

DIARY

Book 681

November 29-30, 1943

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1
November 29, 1943
9:43 a.m.

HMJr: Hello.

Operator: Stimson.

HMJr: Hello.

Secretary
Stimson: Yes, Henry.

HMJr: Good morning.

S: Good morning.

HMJr: Harry, I'm calling you up for this reason: It's in regard to the Treasury advising the War Department on who to send to England in connection with finances....

S: Yes.

HMJr:to help General....

S: You mean on this new Advisory Commission?

HMJr: Yeah. Now, the last time anybody from the War Department talked to me was on September 1, when McCloy and Hildring came over here....

S: Yes.

HMJr:to see me.

S: Yes.

HMJr: Well, about three months have passed and then George Harrison calls me up -- the thing has to be done on the spot. Now....

S: Well -- (Laughs)

HMJr: It's that way so often, Harry. I mean, it drags along and then suddenly somebody gets awfully excited. Now, the reason I'm calling you is that there's been a number of -- oh -- little misunderstandings about this thing which I think, with McCloy, I've finally cleared up, and I didn't want any more if I could help it. And I talked with General Devers when I was in -- he came up to see me in Scotland and I wondered if, since I've seen

HMJr:
Cont'd: him, whether there weren't some cables from Devers about this because I haven't seen anything or heard anything until Harrison called me up. And I...

S: Uh -- wait a minute, I'm just scribbling this down.

HMJr: Yes. I mean, there must be some communications from Devers which were meant for me. At least, I should think that there would have been and -- telling me what kind of people he wanted.

S: I don't believe he'd -- I don't believe he'd have much to say about that.

HMJr: Well, you see....

S: I believe he'd leave that to us.

HMJr: Well, he did take it up with us.

S: He talked to me about it recently.

HMJr: Yeah.

S: Hildring has, and I think Harrison.

HMJr: Well, we -- we would be -- if they want us to advise, all right. But I just got a little bit of a feeling from talking with Harrison that he'd already offered it to several people which would again put us in a position....

S: He had already what?

HMJr: I gathered he'd....

S: He had already what?

HMJr: Offered it to several people. Then it puts me in the position of saying, "No". And I -- it puts me in a very uncomfortable position.

S: Well, I'll look into it if you like. I think....

HMJr: Well, frankly....

S: He talked with me about the subject, too.

HMJr: Can I say something to you which I would not like to be repeated?

S: All right.

HMJr: Now, for instance, the last man -- I don't know whether he's offered it to him, but he sort of -- I got -- but it's Jay Crane, Treasurer of the Standard Oil of New Jersey.

S: Yes, they told me about that.

HMJr: Well, in the light of all....

S: I don't know that they offered it to him, but they were -- had his name....

HMJr: Yes.

S:his name was one of the group that was up for consideration.

HMJr: Well, my own -- this is just for you -- I should think the War Department, just for the moment, had enough of Standard Oil of New Jersey up in Alaska.

S: Well, they.....

HMJr: What? I mean....

S: Standard Oil of New Jersey wasn't up there.

HMJr: Yeah, I think it's their subsidiary.

S: In Alaska?

HMJr: I think so. I think the Imperial Company up there is their subsidiary.

S: Well....

HMJr: That's just for your ear.

S: (Laughs)

HMJr: Hello.

S: All right.

HMJr: That amuses you?

S: Well....

HMJr: The point is....

S: No, it doesn't -- I'm not laughing at you. I'm laughing at the combination. Of course, we are poor, innocent, good men here. We don't know all the gossip of....

HMJr: Well, the point is, Harry, if they come to me and say, "Look, Morgenthau, we'd like you to make suggestions," I'm glad to do it. I mean, I've been all through this with McCloy and Hilldring and we get along fine. But then if they come and say, "Now, we've offered it to this person and he doesn't want it, and we've offered it to this person." It puts me in a very embarrassing position.

S: I know. I can see that. You don't want to be in a position of the last resort.

HMJr: Yeah. And we had a misunderstanding over Mr. Wolff of the National City Bank and I don't want to have another one.

S: Well, I wouldn't be frank if I didn't tell you that I've....

HMJr: Yeah.

S:that in Harrison I've got a man here that I have great confidence in.

HMJr: Yeah. Well, I've known Harrison a great many years and....

S: I've known him, too, for a great many and he is, also, one of the same group of men that I, as an older man, have known through my connection with Allen Klots, who was in the silver case with me, you know.

HMJr: Oh, yes. Yes. Well....

S: We were all classmates together in college.

HMJr: I see. Well, that wasn't because -- having -- retaining you was not Harrison's suggestion.

S: Oh, no. I don't say that at all, because I mean -- what I mean is: It's by incidents like that that I've come in touch with Harrison very closely, although he's a much younger man than I am.

HMJr: Would you have somebody in your office, just for the record, see whether, since I've been in -- saw Devers in Scotland, whether he....

S: Yes, I'll....

HMJr:sent some communication to me?

S: I've taken that down as you were talking.

HMJr: Whether he didn't send some communication to me?

S: Yes.

HMJr: And then, whenever Harrison or Hilldring are ready, I'd be glad to see them.

S: All right.

HMJr: But I....

S: I'm very much obliged to you.

HMJr: Thank you.

S: And I want you to feel that even if you hear me chuckling over the telephone that I'm always glad to hear from you if you have any suggestion of that sort.

HMJr: Well, I'm glad that anybody can chuckle today.

S: Well, it's a bad day -- a bad time.

HMJr: But it just....

S: I think you'd better feel relieved that I can chuckle after all that last week, what with....

HMJr: That's right.

S: What with the things I've had here. But that kind of thing seems to agree with me.

HMJr: Good.

S: (Laughs)

HMJr: All right.

S: All right. Thank you very much, Henry.

HMJr: Thank you.

Summary:

*Smith's various drafts
not used*

8
11/29/43

1. Observation of drastic price rises in practically every country but ours.

"And the common people ... are not finding it easy to live. They are up against a nearly impossible situation. This should serve to remind us that inflation is not something that civilization has outgrown during the past twenty years, as some seem to think. Inflation can happen today. It is happening, with exceedingly dire results to the low income people, in every country but ours. And it can happen here."

The extra money from war production can play same role in our economy as the soldiers spendable dollars abroad, which are causing inflation. Our bulwark is OPA, and Fred Vinson, and how long Vinson can hold prices in line, is questioned. "He is doing everything he can, but the wild horses of inflation are growing wilder every hour, and no one seems disposed to give him any help."

2. I suggested to Ways and Means that a tax bill be passed to increase revenue by 10.5 billion dollars.

"You all know what the House did about it."

"They passed a bill calling for two billion dollars in increased revenue, and provided a minority and a majority report which attempted to prove that we don't need 10.5 billions in taxes because we aren't going to spend as much as we thought we were. No consideration was given the fact that the war has

already cost a great deal, and that a backlog of debt amounting to two hundred billion dollars will have been piled up by the end of this fiscal year.

Quote editorial in Washington Post pointing out that the Army's overestimation of funds does not make it unnecessary to raise taxes. "If Congress wants to make such excess appropriations an excuse for inadequate taxation, all it need do is to approve over-liberal appropriations and recapture them at the end of the year. By such means 'savings' could easily be boosted so high that we might conclude that we don't need to collect any taxes at all."

3. I am here today to renew Administration's request "for a tax bill that will help pay off our war debt at the rate of an extra 10.5 billion dollars a year; and that will, by draining off a sizable portion of our national income, help to stabilize our economy, and will give Fred Vinson a hand in trying to keep prices down to the point that the lowest income groups will be able to sustain themselves through the remainder of the war."

There has, of course, been a lot of opposition to this large bill; but on the other hand many reliable sources have commended its courage. Quote several newspaper editorials which say we must pay the bill in taxes, or in the tax called inflation.

