. PAUL: In addition this spendings tax, which begins at a thousand, and two thousand for a married couple without children, produces about two billion more.

MR. WHITE: None of that is going to be returnable.

MR. BLOUGH: The change in rates we have suggested would produce about a billion and a quarter.

H.M.JR: Your words "surtax" and "normal" have different connotations than they have had for years.

MR. PAUL: Surtax means spendings tax, and normal tax means the ten percent tax.

MR. BLOUGH: They are both spendings tax.

MR. GASTON: You would eliminate a lot of friction if you made this wholly refundable, because when you are retaining only a billion out of five billion--

H.M.JR: That is what I am saying.

MR. GASTON: ... you are discriminating against a lot of people, and you create a lot of friction and heartburning.

MR. WHITE: But you don't refer to the ten surtax.

MR. GASTON: No, I am talking about this ten percent. That is why I threw out the suggestion that it be made wholly refundable if we put it on a ten percent basis.

H.M.JR: That is what I said. I mean, I think that for a billion dollars that is not refundable, I think you are creating too much animosity.

MR. GASTON: I agree with you entirely.

MR. PAUL: I agree with you.

MR. GASTON: That was my idea.

H.M.JR: I mean this unnecessary friction.

MR. GASTON: Yes, I agree, but I don't think it is worth it.

H.M.JR: That is what I said about getting a bad press, and so forth, and so on.

MR. GASTON: I agree with that.

MR. WHITE: It is more consistent with the thesis that it is a compulsory savings, too.

MR. VINER: Roy, do you deduct taxes from the income?

MR. SHERE: Yes.

MR. SHOUP: Does that mean if later, in a year or two, it should prove you should have to raise that ten percent that we have committed ourselves to refunding any increase?

MR. GASTON: You could take the other tax and lower the exemptions - instead of using this tax, lower the exemptions on the other.

MR. PAUL: We won't double-cross every bridge before we come to it. (Laughter)

(The Secretary, Mr. Paul, and Mr. Blough left the room temporarily.)

H.M.JR: Well now, I still understand that we are all right. What we were talking about doing is we will explain this to George. I am inclined to do it myself and we are also inclined on the ten-percent post-war credit, making it wholly refundable. We have got to get some new names. We can't call this "normal" and "surtax." In the first place the ten percent on spending, wholly refundable, isn't a tax.

MR. WHITE: You had a good name for it during the day. Do you remember it?

MR. PAUL: It is a question of whether you do it under the taxing power.

MR. VINER: Have you got another power?

MR. PAUL: We do it under the taxing power anyway, Jake, but it seems that is somewhat of a misnomer to call it a tax when it is all refundable.

H.M.JR: When do you think you can present this, Thursday?

MR. BLOUGH: It is a question of whether it can be written tomorrow.

H.M.JR: It will have to be.

MR. PAUL: I don't think it can be put off any longer.

H.M.JR: That will be the deadline.

MR. KUHN: Would you go up, Mr. Secretary, or would Randolph do it?

H.M.JR: The way I feel I think I had better do it.

MR. PAUL: I am perfectly willing to do it.

MR. BLOUGH: May I suggest one more thing, and that is that you put the writing of it in somebody's hands so he can go to work on it tomorrow?

H.M.JR: Paul will have to decide who he is going to give it to.

MR. PAUL: I will appoint a very, very small committee to do it, consisting of you (Blough) and Mr. Gaston and Mr. --

MR. GASTON: Keep on that side of the room, Randolph. (Laughter)

MR. PAUL: I have got to hold the fort with the Committee on some other things to fill up time. I can't work on it.

H.M.JR: Well, I think it is a happy solution. I don't - I want to sleep on it, whether I want to do this thing.

MR. PAUL: I want you to fully understand that I am glad and delighted to do it. It is only a question in my mind--

H.M.JR: What I may do is a little compromise, what I did once with Sullivan. I went up and appeared before the Committee. I will say, "This thing is terribly important. I have asked Mr. Paul to present it, but I want you to know that when he presents it he is speaking for me."

MR. PAUL: That is fine.

H.M.JR: I mean, if I got up and just made a little statement - nothing in writing - "Gentlemen, this is terribly important. We have given this a great deal of thought. I have come up here just to let you know that I am personally vitally interested in this thing, and Mr. Paul is here to present the Treasury viewpoint."

I will let him go ahead and do it. I did that once with you.

MR. SULLIVAN: Yes, you did.

H.M.JR: It worked out all right?

MR. SULLIVAN: Yes, it did. Your very presence indicates the same interest as though you were talking yourself.

H.M.JR: Then it has this advantage. This thing is so tricky and it is so full of things, and then I have got this blankety-blank financing to do, and I would be up there all day, and I can't handle it as well as Paul. What do you think, Walter?

MR. STEWART: I think that last suggestion is a very good one, the advantage of your showing up. I think it is important to go.

H.M.JR: Harry, what do you think?

MR. WHITE: I think it is important to go. I am not sure about - I mean, it depends on how brief a statement you make. I think that a page or two--

MR. VINER: I would say make one general statement explaining to them why it is you are coming with something additional and then turn the program over--

H.M.JR: That could be prepared.

MR. VINER: ... that you have decided and say something about the volunteer program, in the light of the increased expenditures that you have to increase the program, which you present to them for enactment.

H.M.JR: I can say something about, "I told you when I was worried about raising the money I would come up and say so, and with the increased spending, gentlemen - " they may very well say, "Why do you come at this late date and ask for seven and a half billion dollars more?" "Well, gentlemen, I am worried if I don't get it. I have pretty near got to have it, that is all there is to it. I told you I would tell you when I was worried. You asked me, 'Can you raise it?' I can raise it, but I am telling you now I need this."

MR. WHITE: And the ways you are going to suggest Mr. Paul will indicate.

H.M.JR: "I am telling you I need this and every cent of it, and I can't get along without it."

MR. VINER: I think a page and a half.

MR. PAUL: That is fine.

H.M.JR: "I said to you we could get it, yes, and that when I was worried I would come up and tell you. I am telling you I am worried. I need another seven and a half billion dollars. Why did I wait so long? I didn't wait one minute longer - until I saw the necessity. Now I see the necessity of it."

MR. BLOUGH: That is good.

H.M.JR: I will turn over the technical thing on it; then I can disappear.

MR. PAUL: Do you want to make that lunch for one o'clock.

H.M.JR: Yes.

September 1, 1942

Proposal

1. Impose the spendings normal tax at the 5 percent rate now, preferably refundable [redacted] up to $50,for a single person, $100 for a married couple and $25 for each dependent, but if desired entirely refundable.

2. Tell the Committee frankly that you are carefully watching the situation, that if inflationary developments require it, or if the collection at source of income and spendings taxes adversely affects the payroll allotment plan in substantial degree, you will promptly appear before the appropriate Committee and ask either for a new compulsory savings program or for a prompt increase in the compulsory savings tax rate to go into effect immediately.

Reasons

1. The important point is to get these tax measures into the law; thereafter increases will be much easier to secure than if an attempt is made to put on a very high rate at first. This is the history of all new taxes.

2. Social Security payroll tax rates are scheduled to go up 2 percent (1 percent on employer and 1 percent on employee) January 1, 1943. Moreover the Social Security Board is urging a further increase of 3 percent in payroll tax rates. The additional 3 percent will certainly be lost if the refundable spendings tax is imposed at 10 percent and there is reason to believe that under the pressure of Senator Vandenburg and others even the scheduled 2 percent increase and part of the tax for unemployment compensation (payroll tax on employers of 8 or more) will be eliminated. If this should happen there would be little or no gain in Federal receipts and a blow to the system of social insurance in the United States.

September 1, 1942
11:05 a.m.

FINANCING

Present: Mr. Haas
Mr. Murphy
Mr. Heffelfinger
Mr. Baker
Mr. Stewart
Mr. Viner
Mr. Sproul
Mr. Ransom
Mr. McKee
Mr. Szymczak
Mr. Draper
Mr. Piser
Mr. Thomas
Mr. Williams

H.M.JR: Do you want to do the general financing first, or do you want to talk about that tax note, or do you want to do both?

MR.RANSOM: Mr. Sproul is the acting chairman of the executive committee, Mr. Secretary.

MR. SPROUL: I think we could approach it from the standpoint of your financing, with which we tie up the question of the modified tax note and how it is to be modified and what it might bring in.

H.M.JR: Well, Heffelfinger, tell us how much money we have got to have in September, October, November, and December. We will start there.

MR. HEFFELFINGER: On the basis of our present estimates, Mr. Secretary, the September figure, as a minimum, is some three billion dollars in the market. That is predicated on getting eight hundred million from Savings Bonds, which may be a bit high at this time, and two hundred and fifty million from tax notes, which, on the other hand, may be a bit low.

MR. RANSOM: The last figure?

MR. HEFFELFINGER: Two hundred and fifty million from tax notes in September. In October we estimate four billion for market operations, at the same time reducing our cash balance five hundred million dollars.

H.M.JR: What month?

MR. HEFFELFINGER: October.

In November we also would estimate four billion, and in December three billion seven hundred fifty; but when we get out in those months, November and December, we may be low, because defense expenditures, war activities, are going ahead faster than originally estimated. This month they will be about four billion nine hundred million against the tentative figure of four, seven, which we have been using. So for September four billion seven, and on the basis of our August experience it may go a couple of hundred million ahead of that.

We are using five billion three for October, and five billion five for November, and reaching five billion seven in December. We are estimating this on the present bill program of three hundred and fifty million a week. That gives us three hundred million of new money from bills in September and a hundred million new money in October. We are figuring on paying the September notes and October notes off at maturity. We are allowing about five hundred and fifty million for tax notes in payment of September taxes.

In the three billion dollar figure for September - that is predicated on an issue payment, date being the twenty-fifth of September. At that time we will have used all of our balances and be financing temporarily with special issues from the Feds to the extent of two to three hundred million dollars. On the basis of three billion cash we would go out of September with only two billion two hundred million. That would not take us in August - I mean in October - it would not take us beyond the fifteenth of the month. As a matter of fact, it wouldn't be sufficient to cover the fifteenth of the month.

We will need in the first fifteen days of October two billion four hundred million dollars. On the fifteenth alone we spend five hundred and thirty million more than our income for that day. That is the big push in the first fifteen days. If you figured on doing your next financing for payment on the twentieth of October, we would be eight hundred million dollars shy at that point of our September balances. In other words, we would need three billion dollars to take us that far into October and start the month with two billion two. So it would seem to me that it depends on what would be the October plans as to what you want this month. In other words, to go up to the twenty-sixth of October, which is a Monday, and use up all your balances, you would need approximately four billion and a half at this time, unless there are some other changes in the picture on your tax note which may bring additional money in in September or October, early October.

MR. PISER: May I ask a question about your tax note estimate? You are figuring on redemptions of five fifty in September?

MR. HEFFELFINGER: That may be a bit high. Yes, we are.

MR. PISER: What gross sales were you estimating?

MR. HEFFELFINGER: We had nothing on which to predicate a real good estimate on our tax note sale. We are using this month three hundred million; it may run from three hundred and fifty to three hundred and seventy-five. We are using a conservative side in September, it being a tax month; it is two hundred and fifty million.

Now, if we have the same experience we had in June, it will go higher than that, but then at the same time we will balance it off; from Savings Bonds, we are counting on eight hundred million.

MR. McKEE: In December what does that take you out with - what kind of a balance?

MR. HEFFELFINGER: December, a billion nine. The way war activities are accelerating, we went up in August four hundred million dollars, from four, five in July to probably four, nine in August. And if they maintain anywhere near that rate of acceleration, our estimates for these next four months may be on the low side.

We are also picking up in November and December, just arbitrarily, a hundred million dollars a month, estimated from the new tax bill, assuming that your excise taxes may become effective in those months.

H.M.JR: Have you had a chance to review this, Allan?

MR. SPROUL: Yes, we had a chance to review it, not with the benefit of all of these figures, but we were working fairly close to them. Our discussion this morning was on the basis of possibly two billion eight in September, and a larger amount than the four billion in October, possibly four billion five in October.

We considered that in the September financing, as Mr. Heffelfinger suggested, that had to be taken up in the light of what you were going to do in October, at least, if not beyond that, and that the September financing, a smaller financing, a financing during a tax payment month, was an interim financing prior to and preparatory to a large major financing operation in October. Therefore, we felt that the September financing should be a short-term financing of that interim character. There are possible ways of making up the amount you need in new funds in September with short-term obligations. We consider one to be an increase in the amount of bill offerings beginning with the September 9th issue to four hundred million dollars, which would mean that you would get new money from bills during September of about five hundred million dollars; two, that if a modified tax note of the kind which we have recommended, and again recommend, with the graduated scale of rates, which would make it a real dual-purpose obligation, were used, you could count on at least five hundred million from that, and possibly more.

MR. RANSOM: That being in addition to what they are getting from their present taxes?

MR. SPROUL: That is right. I would then suggest that you add to that a certificate offering to raise the balance, a certificate maturing May 1st, 1943, to fill out your quarterly offering of certificates, which would be a seven and a half months', possibly five-eighths percent certificate, and would take advantage of what looks to me like possibly the last opportunity to fill out that quarterly certificate program, because from here on in you will get into too short maturities for your certificates.

An alternative to that program, if the kind of dual-purpose modified tax note we have recommended were not used, would be, it seemed to us, again the increase in the bill offering, a combined certificate of indebtedness and note offering to raise the additional two billion, or two billion plus, which you will need in new money. That would contemplate that in October you would do a large-scale financing in bonds to get your four billion or four and a half billion which you will need in October.

H.M.JR: Well now, could I have an alternative suggestion? We are starting a little bit early this week, and I am doing it on purpose. I want to keep at it with the Fed. My first reaction is, right or wrong, I feel we have been doing too much of this interim financing. I mean, we have been selling certificates and increasing our bills, and we haven't been putting enough away for enough years.

Now I am not saying I won't come around, but I lean away from that. I wondered whether you gentlemen couldn't build me a program where we would sell three billion dollars of securities. George, I think, had in something here for '45, but at least from '45 on.

If we did something on the tax notes, and if we did something on the bills, that would be all to the good, because we are operating on about a fourteen to fifteen day headway. In other words, that was the last, wasn't it, George, around--

MR. HAAS: About seventeen days, I think.

H.M.JR Somewhere in there. In other words, I have enough money in the Treasury to last us from fourteen to seventeen days, which is not enough. I mean, I think in war time we ought to have at least enough to last us thirty days.

MR. SPROUL: You can come to us now, you know.

H.M.JR: I know, come and see uncle, huh? (Laughter) Well, I want to postpone that day as long as I can. I am serious now. I think it is wonderful to have it, but I think it would be the worst thing in the world if I had to do it. I would only have to do it if the news was so terrible and the financial community was so scared they wouldn't lend me the money; I would have to go to you, which would be a bad day, but it is nice to know that "Barkus is willing."

As I say, I don't expect an answer today, but I would like you gentlemen to consider borrowing what I consider three billion dollars of more or less permanent money, and then we will do these other things, maybe, besides. You can do three things. You can take three billion dollars' worth of, say, two to three year money and the rest in seven to nine year money; or we can do your first suggestion; or we can get for me three billion dollars, more or less, of three years' or over and then pick up the additional, maybe, in the bills and just have that much velvet. Frankly, gentlemen, if we could sell - you were talking some months ago of selling six billion dollars in one month and skipping a month. This thing is getting down to a grind where we have to do three or four billion dollars a month; and you get everybody up to the point where maybe they do six billion dollars, and then they think, "Well, they will leave us alone for three months." But we couldn't - we couldn't leave them alone for maybe more than a month.

I mean, even to do three billion dollars you would have to put on all the steam and put everybody to work. We would have to go after some of these big individual deposits in the banks. The banks would have to recognize that they are going to have to lose some of their money, and so forth, and so on. That is the way I feel at the first meeting, and my mind is wide open. But, frankly, I am a little bit scared of doing this thing the easy way, which is the way that you suggested first, to just tide us over September. I think I have been doing too much of that. That is the way I feel.

MR. SPROUL: I think we looked at it from the standpoint of not doing it the easy way, but heading up to a very large financing in October, which you didn't want to interfere with by the character of your financing in September. I think we could step up that financing in October to five billion without creating the situation in the market or in the minds of the public that now they were through. I don't think that magnitude of financing would give them that impression that they were through for any period more than a month, at any rate.

H.M.JR: Well, you have got to do an awful lot of selling to convince me that you can sell five billion in October. I mean, if you can sell five billion in October, you can sell three in September.

MR. SPROUL: It is something that depends on the kind of goods you offer in September and the kind you offer in October as to how big your market is without pressing it too far.

H.M.JR: I don't expect an answer this morning, but what I would like to suggest is this: If this was agreeable, supposing I sent my technicians over to you this afternoon, see, and they work with you, and I could do one of two things. I could meet with you gentlemen either tonight after supper at eight-thirty or at nine o'clock tomorrow morning, whichever was more agreeable to you, see?

MR. SPROUL: Well, as far as I am concerned, tonight after supper would be the best time to meet on that schedule. I don't know about the rest.

MR. RANSOM: That suits me.

MR. DRAPER: All right.

H.M.JR: What do you gentlemen think?

MR. RANSOM: That is all right.

H.M.JR: I mean, I could come back here tonight at eight-thirty. My boys could come over to you this afternoon, you see, but what I am asking for is really two changes. I mean, two other looks: One, give me three billion dollars of what I call middle and long-term financing, something over three years; plus the bills, if you want to, and the tax notes, you see, or three billion, or maybe two billion and part of the other in tax notes.

MR. SZYMCZAK: In other words, the three billion would be your three years and over, and the bills and the tax notes would be in addition?

H.M.JR: In addition. And that would get me - what I have been trying to do is to get up to a point where I have enough money to run for thirty days instead of on the average of fifteen. I don't think fifteen is enough.

MR. SZYMCZAK: No.

MR. McKEE: Mr. Secretary, isn't a tax payment month a poor month to start on big issues? Wouldn't you want to avoid your big issue in a tax payment month?

H.M.JR: Not now. I don't think we can skip four months a year, which it amounts to.

MR. McKEE: I don't think so, either, but I think that is an interim month that ought to be used for short-term money. I just raise that question.

H.M.JR: Well, John, if you would look at it the other way, then I will listen tonight. My mind is open. I am just - maybe these four fellows who are sitting here can come over to you this afternoon if you would like to have them.

MR. McKEE: Have you got a dinner engagement tonight?

H.M.JR: Well--

MR. McKEE: We might be able to set up dinner over there, Ronald.

H.M.JR: Well, I am going so hard - it is the only time that - well, if I had dinner with you tonight, which would be a pleasure, I would have the worst migraine headache tomorrow all day. I can't do the thing all day long. I mean, I would love to have dinner with you if we could play poker. (Laughter)

MR. SZYMCZAK: That is the effect John has on you, the headache? (Laughter)

H.M.JR: No. I would come over as your guest, but I cannot mix my bonds and my food, or one will go sour, either the bond or the food goes sour. (Laughter)

MR. RANSOM: Mr. Secretary, could I ask something else?

H.M.JR: Is eight-thirty too late for you gentlemen?

MR. McKEE: No, I am an orphan; I can go any time.

MR. RANSOM: Mr. Secretary, could I ask you a question at that point? We would be delighted to meet with these four technicians, but cannot we also have Doctor Viner and Mr. Stewart over here. We like them, too.

H.M.JR: Well, if they are free. We have got--

MR. RANSOM: It seems to me this is more than a technical problem.

H.M.JR: Well, I will talk to them, but we are in the midst of a new suggestion on taxes which we are all up to our eyebrows on, and I would like to try one thing out on you gentlemen. I want to try something out on this--

MR. RANSOM: Doctor Townsend is trying to see us today.

H.M.JR: I refused to see him.

MR. RANSOM: I will swap him for either Viner or Stewart. (Laughter)

MR. VINER: Thank you, Mr. Ransom. (Laughter)

H.M.JR: Well, they have both got ideas. (Laughter)

MR. SZYMCZAK: This may mean covering the October financing, too, in our discussion tonight.

H.M.JR: That is all right. I will talk with Stewart and Viner.

MR. RANSOM: We would like very much to have them. There are questions we would like to discuss with them, too.

H.M.JR: Now, you will discuss the change in the tax notes and see how close we can get together on that. We are not very far apart, are we?

MR. SZYMCZAK: No.

MR. HAAS: No, sir, very close.

H.M.JR: Now, if it is clear, we will meet here tonight at eight-thirty. Now wait a minute, I want to try something.

MR. RANSOM: May I ask what time your technicians--

H.M.JR: You settle it.

MR. RANSOM: Would two o'clock suit you?

MR. VINER: It depends on the Treasury schedule. I think we are both under orders.

H.M.JR: We will try, but I have got - in a minute we will go back on this tax thing again.

MR. RANSOM: If three o'clock would make it more possible for them to come, I would like to have them at three.

H.M.JR: Three o'clock over there?

MR. RANSOM: Yes, if that makes it easier for us to possibly have not only your so-called technicians, but these other two people.

H.M.JR: Well, we will say three o'clock.

Let me try something out on you fellows. Supposing on this tax on expenditures - somewhere, I don't know, between five and ten percent - this is a banking question. How would you fellows feel, would you like to see it as a post-war credit or not as a post-war credit?

MR. SZYMCZAK: In other words, refundable?

H.M.JR: Yes. It would be non-interest-bearing.

MR. SZYMCZAK: This relates only to the expenditure tax?

H.M.JR: That is right.

MR. RANSOM: Would the refundable feature apply to all income groups?

H.M.JR: No, they would limit - I mean, the talk is that it would be designed for the lower - I mean, it certainly wouldn't run over a thousand dollars for any one person.

MR. PISER: The refund--

MR. SZYMCZAK: And the refund would be larger for the lower brackets and smaller as you went up into the higher brackets?

MR. VINER: Possibly. It might be slightly--

MR. SZYMCZAK: Something like the Canadian plan?

H.M.JR: Possibly.

MR. RANSOM: I would vote for refundable--

MR. SZYMCZAK: Off hand I should say I would favor it, but it has a lot of implications.

H.M.JR: I know. I just want a curbstone opinion. It gets into the question of banking and all that after the war, but--

MR. SPROUL: This is another way of providing some incentive for saving, this taxation on spending, because your exemptions are exemptions of various forms of saving.

H.M.JR: No. This I would really call an anti-inflationary tax. It is a question of whether we should sugar-coat it by making it refundable or not, but the tax is designed to discourage spending. Now, in this thing, which is very severe, in order to sugar-coat it, would you make it refundable or not for the groups up to three or four thousand dollars' income?

MR. SZYMCZAK: In other words, not all of it would be refundable, only a portion of it.

H.M.JR: No, sir, likely only for the people up to three or four thousand dollars.

MR. VINER: The maximum would be three hundred dollars.

H.M.JR: Some said three - certainly not to exceed a thousand dollars.

MR. SPROUL: My curbstone opinion, with stiff severe rates, would be to make part of it refundable.

H.M.JR: You said refundable?

MR. SPROUL: Yes.

MR. RANSOM: Yes.

MR. SZYMCZAK: Yes.

MR. WILLIAMS: Yes.

MR. McKEE: I don't know enough about it to have any opinion.

MR. DRAPER: Non-interest-bearing?

H.M.JR: Yes.

MR. DRAPER: It is O.K. with me.

H.M.JR: Do you want to ask some questions, Viner?

MR. VINER: I think they are a bunch of softies, myself.

H.M.JR: Didn't I put the question fairly?

MR. VINER: Yes. I am surprised at the trend of the answer.

H.M.JR: Did I put the question fairly?

MR. VINER: I would like you to ask them again tomorrow after they have done some thinking on it.

H.M.JR: Tomorrow will be too late. (Laughter)

MR. SZYMCZAK: I think you are right, thanks.

H.M.JR: Did I put the question fairly, Walter?

MR. STEWART: Yes, refundable or not refundable.

H.M.JR: That was fair. Just because they don't agree with Viner, they are softies. (Laughter)

MR. RANSOM: My answer was not given without having thought about it before. It was not casual.

H.M.JR: We had this discussion here, and the argument some of the people advanced against it being refundable was the question of repercussions on the Treasury, the Federal Reserve, the banks, and so forth, and I just wanted to get an intelligent reply from you people.

MR. SZYMCZAK: You mean the administrative difficulties?

H.M.JR: You fellows will be here when this war is over; I won't.

MR. THOMAS: May I make a suggestion, Mr. Secretary, that it be made refundable provided the spendings tax is continued when it is refunded?

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

MR. THOMAS: If there is going to be an anti-inflationary danger, the real danger of inflation is going to come when they spend the refunded portion.

H.M.JR: You are talking post-war now?

MR. THOMAS: Yes.

MR. SZYMCZAK: Well, that is a bit contrary to what we are saying on War Bonds.

MR. THOMAS: That is the advantage of the spendings tax.

H.M.JR: When this war is over and they shut off all this munitions, I am so bold as to say I wouldn't worry much about inflation, but I may be all wrong.

MR. RANSOM: Mr. Secretary, could I take advantage of the opportunity, now that you have raised this question, to say that from the press report of Senator George's interview it appears that the Treasury is giving some consideration in the spendings tax to deductions for payments made in the purchase of housing.

H.M.JR: No, that wasn't correct - rent--

MR. RANSOM: It said the initial payment for housing, one account, and that would work contrary to what I had thought was your view of the mortgage situation.

H.M.JR: I think that is wrong.

MR. VINER: The only consideration was for rent. Some people favor deduction of the amount spent for rent, but not for housing construction.

MR. RANSOM: I didn't mean housing construction, but purchase of existing housing, which would certainly have an inflationary effect in relation to housing and the whole field there with which we have some concern. I just wanted to hope that wasn't correct.

H.M.JR: No, that is incorrect. I am interested in your answer, and Viner is flabbergasted. (Laughter)

MR. SZYMCZA: I am afraid Viner hasn't given it enough thought. (Laughter)

September 1, 1942
11:55 a.m.

TAXES

Present: Mr. Gaston
Mr. Graves
Mr. White
Mr. Sullivan
Mr. Blough
Mr. Haas
Mr. Tickton
Mr. Stewart
Mr. Viner
Mr. Friedman
Mr. Shoup
Mr. Kuhn
Mrs. Klotz
Lt. Col. Foley

H.M.JR: I put the question up to the Federal Reserve Board members, that if the tax on expenditures were either five or ten percent would they like to see it refundable or not refundable. One man did not want to express an opinion, and all the others, including Allan Sproul, said, "Refundable." Viner flew into a fit of rage and said, "Softies." (Laughter) That is a slight exaggeration, but the quotation was correct.

I have thought this thing over, and I have decided that I would like ten percent and refundable.

MR. BLOUGH: Ten percent, refundable; now, in that case, do you want the spendings surtax toned down any, or are you satisfied?

H.M.JR: I would leave it. I haven't the time, don't complicate it for me.

MR. BLOUGH: We will not have it redeemable all the way up.

H.M.JR: Have you a plan?

MR. BLOUGH: We have a plan which is less generous than the other one we had. There seems to be, I think, good logic for saying that the limit should in some way be tied in with the exemptions, or, this exclusion level; and a very logical way, which I fear will not meet with very much approval in this room, would be to say that up to the spendings surtax exemptions of a thousand, two thousand, and five hundred for each dependent, we are not interested in discouraging spending. However, we just have to put off some of it until after the war, so that up to those limits this normal spendings tax will be refundable.

That is not, I will say very frankly, very generous because that means for a single person the maximum he can get back under the ten-percent rate is a hundred dollars. The maximum that a married couple with no dependent can get back would be two hundred dollars, and for each additional dependent, fifty dollars.

H.M.JR: That is not enough, Roy; loosen up a little bit.

MR. BLOUGH: Well then, I would say that those should be the limits at which the whole tax would be refundable, and that above those limits, then, a portion of the tax should be refundable, perhaps fifty percent.

H.M.JR: Now do it all over again.

MR. BLOUGH: Let's take the single man, no dependents. We have under the surtax spendings tax a thousand-dollar exemption for him. On that thousand dollars he would be allowed his full refundable tax of one hundred dollars. We might say, then, that on his next hundred dollars of tax he would be allowed, say, fifty percent refundable, or fifty dollars, and thus go down the scale, as high up as you really want to go; but with each successive increment of tax a reduced proportion of it to the Treasury.

There is then the question of whether you want the millionnaire to have that much refunded to him or whether you want this gradually to disappear so that eventually the man at the top will not get any refunded.

H.M.JR: What I was thinking of, and this is just - I am thinking out of the air - supposing you take it from, say, one to ten thousand dollars, or if you are going to make it a hundred percent why don't you make it from a thousand to twenty-five thousand dollars, starting with a hundred percent at the thousand dollars and maybe going down to ten or five percent when you reach twenty-five thousand dollars.

MR. BLOUGH: You would like to go up that high?

H.M.JR: I don't say - I am just thinking - but not to exceed a thousand dollars in one year.

MR. BLOUGH: But the maximum not to exceed a thousand dollars. Well, if the maximum did not exceed a thousand dollars then that would, in effect - yes, you could work that out very nicely because a hundred percent of the tax at ten thousand dollars would be a thousand dollars, and by tapering it off you could have it go to ten thousand and stop.

H.M.JR: Have it stop at ten thousand.

MR. BLOUGH: That would be a hundred percent of the tax to ten thousand and stop.

H.M.JR: And then it jumps to ten percent down.

MR. BLOUGH: Do you want to give away so much?

MR. VINER: That is too much.

MR. BLOUGH: Why should they have refundable taxes? Why shouldn't they have taxes?

MR. VINER: If you are going to refund, I would not refund over three thousand dollars - I mean over incomes - certainly not over incomes of four thousand. Those people can and will have to pay taxes.

MR. WHITE: There is a decided disadvantage in stopping flatly. I think there is much to be said for levelling it off, at whatever rate you say; and I think that in the light of the fact that you are taxing those others so much more heavily on the other taxes there is something to be said for kind of winning them over to this tax so they feel they get some percentage back.

MR. BLOUGH: In other words, instead of lowering the surtax spending bracket, in order to take account of this increase in the five to ten percent you would leave that up there and then give them a refundable tax.

MR. WHITE: Something beginning at five thousand, and diminish the rate of returns until it disappears at ten or fifteen.

(The Secretary held an unrecorded telephone conversation with Miss Newcomer.)

H.M.JR: Carl, can you help us some on this thing that I am asking Miss Newcomer to do?

MR. SHOUP: What is it, Mr. Secretary?

H.M.JR: I want to explain this thing to the country.

MR. SHOUP: I will be glad to help in any way I can.

H.M.JR: I mean in writing and in speeches, and so forth and so on, going on some of these forums of the air, the way Griswold did. He did a swell job a week ago. These men don't get time to do this sort of thing. Could you help us the way Griswold is?

MR. SHOUP: I would be glad to give any help I can.

H.M.JR: Could you? That would be wonderful.

Look, supposing a fellow has nine thousand dollars a year, why shouldn't he get a fifty-dollar refund - just have a little taste of this thing?

MR. BLOUGH: Give him a little taste, but why give him everything?

H.M.JR: A fifty-dollar post-war credit.

MR. BLOUGH: We give him a fifty-dollar post-war credit under the plan I mentioned. Everybody would get at least fifty dollars if he had that much income.

H.M.JR: But if he has a nine-thousand-dollar income why not give this fellow a fifty-dollar post-war credit?

MR. BLOUGH: That is wonderful because if he has one thousand he gets a fifty-dollar credit; also if he has nine thousand he gets a fifty-dollar post-war credit. That is all right; he will just keep that post-war credit.

(Lt. Col. Foley entered the conference.)

MR. WHITE: I don't think he understands what you have in mind.

MR. BLOUGH: I am sorry.

H.M.JR: No. What I meant was this. Just forget all the exemptions. The fellow who has a thousand dollars would get, say, a hundred dollars post-war credit; the fellow that has two thousand dollars would get two hundred dollars, and so on - no, I don't mean--

MR. WHITE: You mean he would get a hundred percent, Mr. Secretary.

H.M.JR: I was thinking about going from a hundred percent down to five percent.

MR. BLOUGH: Let's go to ten percent for convenience.

H.M.JR: All right, from a hundred percent down to ten percent of his income, up to ten thousand dollars.

MR. BLOUGH: That can easily be done. I would raise the--

H.M.JR: Harry, I mean do it in reverse, you see, a hundred percent for one thousand, ten percent for ten thousand dollars.

MR. WHITE: You mean begin reducing it right from a thousand?

H.M.JR: Yes. You step it down. Two thousand would be ninety percent; three thousand would be eighty percent, so forth and so on.

MR. WHITE: I, personally, would like to see it begin at two thousand, just a little bit higher.

H.M.JR: Well, we haven't got the time - I mean, do the thing in reverse so that the fellow up to nine or ten thousand dollars has a little something on this thing, if this thing is right at all.

MR. BLOUGH: Of course it is more the selling point to him than being right. It isn't right for a man with ten thousand dollars to get anything back on the tax on his tenth thousand because the purpose of refundable taxes is that you are taking away from the man in order to prevent him from spending more than you think he can bear and then you give it back to him, I think, later so that he can spend it; and I wonder whether a man of ten thousand dollars is in that shape.

H.M.JR: I will ask Friedman and Shoup - what do you think, Friedman?

MR. FRIEDMAN: I think we can work that formula out all right.

H.M.JR: Do you approve of it?

MR. FRIEDMAN: I think that it is probably a good idea for everybody to get something back, and I do think that the amount given back should decline or vanish at some point.

I might say it is more complicated to work out a formula like this than it is to work out a simpler scheme whereby it rises to a maximum and then stays there, like a tax up to a maximum of five hundred dollars and then five hundred dollars for everybody above that. But I can give you a formula if you would like to accomplish what you want.

H.M.JR: What do you think, Carl?

MR. SHOUP: I am inclined to think that the amounts should certainly decrease - the percentage decrease. In fact, beyond a certain income level I would not give them back anything. I realize the preponderance of opinion is on the other side, but I think that all we want to look out for is not to get it up at too high a level. I think ten thousand is pretty high.

H.M.JR: What would you make it?

MR. SHOUP: I would rather see it down around three or four thousand. I would have the minimum start in there.

H.M.JR: I don't care.

MR. WHITE: It means a good deal more political opposition, Mr. Secretary. The local people are the people who have more than three thousand dollars.

MR. HAAS: And the Congressmen get ten thousand dollars.

MR. VINER: Let them raise it.

H.M.JR: You fellows are all against any refunding.

MR. WHITE: That is why they are really not the right ones to ask.

MR. BLOUGH: What do you think the refunding ought to be - the bottom man's refund?

MR. WHITE: Make the bottom here, and if it can be worked out simply I like that idea of starting at a hundred percent to a certain point, and diminishing it as you go on. I should be inclined to give the man with twenty-five hundred dollars a hundred percent, and then diminish it so that the man who gets ten thousand dollars gets, let's say, twenty percent or twenty-five percent, and from then on disappear.

MR. BLOUGH: Ten thousand you think is the line, though?

MR. WHITE: I think a ten-thousand-dollar line ought to get twenty-five percent of what he pays, and I admit it is purely from the point of view of selling argument because this is going to be a terrific dose and there is going to be a lot of opposition from people in little income brackets.

H.M.JR: I think that is too high. Look, you have to get this ready for Paul, don't you?

MR. BLOUGH: That is right, and I would like to have it mimeographed, if possible.

H.M.JR: Well, let's do it. Let's start at a hundred percent of a thousand and drop it ten percent every thousand down to ten thousand. Will it reach ten thousand? Yes.

MR. BLOUGH: Yes, I think that is all right, ten thousand - I mean ten percent on the last thousand, in that case, if I calculated it correctly.

(Mr. Kuhn entered the conference.)

H.M.JR: We can argue about this thing back and forth. I think that this is the least important part, don't you?

MR. BLOUGH: Yes, except as a precedent for the future.

MR. WHITE: Does your formula give them a hundred percent of the first thousand or ninety of it?

MR. BLOUGH: A hundred percent of the first, ninety of the second.

MR. WHITE: Even the ten-thousand-dollar man would get a hundred percent of his first thousand.

MR. BLOUGH: Yes.

MR. WHITE: In other words, the two-thousand-dollar man gets a hundred and ninety percent.

MR. FRIEDMAN: A hundred percent of the tax minus one percentage point for each hundred dollars over a thousand. That gives you a smooth formula.

MR. BLOUGH: Smooth, but how easy does it work? In other words, if a fellow had five thousand dollars you would subtract a thousand from five thousand, so that is four thousand. That is forty-hundredths, and forty from a hundred and sixty would be the percentage this fellow would get back. Is that simple, Herbert?

MR. GASTON: I don't think so.

MR. VINER: You have to see it on a sheet of paper.

H.M.JR: Look, on this thing here he has got to move. I am going to leave it to Blough and Shoup and Friedman to fix it up, and if you cut it down to five thousand I am not going to feel sick about it.

MR. BLOUGH: But you prefer ten.

H.M.JR: I a little bit prefer ten because I am thinking - well, a Congressman might say, "I am going to get fifty dollars or a hundred dollars back" and it is that much the better.

MR. BLOUGH: He would get a lot better than that.

MR. WHITE: Mr. Secretary, it is better; they are going to give this man a hundred percent of his first thousand.

MR. BLOUGH: That Congressman would get five hundred dollars back.

H.M.JR: No, no, I don't want that. I don't want the ten-thousand-dollar man to get more than a hundred dollars.

MR. BLOUGH: On the whole ten thousand?

H.M.JR: I don't want him to get more than a hundred dollars, yes. I don't want the ten-thousand-dollar man to get more than a hundred dollars. You can do it the other way around and say--

MR. BLOUGH: If you really don't want him to get back more than a hundred dollars the simplest thing to do is to give him a hundred percent of the first thousand, which is a hundred dollars, and stop there.

H.M.JR: Just like you give exemptions on the marital--

MR. BLOUGH: Yes. Would that be all right?

H.M.JR: Yes. You three fellows fix it up, just so that he does not get more than a hundred dollars.

MR. BLOUGH: I would really like, Mr. Secretary, to have him get more than a hundred dollars. I would like to have a single man get a hundred dollars, and I would like to have a married man get two hundred dollars. I would like each additional dependent to get twenty-five or fifty dollars.

H.M.JR: All right.