4. The reason for suggesting 10.5 billion dollars of additional taxes "to be eliminated after the war" came from fact that war is costing us two hundred million dollars a day more than our present tax receipts. At same time, aggregate earnings of people are higher than ever before. We can pay it off today, but future taxpayers may not be able to.
5. Paragraph about Government fiscal policy demanding much greater portion of war finance through taxation than at present. Every tax dollar is a dollar less to be returned with interest when war is over; therefore, additional taxes will improve present position, and put us in better position at wars end.
6. Since presentation to House, I have talked to soldiers. If they could pass a tax bill, it wouldn't stop at 10.5 billion dollars. To the extent that we fail to raise this 10.5 billion, these soldiers will inherit a necessary portion of the bill for the war they risked their lives to fight.

"And if I know soldiers, they will not be too happy about receiving a glib explanation that instead of raising taxes in the midst of plenty to help pay off a two hundred billion dollar debt, we asked the Army to revise its estimates of the amount of money it needed. I can assure you that we will have a job on our hands if we attempt to explain how

economies in war expenditures can substitute for the collection of taxes. If these returning soldiers should be faced with inflation-bloated prices, or if their mail from home tells how difficult it is to live in the midst of rising prices on soldier's pay, we will have a hard time demonstrating how we are fighting inflation by asking bookkeepers to change some figures, perhaps only temporarily, on the books for 1944 and 1945, instead of raising taxes.

7. Actual effect of economy on inflation are difficult to find. Reduction of pressure would be only slight fraction of cut in expenditures. In case of renegotiation, it would have no effect because it would not change income payments. The only way these economies could be made effective from an inflation standpoint would be if they should release men and materials for consumer goods, which cannot be done. Savings are not an alternative for new taxes, because they don't combat inflation and don't reduce the considerable bill already created. If we can save money we ought to.

8. From the standpoint of inflation and of paying off huge debt, we should gather as much in new taxes as possible. This presents problems of getting new money without injustice. We know we have reached saturation point on taxation in the case of many people whose incomes have not increased, or whose incomes are too low.

9. Explanation of the fact that four-fifths of National income is with people earning less than five thousand dollars a year, but this includes 21.5 million who make less than a thousand dollars a year -- an average of eighteen dollars a week. These cannot stand additional taxes, and should be relieved of present taxes.

Because of these millions with sub-standard earnings, we have always opposed sales tax. The cold facts are these: A sales tax without exemptions would fall with a devastating thud on these people earning less than a thousand a year -- a third of the Nation's wage earners. Food, in particular, is the largest item in a low income budget and the tax would thus be heavier as income is reduced. The only way to spare these people is to exempt food and the necessities of life, and that would reduce the tax to a point where it would be impractical.

"If you want to pass a Sales tax under these circumstances, it is your privilege. You are the lawmakers. You are the elected representatives of the people. You should know whether or not they -- that is the majority of the people you represent -- want it. I don't believe they do."

10. An explanation of the four kinds of taxes presented to House Ways and Means Committee, with yields. Explanation that we

presented a way of handling income tax to House Ways and Means, but are not going to do it this time.

"How you raise this money, what schedules are used, I leave to you. I have asked our Tax Research Division to provide you with a substantial number of schedules, distributing the tax burden of 6.5 billion in nearly every possible, plausible way. If you have ideas which are not covered by the schedules, the Tax Research Division will prepare a schedule to take care of any suggestions you may have."

11. Discussion of dropping Victory Tax in the interest of simplification and what that would mean to eleven million taxpayers. Also request not to drop Victory Tax and replace it with another equally complicated tax, as the House did. Plea for simplification.
12. Suggests that Senators consider the long term significance of this tax bill. Summary -- observations abroad that commanding Generals are not wastrels. High taxes are small sacrifice compared to the destruction I saw in Italy.

"In short, we have been spared the horrible destruction of war, so horrible that no one who has not seen it can possibly imagine it. For this, we must be truly thankful -- so thankful that we will willingly tighten our belts and pay whatever it costs to fight the war to a finish -- to so complete a finish that it can never happen again.

11-27-43

11

Gentlemen:

At the time I presented to the House Ways and Means Committee the Administration's suggestions in connection with the new tax bill, I made it clear that the Administration felt we should ask for an additional 10.5 billion dollars in taxes next year.

Our basic reason for making this suggestion arose out of the obvious fact that the war is costing two hundred million dollars a day more than our present tax receipts. We are piling up a debt of two hundred million dollars a day which some day must be paid. By the end of this fiscal year -- and between now and then, ^{in spite of the reduction in the expenditures} there is no indication that either the Army ^{and} or the Navy ^{is} contemplates any reduction in expenditures -- we will have accumulated a bill of two hundred billion dollars.

I hope you will keep that two hundred billion dollars in the forefront of your minds.

~~When the House passed a bill calling for two billion dollars in increased revenue, and when they provided minority and majority reports attempting to prove that we don't need 10.5 billions in taxes because of contemplated economies, they gave no consideration to the fact that we are going to have that two hundred billion dollars to pay no matter what happens. They gave no thought to the fact that in future years the United States Government will have to set aside four billion~~

When the House passed a bill calling for two billion dollars in increased revenue, and explained that we don't need 10.5 billions in new war taxes because of contemplated economies, they did not consider seriously enough that some day the soldiers will return home to pick up the broken threads of their lives. And when they do come home and file their first income tax returns, they will ask very embarrassing questions. They will ask: "Why didn't you people pay more of this huge bill when you were making all that extra money? Why do you burden us with it?"

I think the House did not give due consideration to the fact that economies, no matter how impressive, will not in any way affect the two hundred billion dollar debt which we already have.

The only way that economies would be effective from an inflation standpoint would be if they should release men and materials for the manufacture of consumer goods, and thus increase the amount of goods upon which people can spend their incomes. But there is no indication that we can afford yet to release either men or materials from vital war production, regardless of any economies which can safely be made at this time.

So it is certainly safe to say that savings are not an alternative for new taxes at this particular time. They are

They are practically without influence in combating inflation, and they certainly will not reduce the considerable bill we have already created.

If we can save money, if we can reduce our expenditures -- either war or non-war -- it ought to be done. I am sure you know where I stand on that. You may remember that most of my recommendations to the Byrd Committee were adopted, and contributed considerably to the two billion dollars of savings

that have been made over the last two years. I have consistently urged that we cut costs everywhere it can be done without interfering with the war effort.

In that connection, I took a stand definitely against the Rankhead Bill, which the Senate recently passed, with the possible result that the Government will waste fifteen million dollars each year to do very badly a job which the Government is now doing very effectively at practically no cost to the American taxpayer. The Senate would break down the voluntary cooperation of advertisers and newspapers and other publications and radio, who, at practically no cost to the Government, provided thirty million dollars worth of advertising during the three weeks of the Third War Loan. There are no possible grounds upon which this waste of fifteen million dollars can be justified. I shall keep my record for economy consistent and continue to oppose the passage of this bill in the House.

Yesterday, the Bureau of the Budget released a new summation.

It pointed out that anticipated expenditures have been reduced from 105.9 billion dollars to 97.9 billion dollars. This contemplated saving has come about as a result of our over-estimating, nearly a year ago, the potential output of the American economy. We are going to fall about 8 billion dollars short of producing the amount of war materials which we originally believed we could. This is not likely to be a

serious situation, because we still are going to be able to produce 92 billion dollars worth -- and 92 billion dollars will buy a tremendous amount of very effective war materiel. It will buy a great deal more than any other Nation can produce.

The new summary also raised estimated receipts by almost 3 billions. I will be asked whether this change in contemplated expenditures and receipts, which will reduce our National deficit at the end of the year by approximately 11 billion dollars, does not alter the need for increased taxation at this time.

In our estimation it does not.

It does not because we need to reduce future taxes for the returning soldiers, and for ourselves, and for future generations, by paying as much of the war costs as we can today.

If our deficit for the war this year is going to be 11 billion dollars less, and if we can add 10.5 billion dollars in new taxes, we will be able to show the soldiers 21 billion dollars that they will not have to pay in taxes when they get back. I think that is all to the good.

And this reduction in contemplated expenditures will not greatly affect our economic situation. According to best estimates, income payments to individuals during this year, instead of being 152 billions will be about 148 billions. This 4 billion dollar reduction will be spread among all of the people, and all of the businesses in the Nation. It will be scarcely felt. The American people will still have 36 billions of dollars in liquid savings during the fiscal year of 1944, a reduction of about six billions from previous estimates.

That still gives them a lot of leeway to pay taxes.

As a result of this revised budget summation, I will be asked whether or not I still stand on the position that we should be paying at least fifty percent of our war expenditures out of current income, and the answer is yes.

We should be paying at least fifty percent. If we were to pay only fifty percent, which I think is wrong in view of our high National income, I would have to revise the Administration's request for taxes to five billions instead of 10.5 billions; for our war cost this year will be 92 billion dollars, and to pay half of this bill in taxes would require five billion dollars more than our present receipts.

Certainly the Senate would be shirking its responsibilities if it did not provide this five billion dollars, at the very minimum. And I sincerely believe that they can be rightfully accused of shirking their responsibilities if they do not ^{increase} this five billion dollars to much closer to the 10.5 billions we are asking.

That is why I have come here today to renew the Administration's request for a tax bill that will help pay off our war debt at the rate of an extra 10.5 billion dollars a year.

I don't believe this is an unreasonable request.

It seems to me that such a proposal is much easier to justify than the proposal that we decline to pay off a more sizable proportion of our debt at the very same time that our

aggregate earnings are higher than they have ever been in all history.

It seems to me that in the eyes of future generations it will be much easier to justify such a request than it is to justify the argument that this 10.5 billion dollars will hamstring business and throttle the public, when it is common knowledge that the people are saving money at a phenomenal rate and corporation earnings are up over 26 billions. The public's savings in the banks today are five times as large as this 10.5 billion dollars that we are asking for.

Does anyone doubt that it is vital to the maintenance of a sound Government fiscal policy that we finance a much greater portion of the war through taxation than at present? The huge cost of guns, ammunition, war equipment, training our soldiers, sending them abroad and taking care of them -- this cost must be met either by taxation or by borrowing. And every dollar that we raise through taxation is a dollar less that will have to be returned, with interest, when the war is over. Therefore, securing additional taxes at this time would not only improve our present position, but would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems in connection with reconstruction and readjustment of our economic system.

Since making the presentation to the Ways and Means Committee I have talked to many of our soldiers overseas -- to the men who are actually fighting the war -- men who for the most part are trying to live on a base pay of \$50 a month and hold together their families and as many of their possessions as possible until they can get back, and get jobs.

I think if they had the power to pass a tax bill, this 10.5 billion dollars would whizz through without question. And I think they have earned the right to have their feelings in the matter considered seriously.

To the extent that we fail to raise this 10.5 billion dollars, these returning soldiers will inherit an unnecessary portion of the bill for the war they risked their lives to fight. That is a fact that will live as long as the memory of this war. And the memory of our excuses may live as long.

If I know soldiers, they will not be too happy about receiving a glib explanation that instead of adding war taxes, to help pay off our debt, we jumped at the opportunity to take advantage of current budget revisions, and ignored all that has already been spent. I can assure you that we will have a job on our hands if we attempt to explain how projected economies in war expenditures can substitute for the collection of taxes while our salaries and

wages are at an all time high. If these returning soldiers should be faced with inflation-bloated prices, or if their mail from home tells how difficult it is to live in the midst of rising prices on soldier's pay, we will have a hard time demonstrating how we are fighting inflation by asking bookkeepers to change some figures on the books for 1944 and 1945, instead of raising taxes.

When I presented the Administration's suggestions to the House Ways and Means Committee, I pointed out that the tax bill this year has two purposes. First, to increase revenue so we can pay off a larger part of the huge war costs while we have the money; and second, to combat inflationary trends which have threatened ever since we launched upon our huge war production program.

The current change in budget figures will to some extent improve our situation in regard to inflation. But by no means will it remove the threat. The people still will have ___ billion dollars which cannot be spent on consumer goods, because the amount of consumer goods available has not changed.

I am well aware that many American people, as well as many legislators, are not greatly concerned about the possibility of inflation overtaking us before the end of the war, and staying with us to make doubly difficult the job of reconstruction.

There seems to be some feeling that, by some magic, any such situation as we suffered during and after the last war, in spite of the fact that we have far more money today, and less in proportion to spend it on, than we had then. There seems to be

a strong feeling that inflation is out of date, like the term we used to use to explain it -- the high cost of living.

Let me assure you that this is not the fact, and that Congress would be shirking its responsibility to the American people and to the future of the American Nation to hide its head in the sand.

I talked to an officer of the Quartermaster Corps in French Morocco about three weeks ago. I asked him about food supplies -- where he got them, and whether he was having any trouble supplying his needs.

The officer said: "Well, of course Mr. Secretary, we don't buy any food here at all. The prices are too high. The troops around here have bid the prices up. So the Quartermaster Corps ships in the food we need. It would break the Army's treasury to buy anything at the prices they ask around here."

Three or four days ago I read an Associated Press report from Bari, Italy. This report said that a suit of clothes in the cheapest quality had risen to about 3,000 lire during the war and in the last two months had increased in cost to twice that amount. A couple of months ago you could get a pair of shoes for 500 lire, but now they cost 1,800 lire. Not long ago you could buy shirts for 100 lire but now they cost 350 lire.

Yesterday I received a report from Algiers concerning living conditions in France. It stated that eggs were selling for 60 francs a dozen, and chickens cost 200 francs, for any fortunate being who had that much money.

Back of these steep price rises, lies just one simple phenomenon. New money has come into these areas and the supply of goods is limited. So prices shoot up.

And the common people of Morocco, Italy and France -- and Greece and China for that matter -- are not finding it easy to live. They are up against a nearly impossible situation.

This should serve to remind us that inflation is not something that civilization has outgrown during the past twenty years. Inflation can happen today. It is happening, with exceedingly dire results to low income people, almost everywhere. And it can happen not in the creeping way we see it today, but disastrously, here at home.

Our inflation probably would be less extreme than that which now tortures the people in countries abroad. But the principle is the same, and a fifty percent rise in the cost of living is well within the realm of possibility. This would prove most destructive to us, and would require drastic and expensive action on the part of the Government. Certainly it would cripple business and throw hardship on the American people to an infinitely greater extent than 10.5 billions of new taxes.

In principle, the extra money which our stimulated production has brought to the people of America today, can play the same

havoc in our economy as the soldiers' spendable dollars are causing abroad. The principle is the same. We have a shortage of goods, exactly as they have abroad -- not to the same extent, but to a great enough extent to cause trouble. The only thing that we have which they haven't is an OPA, and Fred Vinson, whose responsibility is to sit on the lid.

How long Judge Vinson and people working with him will be able to hold prices in line under present circumstances is a question. He is doing everything he can, but the wild horses of inflation are growing wilder every hour, and no one seems disposed to give him much help. Our economic picture at this time seems to be a galaxy of punctured ceilings, tottering wage formulae, and political viewing-with-alarm or with-timidty.

It is easy to underestimate the possibility of inflation, and to disregard the necessity for taking protective measures. The fact that we have done as well as we have in controlling the cost of living up to this point makes a great many people over-confident.

But this is not the first time in our recent national history that we have failed to heed warnings. It is not the first time that we have chosen to be optimistic about the future at the expense of being thoughtful of the present.

I'd like to read to you a paragraph from the President's message to the 70th Congress of the United States, sent up in December, 1928. The following October you will recall, we suffered the greatest financial crash in history.