MR. BLOUGH: There are questions of style; there are questions of arguments--

H.M.JR: I am not interested.

MR. HAAS: There is one point that has not been raised here at all. That is this obligation of the Government to refund - is that going to be of the same character as the public debt obligation?

MR. VINER: Except for timing - the uncertain time.

MR. HAAS: Is it going to be the same conditions - you can't change it?

MR. BLOUGH: It definitely ought to be. It ought to be a promise to pay.

MR. HAAS: I would think so.

H.M.JR: Promise to pay, sure - a firm obligation.

MR. VINER: Except as to date.

H.M.JR: Well, some time after the cessation - after armistice.

MR. BLOUGH: We might put in these dates and then say "or earlier by Presidential order."

H.M.JR: No, not earlier.

MR. BLOUGH: Even by Presidential proclamation?

H.M.JR: No. Listen, I will have to leave it with you three fellows. I am going over to Claude Wickard's at ten minutes of one. If you have any doubts you can catch me at quarter of one.

MR. BLOUGH: Aside from this last point of how much we are going to give back, I want to make sure it is clear, if you are really willing to stick by this business - I don't mean to suggest you wouldn't stick by it, but I am not sure it is clear in your mind that we are not going to give a ten-thousand-dollar man any more back than the three-thousand-dollar man.

H.M.JR: That is all right.

MR. BLOUGH: That is all right?

H.M.JR: O.K.

September 1, 1942
12:22 p.m.

HMJr: I wish that you would get hold of Patterson's office and arrange for a meeting at my office for nine o'clock Friday.

Harry White: Nine o'clock Friday. That's....

HMJr: Friday, and....

W: ....Mr. Patterson of the War Department?

HMJr: Yeah, and at that people from State, Patterson, different people that have to do with this question of behind the front, you know?

W: You're right. Well, as I remember them, there's- that would - do you want me to get right in touch with Stimson's - with Hull's office or....

HMJr: Yes.

W: ....do you go to somebody below them?

HMJr: No, I'd ask Mr. Hull's secretary whether....

W: Mr. Hull's secretary, and then he'll take care of the State Department.

HMJr: Yeah, and tell him that....

W: Then the only other person that was there was Army and Navy and the Treasury, unless you want to include, as I think you should include, the War Production - I mean, B. E. W.

HMJr: I think B. E. W. should, but I don't think that Navy would need to be included.

W: I don't think so except that they're on Solomon Islands and elsewhere. I don't know how - for how....

HMJr: Well, include Navy and B. E. W.

W: Navy, B. E. W., and State at your office at nine o'clock.

HMJr: Righto.

W: All right, sir.

HMJr: Goodbye.

W: Goodbye.

September 1, 1942
2:14 p.m.

HMJr: Hello.

Operator: Mr. Paul has gone back to the Hill.

HMJr: Well, I wonder what he wanted?

Operator: I don't know. I know he left word that he wanted to talk to you.

HMJr: Well, tell him up there - I could - on the Hill.

Operator: Shall I try and get him there?

HMJr: Yeah.

Operator: All right.

2:17 p.m.

HMJr: Hello.

Randolph Paul: You apparently came to a decision this morning which - which I didn't expect you would.

HMJr: Yeah.

P: I think it's -- I can't talk too well here -- but I think it's a very serious error.

HMJr: Now which one is this, Randolph?

R: The ten per cent.

HMJr: Well, my God, I spent all morning on it.

P: Well, I just want to get the chance to argue you out of it, because....

HMJr: Well, you can't do it. I - I'm fed up, Randolph. I mean no - everybody talks separately, there's nobody together, and I took the thing this morning. I can't argue any more. I mean, everybody is sore, everybody blames me, and I - I've been sitting here, and I - I can't do any more.

P: Well, can I see you?

HMJr: What?

P: Can I see you this afternoon?

HMJr: Sure. You can see me any time you want to.

P: Well, I'll be - I'll come down as early as I can, possibly around - between four and four-thirty.

HMJr: Well, aren't you going to present the plan?

P: No, I put it off until tomorrow morning, even if we - the burden tables aren't ready anyway. It couldn't be until our decision was made, and we can't go on without them.

HMJr: Well, you couldn't go along without what?

P: The burden tables and all that.

HMJr: What are the burden tables?

P: Telling how much a certain income was taxed and so on.

HMJr: Well - ah....

P: You can't - you can't present the case without all those tables.

HMJr: All right. Well, when you going to come down?

P: Oh, I'll come down as soon as I can get through here. I have to go on with the....

HMJr: I postponed my financing this morning. I've got to come back at eight-thirty tonight. I've got to raise three billion dollars. But, of course, I can see you, but I - I'll see you but I want the other people here.

P: Well, I'll - I'll get down there, if you want an absolutely definite time, by four-thirty. I might be able to make it before that.

HMJr: Well, I'll put you down for four-thirty.

P: All right. I think it's so serious. I wouldn't bother you about a detail, but this is a really - and everybody agrees with me. I don't know - so I -

P: (cont.) everybody I've talked with or heard about it. So I just want to be absolutely certain before....

HMJr: Well, I mean you people completely reversed yourself last night on this thing as of Sunday.

P: Well....

HMJr: And then everybody's sore because they....

P: Well, I think there's some confusion about it.

HMJr: But everybody's sore because they didn't have a chance to know what you did over Saturday and Sunday, and then they take it out on me.

P: Well, I'm sorry about that, but anyway let me talk to you....

HMJr: That's easy, I'm here.

P: All right....

HMJr: I'll be....

P: ....at four-thirty.

HMJr: Okay.

September 1, 1942
2:22 p.m.

HMJr: Hello.

Judge Rosenman: Yeah.

HMJr: Sam?

R: Yes, Henry.

HMJr: How are you?

R: All right.

HMJr: Before I get serious, what was all this message about yesterday?

R: That was right from headquarters across the lunch table. He's pretty sore that - as he put it, when a Brazilian or some Nicaraguan or Ecuadorian lousy financial minister comes up, you'd bring him in to see him, but when Hedy Lamarr and Greer Garson and Irene Dunne come up....

HMJr: Yes.

R: ....all he does is hear the music.

HMJr: Well, you could - I made the offer to bring them over.

R: He denies it.

HMJr: What?

R: He denies it.

HMJr: He denies it?

R: Yeah, he's pretty sore about it.

HMJr: You'd better talk - you'd better ask Grace Tully.

R: Well, you know she's very jealous. She wouldn't - Grace wouldn't come in....

HMJr: Are you sitting at her desk?

R: Well, she's outside but she knows - she knows what I said.

HMJr: Well, anyway - how about Sam? Is he sore?

R: I - Sherwood and I were both pretty damn sore about it.

HMJr: (Laughs) When you called up Mrs. Klotz, were you at his desk?

R: Surely. We were eating lunch, the three of us, and he said, "Call up Henry and tell him I'm sore."

HMJr: (Laughs)

R: So I called up and he was there and approved every word.

HMJr: Wonderful. Could you hear me clearly?

R: Well, we couldn't hear you, but (laughs) we heard some noise for two hours.

HMJr: Yeah. (Laughs)

R: The President said, "That's Henry singing."

HMJr: (Laughs) Well, I - at least I made the record. Mrs. Brady came over.

R: And nobody - just a minute. (Talks aside) I'll be there in a minute. Yeah - but....

HMJr: Well, anyway that's - that's enough.

R: ....you didn't ask either Sherwood or me over.

HMJr: Well, I didn't want any competition.

R: What's on your mind, serious.

HMJr: Serious, I - I had lunch with Claude Wickard....

R: Yeah.

HMJr: ....and he's all up in the air.

R: I don't blame him.

HMJr: And he....

R: I'm up in the air too. I've worked on this for four weeks, and all of a sudden it gets torn up.

HMJr: Well, is there any use - let's put it another way, is there anything that I can do to get him to go back to....

R: Well, I don't think he's left it yet. I don't think Henderson is going to be able to submit those figures.

HMJr: Well, I mean is there any use in my asking to see him or anything like that?

R: I wouldn't do it yet, no.

HMJr: You wouldn't?

R: Not yet. You might - you might tomorrow. Ah - course I - he's worried, you know. There are an awful lot of people telling him that he shouldn't do this.

HMJr: Yeah.

R: Great many people - Jimmy Byrnes and Bernie Baruch and Henderson.

HMJr: Well, I don't want to - well, I don't want to add to his burdens, but I just wondered if - if it would do any good.

R: Well, I - I think it would do good, yes. I don't - I just don't know whether he's really seriously thinking about it. He said he was. Now whether that's letting Leon down or not, I don't know. I - he seemed pretty serious, and he's got Leon and Lubin and Wickard working. Wickard should be working instead of having lunch with you, and giving him the figures....

HMJr: Yeah, yeah, yeah.

R: ....on what it would cost.

HMJr: What Wickard also wanted to know, should he - should he really go - should he really help Leon?

R: Well, I think they - I think the President wants to know the facts.

HMJr: He does?

R: You can do it by - by subsidies, but, my God, I think he ought to have it done by this afternoon.

HMJr: I see.

R: But we haven't got much time.

HMJr: Yeah.

R: I don't know whether they can hold it by subsidies to December 1. If they can, I certainly am in favor of doing nothing to labor. I think it would be terrible to do something to labor, and just give the farmer a subsidy, and I'd - I'd prefer then that he do nothing except say I'm adjourning it until December 1....

HMJr: Yeah.

R: ....and the War Labor Board continue to do its job, and I think it's terrible.

HMJr: What - Wickard said in the middle of the conversation that "Oh, the Treasury will raise the money. Don't worry about that."

R: I didn't hear that.

HMJr: Something like that.

R: I didn't hear that.

HMJr: Is Hopkins in on this?

R: Well, I know that Henderson's been talking with him. He - he's worried about it. I don't think - I can't say that he's opposed to it. He's worried about it and so am I.

HMJr: Yeah.

R: And Harold Smith is waiting for me outside, and I'm pretty sure he's opposed to this. They're all afraid of - of flying in the face of Congress.

HMJr: Yeah.

R: So that - it - it might help if - Henry, if you can get over to see him and buck him up on it. I can well appreciate anybody pausing in the midst of - the only fellows that have said that he ought to go ahead on this are you and Wickard and Jesse Jones and Sherwood and I.

HMJr: I see. Well, that's good company.

R: Well, outside of Sherwood it's good company.

HMJr: Well, I'll ask for an appointment and I'll see what happens.

R: Yeah, you can tell him that Wickard talked with you.

HMJr: I will.

R: He's pretty crowded today, but he'll probably....

HMJr: No, I won't ask for it till tomorrow.

R: Okay.

HMJr: Well, anyway, I knew my onions when I didn't ask you and Sherwood over.

R: Yeah, well, by God, not even for lunch did you ask us.

HMJr: (Laughs)

R: Sherwood's pretty sore about it.

HMJr: (Laughs) Okay.

R: Goodbye.

September 1, 1942
2:39 p.m.

HMJr: Hello.

Operator: Secretary Wickard.

HMJr: Hello.

Claude Wickard: Yes.

HMJr: Claude.

W: Yes.

HMJr: I got to Rosenman....

W: Yes.

HMJr: ....and he said by all means to keep figuring because he hopes to get those figures this afternoon, what it will cost, you see?

W: Yes.

HMJr: But he said he isn't at all sure that the President may not yet be swung around, and he thought it would be good if I'd try to see him.

W: He did?

HMJr: So I'm going to see him, but he said he's certainly hoping that you and Henderson come through with your figures tonight.

W: Of what - of how much it's going to cost?

HMJr: Well, I take it that's what he - how much the subsidy is is what he said.

W: Yeah.

HMJr: Is that right?

W: Yeah.

HMJr: Okay.

W: Did you - did you tell him you thought the President would lose ground rather than gain ground with....

HMJr: Oh, he agrees with me, and so does - he says that - that he's on our - he thinks the way you and I do.

W: Yeah. By the way, Biddle has flopped pretty bad. I mean, he says that "I can't get W. P. B. to agree to this."

HMJr: Oh, nuts. I....

W: Well, I mean, after all I don't - if he - if he met defeat before he started, I don't see how....

HMJr: No.

W: ....and I think Roosevelt ought to know about that - I mean, that's what's wrong.

HMJr: Well, I'll see what I can do.

W: Right. You bet. Thanks to you.

HMJr: Goodbye.

September 1, 1942.
4:30 p.m.

TAXES

Present: Mr. Gaston
Mr. Sullivan
Mr. White
Mr. Graves
Mr. Paul
Mr. Kuhn
Mr. Stewart
Mr. Blough
Mr. Shoup
Mr. Friedman
Mr. E.M. Bernstein
Mrs. Klotz

H.M.JR: I warned you beforehand. Go ahead.

MR. PAUL: Well, I think this is - this question that I have in my mind has nothing to do with the main plan. It is only a question, particularly, of one rate, and that is the normal tax spendings rate of ten percent. In the first place, we have been rushing so fast that only about three minutes ago did we get the total burden of this rate, and, of course, it is important to look at that.

As I get the burden there, the twenty-five-hundred-dollar man has a total tax collected from him of four hundred and forty-five dollars.

I think - well, take a ten-thousand-dollar-Congressman--

MR. BLOUGH: Assuming he spends only half of his income.

MR. PAUL: Assuming he spends only half his income, he has a total collection burden of about thirty-three hundred dollars.

Now, my whole point is this, that I think - and I am very serious about it - I think that if you compare those figures, the subtraction from a man's total income on account of normal spendings and on account of income tax, we are going so high that you are going to make this plan look ridiculous and absolutely and completely jeopardize its acceptance. It will be so regarded especially in the low brackets. I feel so strongly in favor of the plan as a whole, as a basic plan, that I hate to see it jeopardized by that one consideration.

Now, Harry just told me he had a compromise. I have not seen that.

H.M.JR: Neither have I. I have not talked to anybody since then.

MR. WHITE: I made the same calculations and there were a couple of the burdens that seemed unreasonable.

(Mr. Stewart entered the conference.)

MR. PAUL: I do not think there is any question about this table, Harry.

MR. WHITE: I do not get the same figure on the ten, but they are close enough, and I do not know whether you added something else - maybe Social Security. I got a little--

H.M.JR: What is your compromise?

MR. PAUL: The Social Security tax is not included. That will emphasize my point.

MR. WHITE: It makes your figures a little higher except on the ten-thousand-dollar-income brackets.

MR. PAUL: Considering the fact that a two-thousand-dollar-man had a tax of around forty dollars - something of that sort.

MR. WHITE: Sixty-two dollars in 1942, including Social Security tax.

MR. PAUL: I think the leap is going to be resented by Labor. It is going to be resented by the low-income groups. It is going to be so high and so unpopular from all angles that we will have no support, and we will get a sales tax.

I think that we can get very great figures. I do not know whether Roy has the figures or not, but we can get them.

H.M.JR: How much is it going to produce - the five and the ten? Do you know that?

MR. BLOUGH: The ten will produce twice as much as the five - which is very useful. (Laughter) With the five we had a figure of about three billion, which probably is somewhat smaller than that because of some of the deductions.

MR. PAUL: We had three and two and a half.

MR. BLOUGH: And another billion for lowering the exemptions.

MR. PAUL: In other words, our total revenue under five percent is double the present House bill.

Now, with the ten, it looks to me as if it will run nearly three times the House bill - or two and a half times, anyway. Now, I think, at this late date--

MR. BLOUGH: It will be pretty close to two billion dollars.

MR. PAUL: It will be two and a half times the present House bill. I am all for getting the revenue, and if I thought we were - if I thought it would go across politically, for my part I would be willing, but I think we endanger our political situation.

I think we are subject, when we get to those magnitudes, to very serious criticism for bringing it up at this late date. I just fear the whole thing will collapse, and we will get nothing but a sales tax out of it, and I certainly want to go on record as prophesying a sales tax if we do not reduce that rate.

H.M.JR: Look, Randolph, if you don't mind, you have said this thing, now, three times, and you will have me weeping in a minute, feeling sorry for you, so let White answer you. He is the chief proponent of this thing.

MR. WHITE: Well, I made the same calculations to see what the net burden would be on them, and I am disturbed on two brackets; but before I go into that I will speak in general with respect to the feeling that these are so high that there is a political disadvantage - in fact, that you jeopardize your program.

I think you possibly forget two things. One is that part of this is going to replace savings, not to be regarded as additional tax; and, secondly, I only repeat what I said this morning with respect to that, that I think the time has come for us to approach the problem in this, our second year of the war, and the fourth year of the war abroad, on something like a maximum, all-out basis. That you may have to increase beyond this, I do not know, but certainly we ought not to go any more gradually than we have. I think we ought to leave public opinion in this, as in other things, and I do not think we have--

MR. FRIEDMAN: That is a matter of political judgment.

MR. WHITE: But on certain of these brackets they do seem kind of high. Here is the man with two thousand dollars--

(Mr. Shoup entered the conference.)

H.M.JR: Harry, please, for heaven's sake - you say you have a compromise. Let's have the compromise.

MR. WHITE: The compromise has three advantages. One is that it further simplifies the tax. It simplifies the tax still more. It is a little easier on the two thousand and the twenty-five-hundred-dollar man, which, with the ten percent seems very high. Thirdly, it seems like we are doing a lot more in the way of savings.

H.M.JR: What is the compromise?

MR. WHITE: And the compromise is to make it a fifteen percent tax instead of a ten, and make it exemptions instead of exclusions.

In other words, a man with two thousand dollars, for example, pays a fifteen-percent tax, but he pays it only on the part above exemptions, just as he pays his income tax. He has a fifteen-hundred-dollar exemption, so he pays fifteen percent on five hundred, instead of Randolph's proposal of five percent on two thousand, or my earlier proposal of ten percent on two thousand.

That simplifies the tax because everybody is accustomed to exemptions, and it would mean also that it would be a little lighter on that group, and I think the yield would be almost the same - not quite, but it would be higher than the five percent, and slightly lower than the ten-percent flat rate. It might also avoid some of the objections you have on the lower-income brackets.

MR. PAUL: Doesn't that take in less total purchasing power?

MR. WHITE: Not less than the five, but less than the ten.

MR. BLOUGH: Yes, less than both of them.

MR. PAUL: Yes, because you are using the exemption method and you are losing a lot of that lower-bracket purchasing power.

MR. WHITE: But you have--

MR. GASTON: Which is the surtax exemptions, the high exemptions or the low exemptions?

MR. WHITE: The low exemptions.

MR. BLOUGH: The fact is, Harry, that with a twelve or thirteen-hundred-dollar income the fifteen-percent rate gives you a relatively low tax on such a person, while the two thousand or twenty-five-hundred-dollar income gives a very high tax on such a person, assuming he is a married man and has no dependents.

MR. WHITE: As I have it here, a man of two thousand dollars, with two dependents, will pay fifty dollars a year on his spendings tax instead of a hundred and sixty-five, which was the rate that would follow my ten percent suggestion.

You would get a little less, but you are already saying you are getting so much that you do not have to worry about the fact that you are getting a little less.

MR. BLOUGH: I do not call it a compromise. It is quite a different animal. It is not the same animal.

MR. WHITE: It is a compromise in the sense that it is less hard on the two thousand and twenty-five-hundred-dollar man, which is one of the things that disturbed Randolph. It is no less hard on the ten-thousand-dollar man. It will yield a little less, but it is easier to present; it is easier to understand, it seems to me. We have always imposed taxes on the basis of exemptions and not exclusions. I think it would be easier to explain.

H.M.JR: I wish somebody would talk. You people get me so tired and so confused I do not know whether I am coming or going. It is a pretty poor way to attack a problem like this.

MR. GASTON: Iwould go for a compromise between the two positions. I would go for an exemption and not an exclusion basis, those exemptions being the five hundred, a thousand, and two hundred and fifty exemptions now proposed for the income tax, treated as exemptions throughout the schedule; and have a single graduated spendings tax, although you do not use the word "surtax". You might provide for a different method of collecting the first brackets, and I would be willing to make the first bracket ten percent and go up from there.

H.M.JR: And do what, Herbert?

MR. GASTON: Make the first bracket ten percent and to up from there, but use an exemption which will apply throughout the schedule - five hundred for a single man, a thousand for a married man with no dependents, and two hundred and fifty for each additional dependent. Then start from that base and allow exemptions to everybody above that base, and start at the tax rate of ten percent. Then I would not call this thing a normal tax and a surtax, because I think that is something for them to throw back at us and make it seem complicated.

H.M.JR: Of course the trouble is we are talking in terms of from five and a half to seven billion dollars.

MR. PAUL: The five percent gives that.

H.M.JR: If we go up to seven and a half, we are jumping to enormous figures. I cannot work like that.

MR. WHITE: That is a misleading figure. You are saying five and a half. You do not know - it is going to reduce the voluntary savings and you are not going to get five and a half more on that.

MR. GASTON: If you make it exemptions instead of exclusions, your ten-percent rate will not be so drastic, will it?

MR. PAUL: Yes, but we will miss a lot of purchasing power if we do that. We are playing right into Taft's hands.

MR. GASTON: No, you do not miss purchasing power. You tax--

MR. PAUL: Below the exemptions.

MR. GASTON: Do you want to tax purchasing power where a man makes only five hundred dollars a year, or makes--

MR. PAUL: No, but below - yes, if a man is above that, I do.

MR. GASTON: This would tax all expenditure above a thousand dollars for the married man without dependents. This would tax all expenditures above that at steeply graduated rates.

MR. PAUL: Leaving twenty-four billion of purchasing power which Taft is going to throw right into our faces.

MR. GASTON: Are you going to concede to his idea that you want to tax the spending of people that only have a thousand dollars for two people and twelve hundred for two people?

MR. PAUL: They do not have a tax unless they get above that.

MR. GASTON: You tax all spending above that amount, under the exemption method.

MR. PAUL: Not if they are not above it.

MR. GASTON: I asked you, why do you want to tax below those figures?

MR. WHITE: Do you know what percentage of the family income people get who make fifteen hundred dollars or less? I presume you do, but the figure bears repetition. They get thirteen percent of the income.

H.M.JR: Where do you get these figures from, Harry?

MR. WHITE: We just made them up. They are available to everybody.

H.M.JR: Where do you get them?

MR. WHITE: Do you mean there is some doubt as to their accuracy?

H.M.JR: My time is so short I want to know your source.

MR. WHITE: Do they seem wrong to you?

MR. FRIEDMAN: They are OPA figures.

MR. WHITE: I am talking about the percent of families--

H.M.JR: There is a big difference between OPA and the Treasury, a difference of twenty or twenty-five billion.

MR. PAUL: Four billion in the corporate difference.

MR. WHITE: If it isn't thirteen percent, what is it, eighteen? It still remains a trifling sum, and when Herbert says those are people we do not want to tax, I think it is erroneous to say the maximum of the purchasing power lies there. They only have a sixth of the income, at the most.

MR. GASTON: Nobody has proposed we should tax those people lying below the five hundred, and the twelve hundred for married. It would tax very heavily a married man who spends a nickel over a thousand dollars a year.

MR. BLOUGH: It would not do that - that is the point. Here is a man with twelve hundred dollars, a married man with twelve hundred dollars, and the ten-percent rate taxes him twenty dollars. Now, this is not very heavy.

MR. GASTON: It should not be heavy, should it?

MR. BLOUGH: If you are trying to dig into the great mass of your inbome, the rates will have to be higher than that.

MR. PAUL: Then you do not get all the income.

MR. BLOUGH: I would rather do it that way, too, but if the idea is to dig the purchasing power out where the mass of it is, I do not see how you can do it.

MR. WHITE: I do not know what you mean by digging out from where the mass is. You are taking people under fifteen hundred. We say the mass is not there. Now, let's take the families with two children above fifteen hundred - between fifteen hundred and three thousand. Are you shaking your head?

MR. FRIEDMAN: Yes. Let me read a figure off, here. Under the exemptions in the House Ways and Means bill, and taking just the people who are taxable, and not the people who are new people that would be brought in, but taking just the taxable people, twenty-two billion dollars of a total net income of sixty billion dollars is in the hands of returns under two thousand net income; and that is just for the people who are taxable.

MR. WHITE: It seems to me a more meaningful estimate, and assuming this is right - I will check up, it cannot be far from wrong - that a man and wife and two dependents - the total income of all families is ninety-four billion. That leaves out individuals. Thirty-eight percent of the families in the United States aggregate an income of thirteen percent of the incomes of families. Now I take it that we had agreed that that percentage is negligible, and we ought to forget it. We do not want to tax them.

MR. FRIEDMAN: That is based on figures using an entirely different concept of the unit we will be taxing, and what comes under there is under fifteen hundred dollars, and is not the same thing as what comes under fifteen hundred dollars under this tax, because that is based--

MR. WHITE: You are complicating this thing unnecessarily. We would like to know what percentage of the families--

MR. PAUL: I do not feel that I am too competent to decide this, but most of the people that I have talked with about this have agreed on the five percent; and as far as I know, Harry, you are the only one - I do not know what Mr. Stewart feels, but you are the only one that felt we should go to ten percent. In fact, Viner, whom I respect highly, thought we should have five.

MR. WHITE: Let me give my major reason for the ten. See if you think there is any validity in it.

If you have the five-percent rate then what has happened as an end result is that the Treasury Department has submitted a tax proposal which has replaced on the lower-income brackets voluntary saving with a tax proposal that the aggregate--

MR. PAUL: I do not agree and neither did Viner agree. He argued very strenuously yesterday afternoon. There are twenty billion dollars of savings left to be tapped by voluntary savings. I cannot believe they cannot get at that. I think when you get beyond rushing a six-billion dollar bill to twelve billion dollars - you are coming in in August, or now, September, and more than doubling your bill - it just seems to me the kind of step that will make everybody say there is nothing but a lot of professors down in the Treasury Department. We will lose everything we are after. Whereas, if we go in with a practical bill, we will get something and have something on the statute books at a time when we need to control inflation.

(Mr. Sullivan entered the conference.)

MR. WHITE: Can I answer that about the twenty billion and the voluntary savings, because that is the key basis for my recommendation of a higher rate. If that does not stand, then the higher rate has very little validity. If you take a family of--

(Mr. Bernstein entered the conference.)

H.M.JR: Harry, I cannot constantly be turning somersaults. I cannot one minute be sold on this thing that we should have exclusions, and the next minute have exemptions. Now, just to make a compromise, I cannot do that now, either. This thing has been thought through over a period of ten days on the theory - and then we went all around here - that we should have exclusions. Now, either that is right - and just to make your figures come out right to jump from one place to another - I am not a flea, I cannot do it. You are talking--

MR. WHITE: We are trying to get as good a tax bill as we can.

H.M.JR: You are talking about three billion dollars. I just cannot follow you. I cannot jump from one spot to another.

MR. WHITE: The reason why I do not think a five percent--

H.M.JR: I mean, suddenly you call things by a different name, as though that is going to fool anybody.

MR. WHITE: Let's forget the exemptions and exclusions for a moment, because I think the critical point of difference of opinion lies in whether it shall be five percent or ten percent.

H.M.JR: No, the critical difference is whether it should be five and a half billion or eight and a half billion dollars.

MR. WHITE: If you think that you, by the imposition of these taxes, are going to get five and a half billion more on the five-percent rate, that is the very thing I am questioning.

H.M.JR: You will have to question these men.

MR. WHITE: It is not a question of estimates. It is a question of the judgment of what a jump in a man's taxes who has twenty-five hundred dollars, who this year has paid sixty-two dollars - that is all he has paid - and you are going to ask him to pay something like four hundred dollars. Now if that man is going to continue to buy bonds on a voluntary basis, I will eat my hat.

MR. PAUL: That is what you are asking him to do on the ten.

MR. WHITE: No, on the ten it happens to be five hundred dollars.

H.M.JR: I do not think the voluntary thing comes in on this point at all. I do not think that--

MR. WHITE: Then the higher rate does not play--

H.M.JR: The thing that Paul calls up about and the thing that Friedman said this morning made a definite impression. He said to me this morning - he said just the same thing that Paul did, that if you get this thing up so high it is a swell way to kill it. If you get this thing up so high, the thing is just going to fall through its unreasonableness.

MR. PAUL: That is my whole point.

H.M.JR: I have gone through this thing. I have gone through it with poor old Oliphant; I went through it with Haas on this undistributed profits tax, and everything else, and you (Shoup) were in on it at that time, too, but you did not have to go up.

Harry, you listen to me, please. It is one thing to propose, and it is another thing to go up there and face the Committee. Now it is Paul's responsibility - what do they call it in England, to present the case - the lawyer or the attorney?

MR. SULLIVAN: The barrister.

H.M.JR: And it is another thing to be the solicitor to present the case. Now, he has got to present it.

MR. WHITE: That is right. I am barrister, not for Randolph Paul, but for the United States people, and that is my point. This is a better tax bill, and that is the only merit upon which it needs to be considered. Now, if he says - his judgment is certainly worth no less than mine, and probably is worth more - if he says that an increase in taxes will kill it, make us look ridiculous, that is his judgment. You will have to weight it. That is not my judgment.

H.M.JR: With all due respect to you, I will take what you say on the question of the Canadian and English balances.

MR. WHITE: You will take much more than that because if my view is worth nothing on anything else, I do not know why I am spending my time. I do not say my judgment is as good. I hold it is not, but you cannot deduce from that that I do not know what I am talking about.

H.M.JR: You did not let me finish my sentence. Do you mind if I finish my sentence, or aren't you interested? What I was trying to say is that Paul is up there and feeling the teeth of the Committee. Now, I would also listen to Paul on some other subject, but on this thing he has to face the Committee and you do not, and on this thing you are theoretical when it comes to facing the Finance Committee. Now, that is my opinion.

MR. WHITE: I think his judgment is worth more on those things, but that does not make me alter my judgment. I am saying that you should weight his more on such matters, but that is a very different thing from saying that he is right on the matter. He may be right.

MR. PAUL: I am far from being dogmatic about it. I am giving you my best opinion.

MR.WHITE: That is all any of us are doing.

MR. PAUL: I think that when you leap from six to fifteen billion in August, with the consequent additions to '41 tax liability involved, you are coming before the country and putting yourself in a light that will make the whole thing fall to the bottom, flatter than a pancake. That is my judgment about it. I, personally, would like to pay the taxes that you advocate.

MR. WHITE: Well, I can only go back to the basic principle - not principle, but the basic thesis that disturbed me about the five-percent tax, Mr. Secretary. It is that a five-percent tax is so going to reduce your voluntary savings program that I think the Treasury will be legitimately subject to the criticism that it has replaced a voluntary mopping up of purchasing power with a tax method, and the aggregate has not been increased very significantly. I do not think that meets the criticism that the Treasury ought to mop up more through bonds, and I do not think that if you ignore that, or neglect that part in the argument, you are getting a proper valuation.

H.M.JR: All right. It gets down to this: what Paul says in so many words to me over the telephone is, "If I go up with a ten percent and exclusions, I get nowhere." Now, he is up there day and night with this Committee. All right, he says that, and you say we go five percent and we kill the voluntary plan, and we get nowhere. Then it leaves me between two alternatives. I stick to the voluntary plan and don't do either, or I do the five percent. Now, if he says I cannot do the ten percent, that that is too much, and you say the five percent will kill it, then it is for me to decide. Well, I had better go along with my seven or eight hundred million dollars a month and stick by it. Viner says there is nothing to worry about from inflation the rest of this calendar year.

MR. WHITE: This is not going to be this calendar year; this is next year.

H.M.JR: All right.

MR. WHITE: I think you can get both, and I do not quite get the same reaction, public reaction, Randolph does. In fact I can cite three individuals in town whose judgment I would regard as good as mine in these matters, which does not make any of us know what the situation is. It is just a question of opinion - estimated public opinion.

H.M.JR: Who are they?

MR. WHITE: Well, I would rather not tell you at the moment, but it does not matter. I think you would agree, and their feeling has been that the Treasury has been backing away from its responsibility in the way of savings.

H.M.JR: All right, that is that. You mean Colm and that whole - Mr. Tom Corcoran and that whole crowd of spenders have thought that way ever since I have been here, and Hansen, and all the rest of them - Ruml, and every one of the rest of them. No matter what I do I never can satisfy that group because they will not be satisfied until I am out of the Treasury; then they will be satisfied. But until I am out of the Treasury they will never be satisfied, no matter what I do. They bring Keynes over here to help get me out of the Treasury. So no matter what I do as far as that particular handful of people is concerned - I could stay here until Mr. Roosevelt's term is over - whatever I do will never satisfy them, Mr. Harold Smith and the rest of them. So I cannot be influenced by what they think.

MR. WHITE: No, there is no reason why you should base your view on what they say. I think I have presented the view as I see it.

H.M.JR: Well, Harry, for your honest expression of what you got - your thoughts and your time, O.K.

Now, it gets down to a question of - Randolph, you and I can sit here, and the general staff, and make the plans, but somebody else has got to go out and carry them out, and you know what that means. Now, you and I - I would like to have ten percent. I think it is good, and I got unnecessarily annoyed with Randolph when he called me up on the phone because he took me by surprise, but he has got--

MR. WHITE: He has the responsibility. That is right.

H.M.JR: He is in charge of the field forces. Now it is up to him. He has heard all the arguments. And I agreed with you (White); I agree with Walter Stewart. Now, Paul will tell you when I got up - and fortunately he has got good control of himself, and so he let me sound off and came down here, and so forth and so on. I still would like to do it that way, but it is one thing for General Marshall to sit here and make plans, and it is another thing for General Eisenhower, in England, to carry them out. He can send word back, "I cannot take the risks that General Marshall orders." "Well, this is the plan of the War College."

Now, I think that Paul has got to decide. I agreed with you (White) and with Stewart this morning, and I still agree that I think that this is going to hurt the pay-roll deduction plan, and it is going to hurt the whole thing. It is going to hurt us very, very much, and that is good for four billion dollars.

Now we come along with something else, and I am willing, perfectly willing, to put my name on the plan. Now, it is up to Paul. He has got to charge the Hill, tomorrow. He has got - both Blough and Friedman are with him, aren't they?

MR. FRIEDMAN: Yes.

MR. BLOUGH: My judgment, Mr. Secretary, is that if you are interested in making a record that will look nice and won't get anywhere, you can ask for the ten percent. If you are interested in getting something through, you will ask for the five percent.

MR. WHITE: That is a little peculiar way of stating it, but--

H.M.JR: Well--

MR. WHITE: I mean, the choice is not between making a record and not getting it. The choice is between asking for what you think is right and fighting for it. If you get it, fine. If you do not get it, you have fought for what you think is right, which is the duty of any administrative department.

MR. GASTON: I think it is more than that, Harry. You have got to look at the practical situation of what you plan to get - something that is going to be beneficial in the economic and fiscal situation. Just because you think a plan is theoretically right, that does not justify you in going up and advocating it if you are quite certain that you won't get it. You have got to look to results.

MR. PAUL: I am not against going--

H.M.JR: Can I just interrupt? Bernstein, you do not have to answer if you do not want to, but what is your own independent thinking on this thing? You do not have to answer unless you want to.

MR. BERNSTEIN: I think we ought to try to get as much money as possible and that a larger tax would get more money, and that it is entirely desirable at this stage.

H.M.JR: But that does not help me out any. I would agree with you - I would say amen, but we are arguing about five or ten percent with the exclusions. You do not have to answer.

MR. WHITE: If they agreed with me all the time they would not stay with me. They feel free to disagree with me.

MR. BERNSTEIN: I favor a ten-percent tax if we can get it, even as far as--

MR. GASTON: That begs the case.

MR. PAUL: I am for a ten percent tax if we can get it, but the question is what we can get;for the next six months, whether you are going to have something on the statute books with which to fight inflation for the next six months; then the question is whether you are going to prejudice the case against the sales tax by going for too much; then the question is, too, what kind of support you are going to get for your measure, and the support you are going to get is going to be determined by the burden of this tax. I just talked yesterday with the Labor people, and I had enough trouble about the reduction of the exemptions.

MR. BERNSTEIN: If you asked for ten percent and did not get it, would it kill it, or merely mean a reduction to five percent?

MR. PAUL: It starts the boys on the campaign of making the thing ridiculous.

H.M.JR: Well, Paul--

MR. WHITE: Could I check up on this thirteen percent? Where did it originate - this thirteen percent?

MR. BERNSTEIN: These figures were taken from - they were taken from the data we had turned over to us before on the distribution of income, and I believe they are the OPA estimates. It may be a slight arithmetical error. It may be fourteen instead of thirteen.

MR. STEWART: What do you think you can get? Is it the five percent refundable on the exclusion basis? Was it the Number 1 thing we talked about this morning?

MR. PAUL: I was not here this morning, but it is the five percent on the exclusion basis, not the exemption.

MR. STEWART: And refundable?

MR. PAUL: I am perfectly glad to try to get the refundable, only in a limited way. I am with you on that. I want to get as high a tax as I can, but--

MR. STEWART: But if this other is not obtainable have you made up your own mind what you thought you could get?

MR. PAUL: That is awfully hard to say - I do not know.

MR. BLOUGH: I do not know whether you can get anything from the Committee.

MR. PAUL: I know there is a strong sentiment up there for an increase in the individual rates, and I think we will get somewhere if we do not start at the moon.

H.M.JR: John?

MR. SULLIVAN: I would like to ask a question about a possible compromise. It may be too late in the proceedings to talk of that, but if everybody is convinced that the ten percent in this plan is desirable, though unobtainable, I am wondering, Randolph, whether you think you could get this ten percent on this basis, if you forewent the five percent withholding on the income tax, and if so, whether or not that would be desirable.

MR. PAUL: The five percent on the income tax is just a method of collection. We have got it through now. We have had an awful lot of grief about it. I think it is vitally important, and I do not think that the concession - putting that out of the picture by concession, would get us much further in respect to this tax.

MR. SULLIVAN: That is all I need to know. My instinct is to keep that because that is not a refundable tax.

H.M.JR: That is the withholding?

MR. SULLIVAN: Yes, sir.

H.M.JR: You are talking about the withholding?

MR. SULLIVAN: Yes, sir. I am, sir.

H.M.JR: Just to refresh my memory, where were you this morning, and where are you tonight - you, Carl Shoup?

MR. SHOUP: I was here this morning in the conference, and I will be here this evening. (Laughter)

H.M.JR: No, no.

MR. SHOUP: And I am--

H.M.JR: And you are here now - I am not. (Laughter) I did not mean physically, I meant mentally.