"No Congress of the United States ever assembled," the President said, while all this was brewing; "on surveying the state of the Union, has met with a more pleasing prospect than that which appears at the present time. In the domestic field there is tranquility and contentment ... The great wealth created by our enterprise and industry, and saved by our economy, has had the widest distribution among our own people, and has gone out in a steady stream to serve the charity and the business of the world. The requirements of existence have passed beyond the standard of necessity into the region of luxury. Enlarging production is consumed by an increasing demand at home and an expanding commerce abroad. The country can regard the present with satisfaction and anticipate the future with optimism."

There is no indication here that any threat lay in the wind. There is no indication that the golden dream of 1928 could be anything but an accepted way of life. It has all the complacent assurance of the recent report from the Lower House on the Tax Bill.

But that was not the fact. Many people back in those days knew that, as Walter Lippman pointed out a few days ago, National leadership was turning a blind eye and a deaf ear to the inflationary forces then present. The Nation had been warned by the very man who later, as President, reaped the fruits of this optimism. Three years before, he had called attention to certain national policies, and said, "...it means inflation with inevitable collapse and will bring the greatest calamity upon our farmers, and workers and legitimate business."

But in those days the Nation and its leaders preferred to see the sunny side. Even the financial crash itself failed to jolt some of our National leaders into looking at the problem realistically. Three months after the crash, the Secretary of the Treasury told the public: "I see nothing in the situation which warrants pessimism ... there is plenty of credit available."

It is like our saying today, "Inflation isn't bad, let's forget it. Let's get rid of our present controls and set up no new measures -- they're a nuisance."

In renewing the Administration's request for a tax bill that will help pay off our war debt at the rate of an extra 10.5 billion dollars a year, I want to emphasize that by draining off a sizable portion of our national income, it will help to stabilize our economy, and will give Fred Vinson a hand in trying to keep prices down to the point that the lowest income groups will be able to sustain themselves through the remainder of the war.

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Fred Smith
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Gentlemen:

At the time I presented to the House Ways and Means Committee the Administration's suggestions in connection with the new tax bill, I made it clear that the Administration felt we should ask for an additional 10.5 billion dollars in taxes next year.

Our basic reason for making this suggestion arose out of the obvious fact that the war is costing ^{close to} two hundred million dollars a day more than our present tax receipts. We are piling up a debt of two hundred million dollars a day which some day must be paid. By the end of this fiscal year ~~and between now and then, there is no indication that either the Army or the Navy contemplate any reduction in expenditures~~ we will have accumulated a bill of two hundred billion dollars.

I hope you will keep that two hundred billion dollars in the forefront of your minds.

When the House ^{of Representatives} passed a bill calling for ^{only} two billion dollars in increased revenue, and when they provided minority and majority reports attempting to prove that we don't need 10.5 billions in taxes because of contemplated economies, they gave no consideration to the fact that we are going to have that two hundred billion dollars to pay no matter what happens. They gave no thought to the fact that in future years the United States Government will have to set aside four billion

dollars every year for interest payments alone on that debt. If the Senate fails to take the responsibility of voting a sizable tax bill now, we will have to add four billions to the cost of Government every year after next July. And this does not contemplate paying off the debt, which of course must be done, and will be done, and will add many more billions each year.

That is why I have come here today to renew the Administration's request for a tax bill that will help pay off that two hundred billion dollar war debt at the rate of an extra 10.5 billion dollars a year.

I don't believe this is an unreasonable request.

It seems to me that such a proposal is much easier to justify than the proposal that we decline to pay off a more sizable proportion of our debt at the very same time that our aggregate earnings are higher than they have ever been in all history.

It seems to me that in the eyes of future generations it will be much easier to justify such a request than it is to justify the hollow argument that this 10.5 billion dollars will ham-string business and throttle the public, when it is common knowledge that the people are saving money at a phenomenal rate and corporation earnings are up over 26 billions. The public's

savings in the banks today are five times as large as this 10.5 billion dollars that we are asking for.

It certainly is much easier to justify asking for 10.5 billion dollars than it is to justify passing this debt along to the returning soldiers, and their children and ours, and ask them to pay it when they may be far less able to meet tax bills than we are today.

Does anyone doubt that it is vital to the maintenance of a sound Government fiscal policy that we finance a much greater portion of the war through taxation than at present? The huge cost of guns, ammunition, war equipment, training our soldiers, sending them abroad and taking care of them -- this bill must be met either by taxation or by borrowing. And every dollar that we raise through taxation is a dollar less that will have to be returned, with interest, when the war is over. Therefore, securing additional taxes at this time would not only improve our present position, but would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems in connection with reconstruction and readjustment of our economic system.

Since making the presentation to the Ways and Means Committee I have talked to many of our soldiers overseas -- to the men

who are actually fighting the war -- men who for the most part are trying to live on a base pay of \$50 a month and hold together their families and as many of their possession as possible until they can get back, get jobs, and pick up the broken threads of their lives.

I can tell you that if they had the power to pass a tax bill, this 10.5 billion dollars would whizz through without question. And I think they have earned the right to have their feelings in the matter considered seriously.

To the extent that we fail to raise this 10.5 billion dollars, these returning soldiers will inherit an unnecessary portion of the bill for the war they risked their lives to fight. That is a fact that will live as long as the memory of this war. And the memory of our excuses may live as long.

If I know soldiers, they will not be too happy about receiving a glib explanation that instead of raising taxes in the midst of plenty to help pay off a two hundred billion dollar debt, we asked the Army to revise its estimates of the amount of money it needed. I can assure you that we will have a job on our hands if we attempt to explain how projected economies in war expenditures can substitute for the collection of taxes. If these returning soldiers should be faced with inflation-bloated prices, or if their mail from home tells

how difficult it is to live in the midst of rising prices on soldier's pay, we will have a hard time demonstrating how we are fighting inflation by asking bookkeepers to change some figures, perhaps only temporarily, on the books for 1944 and 1945, instead of raising taxes.

The futility of this dodge should be self-evident. Certainly it is evident to the Washington Post. A few days ago the Post exploded the myth in an editorial. It said: "the fact that the Army over-estimated the amount of funds it would require this year does not mean that we can regard its unexpended appropriation as 'savings' warranting a relaxation in our efforts to cover more of our war costs from tax revenues." The Post then continues, "If Congress wants to make such excess appropriations an excuse for inadequate taxation, all it need do is to approve over-liberal appropriations and recapture them at the end of the year. By such means 'savings' could easily be boosted so high that we might conclude that we don't need to collect any taxes at all."

When I presented the Administration's suggestions to the House Ways and Means Committee, I pointed out that the tax bill this year has two purposes. First, to decrease revenue so we can pay off a larger part of the huge war costs while we have

the money. Second, to combat inflationary trends which have threatened ever since we launched upon our huge war production program.

Let's discuss this inflation threat on a strictly common-sense basis.

First of all, let's dispose of the troublesome term, "inflationary gap". That is a very difficult term to define to the satisfaction of everybody, and I think we can do very well without it. The fact remains, however, that our National income for 1943 is going to be 145 billion dollars, and the supply of goods and services upon which this money can be spent is severely limited, as you well know. A safe estimate of the value of these goods and services might be 80 billion dollars. The difference between these two figures is 65 billion dollars. Some of that 65 billion dollars is in war bonds -- 21 billions of it. Some of it is in the banks. Some of it is under the mattress. Much of it is in life insurance and other such investments.

There seems to be a great deal of confusion as to the inflationary potentialities of all these repositories of the people's funds. But the common-sense facts of the matter are that any or all of these repositories are as inflationary and as non-inflationary, as the people want them to be.

Up to this point, the American people have handled this extra money with a great deal of intelligence. They have put it into war bonds and left it there. They have put it into banks and insurance, and left it there. If they continue in this course, we are fairly safe, because money that people do not choose to spend is certainly non-inflationary money, even if they have it jingling in their pockets.

On the other hand, we would be shirking our duties, I am very sure of that, if we calmly supposed that this thin framework of public psychology is sufficient bulwark against inflation -- an inflation which, with 65 billions let loose, could uproot our economic system and tear it to shreds -- and could do it, under certain circumstances, with all the shock and suddenness of the 1929 crash.

We have tried to set up inflation controls to fortify ourselves against a possible reversal of this public psychology, a reversal like that which came a few years ago when life-long bank depositors suddenly turned on the strongest banks in the Nation and demanded their funds. That is why we stress the importance of this 10.5 billion dollars tax proposal as an anti-inflationary measure. It would be more accurate to describe it as potentially an anti-inflationary factor, for its value would become most evident only if we were to need the extra precaution it represents.

Some time ago, when I mentioned that the purpose of this bill was to raise revenue and to combat inflation, a gentleman promptly asked me how much of the bill was for one, and how much for the other, as though he expected me to say that the proposal is divisible by two, and a certain number of dollars are allotted to revenue, and a certain number to avoid inflation.

Obviously, when we say this bill does a double-headed job, we don't mean to infer that it can be divided into two parts. It is all one bill. It is big -- 10.5 billion dollars -- because there is every indication that people can pay that much under an economy that will bring them 145 billion dollars during this year. Purely as a corollary advantage, is the fact that ten and a half billion dollars deducted from spendable income automatically puts us on safer ground as far as inflation is concerned. 10.5 billion dollars won't stop inflation. ~~We~~ cannot collect 10.5 billion dollars in taxes, and then calmly walk away and leave the barn door open and expect the horses not to run wild. But it definitely is a step in the right direction. And it is perhaps the one step that will be left to take by the time we have finished breaking down all the other barricades we have thrown up against the wild horses of inflation.

I am well aware that many American people, as well as many legislators, are not concerned about the possibility of inflation overtaking us before the end of the war, and staying with us to make doubly difficult the job of reconstruction.

There seems to be some feeling that we are very wise these days, and because of our wisdom we will avoid, by some magic, any such situation as we suffered during and after the last war. There seems to be a strong feeling that inflation is out of date, like the term we used to use to explain it -- the high cost of living.

Let me assure you that this is not the fact, and that Congress is shirking its responsibility to the American people and to the future of the American Nation by hiding its head in the sand.

I talked to an officer of the Quartermaster Corps in French Morocco about three weeks ago. I asked him about food supplies -- where he got them, and whether he was having any trouble supplying his needs.

The officer said: "Well, of course Mr. Secretary, we don't buy any food here at all. The prices are too high. The troops around here have bid the prices up. So the Quartermaster Corps ships in the food we need. It would break the Army's treasury to buy anything at the prices they ask around here."

Three or four days ago I read an Associated Press report from Bari, Italy. This report said that a suit of clothes in the cheapest quality had risen to about 3,000 lire during the war and in the last two months had increased in cost to twice that amount. A couple of months ago you could get a pair of

shoes for 500 lire, but now they cost 1,800 lire. Not long ago you could buy shirts for 100 lire but now they cost 350 lire.

Yesterday I received a report from Algiers concerning living conditions in France. It stated that eggs were selling for 40 francs a dozen, and chickens cost 200 francs, for any fortunate being who had that much money.

Back of these steep price rises, lies just one simple phenomenon. New money has come into these areas and the supply of goods is limited. So prices shoot up.

And the common people of Morocco, Italy and France -- and Greece and China for that matter -- are not finding it easy to live. They are up against a nearly impossible situation.

This should serve to remind us that inflation is not something that civilization has outgrown during the past twenty years. Inflation can happen today. It is happening, with exceedingly dire results to low income people, almost everywhere. And it can happen not in the creeping way we see it today, but disastrously here at home.

Our inflation probably would be less extreme than that which now tortures the people in countries abroad. But the principle is the same, and a fifty percent rise in the cost of living is well within the realm of possibility. This would prove most destructive to us, and would require drastic and

expensive action on the part of the Government. Certainly it would cripple business and throw hardship on the American people to an infinitely greater extent than 10.5 billions of new taxes, which is one of the reasons the House chose to give for trimming down the suggested 10.5 billions to two billion.

In principle, the extra money which stimulated production has brought to the people of America today can play the same havoc in our economy as the soldiers' spendable dollars are causing abroad. The principle is the same. We have a shortage of goods, exactly as they have abroad -- not to the same extent, but to a great enough extent to cause trouble. The only thing that we have which they haven't is an OPA, and Fred Vinson, whose responsibility it is to sit on the lid.

How long Judge Vinson and people working with him will be able to hold prices in line under present circumstances is a question. He is doing everything he can, but the wild horses of inflation are growing wilder every hour, and no one seems disposed to give him any help. Our economic picture at this writing seems to be a galaxy of punctured ceilings, tottering wage formulae, and political viewing-with-alarm or with-timidty.

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But in those days the Nation and its leaders preferred to see the sunny side. Even the financial crash itself failed to jolt some of our National leaders into looking at the problem realistically. Three months after the crash, the Secretary of the Treasury told the public: "I see nothing in the situation which warrants pessimism ... there is plenty of credit available."

It is like our saying today, "The inflation isn't bad, let's forget it. Let's get rid of our present controls and set up no new measures -- they're a nuisance."

In renewing the Administration's request for a tax bill that will help pay off our war debt at the rate of an extra 10.5 billion dollars a year, I want to emphasize that by draining off a sizable portion of our national income, it will help to stabilize our economy, and will give Fred Vinson a hand in trying to keep prices down to the point that the lowest income groups will be able to sustain themselves through the remainder of the war.

And this cannot be done by any practical or possible move in the direction of economy. There is much misunderstanding on this point. The first misunderstanding is that any real economies, that will effect spending during 1933 or 1934, are contemplated. The Army and Navy have revised their budgets, as they are constantly doing, in keeping with the principles of good business. There is nothing new about it. Since last August they have revised it downward _____ billions. The Army, in addition, has placed 13 billions in a reserve fund -- which however is still on call if the Army needs it. All Government departments have the same sort of reserve. The Navy, it appears, will have to ask for additional funds -- so

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any reserve it has will certainly be used if it is needed. Consequently, the reports that the government has saved up to 18 billions is pure fiction.

But even if it weren't -- even if actual economies were possible -- they would not be likely to affect the inflation situation.

The reduction of inflationary pressure resulting would be only a slight fraction of any cut in expenditures.

The only way these economies could be made effective from an inflation standpoint would be if they should release men and materials for the manufacture of consumer goods, in order to increase the amount of materials upon which people can spend their incomes. But there is no indication that we can afford yet to release either men or materials from vital war production, regardless of any economies which can safely be made at this time.

So it is certainly safe to say that savings -- even real savings -- are not an alternative for new taxes at this particular time. They are practically without influence in combating inflation, and they certainly will not reduce the considerable bill we have already created.

If we can save money, if we can reduce our expenditures -- either war or non-war -- it ought to be done. I am sure you

any reserve it has will certainly be used, and more will be needed. Consequently, the reports that the armed forces have saved up to 18 billions is pure fiction.

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If we can save money, if we can reduce our expenditures -- either war or non-war -- it ought to be done. I am sure you

know where I stand on that. You may remember that most of my recommendations to the Byrd Committee, were adopted and contributed considerably to the two billion dollars of savings that have been made over the last two years. I have consistently urged that we cut costs everywhere it can be done without interfering with the war effort.

In that connection, I took a stand definitely against the Bankhead Bill, which the Senate recently passed, with the possible result that the Government will waste fifteen million dollars each year to do very badly a job which the Government is now doing very effectively at practically no cost to the American taxpayer. The Senate would break down the voluntary cooperation of advertisers and newspapers and other publications and radio, who, at practically no cost to the Government, provided thirty million dollars worth of advertising during the three weeks of the Third War Loan. There are no possible grounds upon which this waste of fifteen million dollars can be justified. I shall keep my record for economy consistent and continue to oppose the passage of this bill in the House.