MR. SHOUP: Mentally, I am a five percenter, with a non-refundable feature which, however, was decided against.

H.M.JR: But you are a five percenter?

MR. SHOUP: I am a five percenter, and not only on the basis that you cannot get anything more through, but I am a five percenter on a more fundamental basis. I do not think that if, for example, you have a married man with two dependents, earning thirty dollars a week - I do not think that you ought to take three dollars a week away from him. I mean a married man with two children.

MR. GASTON: Me, too.

MR. SHOUP: Not unless you are going to go still harder than you are going to go on a lot of people around the three and four and five thousand dollar level. But anyway, I am a five percenter. Let it go at that.

H.M.JR: Well, all the tax economists here are five percenters - is that right? And where are you after having the afternoon off? (Laughter)

MR. BLOUGH: I beg your pardon?

H.M.JR: I told him to go home at two o'clock. After having the afternoon off, where are you on the refund, post-war credit?

MR. BLOUGH: Well, I feel this way about it, that to meet Mr. Gaston's general objections about the exclusions versus the exemptions, the refund is a pretty nice way to meet that. By refunding the tax in that--

H.M.JR: May I interrupt you? I did not make myself clear. I meant today we decided we would have a refund and then I told you fellows to work it out.

MR. BLOUGH: That is what we think should be the limit; one hundred dollars for a single person - this is at the ten percent rate, if it were the five-percent rate it would be lower - one hundred dollars for the single individual, up to two hundred for a married couple, and fifty dollars for each dependent.

H.M.JR: Say that again.

MR. BLOUGH: The amount of this tax not to exceed one hundred for single persons, two hundred for a married couple, with an added fifty dollars for each dependent, high or low income.

H.M.JR: Now, I have got an idea, and don't all jump on me - take it easy, now. (Laughter)

MR. GASTON: You are getting everybody prepared, now.

H.M.JR: Why can't we give on this thing a different kind of a credit? I mean, you give this credit for everything, including debt, and so forth, and so on.

MR. BLOUGH: We allowed debt as a deduction to begin with.

H.M.JR: Now, why can't you have a separate credit or an added credit for anybody who will buy non-interest bearing Treasury securities?

MR. BLOUGH: You do not mean a deduction, you mean an actual credit?

H.M.JR: Yes.

MR. BLOUGH: Up to how much?

H.M.JR: Well, it is just an idea. I mean--

MR. BLOUGH: It is the same thing - it is precisely the same thing. You just say to them, "Well, either you buy it or we take it away from you."

H.M.JR: How do you mean?

MR. BLOUGH: It comes down to this, that the fellow has his choice of buying these non-interest bearing bonds or have it taken by the Government in taxes. Now, obviously, everybody will buy under those circumstances if you give him full credit against his tax, so that is just the equivalent of increasing the refundable amount.

MR. GASTON: Difference in bookkeeping - that is all.

MR. PAUL: The refundable feature is like giving him a credit.

H.M.JR: You mean, if you do not give them a credit you are taking the taxes?

MR. BLOUGH: Yes.

H.M.JR: Harold, you have had enough time to think about this. If we did it on this five-percent exclusion basis, the way we had it this morning before I listened to the "White wing"-- (Laughter) How is that?

MRS. KLOTZ: Good.

MR. WHITE: The "White wing" is left - in the soup. (Laughter)

H.M.JR: Before I listened to the "White wing" - not the bluebird over the white cliffs of clover-- (Laughter)

Harold, going back to where we were this morning, you see, do you feel that that would completely kill your pay-roll deduction plan?

MR. GRAVES: No, there are some things about this - I don't know. I mean, there are so many techniques of the thing - I don't know.

H.M.JR: You and me, both.

MR. GRAVES: If this is to be collected by return as income taxes are, I think the adverse effect on the pay-roll savings plan would be verymuch lessened.

MR. BLOUGH: It is to be collected at source, this refundable tax.

MR. GRAVES: If it is to be collected at source, I think, as I said this morning, it will kill the pay-roll allotment plan.

H.M.JR: What about Graves' question?

MR. BLOUGH: Well, our plan was to collect the refundable tax at source where that was possible because it is a heavy tax, and from a great many people in the lower brackets it would be very much easier to get it at source than any other way.

H.M.JR: We can't do it on the income tax method?

MR. BLOUGH: I am not saying we can't do it, but I am saying that it is very inconsistent to go up and ask for collection at source on income tax, which will collect less money than this at source this next year, and then say we can handle this without collection at source.

H.M.JR: What other questions, Harold?

MR. GRAVES: I have no other question, but the suggestion made by John, here, to eliminate this five percent withholding of income tax, with a ten percent spendings tax to be collected by return, and not at the source, I think would have very much less effect on the pay-roll allotment, because pay rolls would not be used, then, for the collection of this.

MR. PAUL: All you are doing is raising it to ten percent and giving for it a credit. Collection at the source is a credit on tax liability.

MR. GRAVES: Yes, but the wage earner, himself, looks at it as a withholding from his current pay. He is not too apt to know exactly what that is.

MR. BLOUGH: I would suggest that at the level we are talking about that every three months would clean this fellow out of every bond he has bought, because he just cannot find a hundred and fifty dollars lying around the house. That is real money when you get into this sort of thing, and it depends on how big his income is.

MR. SULLIVAN: I think Harold is talking about the impression on the worker, himself.

H.M.JR: I know what he is talking about.

MR. BLOUGH: What I am saying is when the worker goes to pay his tax on March 15, June 15, and so on, he is going to look around for something to pay it with, and he is going to see those bonds, and that is what he is going to use to pay it with, because he will not have anything else to pay it with.

MR. FRIEDMAN: Mr. Betz of the A.T. and T. was asked the question before the Senate Finance Subcommittee as to what would affect the pay-roll bond system more, five percent collected at source, or five percent taken in the form of a return, paid like the income tax; and he answered that the five percent paid in the return form would affect it more than the five percent collected at source.

The reason he gave was that if the man had it taken out week by week from his pay, he would adjust his whole standard of living to that, and he would be able to meet pay-roll bond deductions as well. Whereas, if you made him pay it just once a quarter, he might buy the bonds in the three months, but then he would cash them all in to pay the tax. He said that that way every three months you come on him with a big dose and he gets a shock he had not adjusted himself to, and so he cashes in his bonds; and then the same thing happens three months later. So he was of the opinion that the collection-at-source system would affect the pay-roll bond deductions in its real ultimate effect, taking account of redemptions, would affect that less than the return system of paying the tax. He was basing his statement on the experience of the A.T. and T. system which has had, of course, a very extensive bond-deduction system.

H.M.JR: It is very upsetting to go in the field and get first-hand information. (Laughter)

MR. FRIEDMAN: It certainly is.

MR. SULLIVAN: Four thousand workers in the Canadian shipyards walked out this morning when they found out part of the tax would be withheld from their pay.

MR. GRAVES: Well, I think that there is something in what these gentlemen have said, although I do not agree with what they have said - at least, not wholly.

Where this fifty dollar a week man would be paying two hundred and seventy-two dollars a year under whatever method is applied, and in quarterly instalments that would be sixty dollars--

MR. BLOUGH: He would be paying four hundred and forty-five next year.

MR. GRAVES: I am talking about the amount withheld from pay rolls.

MR. BLOUGH: From his total liabilities--

MR. GRAVES: I am talking about the total amount withheld. I think that while we will be collecting that two hundred and seventy-two dollars, out of which part would be refunded, that we would be apt to lose the whole of his pay-roll allotment, which is apt to be fifteen to twenty dollars a month.

MR. PAUL: Somewhere there is twenty some odd billion dollars' worth of savings floating around. I do not know where it is. That is the figure Milton Friedman has given to me.

H.M.JR: Walter Stewart, you have listened this afternoon and you listened this morning; I wonder if you have changed your mind any?

MR. STEWART: The issue is not any clearer in my mind. It is presented differently, but once confronted with an actual situation before a committee - well, I have no possible basis for judgment about what you can get through a committee in the House. In reshaping the issue, if it is a five percent, based on exclusions, refundable, I think it legitimately raises the question as to whether you ought to do it at all or not. In terms of the voluntary program, at ten percent it does not raise the question in my mind. The ten percent is clear that you go ahead and do it. I think at the five-percent level there is a reasonable area of doubt - I have not got an answer to it. I do not know, because I do not know how much it can reasonably be expected to affect the pay-roll deduction plan.

H.M.JR: Well, this is the way I feel, to sum up - I may be wrong. I think this: We are talking here - I am torn between two things, because we are talking here in the room, extra confidentially, and one of the reasons I was not in a very good frame of mind when Paul called me is I had lunch with Claude Wickard - and this is very much in the room - and he took it out on me for one hour after having a five-hour session with the President - not all with the President, but with Rosenman, Nelson and Henderson. Then they saw the President, and the President has completely reversed himself and is not going to do anything now until the first of December.

So I am trying to be just as honest as I know how with you all, and maybe you will all get a fresh look at this thing. Well, if the President is scared, that is all the more reason I should be tough. Maybe that is a peculiar place to arrive, but it is all the more necessary that we in the Treasury exert ourselves to the limit on the inflation front, because what he has told Wickard and Nelson and Henderson is that, "You boys do the best you can from now until the first of December, and let me know tomorrow morning how much it will cost through subsidies." And it was Henderson who upset the apple-cart before the President. Just to break the tension a minute, also in the course of conversation Wickard said something to Nelson, "Well, the trouble with you people over there is you are just all influenced by a lot of dollar-a-year men. Nelson went up in the air and started throwing papers around the room and cursing and swearing - he completely lost his temper, a thing I did not know he could do. He was sick and tired of hearing about the dollar-a-year men, and Wickard had to apologize and say he did not mean what he said, and all the rest of the stuff. "Of course he could run the shop with dollar-a-year men," and so forth and so on. At least it gives you a little idea of the temper of Nelson.

Now let's say the President does not change - I am brash enough to see him, and he said he would see me - see if I could get him to change. The think I am trying to do is to get him to go out and do what they do not want to do, fly in the face of Congress and say, "I am going to do this thing." He is going to do the thing on Labor but not on Agriculture, and so forth and so on, so I gathered. I am going to try once more.

The last time I saw him he was all right from my standpoint. The other thing - talking very much in the room, Biddle has told him he cannot do it.

MR. PAUL: On both?

H.M.JR: On war powers.

MR. PAUL: On the farm prices?

H.M.JR: I think so. He is just buckled down - or buckled up. So you have got that background. I am trying to explain a little bit what I went through at luncheon and the shock of this thing, and I do not know which is worse, to go up tomorrow and go the whole way with the danger of being so extreme that the thing falls from its own weight, or doing the five percent with exclusions. I do not think there is any use fussing with ten percent and exemptions because I do not know - wouldn't you come out about the same?

MR. FRIEDMAN: Less.

H.M.JR: And you wouldn't hit the people that we are criticized for the most?

MR. FRIEDMAN: Yes.

MR. BLOUGH: You would protect the people at the bottom a little better.

MR. GASTON: You would hit the same tax base exactly.

H.M.JR: But I thought you wouldn't hit the people from one to two thousand. They get the exemptions.

MR. GASTON: It is just a question of rates; you reach the same result. This exclusion thing is just a little more complicated.

H.M.JR: No, am I right or am I wrong. I mean if you give the man - you only tax the fifteen hundred dollar man-from twelve hundred to fifteen hundred, you only tax him on three hundred. I s that right?

MR. GASTON: It is just a question of rates.

MR. BLOUGH: Are you willing to put the sixty percent rate on that three hundred dollars?

MR. GASTON: No, no, I do not think it should be.

MR. PAUL: There is--

H.M.JR: Could I just go through the thing a minute? I am trying to think out loud. Now, also I know about Harold Graves and my pay-roll deduction thing, which I think is growing, and I am between - what shall I say? I do not want to criticise the timidity on the part of the President, the unfortunate thing of picking December 1, which is a little less than a month after election, which is so obvious, so I mean, the news, I am afraid - Sam Rosenman said to me, "What I have worked for for four weeks hasjust been kicked out the window this morning. It is practically - not quite, but almost hopeless." So there you are.

Now, let's start with Paul. Hearing that, would you change your position any, on the inflation front?

MR. PAUL: No, because I think the inflation front is such a broad front that unless the President acts, it cannot be done anyway. The increase would not do the trick, and the same arguments, otherwise, apply.

H.M.JR: Would anybody, after hearing that sad story, would anybody want to change?

MR. KUHN: I was not sure what Randolph meant - you meant that you have not changed in saying it ought to be five percent?

MR. PAUL: I will not change from five to ten to make up for what the President will not do, because I do not think it would make up for that. That is too big a problem; you cannot do it by taxation.

MR. BLOUGH: If the Senate knew that sad story it would be another matter.

H.M.JR: You cannot breathe it outside.

MR. BLOUGH: Of course not.

H.M.JR: There is a chance the President may change.

MR. BLOUGH: Of course not. The point I am making is this: The only reason we have stuck hard for the five was because it seemed to be the most useful thing to go up with, and with the possibility of getting it, and it still does, despite that situation.

MR. FRIEDMAN: It seems to me it is all the more necessary to go up with something that you have a chance of getting, now, because this is going to be all we are going to have, and if we do not have anything--

H.M.JR: I am just groping - it would not be any good to make the withholding tax ten percent with a sliding scale, the same sliding scale that you have got the five percent tax on spendings?

MR. PAUL: I do not see how we can make the withholding anything but a flat rate.

H.M.JR: You could not make that progressive?

MR. BLOUGH: The withholding progressive? What would be the purpose of that, Mr. Secretary?

H.M.JR: The same thing that the other--

MR. PAUL: You could not do it, anyway.

H.M.JR: You would have the same theory as making your tax on expenditures progressive. That is exactly the same theory that you make that.

MR. BLOUGH: We only propose to collect at source a flat rate on expenditures - a flat rate on income. These higher rates on expenditures would be returned just as the higher rates on income are returned on income tax and spendings.

H.M.JR: You mean it is a credit against their income tax?

MR. BLOUGH: The withholding is a credit against their income tax.

H.M.JR: I am just groping. So there is no way - if you give more post-war credit; that just means less revenue for the Treasury.

MR. BLOUGH: I do not know that there is any way of writing this so that you say ten percent, but mean less.

H.M.JR: I do not believe in this--

MR. SHOUP: Might not there be some way to graduate it by means of tax tables on this graduation?

MR. FRIEDMAN: You have graduated all right for the tax table group, but there is another group that would not use the tax tables. Moreover, the essential thing is that that is on income and we want to have something on spendings.

MR. SHOUP: I was thinking of spendings as a preliminary tax, that is all.

MR. BLOUGH: Are you thinking in terms of rate or in terms of amount of money? If you are thinking in terms of rate, of course Herbert is right, that the ten percent withholding rate - the tax on spendings - the ten percent above exemptions - looks like ten percent. Of course it is less than five percent, nevertheless, it looks like ten percent. I think it raises less money from most people and will have the same effect on the bond sales, so I cannot see how it would help your bond sale people.

MR. GASTON: In the interest of honesty and simplicity, I am just talking--

H.M.JR: This thing on the part of the President has just made me sick. I mean, to me - because I think, if he sticks to it, whatever is left of me tomorrow morning, I am going to throw in my two bits. It just makes me sick, because I think it is a major decision on his part and a major sign of weakness.

MR. WHITE: Not to do anything, or merely leave agricultural prices--

H.M.JR: What he says - what he is saying to Henderson and to Wickard and to Nelson - "It is up to you fellows to see what you can do between now and the first of December to hold prices through the subsidy method. If you cannot do it, then I will ask Congress on the first of December to give me some legislation. But you have got to hold the fort from now until the first of December."

MR. WHITE: Then he is not coming out either with wages or farm prices.

H.M.JR: Then there was something on the wage thing. Wickard said that of course, this was going to leave the whole burden on Labor. Now, he did not explain it, but that is what he said. I mean, the impression I got, Harry, was that Labor was going to be the goat; that is the impression I got. But he was so excited - Wickard was, and he was so much interested, that I could not get it; but he left me with the impression that Labor was to be the goat.

MR. WHITE: I wonder if that creates another situation.

MR. GASTON: I am wondering if he would not be in a mood now to accept our compromise suggestion to Sam for a Board, instead of this one man authority, and make that Board go to work, and he would not need to announce it publicly, but tell them, "Get to work and get something for me, and if you get something that I approve, then I will approve it."

H.M.JR: Well, it seems to me - it is a terrific fight, largely between Nelson and Henderson on the one hand, and Wickard on the other, as to who is to have the war powers authority to administer prices. That is what the thing seems to be.

MR. WHITE: I wonder if there is not an entirely new situation created by this situation which might help to solve the problem. If the President's decision is not to come out with anything, and I agree with you wholly that if he is not going to come out with farm prices, he ought not to come out with anything. It would be desirable if he did not come out with anything, from my point of view, and if you can get a little more - there is no longer urgency in terms of hours, or even days with this thing, and if you can get a postponement - because I think, if there is another two or three days on this thing, this can be ironed out to everybody's satisfaction.

H.M.JR: I do not know. Nobody can answer that but Paul.

MR. PAUL: Well--

MR. GASTON: Not many days, or it would look foolish.

H.M.JR: I think we look foolish, now.

MR. PAUL: I think we are all right.

H.M.JR: Will you be all right after tomorrow morning?

MR. PAUL: I think we are at the limit. I talked to George at two o'clock. I very properly filled in today and no questions were asked, particularly, about this other thing, but I think we cannot go beyond tomorrow.

H.M.JR: Again, I am just groping. On the theory that Harold is right, that the five percent and exclusions will kill our pay-roll deduction plan, O.K. let's say, for the moment, he is right; well, then, why not add to this thing a ten percent compulsory savings plan?

MR. WHITE: That is exactly what this thing, if a ten percent - you see, they have distorted it by calling it a tax, Mr. Secretary, but if the way we had it originally--

H.M.JR: Do you mind - because you are a little excited, just one second--

MR. WHITE: You hit the nail on the head.

H.M.JR: Just be calm like I am. Just one minute. Now, do you mind if I ask--

MR. WHITE: No, no, not at all.

H.M.JR: What about adding a straight ten percent compulsory savings thing for this thing, in addition?

MR. BLOUGH: In addition to the five percent?

H.M.JR: Yes. You have got five percent withholding, five percent tax on expenditures, and a ten percent compulsory savings.

MR. BLOUGH: Well, if the ten percent compulsory savings tax on expenditures is too high, five percent spendings tax plus an additional ten percent is still higher.

H.M.JR: Well, now, put the thing - let's have a percent, X percent, compulsory savings on your gross income.

MR. BLOUGH: That is what we have here, except it is on spendings instead of income. We have a five percent compulsory savings plan on expenditures, but we chop it off very low down.

H.M.JR: No you do not. I mean, when Harold and I go out and say to the man, "Ten percent", we give him a two point nine bond.

MR. BLOUGH: You are talking about interest,now.

H.M.JR: Well, non-interest bearing, but all you are going to give him is two hundred dollars. What I am trying to do is - on the theory that Harold is right, that we are going to lose four billion dollars of voluntary savings, can't you fellows with the brains in this room, give me a compulsory savings plan which will produce four billion dollars of savings for which we will give them a non-interest bearing certificate, payable after the war?

MR. BLOUGH: Yes, if you do not have a top limit on it, and use Harry White's ten percent rate, you will get it, and more.

H.M.JR: I do not understand that. I do not understand if you use Harry White's - if I say to you, whatever plan I go on, "You have got to give me at least as much as Harold Graves is producing now, from the pay-roll deduction plan, in compulsory savings," now, I want it to be at least--

MR. BLOUGH: How much shall we figure on?

H.M.JR: Four billion dollars.

MR. BLOUGH: He is getting four billion, now.

H.M.JR: I want four billion dollars of savings, to equal his. Then I am not going to be whipped so.

MR. WHITE: It is exactly that, that the ten percent does if you give them more generous returns, or follow your line and give them all returns. And, remember, I said it was unfair for them to call this a tax, but I had in mind what it really is, is compulsory saving, and that is what they called it to begin with, but they dropped the term over the week-end. (Laughter) You kept those fellows away from me over the week-end. You will not hear the end of it.

MR. PAUL: No, you dropped the term Monday after we talked with you.

MR. BLOUGH: Seven or eight percent, if we took this top limit of a hundred, and two hundred and fifty dollars off, and took this spendings tax that we are talking about today, and refunded all of it, it appears from the rough figures we are working on here that a seven or eight percent figure would do it.

H.M.JR: Seven or eight percent of what?

MR. BLOUGH: Of spendings.

H.M.JR: And how much would you give them back?

MR. LOUGH: The whole thing - four billion dollars.

MR. WHITE: Does that mean you give the normal rate back?

MR. BLOUGH: Give the normal rate back for everybody.

MR. WHITE: And if you made it ten percent you would be giving them the normal rate back, and you would have what is equivalent to a compulsory saving in which you would replace the decline on the thing, and then I think you would be sitting pretty, and it is perfect.

MR. BLOUGH: Five or six billion.

H.M.JR: I will tell you what you do. Why don't we do it this way? I think - why don't we try to do this? What I do not want to do is to give up the four billion dollars on the pay roll, see, and take a "pig in a poke". Now, why don't you take this new assignment and try to work out something whereby you can give me my four billion savings, but give it to me compulsory. Now, the advantage to this over the war bonds would be that it would be non-interest bearing, the disadvantage would be that it is force and not voluntary, but at least we are going to move. It would be stupid on my part to give up a "bird in the hand" for "two in the bush". Now can't you fellows - are you all too tired to work on this thing?

MR. BLOUGH: We have got it, now, haven't we, Mr. Secretary?

H.M.JR: If you have, I cannot - have you got it?

MR. BLOUGH: Here we say that if you take this spendings normal tax rate which Mr. Paul says ought to be five percent and Mr. White says ought to be ten percent, and make it seven or eight percent, you have got your four billion dollars. Take the limit off.

H.M.JR: And give it all back.

MR. BLOUGH: Give it back.

H.M.JR: It sounds too easy, and I am at a point, now, if that is the answer, I would like to have the fellows who have got any energy left to argue about this a little bit, and then, before I go to bed tonight, tell me. I am coming back here at eight-thirty.

MR. GASTON: I think you are assuming much too quickly that this five percent plan, plus the with-holding tax, is going to kill the voluntary savings. I think you overlook the fact that you have got a very strong incentive tax to drive people into voluntary investments.

MR. PAUL: That is very true.

H.M.JR: On that I cannot afford - I cannot afford to wake up next April and find out I haven't got my four billion. I have lost my voluntary and I haven't got the other. When I change horses, I ought to change to two horses, and not change to a pony. (Laughter) That is a good one.

MR. WHITE: I think we are on the right horse.

H.M.JR: I mean I ought not to get a Shetland, but a Percheron.

MR. KUHN: Is that going to make it easier?

MR. WHITE: He (Paul) always was in favor of compulsory savings, unless he has turned a back-flop over the week-end.

H.M.JR: Now look, gentlemen, I have reached the limit of my brain power. If anybody - why don't you go out and get some supper, and somebody stay here and be here about nine-thirty to give me the answer. Somebody be here.

MR. PAUL: I am like the Secretary, I would like to get away from this for about an hour or so, now.

H.M.JR: Well, go home.

MR. PAUL: I am like you. Of course, I have been arguing with a full committee on that.

H.M.JR: Would you rather start the first thing tomorrow morning?

MR. PAUL: No.

H.M.JR: You set your own time schedule. Be available again at nine-thirty tonight. Can you go home and get some supper?

MR. PAUL: Sure, I only live about eight minutes'--

H.M.JR: Well, I will leave it to you to adjust the time when you want to meet. Why don't you go home now, the way I do, and come back at eight-thirty, and then meet me at nine-thirty?

MR. PAUL: All right. I would like to do a little talking with everybody before I go.

MR. WHITE: I like this. I think we are on the right track, now.

MR. BLOUGH: I certainly feel if we go to ten percent we will have to do something of what Herbert is talking about - allow something at the bottom to be deducted.

MR. GASTON: You are imperiling your whole spendings tax plan, which I think is a very good idea, by injecting this compulsory savings feature into it.

H.M.JR: Well, Herbert, I cannot take any more. I will talk to you again - anybody that wants to be here at nine-thirty.

MR. BLOUGH: Nobody is going to be absent unless there is full agreement.

H.M.JR: I will be here at nine-thirty. You can have what is left of me.

Statement of Randolph E. Paul,
General Counsel of the Treasury Department,
before the Senate Finance Committee
in Executive Session
on the Treasury plan for an individual
spendings tax

- - - -

The Treasury has stressed the great need for revenue throughout the consideration of this tax bill by the Congress. It has recommended higher tax rates than those appearing in the House bill for all the major taxes, including individual income, corporation, estate and gift, and excise taxes. Those recommendations were reaffirmed by Secretary Morgenthau in his statement before this Committee. Subsequent events all point to even greater revenue needs.

In recent months, expanding individual incomes have been exerting increasing pressures on prices and the cost of living. At the same time, the supply of consumer goods and services continues to dwindle in the face of our tremendously accelerated war production. This points clearly to the necessity for resolute action along more than one front, including the enactment of a tax program well above the $8.7 billion of additional revenue originally recommended by the Treasury.

The Treasury, to meet this situation, has developed a tax which will have substantial effect in combatting inflation as well as raising a substantial amount of revenue. This tax will directly reach 70 percent of the net income of all consumers in the United States or $68 billion at current income levels. The remainder of the income is received by persons and families with such small incomes that the maintenance of decent living and productive efficiency in the war effort requires that they be kept free from additional tax burdens. We cannot afford to reduce their standards of living still further.

The tax is designed to become increasingly severe as the standard of living rises so that as additional spending becomes less and less necessary to the individual and to the war effort, it will become increasingly expensive.

The tax gives recognition to commitments to pay debts, purchase insurance, buy war bonds and make other savings.

The tax will not hinder and will indeed greatly facilitate the exercise of direct price controls, rationing, and other methods of combating inflation.

The tax is reasonably capable of administration, in the light of its great importance as an anti-inflationary and revenue measure.

The Treasury suggests a progressive tax above exemptions, to be imposed on the amount of individual spendings for consumption goods and services.

This individual spendings tax would be in two parts, a spendings normal tax and a spendings surtax.

<u>The individual spendings normal tax</u>

The spendings normal tax would be imposed at a flat rate of 10 percent on the total spendings of individuals for consumer goods and services. It would apply to all individuals who had income subject to the individual income tax and to those subject to the spendings surtax, whether or not they had any income.

<u>Persons liable for the tax</u>

In order that the tax may have a broad base, it is suggested that single persons be excluded from the tax only if their income is less than $500, married couples only if their income is less than $1,000. The exclusion would be increased by an additional $250 for each dependent. Although the tax is based on spending, it is suggested that, for purposes of determining liability to file a tax return, the exclusion be in terms of income. This will facilitate the administration of the spendings tax in conjunction with the income tax.

<u>Tax base</u>

The tax would be levied on total spendings of persons filing returns and reporting total spendings in excess of $500 for a single person, $1,000 for a married couple, and an additional $250 for each dependent. The tax is therefore imposed on the taxpayer's total spendings, not merely on the spendings above these amounts.

<u>Method of collection</u>

The spendings normal tax would be collected in the same manner and at the same time as the income tax. A tentative tax would be collected at source from wages, salaries, and dividends in the same manner as it is proposed to collect part of the regular income tax. A spendings tax return would be made part of the annual income tax return and on that return would be computed the amount of spendings and the tax on that amount. The tax payable would be ascertained by deducting a credit for the tax collected at source. If the tax collected at source exceeded the combined amount due on the income tax and the spendings tax a refund would be made.

Computation of amount of spendings

The amount of spendings would be computed indirectly. From the total amount of funds at the disposal of the taxpayer derived either from current income or by drawing on capital, there would be subtracted the amount of savings. "Savings" would be defined to include, chiefly, repayment of debt, premiums paid on life insurance, expenditures for the purchase of bonds or other capital assets, gifts and contributions, and payment of taxes. The items needed to determine the tax base are shown in the attached schedule (Exhibit 1).

Short income and spendings tax form

The great majority of taxpayers would be eligible to file a simplified spendings normal tax return which would be a supplementary part of their simplified income tax return.

Tax rate

The spendings normal tax would be levied at a rate of 10 percent on all spendings. In order to avoid large differences between the tax of persons just below and just above the exclusion limits, the tax on persons just above the exclusion limits would be limited to half of the excess of their spendings over the exclusion amount.

The individual spendings surtax

The individual spendings surtax would be imposed at progressive rates on expenditures in excess of an exemption of $1,000 for a single person, $2,000 for a married couple, and an additional $500 for each dependent. In contrast to the exclusions under the normal spendings tax, these exemptions provide a minimum of spendings that is free from spendings surtax for everyone, no matter how large his total spendings may be.

Computation of the amount of spendings

The spendings would be calculated in the same manner as for the spendings normal tax although the allowable deductions might be somewhat broader.

Method of collection

The tax would be collected currently by requiring individuals to report the approximate amount of spending at short intervals, say quarterly, with a final adjustment after the close of the year. The quarterly report might contain no more than a single item -- the approximate amount of spending during the preceding quarter.

Tax rates

The tax rates would be progressive. The following surtax rate is suggested for the spendings of single persons:

Spendings	Tax rate
$ 0 -$ 500	10%
500 - 1,000	20
1,000 - 2,000	30
2,000 - 3,000	40
3,000 - 5,000	50
5,000 - 10,000	60
10,000 - 25,000	80
25,000 and over	100

The direct application of this progressive spendings tax schedule to a family as a unit would be unduly harsh on large families and would favor single persons, since, the larger the family, the greater is the necessary amount of spendings and the higher the rate at which the spendings would be taxed. This difficulty can be overcome by putting the family's tax on a per capita basis. The family's total spendings would be divided by the number of persons in the family. The progressive rate schedule would be applied to the resulting per capita spendings. The per capita tax computed in this way would be multiplied by the number of persons in the family to get the total family tax. For this purpose, a dependent child would be counted as equivalent to one-half a person.

For example, a married couple with one dependent would comprise 2.5 taxable persons. If this family spent $5,000, spendings in excess of the exemption of $2,500 would be $2,500 or $1,000 per taxable person. According to the above rate schedule, the surtax would be $150 per person, or $375 for the family (2.5 times $150). Married couples would be permitted to file either joint returns or separate returns, since discrimination would be avoided by the method of computing spendings per taxable person.

Effective date of surtax

The spendings surtax would be made effective as of September 1, 1942. It is essential that this be done in order to prevent large scale buying and hoarding of consumers' goods in anticipation of the enactment of the spendings tax. In addition, unless the spendings tax is made effective as of the date on which it is announced, individuals would be given an opportunity to convert their bank deposits into currency, hoping thereby to set aside spendable funds upon which an adequate check could not be made. These and similar dangers can be entirely prevented only by making the spendings surtax effective as of September 1, 1942. The corresponding difficulties are not of great importance with respect to the spendings normal tax and this could go into effect January 1, 1943.

Reduction of exemptions for the regular income tax

The exclusions of $500, $1,000, and $250 for the spendings normal tax are believed to be desirable in order that a very large volume of consumer spendings may be brought into the tax base. For purposes of simplicity the income tax exemptions and the spendings normal tax exclusions should be the same amounts of income. Accordingly, it is suggested that the personal income tax exemptions be lowered to $500 for single persons, $1,000 for married couples, and $250 for each dependent. This step will need to be taken in any event as the impact of the war increases.

Refunding of spendings normal tax

The time has come when it is necessary to impose taxes so heavy on incomes so low that the resulting burden on people with small incomes should not be permanent but only for the duration of the war.. We should resort at this time to post-war credits for individual taxes.

It is therefore suggested that the spendings normal tax up to a maximum of $100 for each single person and each spouse plus $50 for each dependent be made refundable without interest after the war. The amount collected in the first year of operation of the tax might be refunded in the first year following the close of the war; the amount collected in the second year might be refunded in the second year following the close of the war; and so on. Provision should be made for the earlier refunding of the tax in cases of proven distress.

Place of the spendings tax in the revenue and anti-inflation programs

The individual spendings tax will raise very substantial amounts of revenue and will accordingly be valuable in financing the war. More important, the spendings tax will be particularly helpful as an anti-inflation measure. It will do this in two ways: (1) by withdrawing consumer purchasing power and thus reducing the demand for goods, and (2) by creating an obstacle to spending, thus checking spending and encouraging saving. Because it will apply only to individual spendings and not to business spendings, it will not interfere with price ceilings.

The spendings normal tax and the spendings surtax differ in the emphasis placed on these two methods of reducing spending. The normal tax, applying to the bulk of total individual spending at a 10 percent rate, will be effective primarily by withdrawing purchasing power. The spendings surtax, on the other hand, is intended primarily to discourage spending directly, rather than to absorb large amounts of purchasing power. For this reason it is imposed only on spending above a fairly adequate living level, but at increasingly heavy rates. In so far as spendings are not checked, they will bring substantial payments into the Treasury.

For these reasons, the spendings tax should be a powerful instrument for combating inflation. It is, moreover, an adjustable instrument which, once put in operation, can be increased or decreased as may be found needed in the light of the current economic situation.

Like any new tax, and perhaps more than some taxes, the spendings tax necessarily involves administrative and compliance problems. These problems are somewhat reduced by the fact that the spendings tax can be administered in conjunction with the individual income tax. Nevertheless it will create an administrative problem in securing compliance, in checking information not now required on income tax returns, in educating the public to an entirely new type of tax, and in helping the public to fill out the forms which they will be required to submit. Compared with other measures of comparable importance in meeting the inflation and revenue problems, however, the administrative difficulties should not prove disproportionately large. In time of war, administrative difficulties cannot be allowed to stand in the way of measures vital to the Nation's welfare.

Exhibit 1

The Individual Spendings Tax Schedule

(To be used by persons subject to the spendings surtax and by persons not eligible to use simplified income tax return. A simplified spendings tax schedule will be available to all other persons subject to the spendings tax.)

Funds at the disposal of the individual

1.	Salaries, wages, and other compensation for personal services...	$
2.	Dividends and interest received, including government interest..	
3.	Rents, royalties, annuities, pensions..........................	
4.	Withdrawals from business, professions, partnerships, trusts....	
5.	Cash receipts from gifts, bequests, and insurance..............	
6.	Receipts from sale of capital assets...........................	
7.	Receipts from repayment of loans made to others................	
8.	Receipts from borrowing, including debts incurred on installment purchases..	
9.	Cash and bank balances at beginning of year....................	
10.	Other receipts...	
11.	Total disposable funds (items 1 to 10)...................	$

Deductions: Non-taxable use of funds

12.	Cash and bank balances at end of year..........................	$
13.	Cash gifts and contributions...................................	
14.	Interest and taxes paid, except on owner-occupied homes.........	
15.	Expenditures on the purchase of capital assets..................	
16.	Life insurance premiums, annuity, and pension payment...........	
17.	Outlays for repayment of debt, including installment debt.......	
18.	Loans made to others..	
19.	Other nontaxable disbursements..................................	
20.	Total deductions (items 12 to 19)........................	$
21.	Expenditures subject to tax (item 11 minus item 20)............	$

Exhibit 2

Individual Spendings Surtax: Rates and amount of surtax

Expenditure per taxable person	Surtax rate	Cumulative surtax per taxable person at upper limit of bracket
$ 0 - $ 500	10%	$ 50
500 - 1,000	20	150
1,000 - 2,000	30	450
2,000 - 3,000	40	850
3,000 - 5,000	50	1,850
5,000 - 10,000	60	4,850
10,000 - 25,000	80	16,850
Over 25,000	100	—

Exhibit 2a

Individual Spendings Tax and Tax As a Percent of Spendings
Single person - no dependents
Exclusion for normal tax $ 500
Exemption for surtax - 1,000

Total Spendings before exemption	Amount of Tax: Normal Tax	Amount of Tax: Surtax	Amount of Tax: Total Tax	Amount refundable	Net Tax	Total tax as percent of spendings	Net tax as percent of spendings
$ 500	$ 0	$ 0	$ 0	$ 0	$ 0	0%	0%
800	80	0	80	80	0	10.0	0
1,000	100	0	100	100	0	10.0	0
1,200	120	20	140	100	40	11.7	3.3
1,500	150	50	200	100	100	13.3	6.7
2,000	200	150	350	100	250	17.5	12.5
2,500	250	300	550	100	450	22.0	18.0
3,000	300	450	750	100	650	25.0	21.7
3,500	350	650	1,000	100	900	28.6	25.7
4,000	400	850	1,250	100	1,150	31.2	28.8
5,000	500	1,350	1,850	100	1,750	37.0	35.0
6,000	600	1,850	2,450	100	2,350	40.8	39.2
8,000	800	3,050	3,850	100	3,750	48.1	46.9
10,000	1,000	4,250	5,250	100	5,150	52.5	51.5
15,000	1,500	8,050	9,550	100	9,450	63.7	63.0
20,000	2,000	12,050	14,050	100	13,950	70.2	69.8
25,000	2,500	16,050	18,550	100	18,450	74.2	73.8
50,000	5,000	40,850	45,850	100	45,750	91.7	91.5

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Exhibit 2b

Amount of individual spendings tax
and tax as percent of spendings

Married person - no dependents

Exclusion for normal tax: $1,000
Exemption for surtax: 2,000

Total spendings before exemption	Amount of tax: Normal tax	Amount of tax: Surtax	Amount of tax: Total tax	Amount Refundable	Net tax	Total tax as a % of spendings	Net tax as a % of spendings
$ 1,000	$ 0	$ 0	$ 0	$ 0	$ 0	0%	0%
1,500	150	0	150	100	50	10.0	3.3
2,000	200	0	200	100	100	10.0	5.0
2,500	250	50	300	100	200	12.0	8.0
3,000	300	100	400	100	300	13.3	10.0
3,500	350	200	550	100	450	15.7	12.9
4,000	400	300	700	100	600	17.5	15.0
5,000	500	600	1,100	100	1,000	22.0	20.0
6,000	600	900	1,500	100	1,400	25.0	23.3
8,000	800	1,700	2,500	100	2,400	31.2	30.0
10,000	1,000	2,700	3,700	100	3,600	37.0	36.0
15,000	1,500	5,500	7,000	100	6,900	46.7	46.0
20,000	2,000	8,500	10,500	100	10,400	52.5	52.0
25,000	2,500	12,100	14,600	100	14,500	58.4	58.0
50,000	5,000	32,100	37,100	100	37,000	74.2	74.0

Exhibit 2c

Amount of Individual Spendings Tax and Tax as a
Percent of Spendings

Married person - two dependents

Exclusion for normal tax - $1,500
Exemption for surtax - $3,000

Total spendings before exemption	Amount of tax: Normal tax	Surtax	Total tax	Amount refundable	Net tax	Total tax as a % of spendings	Net tax as a % of spendings
$ 1,500	$ 0	$ 0	$ 0	$ 0	$ 0	0%	0%
2,000	200	0	200	100	100	10.0	5.0
2,500	250	0	250	100	150	10.0	6.0
3,000	300	0	300	100	200	10.0	6.7
3,500	350	50	400	100	300	11.4	8.6
4,000	400	100	500	100	400	12.5	10.0
5,000	500	250	750	100	650	15.0	13.0
6,000	600	450	1,050	100	950	17.5	15.8
8,000	800	1,050	1,850	100	1,750	23.1	21.9
10,000	1,000	1,750	2,750	100	2,650	27.5	26.5
15,000	1,500	4,050	5,550	100	5,450	37.0	36.3
20,000	2,000	6,750	8,750	100	8,650	43.8	43.3
25,000	2,500	9,750	12,250	100	12,150	49.0	48.6
50,000	5,000	28,150	33,150	100	33,050	66.3	66.1

September 1, 1942
4:36 p.m.

HMJr: Hello.

Operator: Mr. Cox is with the Attorney General, and they're going to call as soon as he returns to his office.

HMJr: Okay.

5:51 p.m.

HMJr: Hello.

Operator: Mr. Cox.

HMJr: Oscar?

Oscar Cox: Hello. How are you, Mr. Secretary?

HMJr: Well, I'm alive.

C: Good for you. I hear you've been out looking at soldier boys.

HMJr: (Laughs) Yeah. Are you alone?

C: Yeah.

HMJr: So am I.

C: Good.

HMJr: Oscar, do I understand from Claude Wickard that your office has said that the President can't go out and do something on agricultural prices under his War Powers Act?

C: No, quite the opposite.

HMJr: Well, that's what I wanted to find out. I mean, can - if he wanted to say 100 per cent is parity instead of 110, do you people say he can't do it?

C: Oh, no.

HMJr: Well, I got the impression from Wickard that you....

C: No, what - what we said was this, that he can do it....

HMJr: Yeah.

C: ....that it's not necessary to rely on his Constitutional powers, because the statutes give him the power to allocate any supplies on any conditions that he deems necessary or desirable.

HMJr: I see.

C: And he can attach as one of the conditions, either the price or that a fellow can only get corn if he raises Wilshires or what-not.

HMJr: But you're taking the position he can do it?

C: Oh, yeah.

HMJr: Well, I'm glad to know it. I got the opposite impression....

C: Oh.

HMJr: ....because I gathered this morning they kicked it, the whole thing, in the bucket.

C: No.

HMJr: No, I mean that the - that - I gathered from Wickard that the President decided that he wasn't going to do anything till the first of December.

C: Oh, no. The argument that Leon made was that, as a matter of policy not as a matter of law....

HMJr: Yeah, but that's the decision.

C: Oh, no, I don't think it was - was as definite as that.

HMJr: No?

C: No, I think they were supposed to get into a room and iron out their policy differences, and....

HMJr: But it's - but I personally feel that it's - he's got to go out and do it, announce it....

C: Oh, I - I feel that way a hundred per cent. I think if he waits three months, the roof will blow off.

HMJr: Well, again quoting Wickard, I understood that Biddle was advising him to wait three months.

C: Oh, no, no. Quite the contrary.

HMJr: Well, now isn't that funny that Wickard should give me all that.

C: Yeah.

HMJr: What?

C: There must be a misunderstanding somewhere. I think Henderson was the fellow that's been urging - you see, Henderson's position is you ought to do this by legislation.

HMJr: Yeah.

C: But you can't get legislation for three months.

HMJr: Yeah.

C: Therefore, in the intervening three months, handle the thing by subsidies, and in the meanwhile in the message to Congress ask them now....

HMJr: Yeah.

C: ....for the legislation to meet the problem.

HMJr: But - but your shop over there is for him doing it....

C: Yeah, both on law and policy.

HMJr: Well, now I'm glad to know, because I'm seeing him tomorrow. That's why I'm calling. I'm seeing him in the morning, and I'm going to try once more to urge him to do it now.

C: Oh, I think he ought to. I don't think he can control this thing if you don't do it now.

HMJr: What?

C: I don't think he can control it....

HMJr: And - and the law - the Attorney General's shop says he can do it legally?

C: Yes, sir.

HMJr: Well, that's what I wanted to find out.

C: Yes, sir. We haven't stuck in the mud yet.

HMJr: Were you there this morning when....

C: Well, I was there yesterday for a couple of hours.

HMJr: Well, this morning, again quoting Wickard, he evidently was very much discouraged, and I talked to Sam later on and so was Sam. Sam says the thing has been kicked out the window.

C: Well, it may be. You see, what happened was this, Nelson was worried about the transfer of some of these allocations....

HMJr: I know.

C: ....Henderson was worried that Wickard would be given too much power over food in terms of price and allocation....

HMJr: Yeah.

C: ....and they've probably got their dander up, and went over to see the Boss this morning and took to task that the thing to do was to ask for legislation now, wait until December to get it, and in the meanwhile subsidize.

HMJr: Well, I'm awfully glad I called you because that strengthens my hand if I know the Attorney General and you are - are for doing it now.

C: Yeah.

HMJr: All right.

C: Goodbye.

HMJr: Goodbye.

C: Let me hear from you.

September 1, 1942
8:30 p.m.

FINANCING

Present: Mr. Haas
Mr. Murphy
Mr. Baker
Mr. Heffelfinger
Mr. McKee
Mr. Piser
Mr. Stewart
Mr. Viner
Mr. Sproul
Mr. Ransom
Mr. Draper
Mr. Williams
Mr. Szymczak
Mr. Thomas

H.M.JR: Mr. Sproul, I have not talked to my people, so we will call them "our" people, and what has the joint board got to say for itself?

MR. SPROUL: We had a session this afternoon, a very pleasant session. Beginning with the bills, we were in agreement on the increase in the amount of the bill issue beginning next week, that is, the issue payable the sixteenth, to four hundred million.

We were in agreement on a modified tax note with a graduated scale of rates, but still have some work to do on what that scale of rates is or should be. We presented the point of view that the scale of rates should be such as to attract buyers in at the beginning with a rate approximately equivalent to the market rate, and then sufficiently attractive to hold them in, once they were in, to go through the full period of the note, if possible to two and a half to three years.

Both of those things will contribute somewhat to the Treasury financing in September, but we considered the financing separately as something which we would want to design to get for you three billion dollars. On that there was no conclusion of the group. We were still of the view that your financing in September could best be in short-term obligations; and considering what you had said this morning, your desire to see what could be done with the longer-term obligation to place some of this money further out, there was discussion of a bond of five to seven years at the one-and-three-quarters percent coupon. I think it was our opinion that such a bond would be aimed at the weakest section of the market at this time, and would be an undesirable offering to make for that reason. We felt that to be successful with the bond you probably should go out to a two-percent bond, and the two-percent bond at this time would be crowding upon the previous issues of two's and also would interfere with the kind of financing which we thought you should do for the bigger job in October.

So we again recommended and argued for a financing with short-term issues, a note, two and a half to three years, and a certificate, to raise the three billion dollars, which we thought could readily be done, which would probably be largely a bank operation. But we thought this was the month for a bank financing, that in large part you would make your attempt to get funds from outside the banks in your October financing, when you would have a larger financing to do, and issues which could be designed more nearly for that purpose.

I think that is the general summary of our discussion this afternoon.

H.M.JR: George?

MR. HAAS: Do you want me to take up--

H.M.JR: I want to know whether you agree or differ. What do you think?

MR. HAAS: Some of the things we had in mind which we presented over there, Mr. Secretary, were technical innovations which we thought would facilitate the carrying out of a big financing job. The idea was in the smaller financing to give them a sort of a trial run. Allan feels that all of them, with the modification, could be used; he thought it would be better not to have the trial run, but to use it in the larger operation.

The question of going in with a short note and a certificate seems to me to hinge on - if that market between a long note and a two-percent bond is weak, certainly we ought not to go into that. I sort of reserved my own opinion with regard to the particular type of issues. There is no question that a certificate and the note would go very easily. I sort of reserve declining to change our opinion until we have heard more from some of the people in the market in addition to Mr. Sproul's opinion.

MR. SPROUL: On that question of the innovations, it seemed to me that if we adopted this sort of financing that we were discussing and advocating as very short-term financing, there was no need for the innovations, that they would serve no particular purpose there; that they would deaden their effectiveness, rather than increase it when we came to the financing and the ~~issue~~s where they were really useful and useable; and that we could adopt them then.

H.M.JR: How long will it be before we can get together on this tax note?

MR. HAAS: We aretogether on the tax note, Mr. Secretary, except for one thing, as Allan Sproul pointed out, and that is what the graduated rates would be. I personally think they are too high. If they are equal to the current market, I think you will get refunding of the existing tax - outstanding tax notes, into the new tax notes. I think some of the certificates would be refunded into the tax notes. This instrument is a better instrument than the outstanding instrument, so you have to have something less than the current market rate to make them equivalent, and that puts rates out which are equivalent to the current market.

I think sales would be increased; it would be easy to sell, but it would upset our whole short-term rate structure.

H.M.JR: Are you and Piser apart?

MR. PISER: I am in agreement with the schedule of rates that the executive committee has presented.

MR. SPROUL: Our answer on that is that the bank market would take care of the certificates, the bills, the short-term market we now have, and that this instrument, which is not available to the banks, would, therefore, not disrupt the short market even though the rates in the first periods were approximately equivalent to market rates.

H.M.JR: You said some of this financing might upset the October financing. What did you have in mind for October?

MR. SPROUL: This is a personal view. I have in mind a combination of a two and a quarter percent bond with a note or another bond. I think if you go at that market with a two-percent bond now you would be crowding it again to come back in October with your larger financing.

H.M.JR: Let me hear from some of the others.

MR. RANSOM: I am in agreement with everything that Allan has said, Mr. Secretary, except on the October financing. I would not like to see the two and a quarter at that point. Otherwise, I agree with him.

MR. SZYMCZAK: I agree with Allan, except for the October financing, a two percent bond in place of a two and a quarter, and the two and a half registered bond reopened.

MR. WILLIAMS: Personally, I would reconcile the issues between two and a quarter and the two. There is something to be said for both.

MR. DRAPER: I like Mr. Szymczak's approach, two percent rather than two and a quarter, and the two and a half registered. This is October?

H.M.JR: October, yes.

MR. McKEE: I am in favor of the two short issues, certificates, and a short note for September. I would like to see you defer any suggestions or planning for October until that job is done. If some of that short money flows in from individuals, I think then you have got to think of one thing. If it all comes from the banking sources, I think your thoughts would be along a different line. I think it is too early to talk about October.

H.M.JR: Supposing I said I didn't want to do this short stuff, what do you think the next best bet is?

MR. SPROUL: I would say then you had to go to a two-percent bond.

H.M.JR: For three billion?

MR. SPROUL: Yes.

H.M.JR: For three billion.

MR. SPROUL: Then the idea, as I understand it, would be that later on in September, in order to preserve this - this quarterly certificate issue program, that you could come along late in September with a certificate, and you might cut down your bond issue somewhat in anticipation of that, but--

H.M.JR: How much could we cut it down?

MR. SPROUL: You could cut it down a billion and a half if you wish to and get a billion and a half of certificates late in September; but that, it seems to me, means instead of reducing the number of issues with which you come to the market, as I think you ought to be considering, you would have thrown in a third financing into this two-months' period, which would be too bad.

MR. McKEE: And again you would be putting off the evil day for a big financing. (Laughter)

H.M.JR: What do you call three billion dollars, just peanuts? (Laughter)

MR. McKEE: That is peanuts. (Laughter)

MR. SZYMCZAK: When you say short-term financing, does that exclude the two-and-a-half-year note?

H.M.JR: No.

MR. SZYMCZAK: In that case, I would rather take the note and get all I could out of it, and later come out with a certificate and get your tax note out in the meantime, and increase your bills. But if you feel that you can't get enough on that two-and-a-half note, then I would go for the two and three-quarters bond.

H.M.JR: The two-and-a-half wasn't in this morning's suggestion, was it?

MR. SZYMCZAK: No, no.

MR. SPROUL: It was one of the suggestions this morning, yes, and we considered it again this afternoon.

H.M.JR: How much would you do with the two-and-a-half's?

MR. SZYMCZAK: If you eliminate the certificate, I would try to get everything I could on the two-and-a-half-year note.

H.M.JR: I won't eliminate the certificate if you feel you have to fill the date.

MR. SZYMCZAK: Could you?

H.M.JR: Could you do it on a two-and-a-half-year note and a certificate?

MR. SZYMCZAK: Yes, that is perfect, that is wonderful.

MR. SPROUL: That is what we are suggesting.

H.M.JR: Tonight you are suggesting that?

MR. SZYMCZAK: That is right.

H.M.JR: Did you say that earlier this evening?

MR. SPROUL: Yes, I did.

H.M.JR: I guess I am slipping or getting deaf. Did you say that this morning, too?

MR. SPROUL: Yes, I did.

MR. HAAS: No, this morning you had just the certificate. Your figures were smaller.

MR. SPROUL: But one alternative this morning was the note and the certificate, and the other was just the certificate.

H.M.JR: I thought this morning you said certificate and bills.

MR. SPROUL: Another alternative this morning was also a note and a certificate.

MR. McKEE: Mr. Secretary, I think all of our thinking is along the line - and anybody correct me if I am speaking out of turn - that your September money should come from the banks to prepare the background or the accumulation for the investors for your large issue in October. Is that right, gentlemen?

MR. SPROUL: That is right, not that we wouldn't take money from others than banks any place we could get it, but this is aimed at the banks largely.

MR. RANSOM: And any time.

H.M.JR: I still have the idea also that you should consider the possibility of larger and less frequent issues from time to time, rather than to do three or four billion dollars every month, which I think is going to mean a gradual decline in the effort and success of selling to any others than banks. I am not opposed to it.

MR. SPROUL: No, I didn't think you were.

MR. RANSOM: I think the principal thing, Mr. Secretary, is that we would not like to see you use a bond of any kind in your September financing, although that does relate itself, of course, to what we see ahead of you for October and the rest of the year.

MR. SPROUL: And it makes no difference there whether you use a two or a two and a quarter, you interfere with it just the same.

MR. RANSOM: Oh, yes.

MR. SZYMCZAK: This would be a May, '43 certificate.

H.M.JR: Where does this fall?

MR. HEFFELFINGER: May 1.

H.M.JR: Viner, do you want to say anything?

MR. VINER: No.

H.M.JR: Stewart?

MR. STEWART: No.

H.M.JR: Piser?

MR. PISER: My first choice would be the May 1 certificate and the one-and-a-quarter-percent note. If the certificate is not included, my second choice would be the--

H.M.JR: Pardon me, what is your first choice?

MR. PISER: The May 1 certificate and the one-and-a-quarter-percent note.

MR. HAAS: That is the two and a half.

MR. PISER: If the May 1 certificate is not included in the financing, I would prefer the one and three-quarters percent bond, in view of the fact that I think it would compete the least with the offering of bonds in October.

MR. THOMAS: I have nothing to add.

H.M.JR: Henry?

MR. MURPHY: My first choice is given in the memorandum.

H.M.JR: What?

MR. MURPHY: I say, my first choice is in the memorandum. I would prefer a one-and-one-quarter-percent note and a one-and-three-quarter-percent bond, with a certificate coming later. It does not seem to me that just raising three billion dollars now is going to carry us over into when we can get the proceeds of a regular October financing.

According to Mr. Heffelfinger's cash account this morning, we will run out of cash during the day on the 15th on the basis of three billion dollars raised now. I would like to have the certificate reserved for an interim offering to last us until we have run a real October financing. It will take some time.

MR. SPROUL: We say that if you get three billion now and have additional issues of bills and put out a modified tax note, you won't run into that jam; and even if you do for a day or two, you have the facilities for tiding yourself over a day or two until you receive payment on your October financing.

H.M.JR: Would that still be true if we start to increase our bills to four hundred million right away?

MR. HEFFELFINGER: If we increase the bills to four hundred million right away, that would give us two hundred in October and a hundred and fifty in September.

H.M.JR: Wouldn't we get something out of it in September?

MR. HEFFELFINGER: Yes, a hundred and fifty million in addition to what we have in the picture.

MR. SPROUL: And then we would expect to get a considerable amount out of the modified tax note in addition to what you anticipate you will get on the basis of the existing tax notes.

MR. MURPHY: If we could have our October financing paid by, say, October 15th, there would be no difficulty.

H.M.JR: You mean September 15th?

MR. MURPHY: No, I say if we could have our October financing paid in - run off so that the proceeds would be paid in by October 15th, we would be all right; but that is considerably earlier in the month, I know, than Mr. Bell had originally been thinking, and I wonder if it is time enough to do the kind of job Mr. Sproul is thinking about.

MR. WILLIAMS: You might get four to five million more in your tax notes.

MR. HEFFELFINGER: The tax note in the new bill might run us to the twentieth.

MR. WILLIAMS: The assumption is two hundred and fifty, is it not?

MR. SZYMCZAK: You might increase the bill another fifty in October.

MR. BAKER: I would prefer not to see a separate operation out of the certificate if it can be avoided.

H.M.JR: You say you do?

MR. BAKER: I would prefer not to see a separate operation made out of the certificate. As far as the one-and-three-quarters-percent bond is concerned, I should think that that ought to be tabled until the present open market operations have strengthened that section of the market a little more.

MR. SPROUL: We are working in there now trying to get a little strength in that part of the market, but it needs a lot of help at the moment.

MR. RANSOM: I would like to add to what I said that I would much prefer Allan Sproul's two-percent bond to the other bond if you had to use one or the other.

H.M.JR: Heffelfinger, the last but not least?

MR. HEFFELFINGER: From my limited experience, Mr. Secretary, it seems that the certificate and the note would be more or less the logical thing now.

H.M.JR: You are deserting your Treasury pals.

MR. HEFFELFINGER: As I say, my limited experience may account for that.

H.M.JR: That is the way you feel?

MR. HEFFELFINGER: That is the way I feel. I don't believe that the one-and-three-quarters bond would have much attraction for other than the banks. As Mr. Sproul said, that is the weak part of the market.

MR. SPROUL: I have a feeling we are now in a situation where that section of the market may continue to be weak, with the desire at one end of the market for liquidity, short-term obligations, and the desire at the other end for a return in some coupon. With our support of the market, the necessity for the continuance of that support, personally I see no reason, myself, for anyone going into that section of the market.

H.M.JR: Let me ask you this, just to switch a minute, but not too much. How much effect have you seen from the changing of the reserve requirements for New York and Chicago?

MR. SPROUL: We saw an immediate effect, I think, in bill and certificate markets, but it was obvious to the market as it was to us that that change was only a temporary change and there has been no effect, I don't think, in the rest of the market, nor should we have expected any, that is, in the longer term market. Those reserves created by that are running off very rapidly from New York and I assume from Chicago also.

H.M.JR: Already?

MR. SPROUL: Yes.

MR. HEFFELFINGER: Do we have to go much lower this week on account of our very heavy withdrawals this week?

MR. SPROUL: We started off the morning they began with five hundred twenty-five million of excess reserves. We estimate that at the end of the week we will be down to two hundred and fifty. That is since August 20.

H.M.JR: Somewhere I saw some figures gotten out as to where the war contracts have been let by States, and I was surprised to find that New York State had almost as much as Michigan.

MR. SPROUL: Does LaGuardia read the same things you read? (Laughter)

MR. DRAPER: I saw that, but I think the head office factor has a lot to do with that.

H.M.JR: Wasn't it eight or nine billion dollars for New York, something like that?

MR. DRAPER. I can't remember the figures, but it was about the same as Michigan.

H.M.JR: Does that mean it is because it is the head office?

MR. DRAPER: That is what I think.

MR. THOMAS: There must be a lot of it.

MR. BAKER: There are heavy contracts for planes in Buffalo.

MR. SPROUL: It would be very surprising if it were not a question in part of head office, I should say, but I don't know.

H.M.JR: I just noticed it. I don't know if you saw it or not. I was surprised at New York State.

What I would like to do is to keep plugging. I want to have these New York fellows come down. Could I arrange for them on Tuesday?

MR. SPROUL: A week from today?

H.M.JR: Yes, to have them come down.

MR. SPROUL: Oh, yes.

H.M.JR: Would I do that through you because Rouse is away?

MR. SPROUL: No, he is back now. He came back yesterday. He could arrange that for you any time you want.

H.M.JR: George, you might remind me tomorrow that we will do it. I should think they would be perfectly willing to come down Tuesday, wouldn't you?

MR. SPROUL: I think so, I am sure they would.

H.M.JR: I think it would be a mistake to do it this week - to talk to the New York people.

MR. SPROUL: When do you want to decide and announce the financing?

H.M.JR: I have got to do it next Thursday, a week from Thursday.

MR. SPROUL: Then I don't think you need to see them this week. I think you would have time by seeing them Tuesday.

MR. McKEE: When are you going to move in on the new tax notes?

H.M.JR: I want to settle that this week. We will settle it this week.

MR. SZYMCZAK: That is as of September 1?

MR. HAAS: Yes, you can work it that way.

H.M.JR: We will settle it this week, yes. Can we do that on September notes?

MR. HEFFELFINGER: We sell very few until the middle of the month; we can arrange an exchange proposition for those.

H.M.JR: We will try to do it tomorrow.

Then you people want me to go to four hundred million?

MR. SPROUL: In bills. I think we are all agreed on that. It is unanimous.

H.M.JR: I will have to look at it.

MR. SPROUL: There must be something wrong. (Laughter)

H.M.JR: Well, unless you gentlemen have something else, I will sleep over it, and I will be talking with you all again a couple of more times this week.

MR. RANSOM: Have you got any idea as to when you will want to talk about it again this week?

H.M.JR: I want to talk about it every day this week - every day. I am serious. I don't mean necessarily to come over, but certainly on the phone.

MR. SPROUL: We will be available.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau September 1, 1942

FROM Davis L. Baker, Jr.

– Possible New Issues, dated September 15, 1942

Certificate of Indebtedness

Coupon	Approx. Term	Date	Yield	Market Price	Premium
3/4%	7 1/2 mos.	5/1/43	0.67	$1,000,500	$500/Mil

Treasury Notes

Coupon	Approx. Term	Date	Yield	Market Price	Premium
1 1/4%	2 yrs. 3 mos.	12/15/44	1.10 1.14	100 11/32 100 8/32	11/32 8/32
	2 yrs. 6 mos.	3/15/45	1.13 1.17	100 10/32 100 7/32	10/32 7/32
	2 yrs. 9 mos.	6/15/45	1.17 1.21	100 7/32 100 4/32	7/32 4/32
1 1/2%	3 yrs. 9 mos.	6/15/46	1.40 1.44	100 12/32 100 7/32	12/32 7/32
	4 yrs.	9/15/46	1.43 1.47	100 9/32 100 4/32	9/32 4/32
1 3/4%	4 yrs. 9 mos.	6/15/47	1.63 1.67	100 17/32 100 12/32	17/32 12/32
	5 yrs.	9/15/47	1.67 1.71	100 12/32 100 6/32	12/32 6/32

Treasury Bonds

1 3/4%	5 yrs.	9/15/47-49	1.70 1.72	100 8/32 100 5/32	8/32 5/32
2%	(Chart reading indicates that a 2% bond could not be placed farther out than 12/15/49, coincident with the outstanding 2's of 12/15/49-51 now quoted 100 4/32 bid. A reopening of this issue would undoubtedly result in a decline to par for all three 2% bonds of 49-51)				
2 1/4%	12 yrs.	9/15/54-56	2.20	100 17/32	17/32
	13 yrs.	9/15/55-57	2.22	100 11/32	11/32

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau September 1, 1942

FROM Davis L. Baker, Jr.

SUGGESTED PROGRAM FOR BALANCE OF CALENDAR YEAR

In addition to the program detailed below, an exhibit ('A') is attached to indicate the effect of these operations on the Treasury working balance. In this connection the figures are derived from estimates for war activities and market finance furnished by Mr. Bell on July 29; net war bond and tax anticipation sales are my own estimates. Exhibit 'B' is a chronological schedule of offerings and redemptions.

1. Treasury Bills

Increase weekly offering to 400 mil. on Sept. 9
450 mil. on Oct. 21
500 mil. on Dec. 9

These are the dates on which the maturing totals step up.

2. Market Issues

For September 15th	1,500 mil. 3/4% certificates due May 1, 1943 1,500 mil. 1 3/4% 5-7 year bonds
For October 15th	1,000 mil. 1 1/4% 3 year notes (approx. term) 2,000 mil. 2% 7-9 year bonds (approx. term)
For October 31st	2,000 mil. 7/8% 1 year certificates
For November 16th	2,000 mil. 2 1/4% 12-14 year bonds (approx. term)
For December 15th	1,500 mil. notes 1,500 mil. 5-7 year bonds

3. Tap Issue

Reopen outstanding 1962-67's or offer new 2 1/2% bond on same restricted basis for December 15, 1962-67, in the latter half of October.

4. Tax Anticipation Notes

If feasible, the "B" notes would be extended to 3 years and the yield brought in line with current levels on a graduated scale. Salability would be increased by permitting interest to accrue whether turned in for taxes or not. (Figures estimated to account for these changes in October.)

5. Payment of Maturities in Cash

9/15/42 -- 342 mil. 2% T.N.
10/15/42 -- 320 mil. 7/8% RFC notes
11/ 1/42 --1.507 mil. 1/2% Certificates
12/15/42 -- 232 mil. 1 3/4% T.N.
2.401 mil.

Exhibit 'A'

Estimated Treasury Requirements and Effect of Program Shown Above

New Money Provided by Program (in millions)	Sept.	Oct.	Nov.	Dec.	Total-4 Mos.
Treasury Bills	500	400	400	500	1,800
Market Issues:					
Certificates	1,500	2,000*			3,500
Notes		1,000		1,500	2,500
Short bonds	1,500			1,500	3,000
2% bonds		2,000			2,000
2 1/4% bonds			2,000		2,000
Tap Issue - 2 1/2%		1,500			1,500
Tax Anticipation Notes - Net	300	600	400	500	1,800
War Bonds - Net	800	900	900	1,000	3,600
	4,600	8,400	3,700	5,000	21,700

(* Payment October 31; actually affects November figures)

Treasury Requirements					
Net Expenses	4,100	5,150	5,050	4,550	18,850
Maturity Redemptions	342	320	1,507	232	2,401
	4,442	5,470	6,557	4,782	21,251

Exhibit 'B'

Schedule of Market Operations

September		New Offering	Redemption
2	Treasury Bills	350 mil.	250 mil.
8 (for the 15th)	3/4% Certificates 1 3/4% Bonds	1,500 mil. 1,500 mil.	-- --
9	Treasury Bills	400 mil.	300 mil.
15	2% Treasury Notes	--	342 mil.
16	Treasury Bills	400 mil.	300 mil.
23	" "	400 mil.	300 mil.
30	" "	400 mil.	300 mil.
October			
6 (for the 15th	1 1/4% Treasury Notes 2% Treasury Bonds	1,000 mil. 2,000 mil.	-- --
7	Treasury Bills	400 mil.	300 mil.
14	" "	400 mil.	300 mil.
15	7/8% R.F.C. Notes	--	320 mil.
19-31	Tap 2 1/2% Treasury Bonds	1,500 mil	--
21	Treasury Bills	450 mil.	350 mil.
22 (for the 31st)	7/8% Certificates	2,000 mil.	--
28	Treasury Bills	450 mil.	350 mil.
November			
1	Certificates	--	1,507 mil.
4	Treasury Bills	450 mil.	350 mil.
5 (for the 16th)	2 1/4% Treasury Bonds	2,000 mil.	--

('B' Con'd)

		(New)	(Red.)
November			
12	Treasury Bills	450 mil.	350 mil.
18	" "	450 mil.	350 mil.
25	" "	450 mil.	350 mil.
December			
2	Treasury Bills	450 mil.	350 mil.
3 (for the 15th)	Treasury Notes Short Treasury Bonds	1,500 mil. 1,500 mil.	-- --
9	Treasury Bills	500 mil.	400 mil.
15	1 3/4% Treasury Notes	--	232 mil.
16	Treasury Bills	500 mil.	400 mil.
23	" "	500 mil.	400 mil.
30	" "	500 mil.	400 mil.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 1, 1942.

Press Service
No. 32-99

The Treasury Department today made public the following message from Secretary Morgenthau to the American Bankers Association which, this year, has abandoned its annual convention as a conservation measure:

We have come through a year of stress and strain since I last had the privilege of addressing the American Bankers Association on the subject of our financial and economic problems.

When I spoke to you in Chicago last October, coming events were already casting their shadow. At that time, and in the light of our financial experiences in the former World War, I reviewed the perils of inflation facing us, and I asked you to constitute yourselves sentinels of the nation, in your own banks and your own communities, to guard against any private encroachment upon the resources of materials or of credit needed for the national effort.

If this were not a moment of such deadly seriousness for our nation and for all free men, I might be tempted to think that we had not done too badly in our war financing in the year that has passed. By "we" I mean, of course, the American people, but also, in a special sense, the Treasury, the Federal Reserve System and the bankers, working together in a new partnership which we have entered into for the duration of the war -- indeed, I hope for a much longer time, for our partnership must look beyond victory to the peace we shall have to win together.

In the fiscal year that ended June 30, $36 billion poured into the Treasury in tax revenues and in all forms of borrowing. There is no parallel in our history for this money-raising achievement, nor has the Government ever been able to draw upon such a wide variety of funds. We have not only raised $13 billion from taxes, but we have also borrowed a net amount of $3 billion through the sale of Tax Anticipation Notes. We have not only resorted to the conventional forms of borrowing from the banks and regular investors, but we have also enlisted additional institutional funds by issuing new types of securities, and we have sold War Savings Bonds to some 20 million Americans to a total of $6 billion in the fiscal year just ended.

Without wishing to seem complacent -- for complacency is as dangerous as a dozen of the enemy's mechanized divisions -- I think it only right to call attention to these unprecedented borrowings, so smoothly carried out that the country as a whole has hardly become aware of their magnitude. We are surrounded at this moment by economic as well as military dangers, yet it is cause for some satisfaction that inflation has been more effectively controlled to date in this war, in the face of a production and expenditure program of immensely greater dimensions, than in the corresponding stage of our participation in the World War of 25 years ago.

I have just seen an estimate by the Department of Commerce showing that the people's savings in the first two quarters of 1942 were more than twice as great as in 1941, due partly to price ceilings, credit restrictions and to the growing shortages of many kinds of consumers' goods, but also in very large measure to the people's awareness of the need for saving. The estimate shows individual savings at an annual rate of almost $25 billion in the second quarter of this year, as compared with an annual rate of approximately $10 billion for the same period last year.

These results would not have been possible without the voluntary cooperation of millions of Americans representing every state and section, every occupation, every national background, race and creed.

In this voluntary program the bankers of America have stood in the forefront. They have given the equivalent of 25,000 full-time employees to the sale and promotion of War Bonds, and 85 per cent of the sales made have been through the banks. They have been fighting in the front lines of our battle on the home front by carrying out the restrictions of Regulation W on consumer credit, by keeping a careful watch on all applications for non-essential loans, and by helping to freeze foreign funds which the enemy might have used to spy upon our war effort, to sabotage our production, or to demoralize our people. They have given their time and energy to this effort without thought of any compensation except the knowledge that they were helping their country in its time of greatest need.

I have said before on repeated occasions that we at the Treasury are deeply grateful to the Federal Reserve System and to every individual banker who has helped the program of war financing, and I should like to express my thanks once more for a splendid exhibition of cooperation and patriotism.

Yet we cannot afford to congratulate ourselves at this critical stage of the war. Whatever was accomplished in the past fiscal year is of little relevance when we remember the size of the financial as well as the military job ahead of us.

It would be carrying coals to Newcastle to explain to the bankers of America the magnitude of the financial problem confronting our Government this year in meeting the many and urgent demands of the war. You know that we shall have to borrow more than $50 billion in one way or another in the present fiscal year, even if Congress enacts a tax bill to yield $8.7 billion of additional revenue, as we at the Treasury have urged. Without any elaboration from me you can appreciate what the borrowing of $50 billion will entail.

The problem itself involves more than simply raising the money to pay the bills. To begin with, we have to manage our fiscal affairs so that the financial burden is distributed equitably. In achieving this, we must avoid any maneuver that threatens to hinder the maximum efficiency of our war production.

Above all, we must find the means to devote more than half of our national income this year solely to war purposes, yet without slackening the determination of the American people to win this war and win it outright. Our taxes and our borrowings must not handcuff the hands already willing to work for victory.

You would, I suppose, like me to give you some guidance as to the methods by which the Treasury proposes to raise these truly colossal sums. I wish that I could give you that guidance, but frankly, none of us can see more than a few months ahead through the murk of this most unpredictable of all wars. Besides, the decision in all cases does not rest with the Treasury alone.

I would not venture to guess, for example, what the new tax bill will yield, although I know that the American people are ready for a courageous tax program. In fact, they are ready to bear even greater burdens than the Treasury's minimum proposals of $8.7 billion in new revenue would impose upon them. I would not hazard a guess as to the future of rationing, although I feel deeply that we shall have to extend the scope and the severity of rationing before this year has ended.

I can, however, offer what I may call broad hints, based upon the principles which we have so far followed in our wartime financing and upon the dimensions of the task in which we are now engaged.

You may take it for granted that we shall continue to seek funds both from current and accumulated savings. In the field of taxes, we shall follow the enactment of a new revenue bill with renewed efforts to make the collection of taxes more effective. To this end we must intensify the sale of Tax Anticipation Notes, which afford millions of taxpayers the easiest possible method of saving in advance for the taxes that will be due next Spring.

In borrowing from the people directly, we intend to make every effort to reach and surpass our announced goal of $12 billion from the sale of War Bonds and Stamps in the fiscal year that ends June 30, 1943.

As I write these lines, the sales figures for July, amounting to more than $900 million in a month, give us real ground for encouragement. So also does the fact that the sales of Series E bonds in the smaller denominations have shown a striking increase in recent months. Most encouraging of all is the increase in the number of workers purchasing War Savings Bonds through payroll deductions.

There are now more than 110 thousand firms, employing over 25 million workers, that have a payroll savings plan in operation. In the month of July alone more than 18 million workers subscribed $200 million out of their pay for War Bond purchases, and payroll deductions are increasing at the rate of about $40 million per month.

We confidently expect that by the end of 1942 well over 20 million employees will be regularly investing at a rate approaching 10 per cent of their gross earnings through payroll savings. This will mean that from $350 million to $400 million a month would be deducted voluntarily from payrolls next year to buy War Bonds. During 1943, on this basis, nearly $5 billion worth of War Bonds would be purchased in this way -- all out of current wages and salaries, and all representing what we can regard as non-inflationary borrowing at its best.

Even if the War Bond sales realize all my expectations, we shall have to borrow increasingly and in utterly unprecedented amounts from other sources.

The members of the American Bankers Association are acutely aware of the hazards we run if we rely more than is necessary on the sale of government securities to commercial banks. I often think, however, that the distinction between sales of government securities to commercial banks and sales to others is over-emphasized. What we are really trying to do is to sell as large a proportion of our securities as possible in such a way that their proceeds, when spent by the Government, will not constitute a net addition to the total spending of the economy.

I think it worth remembering that sales of government securities to commercial banks do not add to the total spending of the economy if they are offset by decreases in the loans or other investments in banks, or if they are offset by the accumulation of balances in the banks which are genuine savings of depositors.

It is necessary, therefore, that we at the Treasury should go far deeper than the superficial distinction between sales of government securities to banks and those to others and that we should look closely at the real sources of the funds. The most desirable source of funds, is, of course, money borrowed from the current savings of the country. A substantial proportion of the proceeds of all classes of government securities sold -- including some of those sold to commercial banks -- comes directly or indirectly from this source.

Yet inflation cannot be curbed merely by the passage of a courageous tax bill or by the successful borrowing of vast sums from current savings, or by a combination of bold and intelligent taxing and borrowing. We undoubtedly shall find it necessary to adopt more drastic control of consumer spending, in one form or another, than anything yet applied. I should not like to predict at this stage, for prediction is more than ever dangerous, but I do want you to be prepared for new controls and new sacrifices as the war moves into a new and more intense phase.

We have heard so much talk lately about the function of finance in winning this war and in checking inflation that I should like to clear the air on one point. Financial policies do not of themselves win wars. Wars are decided by battles. But the necessity for winning battles does not diminish the importance of raising the money to fight them. Nor does it lessen our responsibility for raising the money in a way that husbands the strength of the civilian economy instead of wasting it. For though wars may not be won by financial triumphs, they can be lost by financial blunders.

The successful financing of the war is, therefore, vital for victory. It is our job, and we must do it. It is our problem, and it is up to us to solve it.

As I told the Senate Finance Committee in July, I am convinced that the American people are ready for sacrifices greater than we imagine. I know also that American bankers as individuals and as a group are ready to put forth any effort that may be needed. Our war effort is calling upon the skill and the resources and the leadership of the American banker as never before. It demands of him a leadership and a sacrifice above and beyond his own private interests. At the same time, its success is essential to his survival.

In another crisis that brought anxious moments and dark days to us a quarter of a century ago, Woodrow Wilson said, "America is not anything if it consists of each of us. It is something only if it consists of all of us; and it can consist of all of us only as our spirits are banded together in a common enterprise: the enterprise of liberty and justice and right." These were the words of a great American at another time when the fibre of our nation was being tested. They are a watchword for every American today.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

September 1, 1942

TO Secretary Morgenthau

FROM Miss Harriet Elliott

Mrs. Morgenthau suggested that you might want this brief statement before you attend the Conference tomorrow.