I should like to discuss now the proposals which we made to the House Ways and Means Committee, and those which I am going to make here, today, to you.

On behalf of the Administration, I suggested to the House that we get 10.5 billion dollars in additional revenue.

I want to repeat that suggestion today.

I suggested to the House a definite plan for raising that amount of money. We provided schedules showing how 2.5 billions could be raised in new, selected excise taxes. This included excise taxes on such things as soda-pop and chewing gum and candy, which seemed to us to be very reasonable and logical sources of revenue, because they cannot be considered essentials of living; but apparently the House thought differently.

We suggested a tax schedule that would raise 1.1 billion dollars from corporations, which seemed little enough in the face of a 26 billion dollar increase in their income.

Believing that estate and gift taxpayers were not contributing as much as they might, in comparison to other taxpayers, to the war program, we suggested an increase in rates to produce four hundred million in new revenue from this source.

Finally, we presented a recommended income tax schedule that would produce 6.5 billion dollars in increased levies on income. At that time, I also presented to the Committee a recommendation for handling this program.

Today I am not going to make all of these recommendations to you. I am not going to give you a blue print. Instead, I

am going to ask you to raise 10.5 billion dollars and hope, from the bottom of my heart, that you will raise it in such a way that the cure will not be worse than the disease.

I recommended to the House Ways and Means Committee that they take important steps toward simplification of the tax laws by discontinuing the Victory Tax and the earned income credit. I make the same recommendation to you, because the American public is entitled to simplification of its tax laws. We don't have the right to ask every taxpayer to become a bookkeeper, and under the present circumstances, a person outside the range of a simplified tax form is faced with some very perplexing problems and calculations. We at the Treasury are doing everything in our power to simplify the returns. We have managed to clarify, to an extent never before achieved, the simplified returns required of taxpayers earning up to \$3,000. Beyond that, however, the toils of a most complicated tax law has us at its mercy.

I implore you, therefore, to keep simplification in the forefront of your minds while considering the new tax bill. I hope you will not drop the Victory Tax, and then add in its place a new tax which will make returns for the average taxpayer equally as complicated. This the House did in its Tax Bill.

If you simply drop the Victory Tax, and leave the income tax exemptions where they stand, you will relieve 11 million people of paying taxes. At first glance, it seems strange that anyone would even think of relieving people of tax liabilities at the very time that we are demanding more taxes; but careful examination of the facts indicates that there is a great deal of justice in relieving of tax liability many of the people who are now subjected to the Victory Tax. There are, for example, 21.5 million people -- a third of all the Nation's salary and wage earners who make less than a thousand dollars a year. These 21.5 million people earn an average of less than 18 dollars a week, and today approximately ___% of these people are paying the Victory Tax. The aggregate tax that they pay to the Treasury amounts to about ___ million dollars. In addition to this amount which is paid directly to the Federal Treasury, these same people pay an estimated ___ million dollars in State, city and hidden taxes. These taxes will be with them no matter what is done concerning Federal policies and will increase with increased excises.

We need not worry about this group contributing to inflation if they are relieved of their present direct Federal taxation. In the face of constantly rising prices, they cannot make inflation; they can only suffer as a result of it, and their

suffering will get progressively worse as the cost of living rises. These people should be relieved of their federal tax liabilities and the 700 million dollars which they now pay can be distributed among the remaining _____ million taxpayers.

As I have pointed out before, we are not going to recommend any particular schedule that you follow in allotting these new income taxes. Our Division of Tax Research has prepared several schedules. You may use any one of these, or suggest that others be drawn up. Most of our schedules are based on the fact that the bulk of the money that we would get is in the hands of the people who make enough to come within our income tax exemptions but less than \$5,000. In the schedule which we presented to the House Ways and Means Committee, 53% of the total tax increase came within this group.

During the House hearings, we were asked whether we felt it was so necessary to get 10.5 billions that the Administration would change its position on the sales tax.

I should like to say here and now that the Administration will not change its opinion of the sales tax as a means of raising revenue. Moreover, I sincerely believe that most of the adherers^{ers} of the sales tax, particularly among the newspaper editorial writers, and the general public, would change their own minds about the sales tax if all the facts were presented

to them.

I should like to take a few moments to present those facts.

I have heard a great deal, and have seen a great deal in the newspapers, about a sales tax being a sort of white-rabbit that Congress can pull out of a hat -- if the Administration would permit it -- and get 6 billion dollars with the greatest of ease.

It is true that if we put a 10% tax on everything that everybody bought, the tax might produce as much as 6.3 billions.

But I am sure that even the most ardent sales tax enthusiasts can see the unlikelihood of placing a 10% tax on all food. The public wouldn't stand for it. The 21.5 million people who are making an average of \$18 a week would be called upon to make a sacrifice unequalled by all the rest of the people on the Home Front combined.

If you exempt food from the sales tax, you lose 2.4 billions of this tax yield. This brings the total yield to 3.9 billions.

There is certainly no justice in taxing medicines. If you exempt medicines, you lose another 200 millions, bring the total to 3.7 billion dollars.

There is no conceivable way that you could put a ten percent tax on all clothing, whether it be luxury goods, or just common everyday work clothes. And judging from the tax yield

on luxury clothing during the last war, most clothing purchases are necessities. Exempt clothing, and you lose another 1.1 billion dollars. This brings the yield of this 10% sales tax to 2.6 billions.

Under the present laws, a large number of goods are heavily taxed by excises. It is unlikely that you could add another 10% to these at the point of sale. Exempt all of them, and you lose another 1.2 billion.

This brings the total yield of a 10 percent sales tax to 1.4 billion dollars -- and even this figure would be reduced somewhat by such things as rent, and by materials included which are used for business, and which accordingly would not be subject to a retail sales tax.

Looked at from a practical point of view, a ten percent sales tax, therefore, simply means that the Government would be required to set up an elaborate new system of collecting and policing a new kind of tax, the total revenue from which would be pitifully small.

And to bring up one more complication, we might point out that State tax laws usually permit a deduction of sales taxes paid during a taxable year. This means that anyone with money enough to pay a state income tax would get credit for his sales tax; while anyone whose income placed him below

the exemptions, and who by the very nature of things would be hit hardest by a sales tax, would not have the opportunity to recoup any of his sales tax payments.

It is because of this combination of facts that the Treasury feels that a sales tax is futile, and that much more satisfactory results with far less trouble and expense can be secured by increasing the number of goods upon which excise taxes are placed.

In our proposal to the House Ways and Means Committee, we suggested increasing excise taxes, largely by increasing the number of taxable items, by a total of 2.5 billions. The list could be expanded, and the rates could be higher, according to the luxury rating of the items; but even this 2.5 billions comes within a hundred million dollars of producing as much as a sales tax exempting only food, medicines and clothing.

In view of this, it is difficult to see why anyone would want to struggle with a sales tax. Even overlooking the injustices inherent in such a tax; even overlooking the fact that the controls of our economy are based upon a cost of living index which would be thrown completely off balance by a sales tax, and would automatically launch a spiral of higher prices and higher wages, the very futility of the sales tax as a revenue producer should be enough to recommend it for oblivion, once and for all.

If you want to consider a sales tax under these circumstances, it is your privilege. The Administration, on the basis of the facts, opposes it. But you are the elected representatives of the people. You are the lawmakers. In the final analysis, you must draw up this bill, and you must suffer the consequences of any mistakes in judgment which you may make.

Finally, I hope you will give thorough consideration to

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the long-term significance of this tax bill before you decide upon a course of action. The House has sent up to you a bill which contributes little toward paying off our huge war bill and can contribute practically nothing toward stemming the tide of inflation.

I hope you will not lose sight of the fact that to the extent that the 10.5 billion figure is reduced, just to that extent we will be levying additional future taxes upon the men who are fighting the war, and upon their children and ours.

I hope you will also remember that every dollar taken in taxes is one less dollar which can contribute to an inflation that will unnecessarily increase our war bill, and that will make the job of reconstruction infinitely harder, once the war is over.

And I hope, that you will not be misled by the idea that anything reclaimed from the estimated budgets of the Army and the Navy as a substitute for new taxes. I am sure that our soldiers will not be so easily deluded. Some day they will be back -- many millions of them -- and the day they make their first income tax payment, they are going to ask: "Why didn't you people back here pay off more of this bill while you were making all that extra money?" Coming from six or eight million men, that can be a very embarrassing question.

As the elder statesmen of this Republic, I hope you will shoulder the responsibility that is unquestionably yours. I hope you will take stock of what is happening all around you.

Remember that we will have a two hundred billion dollar debt by next July -- a debt that will cost us four billion dollars a year in interest alone.

Remember that our cost of living is rising. The latest available figure when I made my proposal to the Ways and Means Committee, was for September, and put the cost of living at 123.9. The latest available figure today is for October, and is 124.4. And this has happened while most of our inflation controls are still active.

Remember that our savings are consistently rising. They have gone up 4.4 billion dollars since I made the presentation to the House Committee.

And our national income, on the basis of last Saturday's summation of the budget, will drop about _____ billions of dollars -- not enough to have any perceptible affect on the inflation front if the spiral should once start in earnest.

While all this is happening, our inflation controls -- the only forces we have to keep this economic disease in check -- are fast crumbling.

Within the past week, Congress has seen fit to disregard

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Remember that our savings are consistently rising. They have gone up 4.4 billion dollars since I made the presentation to the House Committee.

And our national income, on the basis of last Saturday's summation of the budget, will drop about _____ billions of dollars -- not enough to have any perceptible effect on the inflation front if the spiral should once start in earnest.

While all this is happening, our inflation controls -- and only forces we have to keep this economic disease in check -- are fast crumbling.

Within the past week, Congress has seen fit to disregard

the message from our Commander-in-Chief, pointing out that subsidies were the keystone of our battle against inflation.

Forces in Congress are calling for a reduction in the powers of OPA, which might well result in the elimination of any control of commodity prices.

The Little Steel Formula, which up to this time has held wages it line, has been broken through, and its future certainly is not bright.

Gentlemen, these are the facts.

Perhaps our last opportunity to take any precaution against the calamity of inflation that has hit practically every country in the world to a greater or a lesser degree, is the passage of a tax bill of sizable proportions -- a tax bill that will keep at least 10.5 billions out of circulation.

It is your responsibility. If you refuse to take it, God help America.

Gentlemen:

On October 4, I went before the Ways and Means Committee of the House with the Administration's suggestions for a new tax bill.

At that time, I asked for 10.5 billion dollars in new revenue.

Back of that figure of 10.5 billion dollars there lies a firm conviction in the minds of the Administration that we should pay off, through taxation, as much of our war debt in these days of prosperity as is humanly possible. The figure of 10.5 billion, therefore, represents our judgment as to the maximum amount of taxes that the American people and American business can stand at this time. If we had thought that taxpayers, safely and without undue hardship, could pay more in war taxes, we would have asked for more. But we (confidently) believe 10.5 billion to be the ceiling.

Since October 4, nothing has happened to make us revise our estimate of the amount of money that we should ask for, or that the taxpayers can and should pay.

On July 1, 1944, the end of the current fiscal year, the war will have brought us a debt of two hundred billion dollars. It is this debt which we should not pass on to the returning soldiers, and to their children and ours. It is this debt which we should plan to pay off as rapidly as possible while we have the means.

When the House passed a bill calling for two billion dollars in increased revenue, and explained that we don't need 10.5 billions in new war taxes because of contemplated economies, they did not consider seriously enough that some day the soldiers will return home to pick up the broken threats of their lives. And when they do come home and file their first income tax returns, they will ask very embarrassing questions. They will ask: "Why didn't you people pay more of this huge bill when you were making all that extra money? Why do you burden us with it?"

I think the House did not give due consideration to the fact that economies, no matter how impressive, will not in any way affect the two hundred billion dollar debt which we already have.

The only way that economies would be effective from an inflation standpoint would be if they should release men and materials for the manufacture of consumer goods, and thus increase the amount of goods upon which people can spend their incomes. But there is no indication that we can afford yet to release either men or materials from vital war production, regardless of any economies which can safely be made at this time.

So it is certainly safe to say that savings are not an alternative for new taxes at this particular time. They are

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They are practically without influence in combating inflation, and they certainly will not reduce the considerable bill we have already created.

If we can save money, if we can reduce our expenditures -- either war or non-war -- it ought to be done. I am sure you know where I stand on that. You may remember that most of my recommendations to the Byrd Committee were adopted, and contributed considerably to the two billion dollars of savings

that have been made over the last two years. I have consistently urged that we cut costs everywhere it can be done without interfering with the war effort.

In that connection, I took a stand definitely against the Bankhead Bill, which the Senate recently passed, with the possible result that the Government will waste fifteen million dollars each year to do very badly a job which the Government is now doing very effectively at practically no cost to the American taxpayer. The Senate would break down the voluntary cooperation of advertisers and newspapers and other publications and radio, who, at practically no cost to the Government, provided thirty million dollars worth of advertising during the three weeks of the Third War Loan. There are no possible grounds upon which this waste of fifteen million dollars can be justified. I shall keep my record for economy consistent and continue to oppose the passage of this bill in the House.

Yesterday, the Bureau of the Budget released a new summation.

It pointed out that anticipated expenditures have been reduced from 105.9 billion dollars to 97.9 billion dollars. This contemplated saving has come about as a result of our over-estimating, nearly a year ago, the potential output of the American economy. We are going to fall about 8 billion dollars short of producing the amount of war materials which we originally believed we could. This is not likely to be a

serious situation, because we still are going to be able to produce 92 billion dollars worth -- and 92 billion dollars will buy a tremendous amount of very effective war material. It will buy a great deal more than any other Nation can produce.

The new summary also raised estimated receipts by almost 3 billions. I will be asked whether this change in contemplated expenditures and receipts, which will reduce our National deficit at the end of the year by approximately 11 billion dollars, does not alter the need for increased taxation at this time.

In our estimation it does not.

It does not because we need to reduce future taxes for the returning soldiers, and for ourselves, and for future generations, by paying as much of the war costs as we can today.

If our deficit for the war this year is going to be 11 billion dollars less, and if we can add 10.5 billion dollars in new taxes, we will be able to show the soldiers 21 billion dollars that they will not have to pay in taxes when they get back. I think that is all to the good.

And this reduction in contemplated expenditures will not greatly affect our economic situation. According to best estimates, income payments to individuals during this year, instead of being 152 billions will be about 148 billions. This 4 billion dollar reduction will be spread among all of the people, and all of the businesses in the Nation. It will be scarcely felt. The American people will still have 36 billions of dollars in liquid savings during the fiscal year of 1944, a reduction of about six billions from previous estimates.

That still gives them a lot of leeway to pay taxes.

As a result of this revised budget summation, I will be asked whether or not I still stand on the position that we should be paying at least fifty percent of our war expenditures out of current income, and the answer is yes.

We should be paying at least fifty percent. If we were to pay only fifty percent, which I think is wrong in view of our high National income, I would have to revise the Administration's request for taxes to five billions instead of 10.5 billions; for our war cost this year will be 92 billion dollars, and to pay half of this bill in taxes would require five billion dollars more than our present receipts.

Certainly the Senate would be shirking its responsibilities if it did not provide this five billion dollars, at the very minimum. And I sincerely believe that they can be rightfully accused of shirking their responsibilities if they do not increase this five billion dollars to much closer to the 10.5 billions we are asking.

That is why I have come here today to renew the Administration's request for a tax bill that will help pay off our war debt at the rate of an extra 10.5 billion dollars a year.

I don't believe this is an unreasonable request.