A. June 23, 1942: Women's Division formally organized within the Field Staff, under Mr. Coyne.

B. Organization on June 23rd:

1. Miss Elliott Director of Women's Division
2. There were two women members of the National Staff
3. There were three Women Field Directors
4. State organization:
    a. Women on all State Committees but very few states had named State Women Chairmen or Deputies. Women members of general committees had not been given opportunities to work, except in a few states.
    b. Very few states had an active county or local organization.
5. Creating a more active and positive Women's Division in the Washington staff has stimulated greater interest in states.

C. Organization on September 2, 1942:

1. National Staff increased. Now have four functioning sections, with a head for each section, with duties defined.
2. Comprehensive "Guide Book" on women's activities has been prepared, which is now in the hands of all state leaders.
3. Every state has named chairmen or deputies for responsible work. Organization in the states varies.
4. Most states have completed their local organization.
5. The National Regional Staff has been increased from three women to six women.

D. The Women's Division has integrated its work into all the divisions in the War Savings Staff.

I must add that organization and guide books do not tell the real story. The test will come when we know how many bonds are sold as a result of increasing women's activities.

C O N F E R E N C E
of the
W O M E N ' S   D I V I S I O N

WAR SAVINGS STAFF

****

Washington Hotel - Hall of Nations
Washington, D. C.

September 2, 3, 4, 1942

WEDNESDAY, SEPTEMBER 2, 1942

Morning Session

9:00 - 10:00 - Registration

10:00 - 10:15 - The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury

10:15 - 10:45 - Mr. Harold Graves
Assistant to the Secretary

10:45 - 11:15 - Mr. Robert W. Coyne
Director of the Field Staff

11:15 - 11:45 - Miss Harriet Elliott
Director of the Women's Division

11:45 - 12:30 - Questions on organization from the floor

1:00 - 2:15 - Luncheon at the White House
Mrs. Roosevelt, Speaker

Afternoon Session

2:30 - 4:00 - State and Local Organization and Function

State - Mrs. George Sloane
Virginia

County - Mrs. William S. Peace
Pennsylvania

City - Mrs. Dorothy B. Atkinson
Minnesota

Questions from the floor

4:00 - 5:30 - Special Events - Mr. Ted R. Gamble
Assistant to the Secretary

Integration of Special Events
into the Women's Division
Mrs. Henry Morgenthau, Jr.
Chief, Special Activities Section

Questions from the floor

THURSDAY, SEPTEMBER 3, 1942

Morning Session

9:00 - 10:00 - Materials - Miss Helen Dallas, Chief
Materials Section

Questions from the floor

10:00 - 11:00 - Women's Organizations
Miss Mabelle Blake, Chief
Women's Organizations Section

Questions from the floor

11:00 - 11:45 - Women's War Bond Week
Mrs. Genevieve Forbes Herrick
Special Assistant

Questions from the floor

11:45 - 12:30 - Payroll Savings - Mr. Ralph Engelsman
Associate Field Director

Women and Payroll Savings
Miss Harriet Elliott

Questions from the floor

1:00 - 2:15 - Luncheon at Washington Hotel
Speaker - Dr. Peter Odegard
Assistant to the Secretary

Afternoon Session

2:15 - 3:00 - War Bond Selling
Mrs. Nancy C. Robinson, Mississippi

Questions from the floor

3:00 - 4:30 - Special Promotion Techniques
Bond Booths
Mrs. Marion M. Miller, New York
Mrs. Courtlandt Barnes, New York
Minute Women
Mrs. Marian C. Falk, Idaho
Molly Pitcher
Miss Harriet Elliott

Discussion from the floor

THURSDAY, SEPTEMBER 3, 1942 - Continued

5:30 - Tea with Secretary and Mrs. Morgenthau
Rose Room - Washington Hotel

Evening Session

Archives Building
Pennsylvania Avenue between 7th and 9th, N. W.

8:30 - Program of War Bond Films and Treasury Star Records

Discussion by:

Mrs. Henry Morgenthau, Jr.

Mr. Carlton Duffus, Chief
Special Activities Section

Miss Marjorie Spriggs, Chief
Women's and Children's Programs

Songs - Sergeant Richard R. Uhl
Corporal Thomas M. Adair

FRIDAY, SEPTEMBER 4, 1942

Morning Session

9:30 - 10:00 - Function of a Regional Adviser
Mrs. Eleanor Wilson McAdoo
California

Questions from the floor

10:00 - 10:30 - State Meetings
Mrs. Helene Gans, New York

10:30 - 11:45 - Musical Program, Community Sings
Professor Roy Dickinson Welch
Consulting Expert

11:45 - 12:30 - General discussion based on questions from the floor

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Conference Adjourned

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 1 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Operation of payroll savings plan in companies where the deductions have reached 10 percent of payroll.

In accordance with your request to Mr. Graves, the State Administrators of the War Savings Staff are reporting to us each week the names of organizations which have reached the goal of 10 percent of payroll deducted under the payroll savings plan.

These reports cover plants, units, branches, or subdivisions of companies as each of these reaches the goal of 10 percent of payroll deducted for the purchase of war savings bonds.

As of August 29, 1942, 14,350 companies, firms, plants, branches, units or subdivisions were reported to have reached the goal of 10 percent of payroll. These organizations employed 1,488,000 persons according to the reports or approximately 6.6 percent of the 22 million persons employed in companies that have installed the payroll savings plan. Details on the amount deducted in the organizations with more than 1,000 employees which were included in the reports submitted this week are shown in the table attached.

Attachment

Firms with 1,000 or More Employees Reported to be deducting 10 Percent or More of Aggregate Payroll Under Payroll Savings Plans

(As reported by the War Savings Staff's State Administrators August 26, 1942)

Name of firm and state	Number of employees	Approximate aggregate monthly payroll (in thousands)	Percent of aggregate pay deducted	Average monthly deduction per employee
Jones and Laughlin Steel Corp., Pa.	38,856	6,857	10	$ 16.87
Boeing Aircraft Co., Wash.	32,000	6,836	10	22.11
Atlas Powder Co., Mo.	4,450	*	11	*
Rohr Aircraft Corp., Calif.	4,290	676	12	18.91
Tietjen and Lang, N. J.	3,800	*	10	*
American Viscose Co., W. Va.	3,674	559	11	16.44
Kimble Electric Co., Ill.	2,773	*	11	*
St. Louis Independent Packing Co., Mo.	2,367	416	10	17.59
American Brass Co., Mich.	1,509	348	10	23.09
Victor-Monaghan Co., S. C.	1,281	113	11	9.46
Columbia Aircraft Industry, Ore.	1,276	245	13	24.97
Leland Electric Co., Ohio	1,183	214	10	18.06
Startex Mills, S. C.	1,100	111	10	10.06
Monsanto Chemical Co., Ill.	1,050	*	15	*
Foley Brothers, Inc., Mo.	1,000	*	10	*

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

August 31, 1942.

* Not available.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of August sales to date with sales during the same number of business days in July and June 1942
(At issue price in thousands of dollars)

Date	August daily sales	Cumulative sales by business days: August	July	June	August as percent of July
August 1942					
1	$ 26,267	$ 26,267	$ 28,418	$ 29,539	92.4%
3	38,765	65,032	52,687	45,442	123.4
4	27,023	92,055	79,964	67,046	115.1
5	25,835	117,890	126,495	98,208	93.2
6	40,450	158,341	157,605	132,341	100.5
7	38,184	196,524	201,056	154,085	97.7
8	24,218	220,742	240,974	192,659	91.6
10	41,021	261,763	288,729	206,523	90.7
11	15,274	277,037	324,856	236,552	85.3
12	24,724	301,761	372,020	259,772	81.1
13	22,757	324,518	402,122	281,724	80.7
14	28,504	353,022	435,929	303,163	81.0
15	12,830	365,852	467,599	334,398	78.2
17	41,806	407,659	505,257	345,497	80.7
18	14,551	422,209	527,186	368,782	80.1
19	27,756	449,965	580,443	387,369	77.5
20	23,791	473,756	602,129	414,804	78.7
21	22,187	495,943	636,640	429,158	77.9
22	13,246	509,189	670,075	468,812	76.0
24	41,029	550,219	703,062	485,338	78.3
25	19,667	569,885	722,572	510,446	78.9
26	25,385	595,271	776,393	533,097	76.7
27	23,275	618,546	806,228	554,915	76.7
28	23,861	642,406	839,266	575,657	76.5
29	18,031	660,438	869,209	609,516	76.0
31	36,817	697,255	900,861	633,945	77.4

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

September 1, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

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UNITED STATES SAVINGS BONDS - SERIES E

Comparison of August sales to date with sales during the same number of business days in July and June 1942
(At issue price in thousands of dollars)

Date	August daily sales	Cumulative sales by business days			
		August	July	June	August as percent of July
August 1942					
1	$ 14,044	$ 14,044	$ 15,821	$ 19,834	88.8%
3	22,178	36,222	30,701	27,841	118.0
4	14,575	50,797	47,523	40,811	106.9
5	12,988	63,785	77,320	58,199	82.5
6	23,004	86,789	95,044	82,988	91.3
7	24,959	111,748	116,643	98,197	95.8
8	16,429	128,176	139,390	125,245	92.0
10	26,805	154,981	164,161	134,157	94.4
11	9,885	164,866	183,238	154,242	90.0
12	15,921	180,787	209,787	169,920	86.2
13	16,356	197,143	225,532	186,470	87.4
14	18,760	215,903	243,938	201,700	88.5
15	9,578	225,481	261,766	225,684	86.1
17	28,683	254,163	284,111	233,218	89.5
18	9,737	263,900	296,344	249,033	89.1
19	17,650	281,550	327,712	261,321	85.9
20	15,525	297,075	339,951	280,742	87.4
21	16,026	313,101	358,135	291,729	87.4
22	9,881	322,982	376,396	321,114	85.8
24	30,522	353,504	394,984	331,806	89.5
25	13,692	367,195	405,679	347,673	90.5
26	16,107	383,303	438,256	362,550	87.5
27	14,932	398,234	455,706	378,505	87.4
28	17,328	415,563	473,962	392,224	87.7
29	12,177	427,740	488,173	417,117	87.6
31	26,227	453,967	508,118	433,223	89.3

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

September 1, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of August sales to date with sales during the same number of business days in July and June 1942
(At issue price in thousands of dollars)

Date	August daily sales	Cumulative sales by business days: August	July	June	August as percent of July
August 1942					
1	$ 12,222	$ 12,222	$ 12,597	$ 9,705	97.0%
3	16,587	28,810	21,986	17,601	131.0
4	12,448	41,258	32,441	26,235	127.2
5	12,847	54,105	49,175	40,009	110.0
6	17,447	71,552	62,561	49,353	114.4
7	13,225	84,777	84,413	55,888	100.4
8	7,789	92,566	101,585	67,414	91.1
10	14,216	106,782	124,568	72,366	85.7
11	5,389	112,171	141,618	82,310	79.2
12	8,803	120,974	162,232	89,852	74.6
13	6,401	127,375	176,590	95,254	72.1
14	9,744	137,119	191,991	101,464	71.4
15	3,253	140,372	205,833	108,715	68.2
17	13,124	153,496	221,147	112,279	69.4
18	4,814	158,309	230,842	119,749	68.6
19	10,106	168,415	252,731	126,048	66.6
20	8,266	176,681	262,178	134,062	67.4
21	6,161	182,842	278,505	137,429	65.7
22	3,365	186,207	293,679	147,698	63.4
24	10,507	196,715	308,077	153,532	63.9
25	5,975	202,690	316,893	162,774	64.0
26	9,278	211,968	338,137	170,547	62.7
27	8,343	220,311	350,522	176,410	62.9
28	6,532	226,844	365,305	183,433	62.1
29	5,854	232,698	381,036	192,398	61.1
31	10,590	243,288	392,744	200,722	61.9

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

September 1, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand will not necessarily add to totals.

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Sales of United States savings bonds
August 1 through August 31, 1942
Compared with sales quota for same period
(At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual sales		Quota, August 1 to date	Sales to date as % of quota	Actual sales		Quota, August 1 to date	Sales to date as % of quota	Actual sales		Quota, August 1 to date	Sales to date as % of quota
	Daily	August 1 to date			Daily	August 1 to date			Daily	August 1 to date		
1	$ 14.0	$ 14.0	$ 16.0	87.5%	$ 12.2	$ 12.2	$ 7.7	158.4%	$ 26.3	$ 26.3	$ 23.7	111.0%
3	22.2	36.2	47.3	76.5	16.6	28.8	21.5	134.0	38.8	65.0	68.8	94.5
4	14.6	50.8	61.0	83.3	12.4	41.3	29.6	139.5	27.0	92.1	90.6	101.7
5	13.0	63.8	84.0	76.0	12.8	54.1	45.4	119.2	25.8	117.9	129.4	91.1
6	23.0	86.8	107.3	80.9	17.4	71.6	58.7	122.0	40.5	158.3	166.0	95.4
7	25.0	111.7	134.4	83.1	13.2	84.8	68.8	123.3	38.2	196.5	203.2	96.7
8	16.4	128.2	154.1	83.2	7.8	92.6	76.3	121.4	24.2	220.7	230.4	95.8
10	26.8	155.0	190.6	81.3	14.2	106.8	87.9	121.5	41.0	261.8	278.5	94.0
11	9.9	164.9	205.1	80.4	5.4	112.2	94.1	119.2	15.3	277.0	299.2	92.6
12	15.9	180.8	227.1	79.6	8.8	121.0	105.1	115.1	24.7	301.8	332.2	90.8
13	16.4	197.1	247.9	79.5	6.4	127.4	114.0	111.8	22.8	324.5	361.9	89.7
14	18.8	215.9	271.0	79.7	9.7	137.1	120.9	113.4	28.5	353.0	391.9	90.1
15	9.6	225.5	287.7	78.4	3.3	140.4	126.4	111.1	12.8	365.9	414.1	88.4
17	28.7	254.2	319.2	79.6	13.1	153.5	135.8	113.0	41.8	407.7	455.0	89.6
18	9.7	263.9	332.2	79.4	4.8	158.3	141.3	112.0	14.6	422.2	473.5	89.2
19	17.6	281.6	353.0	79.8	10.1	168.4	151.9	110.9	27.8	450.0	504.9	89.1
20	15.5	297.1	373.6	79.5	8.3	176.7	161.0	109.8	23.8	473.8	534.6	88.6
21	16.0	313.1	397.4	78.8	6.2	182.8	168.3	108.6	22.2	495.9	565.7	87.7
22	9.9	323.0	415.1	77.8	3.4	186.2	174.3	106.8	13.2	509.2	589.4	86.4
24	30.5	353.5	449.0	78.7	10.5	196.7	184.8	106.4	41.0	550.2	633.8	86.8
25	13.7	367.2	462.9	79.3	6.0	202.7	191.0	106.1	19.7	569.9	653.9	87.2
26	16.1	383.3	484.5	79.1	9.3	212.0	203.0	104.4	25.4	595.3	687.5	86.6
27	14.9	398.2	505.0	78.9	8.3	220.3	213.2	103.3	23.3	618.5	718.2	86.1
28	17.3	415.6	527.8	78.7	6.5	226.8	221.4	102.4	23.9	642.4	749.2	85.7
29	12.2	427.7	544.2	78.6	5.9	232.7	228.1	102.0	18.0	660.4	772.3	85.5
31	26.2	454.0	575.0	79.0	10.6	243.3	240.0	101.4	36.8	697.3	815.0	85.6

Office of the Secretary of the Treasury, Division of Research and Statistics. September 1, 1942.

Source: Actual sales figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. Figures have been rounded and will not necessarily add to totals.

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

THE UNDER SECRETARY OF STATE
WASHINGTON

September 1, 1942

Personal

Dear Henry:

I am particularly sorry that I cannot lunch with you Thursday or Friday as you were good enough to ask me.

I am leaving Washington Friday morning to be gone some ten days for a rather badly needed rest. My older boy, who is in the Army, is leaving for overseas, and I have arranged to lunch with him on Thursday, which is probably the last day I will be able to see him before he goes. I know you will understand the circumstances.

If there is anything urgent you have in mind, let me know and I will be delighted to drop over to see you, or if not please give me the chance of lunching with you after I get back the week after next.

With my best regards, believe me

Yours very sincerely,

Sumner Welles

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

OPY-FOR: Miss Chauncey

2[illegible]8

Distributed to: Secretary
Secretary's [illegible]
Mr. Bell
Mr. B. Bernstein
Mr. E. M. Bernstein
Mr. Blough
Mr. Cairns
Mr. Foley
Mr. Gaston
Mr. Glasser
Mr. Graves
Mr. Hass
Mr. Johnson
Mr. Odegard
Mr. Paul
Mr. Pehle
Mr. Southard
Mr. Sullivan

ROM: MR. WHITE

September 1, 1942

MEMORANDUM FOR THE FILES

Subject: Telephone conversation between Mr. White and Mr. Elliot Bell of the New York Times, September 1, 1942.

Mr. Bell mentioned that he had been informed that Mr. White and Mr. Kuhn wished to call the attention of the Times editors to the mis-statement of facts in the editorial in the Times, Saturday, August 29. Mr. White mentioned particularly the fact that all of the Treasury's silver was allocated for war uses where they would release large amounts of scarce metals, particularly copper. Mr. Bell made the point that since this silver could not go into consumptive uses, we could not be sure that the most urgent war uses were being satisfied. Mr. White pointed out that there was available silver adequate for war uses inasmuch as silver is being used for non-war purposes.

Mr. Bell called attention to the fact that only 110 million ounces of this free silver had gone to the Defense Plant Corporation by August 27, and he wished to know whether all of the free silver would be used in these non-consumptive purposes. Mr. White stated that some delay had occurred in delivery of the silver because the plants in which the silver was to be used were in the course of construction and were not prepared to receive the silver at the time the contract was made. The first deliveries were at the end of June, and no substantial deliveries had been made until a month ago, but silver is now being delivered daily to the Defense Plant Corporation and all of the silver will get into non-consumptive war uses.

Mr. Bell then mentioned the second mis-statement in the Times editorial that the Treasury had raised the buying price of silver to 45 cents an ounce. Mr. White pointed out that the Treasury's price remained 35 cents flat, which was lower than the previous ceiling price of 35 3/8 cents an ounce. No foreign silver has been purchased by the Treasury since November, 1941. Mr. Bell asked whether this was not in violation of the provision of the Silver Purchase Act. Mr. White said that it was distinctly not for under the Act the Secretary was to buy silver on such terms and conditions he deemed in the public interest. It is not in the interest of this Government to acquire foreign silver at this time.

Mr. Bell also raised the point as to whether the State Department had entered into an agreement with Mexico to raise the price of silver to 45 cents an ounce. Mr. White said that there was no agreement.

The Mexican Government had made representations and the War Production Board and the O.P.A. had been consulted and had agreed to the price rise.

Mr. White pointed out to Mr. Bell that the situation on newly-mined domestic silver differed from that on foreign silver in that the Treasury was under mandate to buy all newly-mined domestic silver presented at the coinage mints at 71¢ cents an ounce. The Treasury hopes that with the new O.P.A. ceiling price of 71 cents plus freight charges, silver will go into industrial uses. Apparently there is already some falling off in deliveries to the Treasury and it may be that the great bulk of newly-mined domestic silver will be diverted to industry to be used for war purposes.

E. M. Bernstein

The New York Times.
SEP - 2 1942

THE SILVER SCANDAL

No amount of argument can alter the fact that our national silver policy has become a national scandal. Our Government holds stocks of nearly 3,000,000,000 ounces of silver, most of which, in view of our huge gold reserves, are utterly unneeded for monetary purposes. Yet there is a shortage of the metal for industrial use. War industries are having difficulty obtaining silver for consumption; other industrial users are being needlessly driven out of business. Having created this artificial scarcity by our policy of subsidizing domestic producers, we have now decided to increase the subsidy to foreign producers and even to subsidize the revenues of a foreign government in the hope of getting more silver from abroad.

There is no dispute about where the blame for this situation lies. It lies squarely upon the little group of silver Senators and their inflationist allies in both houses of Congress who have fastened upon the country and stubbornly keep there laws requiring the Treasury to offer for all domestically produced silver a price of 71.11 cents an ounce, which is twice the recent market price, and forbidding the Treasury to sell silver at less than $1.29 an ounce, which is nearly four times the recent market price.

The Treasury is not responsible for these laws. It has been openly unsympathetic with them. It has repeatedly advocated their outright repeal. Moreover, it has endeavored, within the restrictions imposed by the silver legislation, to make some of its holdings available to war industries by "lease-lending" its "free silver," by stopping its purchase of foreign silver and by postponing the delivery of newly mined domestic silver in the hope that industrial users will be able to outbid the offer it is required by law to make. Nor was the Treasury itself directly involved in the recent increase in the price of foreign silver, as was incorrectly stated in these columns recently. In this case it was two other branches of Government. The State Department held some conversations with Mexico the gist of which was that it would be a nice thing if Mexico could get a higher price for silver so as to encourage production and permit the Mexican Government to levy an additional tax thereon. The increase agreed upon was 10 cents an ounce, 3 cents to subsidize the Mexican producer and 7 cents to subsidize the Mexican Government. Then the OPA obligingly raised the ceiling on foreign silver from 35 to 45 cents an ounce.

Although the Treasury is not responsible for the situation, it wittingly or unwittingly played into the hands of the Congressional silver bloc in its statement of last Monday. The Treasury declared that of its 1,350,000,000 or so ounces of "free silver" the entire amount was being "lend-leased for use in war plants," and that "substantial amounts of this free silver are already being delivered." There was nothing new in this statement, but the manner of its presentation was calculated to give the impression that ample supplies of silver were being made available for all essential purposes and that the recent talk of a silver shortage was ill-founded. What are the facts, so far as they have been officially disclosed?

The Treasury's lease-lend silver plan, as announced last April, provides for the loan of silver to the Defense Plant Corporation, but within strict limits. The silver must "not become a part of the product of the war production plants." It must not be "used up." It may be used only in such form as permits its return to the Treasury after the war, as, for example, in substituting for copper in the making of bus bars. It may not be "consumed," as, for example, in substituting for tin in solder. In short, the plan does not provide an ounce of silver for actual consumption. What has been the result? Between last April, when the plan was announced, and Aug. 27 the total amount of this free silver transferred to the Defense Plant Corporation and other users was 110,565,715 ounces, or about 8 per cent of the 1,350,000,000 ounces available.

Presumably the program, despite the months that have passed, is only just beginning to function and larger amounts will soon be used. But that is the official record to date, as disclosed in the Treasury's daily statement. It is certainly open to question whether the entire amount of free silver now said to be allocated to lease-lend can be employed in the limited uses to which it may be put. Even if it can, that does not solve the problem. With the huge glut of silver held by our Government, ample supplies of the metal ought to be available for consumption. It ought to be available to take the place of the tin from which our enemy Japan has cut us off. It ought to be available, not by the devious method of lease-lending silver that will have to be ripped out and returned but by the clean-cut method of outright sale at a fair price. There should be released to meet the needs of industry not merely the Treasury's free silver but also the silver now pledged against outstanding silver certificates, a reserve which we have ample gold to replace. This can be accomplished only by the repeal of the absurd silver legislation now on the books.

SEP 1 - 1942

CONFIDENTIAL

MEMORANDUM TO MR. HALL:

Please proceed with the utmost dispatch to prepare the following quantity of silver certificates:

$10	denomination	-	1,720,000	notes
5	"	-	320,000	"
1	"	-	1,000,000	"

These notes will be the same in all particulars as regular issues of silver certificates except that the seal on the face of the notes should be yellow.

No announcement or other information concerning the change in the color of the seal should be released to anyone.

Special shipping instructions with respect to these notes will be furnished immediately upon advice as to their availability.

The Secretary desires that a time record be made on this operation.

(Signed) HERBERT E. GASTON

Assistant Secretary of the Treasury.

WHH:mlb 9-1-42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 1 - 1942

TO Secretary Morgenthau

FROM Mr. Paul

In accordance with the existing instructions, there is submitted herewith a summary report of activities and accomplishments carried on by the Legal Staff for the month of July, 1942.

REP

Attachment.

SUMMARY REPORT ON ACTIVITIES AND ACCOMPLISHMENTS
IN THE OFFICE OF THE GENERAL COUNSEL
JULY, 1942.

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

1. Blood Donation to Charitable Organization. A taxpayer claimed a deduction from gross income (in computing the net taxable income) for a contribution made to a charitable organization of a quantity of his own blood valued at $50. Under date of July 6, 1942, the taxpayer's claim for deduction was disallowed on the theory that a blood withdrawal and the donation thereof to a charitable organization was more in the nature of a personal service than a contribution of property, and, therefore, not deductible under section 19.23(o)(1) of Regulations 103.

2. Refund of Gift Tax to Estate of James Couzens. The Joint Committee on June 27, 1942, approved a refund of gift tax in the amount of $103,945.56 without interest to the Estate of Senator James Couzens. In 1929, Senator Couzens transferred $10,000,000 to trustees, directing them to form a corporation to hold the property and to use the whole principal and income from the trust estate to promote the welfare of the children of Michigan and elsewhere.

The trust instrument provided that in the furtherance of that purpose the trustees might expend the fund in any manner which they thought expedient, including the support and establishment of charitable, educational, and benevolent activities and institutions. In his gift tax return for 1934, the year in which the gift was made to this corporation, Senator Couzens claimed a deduction for the amount of this gift on the theory that the gift was a charitable contribution and, therefore, not taxable. The Commissioner disallowed the claim and collected an additional tax, and the estate brought suit to recover the amount so collected. The principal questions involved were whether the word "benevolent" was sufficiently broader than the word "charitable" to make the gift outside the exemption of the statute, and whether or not certain reservations of the right to alter and amend the trust were broad enough in scope to cover an amendment which would permit the funds to be devoted to purposes other than charitable purposes.

3. Latin American Engineer Trainees. The Office of the Chief Counsel has ruled that payments made to eight Latin American engineer trainees carried on the pay rolls of the

Rural Electrification Administration, comprising the allowance made for transportation to and from South America, per diem while in travel status, and so-called salaries of $1620 a year for each trainee, are in substance gratuities paid by the United States to such trainees and are not subject to Federal income tax. These individuals were being detained at St. Louis after the completion of a one year training period because they could not furnish income tax clearances and claimed that they should be issued such clearances without payment of tax on the ground that the amounts received by them should not be subjected to the Federal income tax. They were brought to this country as a part of the good will program developed by the Office of Coordinator of Inter-American Affairs and were assigned to the Rural Electrification Administration to study problems of rural electrification. It was explained that it was not the purpose to derive any productive work from these trainee engineers, that they were given a series of lectures; including legal phases as well as engineering phases, which were intended to impart to them familiarity with the program and the administration of the REA.

4. Pacific States Savings and Loan Company. Arbitrary jeopardy assessments amounting to $2,662,453.07 were made against this taxpayer for the years 1934 to 1938. A recently negotiated settlement involving two Board petitions covering the assessments resulted in stipulating deficiencies upwards of $300,000 with abatement of the balance. Thousands of persons had their small savings deposited with the taxpayer. The controlling interests of this taxpayer bought up certificates from depositors at greatly discounted prices and then used the certificates, or cash from sales of small properties taken on foreclosure, to buy up large properties or defaulted bonds on such properties with the intention of obtaining them through foreclosure. Many of the depositors have already sold out for fifty cents on the dollar and the State Building and Loan Commissioner has taken over the taxpayer ostensibly for the protection of the depositors and public generally. The practices of the controlling interests have been severely condemned by the courts in Los Angeles and San Francisco.

5. Agreement of Navy to Pay Taxes on Behalf of United Aircraft Corporation. A proposed contract between a newly-formed subsidiary of United Aircraft Corporation and the

Navy Department for the manufacture of engines, contains an agreement by the Navy Department to pay the company's Federal income and excess-profits taxes on any taxable profit derived under the contract. This contract is interesting for the following reasons: (1) The agreement to pay income and excess-profits taxes is in a proposed contract of the Navy Department despite a provision in the regulations of that Department that an agreement to pay such taxes is invalid; (2) This is the first supplies contract to come to our attention with such a provision in it; (3) An attempt has been made to provide that the contractor shall not derive any profit from the contract by incorporating therein a provision that the Navy Department pay the costs of performing the contract and pay a fixed fee only to the extent that items of cost are disallowed as by the Comptroller General; and (4) The device would circumvent a disallowance by the Comptroller General, which is apparently considered justifiable because of the no profit basis of the contract. Realizing that a closing agreement would not be given in connection with the contract, representatives of the company asked informally whether a ruling would be given. They were told that the Bureau of Internal Revenue did not want to become a party to the contract in any way.

6. Statement of General Rules relative to Renegotiation of Government Contracts. At a conference with C. O. Pengra, Counsel for the War Department Price Adjustment Board, the Federal income and excess-profits tax questions arising in connection with renegotiation of Government contracts were discussed, and it was decided to issue a statement of the general rules to be considered in making adjustments for Federal income and excess-profits tax purposes.

7. Application of Tax Refund to Winchester Repeating Arms Company on Finnish Debt to the United States. In January, 1940, Finland bought and paid for 30,000,000 cartridges for use in her war against Russia. On March 12, 1940, the war with Russia ended,and Finland, not having taken delivery on the cartridges, sold them to one Ettlinger of New York City, who in turn sold them to the Government of The Netherlands. Finland paid the manufacturers' excise tax of 10% (amounting to $123,246.60) to the Winchester Repeating Arms Company, which in turn paid it over to the United States. On the exportation of the cartridges to The Netherlands this manufacturers' tax became subject to refund and the company filed a claim for refund to which was attached an appropriate consent executed by or for

Finland, Ettlinger and The Netherlands. An interesting feature is that the Finnish Government is asking that the refund be expedited in order that it may be applied on the Finnish debt to the United States.

8. Mae West. The offer in compromise of Mae West, the celebrated screen star, to pay $90,412.66 in compromise of proposed income taxes, fraud penalties and interest for the years 1934 to 1938 inclusive, totaling $123,964.85, has been accepted. Of this amount $33,803.08 represents fraud penalties, but the fraud case was rather weak although criminal prosecution for the years 1934 and 1935 was considered at one time but was barred by the statute of limitations before acceptance of the offer in compromise. The amount paid is equal to the entire additional taxes with interest thereon, and about $250 more.

9. Cases Handled by Review Division During 1942. During the fiscal year 1942 the Review Division reviewed 503 cases, involving overassessments proposed by the Audit Units in the aggregate amount of $39,411,611.78. Of this amount the Chief Counsel approved overassessments aggregating $36,907,230.97 and disapproved the aggregate amount of

$2,504,380.81. Deficiencies aggregating $690,535.40 were also disclosed in the course of the reviews and were recommended by the Chief Counsel's Office for assertion by the Commissioner. This makes a total increased tax liability proposed of $3,194,916.21.

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

10. Salvage. Several interdepartmental conferences, presided over by Mr. Gaston, have been held recently regarding the disposition of salvaged articles from vessels torpedoed or otherwise wrecked along the coast of this country. The Office of the Chief Counsel of Customs participated, in collaboration with administrative officials of the Bureau of Customs, in the preparation of detailed instructions to collectors of customs regarding the disposition of salvaged articles. After informal clearance with other interested Government agencies, the instructions were issued in a letter signed by Mr. Gaston on July 3.

The office of the Chief Counsel of Customs prepared a letter to the Department of Justice requesting that an effort be made to obtain an amendment of an order of the United

States District Court in Florida for the sale to settle salvage claims of the wrecked vessel LA PAZ and its cargo, consisting largely of whiskey. The letter pointed out that the existing court order did not sufficiently protect the customs revenue and appeared inconsistent with the Bureau's position that duty constitutes a prior claim to salvage.

11. S.S. SNAPPER KING. The Chief Counsel's Office, Bureau of Customs, prepared a letter addressed to the Department of Justice requesting that application be made for a writ of certiorari in the case of the SNAPPER KING. That vessel, which was licensed to engage in the mackerel fishery, had been hired to take out fishing parties, and it is the position of the Bureau that such actions constituted a carriage of passengers for hire in violation of the licensing statutes. The Circuit Court of Appeals in holding against the Government had stated that the actions of the SNAPPER KING technically constituted carrying passengers for hire, but that such actions on two occasions were not sufficient to amount to a violation.

12. Free entry; Foreign military personnel and prisoners of war. The Chief Counsel's Office, Bureau of Customs,

participated in the preparation of regulations to carry out the provisions of Public Law 635, approved June 27, 1942, to accord the privileges of free importation to members of the armed forces of other United Nations, to enemy prisoners of war and civilian internees and detainees. The regulations are contained in a Treasury decision signed on July 3, 1942.

13. Exemption from duty for effects of evacuees, etc. The Office of the Chief Counsel of Customs participated in the preparation of a Treasury decision containing regulations for the administration of Public Law 633, which provides for the exemption from duty and tax of the personal and household effects of persons evacuated to the United States under Government orders, and of certain classes of persons in the service of the United States, and their families. The Treasury decision was signed on July 10, 1942.

14. Articles which alien enemies are forbidden to possess. A circular letter was prepared for the signature of the Commissioner of Customs for transmission to collectors of customs and customs agents concerning articles (which the President by Proclamations Nos. 2525, 2526, and 2527 prohibited alien enemies from possessing) which are consigned to persons

known to be alien enemies or which are in the possession of such persons upon their arrival in this country. The letter directed that such articles shall be detained by collectors but shall not be placed under seizure except upon instructions received from the appropriate United States attorney, unless there is involved a violation of a customs or other law which would ordinarily warrant placing the article under seizure for such violation. The letter also instructed collectors to release such articles to the aliens, or to persons authorized by the aliens to receive the articles, upon the receipt by the collector of written statements from the appropriate United States attorney that such persons are permitted to obtain possession of the articles pursuant to the Attorney General's regulations of February 5, 1942, as amended, which were issued pursuant to authority contained in the Presidential proclamations.

15. Transfer and storage of bonded merchandise by the War Department. The Office of the Chief Counsel of Customs, in cooperation with Messrs. Higman and Cairns, drafted proposed legislation which would permit the War Department to take merchandise being transported in bond or otherwise held

in customs custody and transfer such merchandise to other transportation or storage facilities. The draft of the proposed bill provides that, as a prerequisite to such action by the War Department, the Secretary of War or an official designated by him must find that the transportation or storage facilities where the merchandise is being held are needed for military purposes. The transfer and storage of the merchandise by the War Department would be at the risk and expense of that Department and the bill provides that, when military necessity permits, the War Department must return the merchandise to the point from which it was taken or to some other point designated by the owner or consignee of the merchandise and agreeable to the collector of customs concerned. This proposed legislation was drafted at the instigation of officials in the War Department, for their use and their presentation to Congress, it being understood that the Treasury Department, while drafting the measure, was in no position to state that it was needed legislation.

16. <u>Transfer of silver held by the Treasury to the United Kingdom for coinage</u>. An opinion, with a memorandum of law attached, addressed to Secretary Morgenthau, which was prepared by Miss Hodel, Mr. Brenner and Mr. Meyer, and

signed on July 3, 1942, concluded that "free silver" may be transferred to the United Kingdom for coinage purposes by direction of the President, pursuant to the Lend-Lease Act (U.S.C., 1940 ed., title 22, secs. 411-422).

17. Sale of "stock transfer stamps" to stamp dealers and collectors. An opinion, addressed to Assistant Secretary Sullivan, which was prepared by Mr. Gilmore, and signed on July 7, 1942, concluded that, in general, purchases of internal revenue stamps from the Government should be permitted where the administration of the law imposing the tax, in both its revenue and regulatory aspects, is not thereby interfered with.

18. Payment of voucher for song sheet cover of "I Paid My Income Tax Today". An opinion addressed to Mr. W. N. Thompson, which was prepared by Mr. DuBois, and signed on July 13, 1942, concluded that there is authority to use the funds appropriated in the Treasury and Post Office Appropriation Act, 1942, to pay for the design and finished art for the song sheet cover.

19. Threats of violence against the President. An opinion addressed to Chief Wilson, which was prepared by

Mr. Blakeman and Mr. Tobolowsky, and signed on July 22, 1942, discussed the cases relating to threats against the President, arising under the Act of February 14, 1917, (U.S.C., title 18, sec. 89) and the Espionage Act of June 15, 1917, and applied those authorities to statements tending to incite persons to violence, made by leaders of organizations in the United States who are not in accord with the conduct of the Government. The opinion also reviewed a monograph prepared for the information of Secret Service agents, and considered whether any changes in the present procedure in handling threats against the President were advisable.

20. Supplying narcotic items of first-aid equipment for vessels and planes of the American Export Lines. The Medical Director of the American Export Lines desires to order and supply directly vessels and planes of the lines with a supply of morphine syrettes for emergency medical use. The morphine syrette is a device for direct hypodermic injection of a contained unit dose of morphine. Although there is no regulation specifically authorizing equipment of airplanes with narcotics, in view of the emergency, the Medical Director was authorized to obtain the syrettes pursuant to Public Health Service Form 1914 and to supply them to the

vessels and airplanes. A plan is being formulated in the Office of the Chief Counsel, Narcotic Section, to authorize commercial airplanes in international and interstate service to obtain under appropriate regulations narcotic supplies for emergency medical use.

21. The 1930 narcotic smuggling case involving Athanael, Elias, and George Eliopoulos. During and prior to 1930 the Eliopoulos brothers, of Greek nationaltiy, extensively dealt in narcotics on the European continent. While in France, in July 1930, they sold some 200 kilograms of morphine to a representative of an American group of peddlers, and subsequently, a shipment of about 100 kilograms of morphine was unlawfully imported at Hoboken, New Jersey. The Eliopoulos brothers did not personally enter the United States until 1941, and in November and December 1941 the United States Grand Jury in New Jersey returned indictments against them for conspiracy to defraud the United States of internal revenue taxes upon the narcotic drugs so imported, as well as the substantive offense of violating the internal revenue laws by importing morphine and failing to pay taxes on the same. The District Court ruled that the statute of limitations

barred the prosecution. The United States Attorney has requested the Department's permission to appeal this decision direct to the Supreme Court. Mr. Mitchell of the Narcotic Legal Section is studying the case.

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

22. Release of securities and other items deposited with High Commissioner of Philippines. (See April 1942 report, item 48). Agreements of indemnity were drafted for use in connection with the release to the Hong Kong & Shanghai Banking Corporation and to the Chartered Bank of India, Australia and China of various securities and other items which were deposited by them with the High Commissioner at the time of the Japanese invasion and are now held by the Federal Reserve Bank of San Francisco as fiscal agent of the United States. The items are to be released with the understanding that they will be handled in compliance with any customs laws or regulations which may be applicable and with the further understanding that they will be held in appropriate blocked accounts, with any disposition of them being made only in accordance with the provisions of Executive

Order No. 8389, as amended. Messrs. Reeves, Wald and Tietjens are working on this.

23. Seaboard RR reorganization. Mr. Zarky, representing this office, attended hearings in New York on allocations of securities in the reorganized road. At these hearings Mr. John W. Barriger of the Office of Defense Transportation, who is the Government Manager of the Toledo, Peoria and Western Railway, gave testimony regarding the allocation which the Treasury Department contends should be made for certain miscellaneous collateral pledged with the Department as security for loans made to the Seaboard under §210 of the Transportation Act of 1920. Mr. Zarky handled the presentation of the testimony by Mr. Barriger.

24. Designation of depositaries of Government funds. The advisability of redesignating existing depositaries of public moneys is being considered in order to make certain that the provisions of §10 of the Act of June 11, 1942, which extends the definition of public moneys to include "any funds the deposit of which is subject to control or regulation by the United States", will apply to depositaries designated prior to the enactment of that Act. This matter

is of importance in connection with (1) the authority of such depositaries to pledge their assets to secure deposits of Government corporations, registry funds, etc., and (2) the preferred status given to the United States as a creditor under §3466 of Rev. Stat. (U.S.C., title 31, §191). Messrs. Reeves and Wald are working on this.

25. Murray-Patman Act (Pub. Law 603, approved June 11, 1942). At the request of Mr. Bell's office, a conference was held in Mr. Tietjen's office at which were present: Messrs. Brown and Thompson of the FDIC, Mr. Batchelder, from the Under Secretary's office, Mr. Raeburn, from the Commissioner of Accounts' office, and Mr. Robertson from the legal division of the Bureau of the Comptroller of the Currency. The provisions of §10 of the Act, which makes all insured banks eligible for designation by the Secretary of the Treasury as depositaries of public money and prohibits all agencies and officers of the United States from discriminating against or preferring national banks, state bank members of the Federal Reserve System, or insured banks not members of the System, in the deposit of public moneys, were discussed. It was generally agreed that this section of the Act does not

require the War Department to take security for advance payments to contractors or to require such funds to be placed in Government depositaries. It was also generally agreed that with proper changes in War Department contracts, funds available for such contracts could be placed in Government depositaries and secured.

26. Purchase of Government securities, other than War Bonds. Mr. Cunningham attended a number of conferences with Under Secretary Bell and Mr. Heffelfinger and representatives of the National Service Board for Religious Objectors in connection with the purchase by groups constituting that Association of Government securities other than those designated as War Bonds. A program has been worked out providing for the purchase of ordinary Treasury issues through a fiscal agent under the direction of a committee representing members of the Association. The Treasury Department has by letter approved the plan in principle.

27. Destruction of obligations of City of Cincinnati, Ohio, in Hawaii (See March 1942 report, item 37). Letters were prepared, addressed to the Board of Trustees of the Sinking Fund of the City of Cincinnati and John L. Schram, Special Treasury Representative at Honolulu, T.H., providing that

Schram is to act as representative of the Trustees of the Sinking Fund in connection with the destruction in Hawaii and replacement in this country of securities of the City of Cincinnati now held by the Hawaiian Trust Company, Ltd. of Honolulu. The procedure to be followed in this case will, except for several minor changes, be the same as that prescribed for bearer obligations of the United States in the "Procedure for Treasury Custody and Destruction of Currency and Securities in Hawaii", approved by the Acting Secretary of the Treasury on March 3, 1942. Messrs. Tietjens and Reeves worked on this.

28. Advance Payments made by the War Department to contractors. Mr. Tietjens attended a conference at which Messrs. Batchelder and Raeburn of the Treasury Department and Col. Meachem and Col. Royal of the War Department were present. The conference dealt with the effect of the Murray-Patman Act (Public Law 603, approved June 11, 1942) on the handling of advance payments by the War Department to contractors. As a result of the conference the Secretary of War addressed a letter to the Treasury outlining that Department's interpretation of the Act to the effect that it does not require advance payments to contractors to be secured

and placed in Government depositaries. The Treasury has by letter signed by the Under Secretary confirmed the War Department's understanding in this respect.

29. Proposed Withholding Tax - public debt obligations. At the request of the Under Secretary, Messrs. Tietjens and Cunningham sat in at a conference with Messrs. Siegrist and Atkinson, of the Bureau of Internal Revenue, Mr. Wesley, Chief of the Division of Loans and Currency, Mr. Barnes, Assistant Treasurer of the United States, and Mr. Hearst, Chief of the Division of Securities, to discuss some of the administrative problems in connection with the proposed withholding tax in so far as it would affect public debt obligations. A memorandum as to the results of the conference has been prepared for Mr. Bell. In brief, the conference developed that there would be additional administrative expenses in the fiscal service and also a very real burden on the Federal Reserve banks.

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

30. Prosecution of Nazi and Bund Members and Organization. From the various investigations which have been conducted by

this office, material was obtained which has been studied, analyzed, and contributed to the prosecutions being conducted by the Department of Justice and various United States Attorneys of Nazi and Bund members and organizations. The material has been prepared for Mr. Correa in the Southern District of New York, for Wm. Powers Maloney, Special Assistant to the Attorney General, for Attorney General Warren of California (who is working on the prosecution of Nazis under the California State law), and for the Special Defense Unit and Criminal Division of the Department of Justice.

The District Attorney for New York County, Frank Hogan, is working on the case of Wilbur V. Keegan, which case is based on material supplied by Mr. Klaus for the prosecution of Keegan for practicing law in the State of New York without a license. An outstanding item which has been turned over to the Department of Justice and to the various United States Attorneys is a transcript of two wax cylinders found in the Bund offices which turned out to be directions by Fritz Kuhn on the eve of his departure for a secret trip to Germany in 1938. These transcripts are further proof of the fact that the Bund in the United States was under the direction of the

German Government authorities. This evidence is essential to a successful conviction of the defendants in these cases. This office has also contributed evidence which conclusively demonstrates that the Bund leaders violated the Treasury freezing regulation. These Bund leaders are now the subject of a criminal investigation.

31. Investigations. (a) An investigation was completed of the Black Star Publishing Company and Max Peter Haas, doing business as the European Pictures Service. In the case of Black Star it was learned that the principals, so-called refugees, were former officers of the German Army, having decorations for bravery, etc., and were found to have been used to obtain and to distribute pictures of use to the Propaganda Ministry and the German military authorities before the United States entered the war.

(b) It was discovered that questionable individuals were employed in various war industries and particularly in General Aniline & Film Corporation. The interested agencies were informed by this office.

(c) An investigation was commenced of the German-American School Association, which is actively operating two schools believed by Mr. Klaus to be under the direction of the Volksbund für das Deutschtum im Ausland, essentially a concealed branch of the Nazi Government.

(d) Mr. Klaus recommended blocking the accounts of the following German nationals, and renewed that recommendation on the basis of fresh information, his prior recommendation being that the Heyden Chemical Corporation be blocked as German: William Kurz, Chicago, Illinois, Helmuth J. Matz, Chicago, Illinois, Anita Diederich, Chicago, Illinois, Mrs. Hermine Beck, St. Louis, Missouri, Dr. H. Henry Schlomer, Spokane, Washington.

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

32. Patents (See June 1942 report, item 57). Two rulings (Inter-Office Interpretations Nos. 16 and 17) concerning the filing and maintenance of patents abroad were prepared. With respect to unoccupied France, it was ruled that the prohibitions against trade and communication were applicable, and that no patents could be filed or fees paid in unoccupied France in view of the continued maintenance of the French Patent Office in Paris. It was ruled, however,

that patent renewal and maintenance fees could be paid to the refugee governments in London of Belgium, Czechoslovakia, Norway, Poland, and Yugoslavia.

Preliminary discussions have been held with representatives of the Office of Alien Property Custodian looking towards a transfer of jurisdiction over patent matters to the Alien Property Custodian to the extent contemplated by the new Executive Order. An amendment to General License No. 72 has been prepared as a basis for further general discussions with the Alien Property Custodian. Under this amendment Treasury will retain control of all transactions involving blocked funds and transactions involving trade and communication with the enemy. Messrs. Aarons and Kehl worked on these matters.

33. Insurance Problems (See June 1942 report, item 51). Recommendations were prepared outlining the scope of an investigation to be conducted of insurance transactions between the manager of the insurance department of the Guaranty Trust Company and Ignacio Hornik, a Proclaimed List national in Mexico.

A public interpretation was prepared stating that pursuant to General Ruling No. 11 imports and exports insured by enemy insurance companies are not authorized.

Conferences were held with representatives of the War, Navy and Justice Departments and of the Board of Economic Warfare, War Shipping Administration, and War Damage Corporation with respect to the problem of strategic information reaching enemy sources through the transmission of insurance information. A study was made of the problem, and preliminary freezing control documents were drafted to prevent the distribution of such information. A study was also made of the Swiss insurance companies operating under Treasury licenses with a view to the communications problem. Mr. Kehl worked on these problems.

34. Trusts and Estates. A study is being made of methods of clarifying and liberalizing the rules in regard to the administration of trusts and decedents' estates, and new documents in this connection are being drafted. Mr. Alk, Miss Klein, and Miss Hodel are working on this.

35. Latin America (See June 1942 report, item 62).
(a) Inter-American Conference on systems of economic and financial control. The Inter-American Conference on freezing control met in Washington on June 30 to July 10, 1942.

The conference was attended by representatives of each of the American Republics. The Treasury Department was represented by Edward H. Foley, Jr., who was United States delegate to the conference and chairman of the conference; by Harry D. White, Bernard Bernstein, and John W. Pehle, who acted as advisers; and by Josiah E. DuBois, Jr., who acted as secretary. There was a free and open discussion of economic and financial controls, resulting in the passage of eight resolutions which are to serve as standards for the American Republics in the establishment and the administration of their controls.

The conference is regarded as having been very successful, bearing in mind the limited role which any conference of this nature can play in contributing to the ultimate objectives. The work done both at the formal sessions of the conference and at the numerous informal meetings with the representatives of the other governments clarified, it is believed, for all concerned what should be the ultimate objectives of any successful program. The steps which this Government has taken to carry out these objectives were fully presented, and many of the problems which the other governments are facing were fully discussed.

The resolutions adopted at the conference were, on the whole, very satisfactory. If they are carried out in the same spirit in which, at least on the surface, they were adopted, this phase of our program of economic warfare may be regarded as highly successful.

Members of the Legal staff, in conjunction with members of Mr. Pehle's and Mr. White's staffs, did considerable work in connection with this conference, including the preparation of the Handbook (which was translated into Spanish), setting forth in broad outline the major policies which this Government is following in the administration of the freezing control; compilation of Foreign Funds Control documents (together with summaries of each document in English and Spanish); and drafting of resolutions and memoranda for use in connection with the conference.

(b) School for State Department representatives. Members of the Legal and Administrative staffs participated in the conduct of the training school for men who are being trained to go to South America to act as advisers to the missions in connection with freezing control matters. The session from July 20 to July 31, 1942, was devoted to Foreign Funds Control, with lectures and discussion by Legal and

Administrative men on particular topics. Messrs. Lawler, Luxford, DuBois, Aarons, Mann, Rains, Clay, Park, and Locker handled the work in connection with this school.

(c) Brazil. There has been considerable discussion of a proposed plan whereby the Brazilian Government will decree the forced sale of certain Proclaimed List firms and whereby this Government, through the Export-Import Bank, will participate in the financing, where necessary, of the purchase of certain of these firms. Messrs. DuBois and Luxford participated in these discussions.

(d) Mexico--currency (See, also, June 1942 report, item 47). Discussions were held with the various Latin American countries in relation to measures which such countries may adopt to implement the Treasury Department program for controlling importations of United States currency into the United States. Messrs. Luxford and Rains handled this matter.

A member of this office, Mr. Rains, went to Mexico City this month to advise Mexican officials in connection with a proposed program for dealing with United States currency in Mexico in order to prevent the Axis from benefiting from looted currency.

(e) Mexico--Proclaimed List. Discussions were held with the Mexican officials and an informal arrangement agreed upon whereby certain firms on our Proclaimed List in Mexico will be deleted from the List when such firms have been vested by the Mexicans and the Mexicans have indicated that they are being effectively controlled. Messrs. DuBois and Mann took part in these discussions.

(f) Argentina. A thorough study was initiated by Messrs. Luxford, DuBois and Moskovitz of all available information concerning Argentina with the purpose of formulating an Argentine program which may subject to indirect controls certain types of transactions involving Argentina. A special committee has been set up, composed of a representative of the Legal Division, Mr. Pehle's staff, and Mr. White's staff, to concentrate on freezing control matters relating to Argentina.

(g) Instructions to the missions. Lengthy instructions were prepared by Messrs. DuBois and Mann to be sent to all of our missions in Latin America explaining the resolutions adopted at the Inter-American Conference and setting forth the nature of the work which is expected of the missions in connection with the carrying out of these resolutions.

36. Alien Property Custodian. (See June 1942 report, item 49). Agreement was concluded on the future division of authority between the Alien Property Custodian and the Secretary of the Treasury in administering foreign property control, the terms of such agreement being embodied in Executive Order No. 9193, amending Executive Order No. 9095. Messrs. Luxford and DuBois worked on this matter.

37. Philippine Moratorium (See June 1942 report, item 50). This office considered the advisability and scope of a moratorium on obligations of persons having a large or principal portion of their properties in the Philippine Islands. Messrs. Luxford, Daum and Cook worked on this problem.

38. Hawaiian "Scorched Earth" Program (See June 1942 report, item 45). Hawaii was advised concerning the propriety of modifications in the Hawaiian "scorched earth" program which were suggested by Hawaiian banks. A study was conducted of securities regulations issued in Hawaii and recommendations were made by Messrs. Luxford and Golding concerning their interpretation. A member of this staff, Mr. Murphy, has been in Hawaii assisting in putting the regulations into effect.

39. Reports and Memoranda. (a) Accounts payable to blocked nationals. A report was prepared by Mr. Golding in conjunction with Mr. Hughes of Foreign Funds Control and Mr. Dickens of Monetary Research, for the Planning Committee on the desirability and proposed mechanism for regulating the holding of balances for blocked nationals by persons other than domestic banks. In connection with the foregoing, Messrs. Aarons and Golding prepared a proposed amendment to Stipulation No. 1.

(b) Article on conflict of laws and freezing control. An article on conflict of laws and freezing control was considered and Messrs. Golding and Luxford prepared for Mr. Freund of the Department of Justice a memorandum concerning the advisability of securing publication of such an article in the Harvard Law Review.

(c) Foreign Agents Registration Act. At the request of the Department of Justice, study was made of the Foreign Agents Registration Act and of methods by which the Treasury Department could cooperate with the Department of Justice in enforcing such Act. Mr. Minskoff made this study.

(d) Dutch Decree. Consideration was given by Messrs. Luxford and Minskoff to the legal problems which would arise in connection with vesting in the Dutch Government title to assets requisitioned by the Board of Economic Warfare.

(e) Review of general authorizations and special authorizations. A memorandum was prepared by Mr. Minskoff concerning the advisability of adopting with or without modification a plan proposed by the Federal Reserve Banks for consolidation and numbering of the general and special authorizations issued by the Department in accordance with the system of numbering now in effect for action guides.

(f) Constitution of the Republic of Colombia. Mr. Daum of this office prepared a legal memorandum dealing with the effect of certain provisions of the Constitution of the Republic of Colombia upon the availability in Colombia of certain methods of foreign property control.

40. Retroactive Cases and General Ruling No. 12 (See June 1942 report, item 58). Considerations in connection with the retroactive licensing of transactions and considered methods for employing the retroactive application as a method for securing better enforcement of freezing control were analyzed. Messrs. Luxford, Golding and Daum in conjunction with Messrs. Aarons and Cook, Miss Klein, and Messrs. Fox, Bennett, Clarkson, and Dixson of Foreign Funds Control worked on this.

41. Safe Deposit Boxes (See June 1942 report, item 59(a)). A plan was formulated for obtaining a new census of property in safe deposit boxes. Such plan envisages requesting or requiring the opening of all safe deposit boxes in the United States in which foreign nationals have an interest. Mr. Daum worked on this.

42. Public Documents. A public circular relating to the policy of the Treasury Department in attachment cases was prepared by Messrs. Reeves and Daum for probable issuance in the near future. An amendment to General License No. 53 which adds the New Hebrides and Faroe Islands to the definition of the "generally licensed trade area" was, also, prepared by Messrs. Luxford and Golding.

43. Census Reports (See June 1942 report, item 55).
(a) Census of American-owned property abroad. In connection with the contemplated census of American-owned property abroad, Messrs. Reeves and Arnold attended conferences to consider problems, assisted in drafting forms, considered the legal problems involved, and drafted a memorandum concerning the authority of the Secretary to take the census.

(b) Series L of Form TFR-300 and Public Circular No. 4C. Messrs. Reeves and Arnold of this office assisted in drafting

Series L of Form TFR-300, a new form, the reporting date of which is left blank. The form is designed to meet a variety of reporting requirements for persons who have been unblocked or given the status of generally licensed nationals, for persons blocked *ad hoc*, or for any instance in which a report is desired with respect to property held on a specified date. Public Circular No. 4C contains detailed instructions concerning the filing of such series. The final draft of these documents is now being circulated and studied by other divisions.

(c) Interned aliens. A study is being made and procedure worked out on reporting problems relating to interned aliens. Mr. Arnold is working on this.

(d) Consolidation of Form TFR-300. Numerous conferences have been held concerning consolidation of TFR-300 reports and procedure drafted with respect to particular problems. Mr. Arnold is handling this matter.

44. Investigations and Enforcement (See June 1942 report, item 59). (a) General. The various investigating and study groups of Foreign Funds Control and of the General Counsel's office are being coordinated so that studies and investigations can be carried out jointly. This program also includes a considerable amount of training of personnel in investigative

work. This will mean that within a short time many more people will be available to carry out the investigating and study program.

Under this program, at the present time field investigations are being conducted of three ostensibly Swiss pharmaceutical groups, namely, Ciba, Sandoz, and Geigy. In the near future, field investigations will be undertaken with respect, among others, to the following organizations and individuals: Sofina, Hoffman-LaRoche, Solvay American, United Continental Corporation, Axel Wenner-Gren, and the Miranda brothers. A study is also being begun of all contracts and agreements that American concerns have with concerns of the Axis nations and of possible Axis penetration into American industry.

(b) Cooperation with Justice Department. The program of cooperating with the Department of Justice in the investigation of various alleged seditious or propaganda publications is also continuing. It is contemplated that within the next few weeks an investigation of the Val Peters chain of German newspapers will be begun jointly with the Department of Justice and the Federal Bureau of Investigation. Messrs. Clay, Proctor, McMurray, Moore, Parks, Marks and Locker are working on this.

(c) French Line, Monnet and Murnane, Swiss Banks. The investigations of the French Line, being conducted by Mr. Marks, and of the Swiss Bank Corporation, being conducted by Messrs. Lesser, Ackerman, King, and Ewing, are still in progress. In connection with the investigation of Jean Monnet and George Murnane, an examination is being made of records in the law office of Sullivan and Cromwell by Messrs. Quint and Schwartz in conjunction with members of Mr. Pehle's office.

(d) Insurance investigation. Insurance companies, in the normal conduct of their business, obtain a great mass of information with respect to shipments and production. There is a possibility that some of such vital information is being made available to the Axis powers, either through the forwarding of such information, in the normal course of business, to reinsurance companies located in neutral countries or through German agents' obtaining the information in this country and then forwarding it to the Axis powers. A study and investigation is now being made of the insurance industry with the object of cutting off all possible flow of information, in the normal course of business, to the Axis powers and to safeguard the confidential nature of the information in this country. Messrs. Aarons, Clay, McMurray and Kehl are working on this matter.

(e) Committee on Investigations. The Committee on Investigations has been progressing. During the month, the committee passed upon 29 cases for investigation, 7 of which were referred to it by the Board of Economic Warfare, pursuant to arrangements whereby Foreign Funds Control has agreed to undertake investigations for the Board in matters in which we have a substantial interest. Messrs. Lesser, Clay, and Quint in conjunction with members of the administrative staff worked on these cases.

(f) Enforcement Section. An Enforcement Section has recently been established to develop methods of enforcing Treasury's control through administrative sanctions and to study cases where criminal proceedings are warranted. Messrs. Lesser, Quint, Schwartz, Cook, Ackermann, and Ewing worked on this matter. Pursuant to an arrangement with the Department of Justice and the Board of Economic Warfare, the Enforcement Section has been working on the preparation of cases for the grand jury, to be submitted to the Criminal Division of the Department of Justice for consideration.

45. Polish Relief Commission v. National Bank of Rumania. The Court of Appeals of New York handed down a decision which completely supported the position taken by the Treasury as

amicus curiae in this case. The Court by unanimous decision held that under section 5(b) and under the freezing control order no interest in blocked property, including the title to such property, could be transferred without a license from the Treasury. The Court by a 4 to 3 decision agreed that a court could take jurisdiction of an action involving attachment of blocked property, provided that the attached interest and any judgment rendered in the action would be subject to being defeated by the Treasury denying the license provided that the Treasury remained in complete control over the disposition of the property.

46. Gold. A representative of this office, Miss Hodel, attended a conference in New York called for the purpose of discussing ways and means of preventing the illegal importation of gold bullion from Canada and its possible disposal in the United States. Representatives from the Mint Bureau, CustomsBureau and Secret Service were also present.

47. Silver. In cooperation with the Opinions Section Miss Hodel and Mr. Brenner prepared an opinion addressed to the Secretary concerning authority to transfer "free silver" to the United Kingdom for coinage purposes pursuant to the Lend-Lease Act.

An opinion, concluding that instruments of transfer of newly-mined domestic silver may be extended so as to postpone the delivery dates thereof until some time in the future, was also prepared for the Secretary.

In collaboration with the OpinionsSection Miss Hodel and Mr. Brenner prepared an opinion which concluded that the Metals Reserve Company may obtain silver dollars by presenting silver certificates for redemption and then melt the silver dollars to obtain bullion for sale to the Lend-Lease Administration and industrial users at a price below the monetary price of silver, or be used by the Metals Reserve Company in war production.

This office has cooperated with the Bureau of the Mint in connection with many legal problems which have arisen as a result of the present silver market situation. Consideration is presently being given to the question of the cancellation of miner's affidavits in cases where newly-mined silver covered by such affidavits is sold to suppliers or industrial users. Also under consideration is the question of acceptance of a modified form of instrument of transfer of newly-mined domestic silver. This office is also working with the Mint Bureau in connection with the War Production Board conservation orders relative to silver and Office of Price Administration orders concerning sale of newly-mined domestic silver. Miss Hodel and Mr. Brenner are working on these problems.

48. Coinage Legislation. In cooperation with the Mint Bureau and Legislative Section, members of this office, Miss Hodel and Mr. Brenner, drafted legislation to provide for the coining of minor coins of any denomination, size, weight, shape or material.

49. German Claims. A study has been made of problems raised in connection with the request of Z. & F. Assets Realization Corporation to assign its awards to over 2,000 participation certificate holders.

In cooperation with the Bureau of Accounts, Miss Hodel and Mr. Brenner of this office are working on the legal problems involved in connection with the payment of several claims in which questions have arisen concerning assignment of the claim, litigation, and claims of adverse parties.

50. Control of Inflation. A study has been made of the legal availability of section 5(b) of the Trading with the enemy Act, as amended, as a method for permitting comprehensive control of inflationary tendencies of wages and of the prices of agricultural commodities. Drafts of Executive Orders which

provided for the control of agricultural credit and wages were prepared and discussed with Judge Rosenman and with representatives of the Office of Price Administration, the War Manpower Commission, and other interested Government agencies. Messrs. Luxford, DuBois, Aarons, Daum, Golding, Minskoff, and Moskovitz worked on this matter.

Also, a study was made of the legal problems incident to a program for general rationing of consumer purchases by Miss Goode and Messrs. DuBois, Minskoff, and Golding.

51. United States Coinage in Liberia. This office worked with Dr. White's office on the problem of substituting United States coinage for British coinage in Liberia through the medium of purchase by the stabilization fund of British coinage with our own at the rate of $4 U.S. for one pound sterling. The telegram of agreement was prepared and forwarded to the State Department.

52. Various Monetary Agreements. In connection with Dr. White's office, this office worked on problems arising in connection with the following monetary agreements:

(a) Brazil Stabilization Agreement. The outstanding Stabilization Agreement was extended for an additional five years and the Treasury Department also agreed to purchase up to $100,000,000 of milrois and gold in lieu of $60,000,000 previously contained in the Agreement.

(b) Chinese Stabilization Agreement (See June 1942 report, item 68). This Agreement was extended for a year.

(c) Bolivian Stabilization Agreement (See May 1942 report, item 65). This Agreement was drafted and discussed with the Bolivian representative. The execution of the Agreement has been postponed until the Bolivians can present the proposed Agreement to the Bolivian Congress.

(d) Cuban Gold Agreement (See March 1942 report, item 73). An Agreement was entered into providing for the sale to Cuba of gold, payment to be made 120 days after the delivery of the gold.

(e) Russian Gold Agreement. An extension of time for delivery by Russia of gold sold to the Treasury Department was worked out, and the problems arising in connection with certain of the deliveries of such gold were handled.

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

53. Law Committee of War Communications Board (for

description see November 1940 report, item 23). On July 8, 10, 13 and 23 Mr. Shea attended meetings of the Law Committee of the War Communications Board.

54. Rubber Supply Bill. A letter to the Bureau of the Budget, recommending the veto of enrolled enactment S. 2600, "To expedite the prosecution of the war by making provision for an increased supply of rubber manufactured from alcohol produced from agricultural or forest products", was prepared by Mr. Shea and Miss McDuff. The comments were confined to those sections of the bill which affect the control of alcohol and the protection of the revenues. Under the provisions of the bill, the Director of Rubber Supplies would function independently of the Treasury Department and of the enforcement and collection facilities which have been set up in the Treasury. It was pointed out in the letter that efficient collection of the tax on distilled spirits is made possible by the Treasury Department's complete control of all distilled spirits and of all places in which they are made and stored, from the time the raw materials are introduced on the premises until the finished product is withdrawn, and that if the control of alcohol made from agricultural or forest products is granted to any other

department or agency, the collection of the revenue would be jeopardized thereby.

55. Federal Reporting Services Bill (See June 1942 report, item 37). The legislative section completed a canvass of the various branches of the Department with respect to their views on S. 1666, "To coordinate Federal reporting services, to eliminate duplication and reduce the cost of such services, and to minimize the burdens of furnishing reports and information to governmental agencies", and the suggested amendments to the bill being considered by the Special Committee to Study Problems of American Small Business. After consideration of the various memoranda which were received, Miss McDuff and Mr. Filachek of that office prepared a letter to Chairman James E. Murray of that committee, pointing out that the Department, under date of December 4, 1941, made an unfavorable report on S. 1666 to the Chairman of the Senate Committee on Education and Labor, and that the Department is of the opinion that the conclusions advanced in that report are still applicable to the bill as proposed to be amended. Moreover, the letter discussed the effect of the bill in connection with the determination and collection of income tax deficiencies, the administration of the national banking laws, and other

matters. The proposed report went forward to the Bureau of the Budget.

56. Bill to make transportation and storage facilities available for military use. Mr. Shea held a conference on July 21 with Captain Banks, of the War Department, and Philip Wolf, of the Office of the Chief Counsel of Customs, on a proposed bill "To make transportation and storage facilities available for military use, where military necessity exists, by authorizing the removal to other points of merchandise in customs custody."

57. Legislation for a new 1-cent piece. Mr. Shea and Mr. Rupert of the legislative section conferred with Mr. Howard and Mr. Quirk of the Mint on legislation for a zinc 1-cent piece. This legislation may become necessary because of the inability of the Mint to obtain copper for the present 1-cent piece because of W.P.B. restrictions.

58. Proposed Executive Order pertaining to Supplies and Equipment of Government agencies. The legislative section considered and prepared memoranda on a proposed Executive Order to provide for the better utilization of supplies and equipment by Government agencies, which was informally referred to this Department by the War Production

Board. The order would authorize Budget, with the consent of the Secretary of the Treasury, to utilize the facilities of the Procurement Division to survey, inventory and distribute supplies and equipment, and would probably extend the warehousing functions of Procurement. Mr. Shea informally cleared the order with Mr. Thompson, Mr. Charles Bell, Mr. Schoeneman and the Procurement Division.

59. Proposed Compulsory War-Loan Legislation. Mr. Shea participated in a discussion, in Mr. Cairn's office on July 8, of proposed legislation to assist in financing the war (1) compulsory loans or (2) additional taxes refundable after the war.

60. Transfer of Register of the Treasury to General Accounting Office. This office prepared drafts of an Executive Order transferring functions of the Register of the Treasury to the General Accounting Office under the authority of Title I of First War Powers Act, and a memorandum discussing the legal problems involved.

61. Bill to authorize assignment of personnel from executive departments to congressional committees. A letter was prepared in the legislative section by Miss McDuff stating that the Treasury Department had no objection to the

approval by the President of the enrolled enactment, H.R. 7297, "Authorizing the assignment of personnel from departments or agencies in the executive branch of the Government to certain investigating committees of the Senate and House of Representatives, and for other purposes." There is a provision in this proposed legislation to reimburse the various departments in the amount of the salaries of their employees detailed to select committees.

62. <u>Laws increasing work of Legal Division</u>. In connection with the work on Budget estimates, Mr. Ranta of that office prepared a list of statutes passed by Congress during the last fiscal year which have increased the work of the Legal Division.

63. <u>District of Columbia Blackout Bill</u>. Mr. Shea called the Clerk of the House District of Columbia Committee concerning a typographical error in the District of Columbia Blackout bill as it passed the House. The error added an additional year's interest on the money to be given to the District to carry out the purposes of the bill.

64. <u>Authorization to permit reproduction of three-cent Victory stamp</u>. At the request of the Secret Service Division, Mr. Ranta prepared a letter for the signature of the Acting

Secretary of the Treasury authorizing the St. Louis Post-Dispatch, St. Louis, Missouri, to use an illustration of the new three-cent Victory postage stamp in its newspaper.

65. Embezzlement of money by employer under payroll allotment plan. At the request of Mr. Graves, this office prepared a memorandum in which it was concluded that no violation of the Federal Statutes was involved in a case where an employer had made deductions from the salaries of his employees for the purchase of War Savings Bonds but had later neglected to purchase such bonds and had apparently used the money for other purposes. The memorandum stated that the matter appeared to be one for prosecution by local or State authorities.

66. Compromise Cases. The Acting Secretary of the Treasury accepted on July 20, 1942, the offer made by C. J. Koehne, Oroville, Washington, to pay $25 in compromise settlement of the claim of the Government (Farm Credit Administration) against him in the approximate amount of $1,475, which claim arose from a loan of $1,000 to the debtor in 1931. On July 29, 1942, the Acting Secretary accepted the offer made by Minnie L. Colman, Kirkland, Washington, to pay $10 in compromise settlement of the claim of the United States (Farm Credit Administration) against her in the amount of approximately $2,950,

which claim arose from a loan of $2,000 in 1931 to the debtor by the Secretary of Agriculture. The letters recommending acceptance of these offers were prepared by Miss McDuff. The Governor of the Farm Credit Administration was informed of their acceptance, and the Commissioner of Accounts was requested to have the amount of the offers covered into the Treasury of the United States.

67. <u>Remission of forfeiture of printing press</u>. A letter for Mr. Gaston's signature denying the petition of the Peoples Industrial Bank, New York City, for the remission of the forfeiture of a printing press which had been used to counterfeit War Savings stamps was prepared by Mr. Ranta. It appeared that mitigating circumstances did not exist inasmuch as the petitioner had recourse to the assignor of the mortgage and had sufficient other security.

68. <u>Dismissal of indictment against Anna Siperstein for passing counterfeit notes</u>. Mr. Ranta of this office prepared a letter to Assistant Attorney General Berge, advising him that this Department had no objection to the dismissal of the subject indictment, inasmuch as it appeared that the only connection the defendant had with the case was that she had accompanied the co-defendants while the latter passed the

counterfeit notes. There was no evidence to show that the defendant had actually passed any of the counterfeit notes or that she had participated in the proceeds.

69. Congressional Action on Treasury-Sponsored Legislation. (a) Treasury Guard's Salary. H.R. 6217, "To amend section 13 of the Classification Act of 1923, as amended", which bill contains the provisions of our proposed legislation, relative to the supervision, designation, and classification of positions of the Guard Force, Treasury Department, was passed by the House on July 1, 1942, and by the Senate on July 27, 1942. It was approved by the President on August 1, 1942, and became Public Law No. 694.

(b) White House Police Force Recruitment. S. 2584, our bill to permit the appointment of White House police from sources outside the Metropolitan and United States park police forces, was reported, without amendment, in the Senate on July 17, 1942 (S. Rept. No. 1550) from the Committee on Public Buildings and Grounds. The Senate passed this bill on July 21, and it was referred to the House Committee on Public Buildings and Grounds on July 22.

SEP 1 - [redacted]

MEMORANDUM FOR THE SECRETARY

Re: Legality of Control of Agricultural Credit for the Purpose of Preventing Inflation.

You will recall that we suggested to the President that the powers which he now has under Section 301 of the First War Powers Act, 1941, appear to give him adequate authority to regulate agricultural prices by controlling agricultural commodity credit. The newspapers indicate that the President still may be studying ways of controlling agricultural commodity prices without additional legislation.

Some of my boys have prepared an informal memorandum pointing out in detail the arguments in favor of the view that the limitations in the Emergency Price Control Act of 1942 do not restrict the powers of the President to regulate agricultural prices indirectly through credit control. Possibly their memorandum may be helpful to those studying the problem.

Briefly their arguments are:

I. Congress in enacting the Emergency Price Control Act clearly recognized that the indirect control of agricultural commodity prices was perfectly consistent with the restrictions in section 3(f) of the Act.

The Act permits the placing of price ceilings on non-agricultural commodities without reference to their effect on farm prices. Obviously such action will tend indirectly to depress all prices, including prices on agricultural commodities upon which no ceilings have been set.

It is rather manifest that Congress recognized that farm prices not only could, but would necessarily, be depressed from the enforcement of the provisions of the Act quite apart from any direct restrictions on farm prices.

II. Control of agricultural credit which might indirectly depress farm prices below the standards set in section 3(a) is not prohibited by the Act.

Congress in passing the Price Control Act intended it as one measure for combatting inflation. It was never intended to curtail other means of controlling inflation which were available under existing law. The restrictions as to price ceilings on farm products were made to apply only to the direct fixing of farm prices.

Many times during the Congressional debate the spokesman for the Bill made it clear that the Government could through existing agencies and existing law do acts which would indirectly depress the price of agricultural commodities irrespective of whether such prices were already below the standards described in the Act.

Moreover, the legislative history of the Act clearly indicates that members of Congress were completely aware of the fact that the Price Control Bill would be only one among many measures used by the Administration to control inflation. It seems equally manifest that they were fully cognizant of the fact that the Bill did not include within its purview any control of credit.

The Act is exactly what it intended to be -- strictly a price control measure. It was passed with the knowledge that it would take its place alongside of other types of controls, all of which might be used to combat uncontrolled inflation.

III. Tested by the rules of statutory construction, the Emergency Price Control Act is not inconsistent with the proposed control of the extension of credit on farm prices.

Without going into the legal refinements of this question, it may be pointed out that by construing the Act as being consistent with other controls, we comply with recognized principles of statutory construction.

* * *

For the preceding reasons, the boys suggested that the provisions of the Emergency Price Control Act of 1942 do not restrict the powers of the President to regulate agricultural prices by credit control, or other indirect means. Consequently, they argue that the prices of agricultural commodities may be controlled without new legislation, irrespective of whether or not the Congress may limit the President's wartime powers as economic commander-in-chief.

A copy of their long memorandum is attached.

REP

August 27, 1942

MEMORANDUM

Re: Effect of section 3(f) of the Emergency Price Control Act upon indirect control of agricultural commodity prices through credit restrictions.

The Treasury Department has suggested that agricultural commodity prices could be controlled indirectly, by the President, through the use of credit restrictions under section 301 of the First War Powers Act.

Because such controls may result in holding the prices of agricultural commodities below the standards referred to in section 3 of the Emergency Price Control Act, the view has been expressed that such control may be inconsistent with that section. Section 3 provides:

> "(a) No maximum price shall be established or maintained for any agricultural commodity below the highest of any of the following prices, as determined and published by the Secretary of Agriculture:
>
> (1) 110 per centum of the parity price for such commodity, ... ;
>
> (2) The market price prevailing for such commodity on October 1, 1941;
>
> (3) The market price prevailing for such commodity on December 15, 1941; or
>
> (4) The average price for such commodity during the period July 1, 1919 to June 30, 1929.
>
> * * * *
>
> "(f) No provision of this Act or of any existing law shall be construed to authorize any action contrary to the provisions and purposes of this section."

Congress clearly recognized that the indirect control of agricultural prices was perfectly consistent with the provisions of the Emergency Price Control Act. Analysis of this Act and the study of its legislative history disclose abundant proof that section 3 does not in fact, and was not intended to, restrict the ability of the President to control the extension of credit on agricultural commodities.

Moreover, the testimony adduced at the hearings, and the debate which took place in Congress, make it clear that the legislators in passing this Act were fully cognizant of the fact that they were merely filling in part of a larger pattern. They were aware that each of the processes causing inflation were being considered separately and dealt with separately, always with the thought in mind that the total of the means adopted would add up to a sufficient, adequate system of inflation control. At the time this Act was passed, some measures had already been taken to control inflation and others were being considered.

It is submitted that tested by all the usual standards, section 3 of the Emergency Price Control Act will be found to be completely consistent with the use of credit control as a method for preventing inflation of agricultural prices.

I. Congress in enacting the Emergency Price Control Act clearly recognized that the indirect control of agricultural commodity prices was perfectly consistent with the provisions of section 3(f).

It is entirely misleading to assume that section 3(f) was intended to prevent all governmental action which might have the effect of depressing the price of agricultural commodities. Without going beyond the four corners of the Act itself, it is manifest that not only is there no prohibition against depressing agricultural commodity prices by means other than direct price control, but the very enforcement of the provisions and purposes of the Act will necessarily have a depressing effect on such prices.

In this respect a glance at sections 2 and 3 of the Act proves quite enlightening. Examination shows that there is nothing in sections 2 and 3 of the Emergency Price Control Act which requires the Price Administrator to consider the indirect effects ~~price~~ ceilings may have in reducing the prices of basic agricultural commodities. The only limitation placed upon the Price Administrator is that in fixing prices upon agricultural commodities, he must take into account the effects the ceilings set will have upon the prices of such commodities and of their agricultural components.

With the foregoing in mind the economic picture becomes rather significant. If section 2 of the Act is to have any meaning or purpose at all, it must control and hold down commodity and rent prices to avoid an inflationary trend. To the extent that the Act succeeds in its purpose, it will hold the general price levels down and will reduce the amount of income the public will earn. With a reduction in income there is a reduction in general purchasing power. Manifestly, the lowered purchasing power affects adversely the price for all commodities including agricultural commodities, the prices for which may already be below the standard set in section 3(a). That the above cycle takes place is a fundamental principle of economics which may be expressed more simply as a rule of thumb that a general reduction in prices will result in a general lowering of income which in turn will be reflected in reduced purchasing power and a further depression of general price levels.

Thus, even if agricultural commodities were completely exempt from any control they would necessarily be affected by the decreased ability to consume suffered by the general public as a result of the control of prices other than that of agricultural commodities.

If section 3(f) were to be construed as prohibiting any indirect control of agricultural commodity prices which might keep such prices below the standards set in section 3(a), then all of section 2 of the Act would become completely meaningless. Further, since section 3(f) provides that "no provision of this Act or any existing law shall be construed to authorize any action contrary to the provisions and purposes of this section" (underscoring supplied), it follows that under the interpretation above, all of section 2 would become invalid.

By employing a reductio ad absurdum argument, we merely place in bold relief the untenability of the position that indirect controls which may depress prices for agricultural commodities below the standards set are violative of section 3(f) of the Act.

The argument that the Act did not prohibit other controls which might indirectly depress agricultural prices will be explored in point II infra. The point being made here is that if one did nothing other than attempt to enforce the provisions of the Emergency Price Control Act, and were limited exclusively to the techniques for control described in the Act in order to carry out the purpose expressed therein of curbing inflation, farm prices would of necessity be indirectly depressed. If the test of whether a particular control violates the provisions of section 3(f) is to be based on whether it has a depressing effect on agricultural commodity prices regardless of whether the effect is direct or indirect, then the entire purpose of the Act would be frustrated and its usefulness destroyed.

II. <u>Subsection (f) of section 3 does not prohibit credit control which might indirectly have the effect of depressing the price on agricultural commodities below the standards set in subsection (a) of section 3.</u>

That subsection (f) of section 3 was not intended to prohibit the President or other Governmental agencies under existing law from doing anything which might directly or indirectly depress prices for agricultural commodities below the standard set is made clear by the exceptions which it was conceded would be permitted under the Act. For example, the Farm Credit Administration and the Commodity Credit Corporation were deemed by Congress to be unaffected by the price control bill. This becomes significant in view of the functions of these two agencies as characterized by the Congress (see H.R. 1848, 77th Cong., 2nd Sess., at 7):

> "The Commodity Credit Corporation - the agency maintaining the system of loans on basic commodities, which is the core of the entire mechanism for adjusting acreage of the basic crops. By its activities this agency also plays a major part in maintaining price reports and stabilizing food prices in order to give the farmer the utmost possible price incentive for turning out the needed wartime production.
>
> "The Farm Credit Administration . . . which, in this war, gives farmers a public source of credit at reasonable rates and on sound appraisal basis and will thus help provide the financing for war-time production without running the danger of an inflation that will cause another 20-year long post-war deflation of the malignant nature which characterized that following the other World War."

Even a casual consideration of the powers and functions of Commodity Credit Corporation and the Farm Credit Administration make it clear that it is within their power to do acts which would have either a direct or indirect effect on the price of agricultural commodities and that such acts might serve to depress those prices below the standard set in subsection (a) of section 3.[1] As a matter of fact the Secretary of Agriculture also is permitted under the Act to make purchases or sales of agricultural commodities which could have a direct or indirect effect on the price of agricultural commodities.

1/ The Agricultural Appropriation Act of 1943 provided, with respect to the Commodity Credit Corporation, that " . . . none of the fund made available by this paragraph shall be used for administrative expenses connected with the sale of Government-owned or Government-controlled stocks of farm commodities at less than parity price as defined by the Agricultural Adjustment Act of 1938." This provision serves only to underline that in buying or selling agricultural commodities, the Commodity Credit Corporation may purchase or sell at prices which tend to depress agricultural prices below the standards of the Price Control Act.

As a matter of fact it was made clear during the discussion of the measure that the Administration could, if it so desired, depress farm prices. Senator Lucas, during the course of the debate, squarely raised the question of whether the Government through any of its agencies could depress farm prices by dumping surpluses upon the domestic market. The following statement was made by Senator Lucas:

> "If I correctly understand the Bill, it absolutely in no wise prevents the Secretary of Agriculture from making the disposition of these surpluses of commodities which now are on hand, nor does it prevent the Commodity Credit Corporation from disposing of such commodities at any price they care to make." (Underscoring supplied.)

Senator Brown, to whom the statement was directed, replied categorically, "The Senator is correct."

Senator Lucas then urged that restrictions be placed on those powers of the Government. Senator Brown, speaking for the Committee, answered:

> "We do not go that far; but I will say that the general provisions of the Bill indicate an intent that Government officials shall not so act as to violate the general purposes of the Bill. We make no specific prohibition in that respect, however." (Underscoring supplied.)

A further indication that Congress understood and accepted the fact that conditions existed which might tend to keep certain farm prices below the parity set may be found in the exemptions permitted by the Act. For example, section 3 expressly provides that it does not intend to modify in any way the Agricultural Adjustments Act, as amended, and agricultural marketing agreements made under such Act. It is significant that many of the marketing agreements made under the Agricultural Adjustments Act were made with reference to depressed commodities, such as milk, and while intended to raise farm income, often were not sufficient to cause price rises to the levels fixed in the Price Control Act.

The above is only part of the evidence that subsection (f) of section 3 was not intended to prevent other agencies of the Government or the President under existing law from doing acts which might tend to keep the price of farm commodities below the standard set. That standard contemplates a rising market. It would be meaningless to fix a maximum price ceiling for the purpose of controlling inflation when prices without that price ceiling would not only fail to go above that ceiling but would not in the ordinary course of events even approach the ceiling set.

Not unless the market rises and the prices advance to a point beyond the ceiling set, does such a ceiling have any meaning whatsoever. At that point it becomes important to set a limit upon the rise in the price of agricultural commodities to prevent the spiraling of prices and dislocation of the national economy. It is only at that point that the maximum set by section 3(a) is meaningful.

However, it was never argued even by the strongest advocates of the farm bloc that this section should serve to compel the Government through its various agencies to boost the price of farm products to the standards set in section 3(a). Such an argument would have been completely anomolous to the entire purpose of an anti-inflation measure.

Whatever other methods may have been contemplated or discussed in connection with price control, certainly the Emergency Price Control Act was intended to relate only to the direct fixing of prices and was not intended to provide for or to prohibit other methods of inflation control which would necessarily have some effect on farm prices.

III. The Emergency Price Control Act was not intended to be the exclusive means of controlling inflation.

The wording of the Price Control Act and its legislative history indicate that the draftsmen of the Act were fully aware of the fact that there were many possible measures which might be employed in controlling inflation, and that selective, direct price control was only one of many methods of dealing with the problem. The draftsmen recognized specifically that this Act did not constitute a measure for control of credit and, in view of their expressed attitude toward credit controls, it may fairly be assumed that this Act was not intended to affect in any way existing programs or provisions for the control of credit or existing legislation through which credit could be further controlled.

It was repeatedly emphasized in the hearings on the Price Control Act, particularly by Secretary of the Treasury Morgenthau and by the Chairman of the Federal Reserve Board, Eccles, that price control was only one of a great variety of measures for the control of inflation. Secretary Morgenthau and Mr. Eccles pointed out that tax measures, defense savings bonds program, the program for tax anticipation notes, programs for control of consumer and other credit controlled by the Federal Reserve System over rediscount rates, control over priorities and allocations, and deferred income plans were all potential methods of controlling inflation. See House of Representatives hearings on H.R. 5479, 77th Cong., Pt. 2, at pages 1074-76, 1082-83, 1245-48 et. seq., 1260 et seq. See also statement of Leon Henderson, id. at Pt. 1, pages 101, 144, 181-2; statement of Secretary Wickard, id. at Pt. 2, page 2099.

Illustrative of the attitude of Congress is the view they adopted toward the control of consumer credit which had already become effective. It was made clear that they did not intend to interfere, under the Price Control Act, with the prevention of inflation through the mechanism of controlling the extension of credit. Repeatedly during the early stages of the hearings members of the House Committee evinced a deep interest in and questioned Mr. Henderson concerning the desirability of including the control of consumer credit in the Price Control Act. However, with the issuance of Executive Order No. 8843 and the introduction of such Order into the record of the hearings before the House Committee, all questioning along these lines ceased and no further effort was made to deal with the subject of consumer credit in the Price Control Act. This is particularly significant in view of the fact that Mr. Henderson had testified both that credit control was needed in addition to price control (H. of R. Hearings on H.R. 5479, 77th Cong. Pt. 2, at pages 443-4) and that credit control was neither contemplated by the Emergency Price Control Act (see id. at 107-8, 115-16, 443-4) nor was credit control his (Henderson's) responsibility.

Nothing could be clearer than that the Committee understood that credit control was a necessary adjunct to other types of control and, at the same time, knew full well that the pending Bill did not include any provisions for credit control but was limited solely to price control. Manifestly, the House Committee accepted the fact that the President, through the proper exercise of his powers under 5(b) of the Trading with the enemy Act, as amended, had disposed of the question of consumer credit.

From the foregoing it seems obvious that the members of Congress whose responsibility it was to hear testimony, to prepare the price control bill, and to guide it through the debate, were completely aware of the fact that the price control bill would be only one among many measures used by the Administration to control inflation. It seems equally manifest that they were fully cognizant of the fact that the Bill did not include within its purview any control of credit. It neither provided for control of credit nordid it intend in any way to prohibit action to be taken for the control of credit under existing law.

The Act is exactly what it was intended to be, strictly a price control measure. It was passed with the knowledge that it would take its place alongside of other types of controls, the sum total of which would constitute an effective barrier to the menace of uncontrolled inflation.

IV. <u>Tested by the rules of statutory construction, section 3(f) is consistent with the proposed control of the extension of credit.</u>

Section 1 of the Act deals with its general purposes and applicability. Section 2 deals with control of prices, rents, and market and rent practices. Section 3 is in substance, if not in form, a proviso to section 2. It modifies with respect to agricultural commodities the general provisions for price control outlined in section 2. For the purposes of the analysis and interpretation of section 3(f) the above sections furnish a good idea of what it was that the legislators sought to accomplish.

The first section states the broad purposes of the Act, namely, the prevention of inflation and the concomitant dislocations incident thereto.

Section 2 grants the Price Administrator the authority to establish maximum prices for all commodities, rents, etc., whenever, in his judgment, commodity prices take or threaten to take an undesirable inflationary rise. The only restriction placed upon the Administrator is the provision that the prices fixed by him should, in his judgment, be fair and equitable in accordance with the enumbrated list of guides contained in the section.

Section 3 places a further limitation upon the independent exercise by the Price Administrator of his judgment in fixing price ceilings. It provides that "no maximum price shall be established or maintained for <u>any agricultural commodity</u> below the highest of any of the following prices . . ." (underscoring supplied).

Giving section 3 its fullest meaning, it is completely in accord with the remainder of the Act. It recognizes that if inflation is to be prevented, ceilings for commodities will have to be set. It provides merely that in placing a ceiling on <u>agricultural commodities</u> the Administrator shall not set it below the <u>standards specified in</u> section 3(a). (January 27, 1942) 88 Cong. Rec. 720.

It is a fundamental principle of statutory construction that all portions of a statute should be interpreted in such a way as to carry out its general purposes. With this in mind let us examine section 3(f) of the Act. Here it is provided that "no provision of this Act or of any existing law shall be construed to authorize any action contrary to the provisions and purposes of this section". Two questions arise in connection with the meaning of this subsection. First, what is meant by "any action contrary to the provisions of this section", and, second, what is meant by "any action contrary to the . . . purposes of this section" (underscoring supplied).

It seems clear that the "provisions" referred to are those which prohibit the fixing of a maximum price below the standard provided in subsection (a) of section 3. With respect to this prohibition there can be little doubt but that the proposed Executive Order will not in any way violate its expressed terms. The proposed Executive Order does not contemplate fixing a maximum price for agricultural commodities. It does not deal with price fixing at all. It is concerned with placing restrictions on the extension of credit in order to stabilize prices and prevent inflation.

It may be argued that although the proposed Executive Order does not violate the express "provisions" of section 3, it may violate the "purposes" of that section.

Examination of section 3 reveals that no purposes whatever are expressed therein. It is reasonable to assume, therefore, that its purpose is in accord with the general purposes of the entire Act, as set forth in section 1. If section 3 is interpreted to mean precisely what it says and nothing else is read into it, there is no conflict whatever between it and the remainder of the Act. Section 3 deals only with the establishment or maintenance of maximum prices for any agricultural commodity. If no maximum price or ceiling is set for a particular agricultural commodity then the situation is not one which comes within the scope or applicability of section 3. In other words, if no price ceiling is set there is nothing to which the provisions of section 3 can apply and a fortiori there is nothing to which the provisions of section 3(f) can apply. Such an interpretation is not only logical but conforms with the accepted rules for statutory construction because it is only by such an interpretation that all of the sections of the statute are in harmony.

It is interesting to observe that the legislators themselves placed a very limited construction on the words "provisions and purposes" as used in section 3 of the Act. Senator Brown, in a "carefully prepared statement", explains just what was intended by the language of section 3. He states:

> "The language on page 21 of the House Conference Report might be misconstrued if I did not make this statement. Section 3 does not in any way affect prices of commodities now in existence and owned by these agencies.

> That issue was settled in the conference. Section 3 relates to the price floors below which the Administrator may not exercise control. Those are the provisions and purposes of this section. Its purpose is not to raise prices, but to prohibit action by the administrators until causes - supply, demand, and others - bring any particular commodity within the purview of the Act." (Underscoring supplied.)

At the risk of belaboring the point, attention is called to the fact that if section 3(f) is stretched to include within its prohibitions any attempt through existing legislation to depress farm prices other than through price fixing, then section 3(f) would have to be regarded as completely inconsistent with the remainder of the Act.

Section 1, under the head of "Purposes; Time Limit; Applicability", provides:

> "It is hereby declared to be in the interest of the national defense and security and necessary to the effective prosecution of the present war, and the purposes of this Act are, to stabilize prices and to prevent speculative, unwarranted, and abnormal increases in prices and rents; to eliminate and prevent profiteering, hoarding, manipulation, speculation, and other disruptive practices resulting from abnormal market conditions or scarcities caused by or contributing to the national emergency; to assure that defense appropriations are not dissipated by excessive prices; to protect persons with relatively fixed and limited incomes, consumers, wage earners, investors, and persons dependent on life insurance, annuities, and pensions, from undue impairment of their standard of living; to prevent hardships to persons engaged in business, to schools, universities, and other institutions, and to the Federal, State, and local governments, which would result from abnormal increases in prices; to assist in securing adequate production of commodities and facilities; to prevent a post emergency collapse of values * *." (Underscoring supplied.)

V. Repeal by implication is not favored as a rule of statutory construction.

If it is argued that subsection (f) of section 3 was intended to be so broad and so all-inclusive as to cover the entire field of inflation control, it will follow as a necessary incident to such contention that all existing law contrary to or even merely inconsistent with subsection (f) of section 3 as so interpreted will become invalidated. Thus this subsection, of one section in an entire Act, will not only be given more meaning than the entire Act itself, but will necessarily hamper and impede the primary purpose of the Act as stated therein by cutting across other attempts to control inflation. The principle of statutory construction disfavoring repeal of statutes by implication is sound and well-founded. In United States v. Borden & Co., (1939) 308 U.S. 98, 198-99, the court made a clear-cut and well-considered statement on the subject:

> "It is a cardinal principle of construction that repeals by implication are not favored. When there are two Acts upon the same subject, the rule is to give the effect to both if possible. The intention of the legislation to repeal 'must be clear and manifest'. It is not sufficient, as was said by Mr. Justice Story in Wood v. United States, 16 Pet. 342, 362, 363, to establish that all subsequent laws cover some or even all of the cases provided for by (the prior Act); for they may be merely affirmative, or cumulative or auxiliary. There must be a positive repugnancy between the provisions of the new laws and those of the old; and even then the old law is repealed by implication only pro tanto to the extent of the repugnancy."

The judicial presumption against construing subsequent legislation as repealing prior legislation is based upon sound judicial reluctance to interfere with expressed legislative intent, and is, therefore, particularly strong when the Act allegedly repealed by implication was enacted at the same session of the legislature, as the Act by which it was allegedly repealed. Morf v. Bingham, (1936) 298 U.S. 409, 414.

Section 3(f) does not expressly repeal any provision of existing law. It indicates neither the nature nor the statutory designation of the Acts which it intends to repeal. Under such circumstances any attempt to construe section 3(f) as intending to repeal or limit the President's powers under 5(b) of the Trading with the enemy Act should be based on something less flimsy than the argument that the President's control of the extension of credit on agricultural commodities may indirectly have an adverse effect on farm prices in general. There are the same reasons for holding that section 3(f) should be narrowly construed as there are for holding that repeals by implication should, in general, be disfavored.

It is of particular significance in this connection that section 5(b) was re-enacted in the First War Powers Act at the same session of Congress which enacted the Emergency Price Control Act. Certainly Congress must have been aware of the fact that the President could use section 5(b) for the control of the extension of credit on agricultural commodities just as he had used that section to control the extension of credit on consumer goods. With Executive Order No. 8843 fresh in their minds they could have placed, if they had so desired, a restriction prohibiting or at least limiting expressly the power to control the extension of credit on agricultural commodities.

Conclusion

Apart from any legalistic or technical justification for the limited construction placed upon section 3(f) of the Emergency Price Control Act, and apart from arguments, substantial though they may be, based upon the intention of the legislators, there are other considerations which are equally important in reaching an ultimate determination on the question of the fair interpretation of section 3(f).

First, if we accept the argument that section 3(f) was intended to cut across all existing law, we are placed in the absurd position of permitting the tail to wag the dog. At most, section 3 constitutes a proviso to the remainder of the Act. The Act by its title and its contents is unmistakably a price fixing measure designed and calculated to prevent inflation. Section 3 merely limits the price fixing ability of the administrator by stating, in effect, that he may fix prices on all commodities provided that in fixing ceilings on agricultural commodities he observes the minimum ceiling specified.*

Provisos are rarely, if ever, given affirmative effect. Here, if we are to accept the broad interpretation, we are compelled to give the proviso greater effect than the remainder of the Act and we are compelled further to give it this greater effect by implication.

There was a broad policy mentioned during the Congressional debate and during the hearing before the House Committee to the effect that the most important single factor in which the farmers had a vital interest was the stabilizing effect of the proposed legislation. It is true that the Bill was intended primarily to control and prevent inflation. Equally true, however, and probably more persuasive to the farm group was the fact that such control would be the means for achieving stabilization of farm prices.

Time after time it was emphasized, both in flowery phrases, and in sincere direct statements by true friends of the farmer, that the worst catastrophe which could overtake the farmer would be uncontrolled, unstabilized and inflated prices on agricultural commodities. The debacle which followed in the wake of the boom after the First World War hurt the farmers more than any other group in the country. Outstanding spokesmen for the farm group, appearing before the House Committee, testified in no uncertain terms that more important than anything else was the prevention of any recurrence of the fate which befell the farmers after World War I.

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* "The meaning and intent of section 3 is that the Price Administrator may not exercise his control of prices until prices have reached a certain price maximum, which is definitely set down in the Bill." This is part of a statement by Senator Brown in Cong. Rec. (Senate) vol. 88, p. 720, January 27, 1942.

The testimony of Mr. Edward A. O'Neal, the President of the American Farm Bureau Federations, was extremely enlightening on this point and is indicative of the point of view of the farmers and the friends of the farmers in Congress. The following excerpts are characteristic of his general attitude toward inflation control:

> "Coming now to the necessity to control inflation, the American Farm Bureau Federations favor legislation to prevent inflation, provided it is on a fair basis to all groups . . . (Hearings before Committee on Banking and Currency and H. of R., 77th Cong., session on H.R. 5479 at p. 1388).
>
> "Farmers know from bitter experience the disastrous consequences of runaway inflation and the inevitable deflation that follows. It has taken American agriculture twenty years to recover from the deflation that followed the other World War inflation . . . (id. at page 1389).
>
> "This price disparity only tells part of the sad story. Hundreds of thousands of farmers lost their life savings and lost their farms through forced sales. No one knows better than the farmers the terrible consequences that follow land inflation and deflation. Land inflation follows price inflation, but it takes much longer to get over land inflation; it takes a generation to recover from land inflation and deflation . . . (id. at p. 1391).
>
> "We want to avoid going through another such cycle if possible." (id. at p. 1391).

It was on the basis of sentiments such as those expressed by Mr. O'Neal that Congress passed the Emergency Price Control Act and permitted the placing of a ceiling on agricultural commodities. Where the ceiling should be placed was only secondary to the thought and purpose that a ceiling must be created consistent with proper control of inflation.

It should be remembered that the farmers did not fear inflated farm prices as such because obviously higher prices meant better times for them. It was the fear rather that a general inflation would unstabilize farm prices to their ultimate detriment that made the farmers willing to talk in terms of price ceilings on their own products.

It would hardly seem reasonable, therefore, to interpret section 3(f) in such a way as to permit it to hamstring the Administration's program for controlling inflation. Section 3(f) should be viewed in its proper perspective. It is, and was intended to be, merely a proviso which limited the Price Administrator in the exercise of his judgment. It provided that the Price Administrator may fix the ceiling for the price of agricultural commodities in conformity with the standards set forth in section 3(a). It provided also that no other existing law was to be interpreted in such a way as to give him or anyone else the right to fix a ceiling below the standards specified.*

Only by a tortured and exaggerated construction can the conclusion be reached that section 3(f) is a bar to the control by the President of the extension of credit for agricultural commodities.

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* Section 3(f) as interpreted here is given full meaning. The legislators intended to prevent the Administrator, or anyone else, such as, the Secretary of Agriculture, from defeating the purpose of the section by acting under other existing law. For example, this would prevent the Secretary of Agriculture from redefining parity in such a way, or with reference to such a period, as to lower its benefits to the farmer. Also prohibited by this section would be any attempt to redefine the term "agricultural commodity" in such a way as to take particular commodities out of the scope of the Act. This was the type of contingency, the occurrence of which, section 3(f) sought to prevent.

OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

September 1, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended August 29, 1942.

At the present time the WPB is rerating all outstanding Russian contracts, revising existing priority ratings according to information submitted by the Russians indicating the urgency of need.

We are keeping in close touch with WPB on this matter.

Clifton E. Mack
Director of Procurement

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LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF AUGUST 29, 1942
(In Millions of Dollars)

	Total	U. K.	Russia	China	Administrative Expenses	Undistributed & Miscellaneous
Allocations	$2100.0 (1772.9)	$1074.7 (1049.8)	$517.6 (511.3)	$56.4 (56.8)	$3.7 (3.7)	$447.6 (151.3)
Purchase Authorizations (Requisitions)	$1488.5 (1468.9)	$ 937.2 (927.1)	$495.5 (487.8)	$40.6 (40.5)	- -	$ 15.2 (13.5)
Requisitions Cleared for Purchase	$1441.7 (1392.7)	$ 918.3 (885.4)	$469.2 (453.9)	$40.5 (40.3)	- -	$ 13.7 (13.1)
Obligations (Purchases)	$1329.5 (1305.9)	$ 885.9 (874.1)	$391.9 (380.5)	$40.4 (40.3)	$2.0 (2.0)	$ 9.3 (9.0)
*Deliveries to Foreign Governments at U. S. Ports	$ 554.7 (530.9)	$ 442.3 (423.4)	$89.6 (85.3)	$20.1 (20.1)	- -	$ 2.7 (2.1)

*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 August 22, 1942.

EXPLANATION OF DECREASES

The reduction of $400,000 in allocations for China was effected by a decrease in that amount which represents the difference between the actual contract value and estimated value of Requisition C-566.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 1 - 1942

TO Secretary Morgenthau

FROM Randolph Paul

The American Jewish Joint Distribution Committee, Inc. has asked for permission to authorize its Shanghai representative to obtain locally the equivalent of $240,000 to be expended for relief purposes among the 22,000 German, Austrian, Polish, Czech and Dutch refugees there resident. Foreign Funds has jurisdiction over all financial communications with the enemy and enemy-occupied territories. The Committee would remit no funds from the United States, but would guarantee the repayment of the $240,000 borrowed in Shanghai, the loan to be repaid at the end of the war or at such time as it would be legal to do so.

It is the policy of Foreign Funds not to authorize the transmission of financial communications to any occupied territory unless there is a clear benefit to the war effort of the United States. It is also the present policy of the United States not to permit the extension of relief to the inhabitants of enemy-occupied territories. As exceptions to this policy, some food and other supplies have been sent to Greece and, I believe, some milk has been sent to the children of France. All exceptions have been considered on the basis of their own merits and have been permitted only for the most weighty reasons.

Under Secretary Welles has stated that the Government would find it difficult to make an exception to the general policy in the case of the Shanghai refugees. However, he has indicated a willingness to be of help provided the method used does not constitute an exception.

If the Committee were granted permission to communicate its guarantee to Shanghai, it would require a modification of the general rule of Foreign Funds and the Office of Censorship against permitting communications relating to financial or commercial transactions unless they would further the war effort. A strong argument, putting entirely to one side humanitarian considerations, for failing to follow the general rule in the present case, is that there would be no transmission of funds from the United States. The argument, however, is not conclusive since the guarantee if communicated may be utilized as a basis for drawing funds from neutral or other sources to the sphere of Japanese control, which funds might not otherwise be transmitted. Furthermore, aside from the fact that the authorization would not further the war effort, it would be a grave source of embarrassment to Foreign Funds in the future.

The policy of this Government in regard to communications with enemy and enemy-occupied areas is so strict that we are not allowing American citizens to provide funds for their alien mothers, brothers, sisters, wives and children in such areas. You may recall that General Knudsen had a plan similar to the J.D.C. proposal to provide funds to his sisters in Denmark through the General Motors establishment there and the Treasury refused to allow the transaction, even though no remittance from the United States was involved. The American public has accepted completely the Government's policy against communication with enemy and enemy-occupied areas. This acceptance has undoubtedly been due in part at least to the uniformity with which the rule has been enforced. Any exceptions would undermine the Government's position in this important field.

It would be difficult, if not impossible, treating the case as a precedent, to deny permission to other relief organizations to make similar arrangements in other enemy or enemy-occupied territories where the humanitarian claims are equal to or greater than those which prevail in the case of Shanghai.

It is clear that the proposed method would constitute an exception to the general policy of the Government. On January 27, 1942, the State Department issued the following press release which has not been modified to date:

> "The following statement has been made today, with the approval of the American Government, by Dr. Hugh Dalton, British Minister of Economic Warfare in the British House of Commons:
>
> "'The two governments, nevertheless, continue to maintain in the most categorical manner that it is incumbent upon the enemy to feed the countries occupied by him and their policy in this respect remains unaffected by the exception which it has been found necessary to make in the special circumstances obtaining in Greece.'"

Accordingly, far from being of advantage to the United States, the authorization of the communication would be a part of a plan that might result in relieving Japan of a duty which the spokesman of the United States has said is incumbent upon Japan.

Finally Foreign Funds is bound by the last quoted statement of policy, and, until the statement is modified, Foreign Funds should not authorize the communication of the guarantee, entirely apart from the question of its own rule.

It is my opinion, therefore, that the request of the Committee to communicate a guarantee to its Shanghai representative be denied. Needless to add, I come to this conclusion most reluctantly.

REP

approved.
H.M.Jr.
Sept 2, 1942

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE Sept. 1, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Position of U.S.-Chinese Stabilization Fund

1. On August 25, cable was received from Adler in Chungking indicating that the Stabilization Board, in order to meet its outstanding obligations to the Central Bank of China, will have to draw between \$17 and \$31 million from the \$50 million U. S. contribution under the April 1st Agreement, in addition to exhausting the approximately \$3 million it now holds in the Federal Reserve Bank of New York.

2. The wide spread between \$17 and \$31 million is due to the fact that it has not yet been determined whether the Board will meet the Central Bank's expenditures made from August through October, 1941 and whether the Chinese Government will hand over to the Board £2 million accruing to it from purchase of Hong Kong dollar and Burma rupee notes from Chinese refugees.

3. The British member of the Board has suggested that the Board should not exhaust its sterling assets but should keep £1 million from which to meet so-called current sterling liabilities. This, in effect, would mean calling on the U. S. contribution for an additional \$4 million. We see no reason for agreeing to this proposal but are requesting Adler to send us his views on this matter. I am attaching a copy of the cable we have sent to Adler.

There is also appended a summary statement of the position of the U.S.-Chinese Stabilization Fund.

Position of U.S. - Chinese Stabilization Fund, August, 1942. 343

(in 000's)

1. Assets of Board

U. S. dollars in Federal Reserve Bank, New York	$ 3,367
Pounds sterling in Fund	£ 2,000

2. Application for foreign exchange by the Central Bank of China

For U. S. dollars:

Furnished by the Central Bank prior to November 1, 1941	$ 2,700
Furnished by the Central Bank, November 1, 1941 - July 31, 1942	18,000
Total	$ 20,700

For pounds sterling:

Furnished by the Central Bank prior to November 1, 1941	£ 1,000
Furnished by the Central Bank, November 1, 1941 - July 31, 1942	4,620
Total	£ 5,620

3. Deficit resulting from meeting application of Central Bank of China

If application for foreign exchange furnished by the Central Bank prior to November 1 is met:

U. S. dollars	$ 17,333
Pounds sterling	£ 3,620

If application for foreign exchange furnished by the Central Bank prior to November 1 is not met:

U. S. dollars	$ 14,633
Pounds sterling	£ 2,620

4. Possible additional sources of funds out of which deficit will have to be met

U. S. contribution	$ 50,000
Request for sterling from Chinese Government	£ 2,000

September 1, 1942

TO: Adler, Chungking, China.

FROM: Secretary of the Treasury.

Reference your cable of August 24, TF-55, regarding Central Bank of China application.

(a) Treasury is not sure that it understands purpose of suggestion made by British member of the Board that £1 million of the sterling assets of the Board should be kept to meet current liabilities. It is not clear as to the significance in this connection of the difference between liabilities incurred during the past few months and liabilities to be incurred during the coming months, particularly since the demands of the Board for sterling already exceed its assets. Please inform us by cable as to your reaction to this proposal of the British member. It will be recalled that in our cables of May 2 to you and of June 16 to Mr. Fox it was pointed out that the Treasury assumed that the Board would not use its dollar funds for the purchase of sterling until the sterling assets had been exhausted.

(b) Treasury would like to have more detailed account of Central Bank's application, including application for sterling, since meeting of Bank's application will necessitate calling on the U. S. contribution of $50 million and since the dollar assets of the Board will be used to purchase sterling. The Secretary must obtain this information to fulfill his obligations to Congress.

Treasury Department
Division of Monetary Research

345

Date September 1, 1942 19

To: Secretary Morgenthau

From: Mr. White

Appended is an interesting document. It is as explained in Sir Frederick Phillips' letter to me, a draft for an international monetary proposal prepared by Maynard Keynes.

I shall later submit a memorandum with comments and evaluation of his proposal. I think, however, you might be interested in reading Sir Frederick Phillips' letter which will give you a cursory idea of the plan.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860

BOX 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

August 28, 1942.

Dear Dr. White,

Mr. Morgenthau recently promised to give me an opportunity of explaining to him the general run of our ideas on post - war currency arrangements, and you kindly offered, if I would produce a version in writing, to study this. I now enclose a paper which has been prepared by Lord Keynes. The ideas embodied are the result of discussions between British experts only and until we have reached some measure of agreement as between British and American views I suggest that it would be better that it should not be shown to anyone outside United States Government Departments. I would emphasize that the document is put forward as a basis of discussion with a view to amendment or extension.

2. As it happens I have just completed a preliminary study of your paper on the United Nations Stabilisation Fund and the Reconstruction & Development Bank. The two plans have a wide area in common, but nevertheless each seems to contribute important elements not fully developed in the other.

You have dealt completely, and it seems to me most admirably, with much that is omitted or left vague in our own sketch. In particular the suggestions for dealing with liquid balances, which may be wholly or partly blocked, existing in any centre at the end of the war prior to the inception of the new scheme, are clearly of the greatest importance. The proposal (II- 48/50) to get over the difficulty of some countries restricting capital movements while others were unwilling to do so seems excellent to me. The proposals you make with reference to stabilising the prices of primary products, (I - 15) are close to our own ideas and the same is true of the general treatment of tariffs, exchange control, and restrictions on trade wherever these points arise in the course of the paper.

3. The central idea in our plan is the new International Clearing Union with much the same powers and responsibilities towards its

Dr. H. D. White,
Director of Monetary Research,
United States Treasury,
Washington, D.C.

clients, viz. Treasuries and Central Banks, as an ordinary bank has to its customers. In this, we see two advantages. First, we attach importance to making help available by a flexible machinery on a wide basis. Is it not a criticism of the Stabilisation Fund plan, unless you develop it further, that as regards countries needing assistance it is helpful to those only who have a gold reserve already, and is helpful to them in proportion to the amount of such gold reserve ? A country which has but little gold and which may for that reason need support all the more, could receive under the scheme only a little help. I am not overlooking the provision (II - 15) for permitting countries in some cases to exceed their normal purchases of foreign exchange, but that power is extraordinary and requires a four-fifths majority. Secondly, we think our plan goes much further in making possible the adjustment of the total volume of international currency to world needs. Should a severe world depression threaten at some date subsequent to the conclusion of the war success in coping with it will, we think, largely turn on the adoption of a general expansionist policy. The efforts of individual countries to meet the evil may prove futile, as they have in the past, unless given the strong support of a common international currency policy. On the other hand, as we have the same general objectives in mind, I should hope that there would not be too much difficulty in agreeing the right machinery, which seems the main problem.

4. I feel that there are many points which I could best deal with orally. Our proposals are specifically directed to removing the kind of instability that marked the period between the two wars, and to secure uninterrupted progress for the betterment of world conditions. In particular, they have been drawn to meet the threat of another world-wide post-war depression. I think we are agreed that this is unlikely to occur immediately at the end of hostilities but that it is something gravely to be feared as the world sinks back into what many would regard as normality. That is the long term aspect. Nevertheless, it is my belief that we can embody in the scheme ideas which will be found of the greatest assistance in dealing with the financial problems of relief and reconstruction.

Yours sincerely,

F Phillips

SECRET.

Copy No.

PROPOSALS FOR AN INTERNATIONAL CLEARING UNION.

I.—PREFACE.

ABOUT the primary objects of an improved system of International Currency there is, to-day, a wide measure of agreement:—

(*a*) We need an instrument of international currency having general acceptability between nations, so that blocked balances and bilateral clearings are unnecessary; that is to say, an instrument of currency used by each nation in its transactions with other nations, operating through whatever national organ, such as a Treasury or a Central Bank, is most appropriate, private individuals, businesses and banks other than Central Banks, each continuing to use their own national currency as heretofore.

(*b*) We need an orderly and agreed method of determining the relative exchange values of national currency units, so that unilateral action and competitive exchange depreciations are prevented.

(*c*) We need a *quantum* of international currency, which is neither determined in an unpredictable and irrelevant manner as, for example, by the technical progress of the gold industry, nor subject to large variations depending on the gold reserve policies of individual countries; but is governed by the actual current requirements of world commerce, and is also capable of deliberate expansion and contraction to offset deflationary and inflationary tendencies in effective world demand.

(*d*) We need a system possessed of an internal stabilising mechanism, by which pressure is exercised on any country whose balance of payments with the rest of the world is departing from equilibrium in either direction, so as to prevent movements which must create for its neighbours an equal but opposite want of balance.

(*e*) We need an agreed plan for starting off every country after the war with a stock of reserves appropriate to its importance in world commerce, so that without due anxiety it can set its house in order during the transitional period to full peace-time conditions.

(*f*) We need a method by which the surplus credit balances arising from international trade, which the recipient does not wish to employ for the time being, can be set to work in the interests of international planning and relief and economic health, without detriment to the liquidity of these balances and to their holder's faculty to employ them himself when he desires to do so.

(*g*) We need a central institution, of a purely technical and non-political character, to aid and support other international institutions concerned with the planning and regulation of the world's economic life.

(*h*) More generally, we need a means of reassurance to a troubled world, by which any country whose own affairs are conducted with due prudence is relieved of anxiety, for causes which are not of its own making, concerning its ability to meet its international liabilities; and which will, therefore, make unnecessary those methods of restriction and discrimination which countries have adopted hitherto, not on their merits, but as measures of self-protection from disruptive outside forces.

2. There is also a growing measure of agreement about the general character of any solution of the problem likely to be successful. The particular

proposals set forth below lay no claim to originality. They are an attempt to reduce to practical shape certain general ideas belonging to the contemporary climate of economic opinion, which have been given publicity in recent months by writers of several different nationalities. It is difficult to see how any plan can be successful which does not use these general ideas, which are born of the spirit of the age. The actual details put forward below are offered, in no dogmatic spirit, as the basis of discussion for criticism and improvement. For we cannot make progress without embodying the general underlying idea in a frame of actual working, which will bring out the practical and political difficulties to be faced and met if the breath of life is to inform it.

3. In one respect this particular plan will be found to be more ambitious and yet, at the same time, perhaps more workable than some of the variant versions of the same basic idea, in that it is fully international, being based on one general agreement and not on a multiplicity of bilateral arrangements. Doubtless proposals might be made by which bilateral arrangements could be fitted together so as to obtain some of the advantages of a multilateral scheme. But there will be many difficulties attendant on such adjustments. It may be doubted whether a comprehensive scheme will ever in fact be worked out, unless it can come into existence through a single act of creation made possible by the unity of purpose and energy of hope for better things to come, springing from the victory of the United Nations, when they have attained it, over immediate evil. That these proposals are ambitious is claimed, therefore to be not a drawback but an advantage.

4. The proposal is to establish a Currency Union, here designated an *International Clearing Union*, based on international bank-money, called (let us say) *bancor*, fixed (but not unalterably) in terms of gold and accepted as the equivalent of gold by the British Commonwealth and the United States and all the other members of the Union for the purpose of settling international balances. The Central Banks of all member States (and also of non-members) would keep accounts with the International Clearing Union through which they would be entitled to settle their exchange balances with one another at their par value as defined in terms of bancor. Countries having a favourable balance of payments with the rest of the world as a whole would find themselves in possession of a credit account with the Clearing Union, and those having an unfavourable balance would have a debit account. Measures would be necessary (see below) to prevent the piling up of credit and debit balances without limit, and the system would have failed in the long run if it did not possess sufficient capacity for self-equilibrium to prevent this.

5. The idea underlying such a Union is simple, namely, to generalise the essential principle of banking as it is exhibited within any closed system. This principle is the necessary equality of credits and debits. If no credits can be removed outside the clearing system, but only transferred within it, the Union can never be in any difficulty as regards the honouring of cheques drawn upon it. It can make what advances it wishes to any of its members with the assurance that the proceeds can only be transferred to the clearing account of another member. Its sole task is to see to it that its members keep the rules and that the advances made to each of them are prudent and advisable for the Union as a whole.

6. It is proposed that the Clearing Union should be designed and initiated by the United States and the United Kingdom and that Russia and perhaps one or more other members of the United Nations should then be invited to join them as founder States. Other members would then be brought in—some from the outset, some as soon as they had established an internal organisation capable of sustaining the obligations of membership. This approach would have the great advantage that the charter and the main details of the new body could be drafted without being subjected to the delays and confused counsels of an international conference, though this need not stand in the way of informal consultation with those concerned. It would also mean that considerable progress could be made irrespective of the nature of the European political settlement and before the conditions of adherence of the European members could be finally determined. Moreover, membership would be thus established as a privilege only open to those who conformed to certain general principles and standards of international economic conduct.

II.—THE PROVISIONS OF THE PLAN.

7. The provisions proposed (the particular proportions and other details suggested being tentative as a basis of discussion) are the following:—

(1) The Governing Board of the Clearing Union will be appointed by the Governments of the several member States; the daily business with the Union and the technical arrangements being carried out, as at present, through their Central Banks.

(2) The founder States will agree between themselves the initial values of their own currencies in terms of bancor and also the value of bancor in terms of gold, which will not be varied subsequently except with their approval; and the initial values of the currencies of other members will be agreed with them on their joining the system. A member State may not subsequently alter the value of its currency in terms of bancor without the permission of the Governing Board except under the conditions stated below; but during the first five years after the inception of the system the Governing Board shall give special consideration to appeals for an adjustment in the exchange value of a national currency unit on the ground of unforeseen circumstances.

(3) The amount of the maximum debit balance allowed to any member State shall be designated its *quota*. The initial quotas might be fixed by reference to the sum of each country's exports and imports on the average of (say) the three pre-war years, being either equal or in a determined *lesser* proportion to this amount, a special assessment being substituted in cases (of which there might be several) where this formula would be, for any reason, inappropriate. Subsequently, after the elapse of the transitional period, the quotas should be revised annually in accordance with the running average of each country's actual volume of trade in the three preceding years. The determination of a country's quota primarily by reference to the value of its foreign trade seems to offer the criterion most relevant to a plan which is chiefly concerned with the regulation of the foreign exchanges and of a country's international trade balance. It is, however, a matter for discussion whether the formula for fixing quotas should also take account of other factors.

(4) A charge of 1 per cent. per annum shall be payable to the Reserve Fund of the Clearing Union on the amount of the excess of the average balance of a member State, whether it is a credit or a debit balance, above a quarter of its quota; and a further charge of 1 per cent. on the excess of the average balance, whether credit or debit, above a half of its quota. Thus, only a country which keeps as nearly as possible in a state of international balance on the average of the year will escape this contribution. These charges are not absolutely essential to the scheme. But if they are found acceptable, they would be valuable and important inducements towards keeping a level balance, and a significant indication that the system looks on excessive credit balances with as critical an eye as on excessive debit balances, each being, indeed, the inevitable concomitant of the other. Any member State in debit may, however, borrow from the balances of any member State in credit on such terms as may be mutually agreed, by which means each would avoid these contributions.

(5)—(*a*) A member State may not increase its debit balance by more than a *quarter* of its quota within a year without the permission of the Governing Board. If its debit balance has exceeded a quarter of its quota on the average of at least a year, it shall be entitled to reduce the value of its currency in terms of bancor, provided that the reduction shall not exceed 5 per cent. within a year without the permission of the Governing Board.

(*b*) As a condition of allowing a member State to increase its debit balance to a figure in excess of a *half* of its quota, the Governing Board may require (i) a stated reduction in the value of the member's currency, if it deems that to be the suitable remedy, (ii) the control of outward capital transactions if not already in force, and (iii) the surrender of a suitable proportion of any separate gold or other liquid reserve in reduction of its debit balance. Furthermore, the Governing Board may recommend to the Government of the member State any internal measures affecting its domestic economy which may appear to be appropriate to restore the equilibrium of its international balance.

(*c*) If a member State's debit balance has exceeded *three-quarters* of its quota on the average of at least a year [or is excessive, as measured by some formula laid down by the Governing Board, in relation to the total debit balances outstanding on the books of the Clearing Union], it may be asked by the Governing Board to take measures to improve its position and, in the event of its failing to reduce its debit balance below the figure in question within two years, the Governing Board may declare that it is in default and no longer entitled to draw against its account except with the permission of the Governing Board. Each member State, on joining the system, shall agree to pay to the Clearing Union any payments due from it to a country in default towards the discharge of the latter's debit balance and to accept this arrangement in the event of falling into default itself. A member State which resigns from the Clearing Union without making approved arrangements for the discharge of any debit balance shall also be treated as in default.

(6) A member State whose credit balance has exceeded a *half* of its quota on the average of at least a year shall discuss with the Governing Board (but shall retain the ultimate decision in its own hands) what measures would be appropriate to restore the equilibrium of its international balances, including—

(*a*) Measures for the expansion of domestic credit and domestic demand;
(*b*) The appreciation of its local currency in terms of bancor, or, alternatively, an increase in money wages;
(*c*) The reduction of tariffs and other discouragements against imports;
(*d*) International loans for the development of backward countries.

(7) A member State shall be entitled to obtain a credit in terms of bancor by paying in gold to the Clearing Union for the credit of its clearing account. But no-one is entitled to demand gold from the Union against a balance of bancor, since such balance is available only for transfer to another clearing account. The Governing Board of the Union should, however, have the discretion to distribute any gold in the possession of the Union between the members possessing credit balances, proportionately to such balances, in reduction of their amount.

(8) Members of the Governing Board would be appointed by the Governments of the founder States and of the other member States, the lesser States appointing in groups, so that the members would not exceed (say) 12 in number, each member having a vote in proportion to the quotas of the State (or States) appointing him. But there might be a provision, at any rate for the first five years, by which the representatives of the founder States could outvote the rest of the Board.

(9) The executive offices of the Union should be situated in London and New York with the Board of Managers meeting alternatively in London and Washington.

(10) Members would be entitled to withdraw from the Union on a year's notice, subject to their making satisfactory arrangements to discharge any debit balance. They would not, of course, be able to employ any credit balance except by making transfers from it, either before or after their withdrawal, to the Clearing Accounts of other Central Banks. Similarly, it should be within the power of the Governing Board to require the withdrawal of a member subject to the same notice.

(11) The Central Banks of non-member States would be allowed to keep credit clearing accounts with the Union; and, indeed, it would be advisable for them to do so for the conduct of their trade with member States. But they would have no right to overdrafts and no say in the management.

(12) The principles and governing rules of the Union should be the subject of reconsideration after five years' experience, if a majority of the Governing Board desire it.

III.—SOME ADVANTAGES OF THE PLAN.

8. The plan aims at the substitution of an expansionist, in place of a contractionist, pressure on world trade.

9. It effects this by allowing to each member State overdraft facilities of a defined amount. Thus each country is allowed a certain margin of resources and a certain interval of time within which to effect a balance in its economic relations with the rest of the world. These facilities are made possible by the constitution of the system itself and do not involve particular indebtedness between one member State and another. A country is in credit or debit with the Clearing Union as a whole. This means that the overdraft facilities, whilst a relief to some, are not a real burden to others. For the accumulation of a credit balance with the Clearing Union would resemble the importation of gold in signifying that the country holding it is abstaining voluntarily from the immediate use of purchasing power. But it would not involve, as would the importation of gold, the withdrawal of this purchasing power from circulation or the exercise of a deflationary and contractionist pressure on the whole world, including in the end the creditor country itself. Under this proposed plan, therefore, no country suffers injury (but on the contrary) by the fact that the command over resources, which it does not itself choose to employ for the time being, is not withdrawn from use. The accumulation of bancor credit does not curtail in the least its capacity or inducement either to produce or to consume.

10. In short, the analogy with a national banking system is complete. No depositor in a local bank suffers because the balances, which he leaves idle, are employed to finance the business of someone else. Just as the development of national banking systems served to offset a deflationary pressure which would have prevented otherwise the development of modern industry, so by extending the same principle into the international field we may hope to offset the contractionist pressure which might otherwise overwhelm in social disorder and disappointment the good hopes of our modern world. The substitution of a credit mechanism in place of hoarding would have repeated in the international field the same miracle, already performed in the domestic field, of turning a stone into bread.

11. There might be other ways of effecting the same objects temporarily or in part. For example, the United States might redistribute her gold. Or there might be a number of bilateral arrangements having the effect of providing international overdrafts, as, for example, an agreement by the Federal Reserve Board to accumulate, if necessary, a large sterling balance at the Bank of England, accompanied by a great number of similar bilateral arrangements, amounting to some hundreds altogether, between these and all the other banks in the world. The objection to particular arrangements of this kind, in addition to their greater complexity, is that they are likely to be influenced by extraneous, political reasons; that they put individual countries in a position of particular obligation towards others; and that the distribution of the assistance between different countries may not correspond to need and to the real requirements, which are extremely difficult to foresee.

12. It should be much easier, and surely more satisfactory for all of us, to enter into a general and collective responsibility, applying to all countries alike, that a country finding itself in a creditor position *against the rest of the world as a whole* should enter into an arrangement not to allow this credit balance to exercise a contractionist pressure against world economy and, by repercussion, against the economy of the creditor country itself. This would give everyone the great assistance of multilateral clearing, whereby (for example) Great Britain could offset favourable balances arising out of her exports to Europe against unfavourable balances due to the United States or South America or elsewhere. How, indeed, can any country hope to start up trade with Europe during the relief and reconstruction period on any other terms?

13. The facilities offered will be of particular importance in the transitional period after the war, as soon as the initial shortages of supply have been overcome. Many countries will find a difficulty in paying for their imports, and will need time and resources before they can establish a readjustment. The efforts of each of these debtor countries to preserve its own equilibrium, by forcing its exports and by cutting off all imports which are not strictly necessary, will aggravate the problem of all the others. On the other hand, if each feels free from undue pressure, the volume of international exchange will be increased and everyone will find it easier to re-establish equilibrium without injury to the standard of life anywhere. The creditor countries will benefit, hardly less than the debtors, by being given an interval of *time* in which to adjust their economies, during which they can safely move at their own pace without the result of exercising deflationary pressure on the rest of the world, and, by repercussion, on themselves.

14. It must, however, be emphasised that the provision by which the members of the Clearing Union start with substantial overdraft facilities in hand will be mainly useful, just as the possession of any kind of reserve is useful, to allow time and method for necessary adjustments and a comfortable safeguard behind which the unforeseen and the unexpected can be faced with equanimity. Obviously, it does not by itself provide any long-term solution against a continuing disequilibrium, for in due course the more improvident and the more impecunious, left to themselves, would have run through their resources. But, if

the purpose of the overdraft facilities is mainly to give time for adjustments, we have to make sure, so far as possible that they *will* be made. We must have, therefore, some rules and some machinery to secure that equilibrium is restored. A tentative attempt to provide for this has been made above. Perhaps it might be strengthened and improved.

15. The provisions suggested differ in one important respect from the pre-war system because they aim at putting some part of the responsibility for adjustment on the creditor country as well as on the debtor. This is an attempt to recover one of the advantages which were enjoyed in the nineteenth century, when a flow of gold due to a favourable balance in favour of London and Paris, which were then the main creditor centres, immediately produced an expansionist pressure and increased foreign lending in those markets, but which has been lost since New York succeeded to the position of main creditor, as a result of gold movements failing in their effect, of the breakdown of international borrowing and of the frequent flight of loose funds from one depository to another. The object is that the creditor should not be allowed to remain entirely passive. For if he is, an intolerably heavy task may be laid on the debtor country, which is already for that very reason in the weaker position.

16. If, indeed, a country lacks the productive capacity to maintain its standard of life, then a reduction in this standard is not avoidable. If its wage and price levels in terms of money are out of line with those elsewhere, a change in the rate of its foreign exchange is inevitable. But if, possessing the productive capacity, it lacks markets because of restrictive policies throughout the world, then the remedy lies in expanding its opportunities for export by removal of the restrictive pressure. We are too ready to-day to assume the inevitability of unbalanced trade positions, thus making the opposite error to those who assumed the tendency of exports and imports to equality. It used to be supposed, without sufficient reason, that effective demand is always properly adjusted throughout the world; we tend to assume, equally without sufficient reason, that it never can be. On the contrary, there is great force in the contention that, if active employment and ample purchasing power can be sustained in the main centres of the world trade, the problem of surpluses and unwanted exports will largely disappear, even though, under the most prosperous conditions, there may remain some disturbances of trade and unforeseen situations requiring special remedies.

IV.—THE DAILY MANAGEMENT OF THE EXCHANGES UNDER THE PLAN.

17. The Clearing Union restores unfettered multilateral clearing between its members. Compare this with the difficulties and complications of a large number of bilateral agreements. Compare, above all, the provisions by which a country, taking improper advantage of a payments agreement (for the system is, in fact, a *generalised* payments agreement), as Germany did before the war, is dealt with not by a single country (which may not be strong enough to act effectively in isolation or cannot afford to incur the diplomatic odium of isolated action), but by the system as a whole. If the argument is used that the Clearing Union may have difficulty in disciplining a misbehaving country and in avoiding consequential loss, with what much greater force can we urge this objection against a multiplicity of separate bilateral payments agreements.

18. Thus we should not only obtain the advantages, without the disadvantages, of an international gold currency, but we might enjoy these advantages more widely than was ever possible in practice with the old system under which at any given time only a minority of countries were actually working with free exchanges. In conditions of multilateral clearing, exchange dealings would be carried on as freely as in the best days of the gold standard, without its being necessary to ask anyone to accept special or onerous conditions.

19. The principles governing transactions are: first, that the Clearing Union is set up, not for the transaction of daily business between individual traders or banks, but for the clearing and settlement of the ultimate outstanding balances between Central Banks (and certain other super-national Institutions), such as would have been settled under the old gold standard by the shipment or the earmarking of gold, and should not trespass unnecessarily beyond this field; and, second, that its purpose is to increase *freedom* in international commerce and not to multiply interferences or compulsions.

20. Thus the fabric of international banking organisation, built up by long experience to satisfy practical needs, should be left as undisturbed as possible. Except as regards a provision, explained below, concerning the balances of Central Banks themselves, there should be no obstacle in the way of the existing practices of international banking except those which necessarily arise through measures which individual Central Banks may choose to adopt for the control of movements of capital.

21. It is not necessary to interfere with the discretion of Central Banks which desire to maintain a special intimacy within a particular group of countries associated by geographical or political ties, such as the existing sterling area, or groups, like the Latin Union of former days, which may come into existence covering, for example, the countries of North America or those of South America, or the groups now under active discussion, including Poland and Czechoslovokia or certain of the Balkan States. There is no reason why such Central Banks should not be allowed a double position, both as members of the Clearing Union in their own right with their proper quota, and also as making use of another financial centre along traditional lines, as, for example, Australia and India with London, or certain American countries with New York. In this case, their accounts with the Clearing Union would be in exactly the same position as the independent gold reserves which they now maintain, and they would have no occasion to modify in any way their present practices in the conduct of daily business.

22. There might be other cases, however, in which a dependency or a member of a federal union would merge its currency identity in that of a mother Central Bank, with a quota appropriately adjusted to the merged currency area as a whole, and *not* enjoy a separate individual membership of the Clearing Union, as, for example, the States of the Federal Union, the French colonies or the British Crown Colonies.

23. At the same time Central Banks, which do not belong to a special geographical or political group, would be expected to keep their reserve balances with the Clearing Union and not with one another. It should, therefore, be laid down that Central Bank balances may not be held in another country except with the approval of the Central Bank of that country; and, in order that sterling and dollars might not appear to compete with bancor for the purpose of Central Bank reserve balances, the Founder States might agree together that they would not accept the reserve balances of other Central Banks in excess of normal working balances except in the case of banks definitely belonging to a Sterling Area or Dollar Area group.

V.—THE POSITION OF GOLD UNDER THE PLAN.

24. Gold still possesses great psychological value which is not being diminished by current events; and the desire to possess a gold reserve against unforeseen contingencies is likely to remain. Gold also has the merit of providing in point of form (whatever the underlying realities may be) an uncontroversial standard of value for international purposes, for which it would not yet be easy to find a serviceable substitute. Moreover, by supplying an automatic means for settling some part of the favourable balances of the creditor countries, the current gold production of the world and the remnant of gold reserves held outside the United States may still have a useful part to play. Nor is it reasonable to ask the United States to de-monetise the stock of gold which is the basis of its impregnable liquidity. What, in the long run, the world may decide to do with gold is another matter. The purpose of the Clearing Union is to supplant gold as a governing factor, but not to dispense with it.

25. The international bank-money which we have designated *bancor* is defined in terms of a weight of gold. Since the national currencies of the member States are given a defined exchange value in terms of bancor, it follows that they would each have a defined gold content which would be their official buying price for gold, above which they must not pay. The fact that member State is entitled to obtain a credit in terms of bancor by paying actual gold to the credit of its clearing account, secures a steady and ascertained purchaser for the output of the gold-producing countries, and for countries holding a large reserve of gold. Thus the position of producers and holders of gold is substantially unaffected.

26. Central Banks would be entitled to retain their separate gold reserves and ship gold to one another, provided they did not pay a price above parity; they could coin gold and put it into circulation, and, generally speaking, do what they liked with it.

27. One restriction only would be, for obvious reasons, essential. No member State would be entitled to demand gold from the Clearing Union against its balance of bancor; for bancor is available only for transfer to another clearing account. Thus between gold and bancor itself there would be a one-way convertibility, such as ruled frequently before the war with national currencies which were on what was called a "gold exchange standard." This need not mean that the Clearing Union would only receive gold and never pay it out. It has been provided above that, if the Clearing Union finds itself in possession of a stock of gold, the Governing Board shall have discretion to distribute the surplus between those possessing a credit balance with it, proportionately to such balances, in reduction of their amount.

28. The question has been raised whether these arrangements are compatible with the retention by individual member States of a full gold standard with two-way convertibility, so that, for example, any foreign central bank acquiring dollars could use them to obtain gold for export. It is not evident that a good purpose would be served by this. But it need not be prohibited, and if any member State should prefer to maintain full convertibility for internal purposes it could protect itself from any abuse of the system or inconvenient consequences by providing that gold could only be exported under licence.

29. The value of bancor in terms of gold is fixed but not unalterably. It is proposed above that the founder States should have the power to change it. Clearly, they might exercise this power if the stocks of gold tendered to the Union were to be excessive. No object would be served by attempting further to peer into the future or to prophesy the ultimate policy.

VI.—THE CONTROL OF CAPITAL MOVEMENTS.

30. There is no country which can, in future, safely allow the flight of funds for political reasons or to evade domestic taxation or in anticipation of the owner turning refugee. Equally, there is no country that can safely receive fugitive funds, which constitute an unwanted import of capital, yet cannot safely be used for fixed investment.

31. For these reasons it is widely held that control of capital movements, both inward and outward, should be a permanent feature of the post-war system. It is an objection to this that control, if it is to be effective, probably requires the machinery of exchange control for *all* transactions, even though a general open licence is given to remittances in respect of current trade. Thus those countries which have for the time being no reason to fear, and may indeed welcome, outward capital movements, may be reluctant to impose this machinery, even though general licensing for capital, as well as trade, transactions reduces it to being no more than a machinery of record. On the other hand, such control will be more difficult to work by unilateral action on the part of those countries which cannot afford to dispense with it, especially in the absence of a postal censorship, if movements of capital cannot be controlled *at both ends*. It would, therefore, be of great advantage if the United States, as well as other members of the Clearing Union, would adopt machinery similar to that which the British Exchange Control has now gone a long way towards perfecting. Nevertheless, the universal establishment of a control of capital movements cannot be regarded as essential to the operation of the Clearing Union; and the method and degree of such control should therefore be left to the decision of each member State. Some less drastic way might be found by which countries, not themselves controlling actual capital movements can deter inward movements not approved by the countries from which they originate.

32. The position of balances in overseas ownership held in various countries at the end of the war presents a problem of considerable importance and special difficulty. A country in which a large volume of such balances is held could not, unless it is in a creditor position, afford the risk of having to redeem them in bancor on a substantial scale, if this would have the effect of depleting its bancor resources at the outset. At the same time, it is very desirable that the countries owning these balances should be able to regard them as liquid, at any rate over and above the amounts which they can afford to lock up under an agreed programme of funding or long-term expenditure. Perhaps there should be some

special over-riding provision for dealing with the transitional period only by which, through the aid of the Clearing Union, such balances would remain liquid and convertible into bancor by the creditor country whilst there would be no corresponding strain on the bancor resources of the debtor country, or, at any rate, the resulting strain would be spread over a period.

33. The advocacy of a control of capital movements must not be taken to mean that the era of international investment should be brought to an end. On the contrary, the system contemplated should greatly facilitate the restoration of international credit for loan purposes in ways to be discussed below. The object, and it is a vital object, is to have a means of distinguishing—

(*a*) Between movements of floating funds and genuine new investment for developing the world's resources; and

(*b*) Between movements, which will help to maintain equilibrium, from surplus countries to deficiency countries, and speculative movements or flights out of deficiency countries or from one surplus country to another.

VII.—THE PREVENTION OF DISCRIMINATORY PRACTICES.

34. The special protective expedients which were developed between the two wars were sometimes due to political, social or industrial reasons. But frequently they were nothing more than forced and undesired dodges to protect an unbalanced position of a country's overseas payments. The new system, by providing an automatic register of the size and whereabouts of the aggregate debtor and creditor positions respectively, and thus giving a clear indication whether it is reasonable for a particular country to adopt special expedients as a temporary measure to assist in regaining equilibrium in its balance of payments, would make it possible to establish a general rule *not* to adopt them, subject to the indicated exceptions.

35. Whilst it may be possible to adopt a general pattern for Commercial Treaties, their detailed provisions would necessarily vary according to the ground to be covered in each case, so that such Agreements would have to remain bilateral in character. On this assumption it would not be appropriate to incorporate specific arrangements for such general rules in the constitution of the Clearing Union itself. But the existence of the Clearing Union would make it possible for member States contracting Commercial Treaties to use their respective debit and credit positions with the Clearing Union as a test. Thus, the contracting parties, whilst agreeing to clauses in a Commercial Treaty forbidding, in general, the use of certain measures or expedients in their mutual trade relations, might make this agreement subject to special relaxations if the state of their respective clearing accounts satisfied an agreed criterion. For example, a Treaty might provide that, in the event of one of the contracting States having a debit balance with the Clearing Union exceeding a specified proportion of its quota on the average of a period and the other having a credit balance of a specified amount, the former should be free to resort to import quotas or to barter trade agreements or to higher import duties of a type which was not permitted under the Treaty in normal circumstances. It might even provide that such exceptions should only be allowed subject to the approval of the governing Board of the Clearing Union, and in that case the possible grounds for exceptional action might cover a wider field and other contingencies. Protected by the possibility of such temporary indulgences, the members of the Clearing Union should feel much more confidence in moving towards the withdrawal of the more dislocating forms of protection and discrimination and in accepting the prohibition of the worst of them from the outset.

36. In any case, it should be laid down that members of the Union would not allow or suffer among themselves any restrictions on the disposal of receipts arising out of current trade or "invisible" income. It might also be possible to obtain recognition of the general principle that commercial treaties between members of the Union should, subject to any necessary safeguards and exceptions, exclude—

(i) Import restrictions, whether quantitative or in the form of "duty-quotas" (excluding, however, prohibitions genuinely designed to safeguard, *e.g.*, public health or morals or revenue collection);

(ii) Barter arrangements;

(iii) Export quotas and discriminatory export taxes;
(iv) Export subsidies either furnished directly by the State or indirectly under schemes supported or encouraged by the State; and
(v) Tariffs in excess of a moderate level.

37. Subsidies in favour of domestic producers for domestic consumption, with a countervailing levy when such subsidised goods are exported, would not be excluded. This is a necessary safety-valve which provides for protective expedients called for on political, social and industrial grounds. Such subsidies (and the same applies to moderate tariffs) would be a permitted way of giving purely domestic protection to an industry which for special reasons ought to be maintained for domestic purposes only. The question of preferences and of other relaxations from most-favoured-nation treatment, which would be of a normal and continuing character, does not fall within the scope of this paper.

VIII.—THE USE OF THE CLEARING UNION FOR OTHER INTERNATIONAL PURPOSES.

38. The Clearing Union might become the instrument and the support of international policies in addition to those which it is its primary purpose to promote. This deserves the greatest possible emphasis. The Union might become the pivot of the future economic government of the world. Without it, other more desirable developments will find themselves impeded and unsupported. With it, they will fall into their place as parts of an ordered scheme. No one of the following suggestions is a necessary part of the plan. But they are illustrations of the additional purposes of high importance and value which the Union, once established, might be able to serve:—

(1) The Union might set up a clearing account in favour of international bodies charged with post-war relief, rehabilitation and reconstruction. But it could go much further than this. For it might supplement contributions received from other sources by granting overdraft facilities in favour of these bodies, the overdraft being discharged over a period of years out of the Reserve Fund of the Union, or, if necessary, out of a levy on surplus credit balances. By this means it is possible to avoid asking any country to assume a burdensome commitment for relief and reconstruction, since the resources would be provided in the first instance by those countries having credit clearing accounts for which they have no immediate use and are voluntarily leaving idle, and in the long run by those countries which have a chronic international surplus for which they have no beneficial employment.

(2) The Union might set up an account in favour of the super-national policing body charged with the duty of preserving the peace and maintaining international order. If any country were to infringe its properly authorised orders, the policing body might be entitled to request the Governors of the Clearing Union to hold the clearing account of the delinquent country to its order and permit no further transactions on the account except by its authority. This would provide an excellent machinery for enforcing a financial blockade.

(3) The Union might set up an account in favour of international bodies charged with the management of a Commodity Control, and might finance stocks of commodities held by such bodies, allowing them overdraft facilities on their accounts up to an agreed maximum. By this means the financial problem of buffer stocks and "ever-normal granaries" could be effectively attacked.

(4) The Union might be linked up with a Board for International Investment. It might act on behalf of such a Board and collect for them the annual service of their loans by automatically debiting the clearing account of the country concerned. The statistics of the clearing accounts of the member-States would give a reliable indication as to which countries were in a position to finance the Investment Board, with the advantage of shifting the whole system of clearing credits and debits nearer to equilibrium.

(5) There are various methods by which the Clearing Union could use its influence and its powers to maintain stability of prices and to control the Trade Cycle. If an International Economic Board is established, this Board and the Clearing Union might be expected to work in close collaboration to their mutual advantage. If an International Investment or Development Corporation is also set up together with a scheme of Commodity Controls for the control of stocks of the staple primary products, we might come to possess in these three Institutions a powerful means of combating the evils of the Trade Cycle, by

exercising contractionist or expansionist influence on the system as a whole or on particular sections. This is a large and important question which cannot be discussed adequately in this paper; and need not be examined at length in this place because it does not raise any important issues affecting the fundamental constitution of the proposed Union. It is mentioned here to complete the picture of the wider purposes which the foundation of the Clearing Union might be made to serve.

39. The facility of applying the Clearing Union plan to these several purposes arises out of a fundamental characteristic which is worth pointing out, since it distinguishes the plan from those proposals which try to develop the same basic principle along bilateral lines and is one of the grounds on which the Plan can claim superior merit. This might be described as its "anonymous" or "impersonal" quality. No particular member States have to engage their own resources as such to the support of other particular States or of any of the international projects or policies adopted. They have only to agree in general that, if they find themselves with surplus resources which for the time being they do not themselves wish to employ, these resources may go into the general pool and be put to work on approved purposes. This costs the surplus country nothing because it is not asked to part permanently, or even for any specified period, with such resources, which it remains free to expend and employ for its own purposes whenever it chooses; in which case the burden of finance is passed on to the next recipient, again for only so long as the recipient has no use for the money. As pointed out above, this merely amounts to extending to the international sphere the methods of any domestic banking system, which are in the same sense "impersonal" inasmuch as there is no call on the particular depositor either to support as such the purposes for which his banker makes advances or to forgo permanently the use of his deposit. There is no countervailing objection except that which applies equally to the technique of domestic banking, namely that it is capable of the abuse of creating excessive purchasing power and hence an inflation of prices. In our efforts to avoid the opposite evil, we must not lose sight of this risk, to which there is an allusion in 38 (5) above. But it is no more reason for refusing the advantages of international banking than the similar risk in the domestic field is a reason for returning to the practices of the seventeenth century goldsmiths (which are what we are still following in the international field) and forgoing the vast expansion of production which banking principles have made possible.

40. Apply this impersonal quality to the finance of Relief and Reconstruction after the war. It is one thing to ask the Parliaments and the Congresses of the various countries of the world to make contributions which they may or may not be able to afford in the unpredictable circumstances of the post-war transition, and which will be in any case a charge on their tax-payers and a permanent reduction of their own resources, arousing therefore political difficulties and competing with the claims of domestic social reforms. It is quite another thing to ask them to join in a general system which, without cost to their tax-payers and without prejudice to their own expenditure, requires of them to allow the temporary employment of surplus resources only so long as they themselves do not choose to use them. Or take again the finance of Buffer Stocks. It is a great facility not to have to ask for specific contributions from any named country, but to depend rather on the anonymous and impersonal aid of the system as a whole. We have here a genuine organ of truly international government.

IX.—THE TRANSITIONAL ARRANGEMENTS.

41. It would be of great advantage to agree the general principles of the Clearing Union before the end of the war, with a view to bringing it into operation at an early date after the termination of hostilities. Major plans will be more easily brought to birth in the first energy of victory and whilst the active spirit of united action still persists, than in the days of exhaustion and reaction from so much effort which may well follow a little later. Such a proposal presents, however, something of a dilemma. On the one hand, many countries will be in particular need of reserves of overseas resources in the period immediately after the war. On the other hand, goods will be in short supply and the prevention of inflationary international conditions of much more importance for the time being than the opposite. The expansionist tendency of the plan, which is a leading recommendation of it as soon as peace-time output is restored and

the productive capacity of the world is in running order, might be a danger in the early days of a sellers' market and a superabundance of demand over supply.

42. A reconciliation of these divergent purposes is not easily found until we know more than is known at present about the means to be adopted to finance post-war relief and reconstruction. If the intention is to provide resources on liberal and comprehensive lines outside the resources made available by the Clearing Union and additional to them, it might be better for such specific aid to take the place of the proposed overdrafts during the "relief" period of (say) two years. Nevertheless, the immediate establishment of the Clearing Union would not be incompatible with provisional arrangements, which could take alternative forms according to the character of the other "relief" arrangements, qualifying and limiting the overdraft quotas.

43. If, however, the finance of relief is actually furnished, in part at least, through the Clearing Union, as has been suggested above, and if that, combined, perhaps, with a temporary continuance of lend-leasing by the United States or other aid from outside the Clearing Union, appears likely to provide the world with as much purchasing power as is desirable in the early days, the coming into force of the overdraft quotas might be postponed until the Founder Members were agreed that the need for them was impending. In this case credit clearing balances would be limited to the amount of gold delivered to the Union, and the overdraft facilities created by the Union in favour of the Relief Council, the International Investment Board or the Commodity Controls. Alternatively, overdraft quotas might be allowed on a reduced scale during the transitional period. At any rate, it might be proper to provide that countries in receipt of relief or Lend-Lease assistance should not have access at the same time to overdraft facilities, and that the latter should only become available when the former had come to an end.

44. If, on the other hand, relief from outside sources looks like being inadequate from the outset, the overdraft quotas may be even more necessary at the outset than later on.

45. We must not be over-cautious. A rapid economic restoration may lighten the tasks of the diplomatists and the politicians in the resettlement of the world and the restoration of social order. For Great Britain and other countries outside the "relief" areas the possibility of exports sufficiently expanded to sustain their standard of life is bound up with good and expanding markets. We cannot afford to wait too long for this, and we must not allow excessive caution to condemn us to perdition. Unless the Union is a going concern, the problem of proper "timing" will be nearly insoluble. It is sufficient at this stage to point out that the problem of timing must not be overlooked, but that the Union is capable of being used so as to aid rather than impede its solution.

X.—CONCLUSION.

46. It has been suggested that so ambitious a proposal is open to criticism on the ground that it requires from the members of the Union a greater surrender of their sovereign rights than they will readily concede. But no greater surrender is required than in a commercial treaty. The obligations will be entered into voluntarily and can be terminated on certain conditions by giving notice.

47. A greater readiness to accept super-national arrangements must be required in the post-war world. If the arrangements proposed could be described as a measure of financial disarmament, they are mild in comparison with the measures of military disarmament which the world may be asked to accept. There is nothing here which we need be reluctant to accept ourselves or to ask of others. It is an advantage, and not a disadvantage, of the scheme that it invites the member States to abandon that licence to promote indiscipline, disorder and bad-neighbourliness which, to the general disadvantage, they have been free to exercise hitherto.

48. The plan makes a beginning at the future economic ordering of the world between nations and "the winning of the peace." It might help to create the conditions and the atmosphere in which much else would be made easier.

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COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 299

Information received up to 7 A.M., 1st September, 1942.

1. NAVAL

One of H.M. submarines probably sank a 4,000 ton vessel west of GREECE on the 31st.

2. MILITARY

EGYPT. At 5 P.M. on the 31st the foremost enemy tanks were halted a few miles east of QARET EL KHADIM.

RUSSIA. In the CAUCASUS MOUNTAINS the Russians are launching strong counter attacks against German detachments which have advanced southwards through the KLUKHOR PASS. Elsewhere in the Mountains German units which are filtering up through the ravines are meeting with resistance.

3. AIR OPERATIONS

WESTERN FRONT. 31st. 4 Beaufighters south of LANDS END shot down 2 German floatplanes. 1 Spitfire on offensive operations and a Beaufighter on reconnaissance are missing. 31st/1st. 6 aircraft sent sea mining in the KATTEGAT.

EGYPT. 29th/30th. Bombers attacked TOBRUK and started fires in the docks. 1 vessel was hit with a bomb and another approaching TOBRUK was torpedoed. 30th. 8 enemy aircraft were destroyed, 5 of them by anti-aircraft. 3 of our fighters are missing. Enemy made determined attempts to prevent observation by our reconnaissance aircraft.

MEDITERRANEAN. 30th. An escorted tanker was attacked south east of TARANTO by Beauforts and Beaufighters. The vessel was left on fire and one enemy aircraft was destroyed, 2 probably destroyed and 3 damaged.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 1, 1942.

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Japanese Naval Losses in the Solomons.

A U.S. naval communique of August 29, 1942, reports that on August 27 a United States aircraft patrol based on Guadalcanal Island sighted one small and three large Japanese destroyers, on which the following damage was inflicted by U.S. planes: (a) one large destroyer sunk, (b) a second large destroyer probably sunk, and (c) a small destroyer damaged and left burning.

The following tabulation shows Japanese naval losses in the Solomon Island area to date, as reported in U. S. naval communiques:

	Sunk	Probably Sunk	Damaged
Battleships	-	-	1
Aircraft carriers	-	-	2
Cruisers	-	-	2 (* **
Destroyers	1	1	3
Transports	1	-	-
Others	1	-	4
Total	3	1	12 **

* One may have been a destroyer.

** Also several additional cruisers damaged; exact number not stated.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 1,1942.

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Summary of Intelligence Reports.

Effect of the Dieppe raid on German air strength.

The Allied raid of August 19 on Dieppe forced the German Air Force to take to the air and give battle. As a result, the Nazis suffered plane casualties on a scale which, if continued, would make serious inroads on German air power, according to a memorandum prepared by the Economics Division of the Office of Strategic Services.

On the basis of estimates which are believed by the O.S.S. to understate rather than exaggerate recent German losses, total Nazi air strength declined by 20 to 120 planes per month on the average during May, June and July. The estimated Nazi loss of 170 planes during the Dieppe raid will cause German strength to be depleted by 200 to 300 planes during August, if net losses from other causes continue at the same rate as in recent months. The continuation of such depletion for a few months would appreciably weaken German first-line plane strength.

The Moslem League.

Moslem League demands for a separate Moslem State have been one of the principal obstacles to British-Indian compromise. According to the Office of Strategic Services, "available evidence suggests that the Moslem League is far less representative a party than the casual American newspaper reader might imagine. A report from New Delhi states that its financial backing comes chiefly from the Indian princes (Hindu and Moslem), the British financial community (especially in Calcutta), and the large Moslem landowners -- all groups that are interested in averting a radical settlement of India's problems by playing the League against the Congress."

(Office of Strategic Services, "The War this Week," August 20-27, 1942)