It seems to me that such a proposal is much easier to justify than the proposal that we decline to pay off a more sizable proportion of our debt at the very same time that our

aggregate earnings are higher than they have ever been in all history.

It seems to me that in the eyes of future generations it will be much easier to justify such a request than it is to justify the argument that this 10.5 billion dollars will hamstring business and throttle the public, when it is common knowledge that the people are saving money at a phenomenal rate and corporation earnings are up over 26 billions. The public's savings in the banks today are five times as large as this 10.5 billion dollars that we are asking for.

Does anyone doubt that it is vital to the maintenance of a sound Government fiscal policy that we finance a much greater portion of the war through taxation than at present? The huge cost of guns, ammunition, war equipment, training our soldiers, sending them abroad and taking care of them -- this cost must be met either by taxation or by borrowing. And every dollar that we raise through taxation is a dollar less that will have to be returned, with interest, when the war is over. Therefore, securing additional taxes at this time would not only improve our present position, but would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems in connection with reconstruction and readjustment of our economic system.

Since making the presentation to the Ways and Means Committee I have talked to many of our soldiers overseas -- to the men who are actually fighting the war -- men who for the most part are trying to live on a base pay of \$50 a month and hold together their families and as many of their possessions as possible until they can get back, and get jobs.

I think if they had the power to pass a tax bill, this 10.5 billion dollars would whizz through without question. And I think they have earned the right to have their feelings in the matter considered seriously.

To the extent that we fail to raise this 10.5 billion dollars, these returning soldiers will inherit an unnecessary portion of the bill for the war they risked their lives to fight. That is a fact that will live as long as the memory of this war. And the memory of our excuses may live as long.

If I know soldiers, they will not be too happy about receiving a glib explanation that instead of adding war taxes, to help pay off our debt, we jumped at the opportunity to take advantage of current budget revisions, and ignored all that has already been spent. I can assure you that we will have a job on our hands if we attempt to explain how projected economies in war expenditures can substitute for the collection of taxes while our salaries and

wages are at an all time high. If these returning soldiers should be faced with inflation-bloated prices, or if their mail from home tells how difficult it is to live in the midst of rising prices on soldier's pay, we will have a hard time demonstrating how we are fighting inflation by asking bookkeepers to change some figures on the books for 1944 and 1945, instead of raising taxes.

When I presented the Administration's suggestions to the House Ways and Means Committee, I pointed out that the tax bill this year has two purposes. First, to increase revenue so we can pay off a larger part of the huge war costs while we have the money; and second, to combat inflationary trends which have threatened ever since we launched upon our huge war production program.

The current change in budget figures will to some extent improve our situation in regard to inflation. But by no means will it remove the threat. The people still will have ___ billion dollars which cannot be spent on consumer goods, because the amount of consumer goods available has not changed.

I am well aware that many American people, as well as many legislators, are not greatly concerned about the possibility of inflation overtaking us before the end of the war, and staying with us to make doubly difficult the job of reconstruction.

There seems to be some feeling that, by some magic, any such situation as we suffered during and after the last war, in spite of the fact that we have far more money today, and less in proportion to spend it on, than we had then. There seems to be

a strong feeling that inflation is out of date, like the term we used to use to explain it -- the high cost of living.

Let me assure you that this is not the fact, and that Congress would be shirking its responsibility to the American people and to the future of the American Nation to hide its head in the sand.

I talked to an officer of the Quartermaster Corps in French Morocco about three weeks ago. I asked him about food supplies -- where he got them, and whether he was having any trouble supplying his needs.

The officer said: "Well, of course Mr. Secretary, we don't buy any food here at all. The prices are too high. The troops around here have bid the prices up. So the Quartermaster Corps ships in the food we need. It would break the Army's treasury to buy anything at the prices they ask around here."

Three or four days ago I read an Associated Press report from Bari, Italy. This report said that a suit of clothes in the cheapest quality had risen to about 3,000 lire during the war and in the last two months had increased in cost to twice that amount. A couple of months ago you could get a pair of shoes for 500 lire, but now they cost 1,800 lire. Not long ago you could buy shirts for 100 lire but now they cost 350 lire.

Yesterday I received a report from Algiers concerning living conditions in France. It stated that eggs were selling for 40 francs a dozen, and chickens cost 200 francs, for any fortunate being who had that much money.

Back of these steep price rises, lies just one simple phenomenon. New money has come into these areas and the supply of goods is limited. So prices shoot up.

And the common people of Morocco, Italy and France -- and Greece and China for that matter -- are not finding it easy to live. They are up against a nearly impossible situation.

This should serve to remind us that inflation is not something that civilization has outgrown during the past twenty years. Inflation can happen today. It is happening, with exceedingly dire results to low income people, almost everywhere. And it can happen not in the creeping way we see it today, but disastrously, here at home.

Our inflation probably would be less extreme than that which now tortures the people in countries abroad. But the principle is the same, and a fifty percent rise in the cost of living is well within the realm of possibility. This would prove most destructive to us, and would require drastic and expensive action on the part of the Government. Certainly it would cripple business and throw hardship on the American people to an infinitely greater extent than 10.5 billions of new taxes.

In principle, the extra money which our stimulated production has brought to the people of America today, can play the same

havoc in our economy as the soldiers' spendable dollars are causing abroad. The principle is the same. We have a shortage of goods, exactly as they have abroad -- not to the same extent, but to a great enough extent to cause trouble. The only thing that we have which they haven't is an OPA, and Fred Vinson, whose responsibility is to sit on the lid.

How long Judge Vinson and people working with him will be able to hold prices in line under present circumstances is a question. He is doing everything he can, but the wild horses of inflation are growing wilder every hour, and no one seems disposed to give him much help. Our economic picture at this time seems to be a galaxy of punctured ceilings, tottering wage formulae, and political viewing-with-alarm or with-timidty.

It is easy to underestimate the possibility of inflation, and to disregard the necessity for taking protective measures. The fact that we have done as well as we have in controlling the cost of living up to this point makes a great many people over-confident.

But this is not the first time in our recent national history that we have failed to heed warnings. It is not the first time that we have chosen to be optimistic about the future at the expense of being thoughtful of the present.

I'd like to read to you a paragraph from the President's message to the 70th Congress of the United States, sent up in December, 1928. The following October you will recall, we suffered the greatest financial crash in history.

"No Congress of the United States ever assembled," the President said, while all this was brewing; "on surveying the state of the Union, has met with a more pleasing prospect than that which appears at the present time. In the domestic field there is tranquility and contentment ... The great wealth created by our enterprise and industry, and saved by our economy, has had the widest distribution among our own people, and has gone out in a steady stream to serve the charity and the business of the world. The requirements of existence have passed beyond the standard of necessity into the region of luxury. Enlarging production is consumed by an increasing demand at home and an expanding commerce abroad. The country can regard the present with satisfaction and anticipate the future with optimism."

There is no indication here that any threat lay in the wind. There is no indication that the golden dream of 1928 could be anything but an accepted way of life. It has all the complacent assurance of the recent report from the Lower House on the Tax Bill.

But that was not the fact. Many people back in those days knew that, as Walter Lippman pointed out a few days ago, National leadership was turning a blind eye and a deaf ear to the inflationary forces then present. The Nation had been warned by the very man who later, as President, reaped the fruits of this optimism. Three years before, he had called attention to certain national policies, and said, "...it means inflation with inevitable collapse and will bring the greatest calamity upon our farmers, and workers and legitimate business."

But in those days the Nation and its leaders preferred to see the sunny side. Even the financial crash itself failed to jolt some of our National leaders into looking at the problem realistically. Three months after the crash, the Secretary of the Treasury told the public: "I see nothing in the situation which warrants pessimism ... there is plenty of credit available."

It is like our saying today, "Inflation isn't bad, let's forget it. Let's get rid of our present controls and set up no new measures -- they're a nuisance."

In renewing the Administration's request for a tax bill that will help pay off our war debt at the rate of an extra 10.5 billion dollars a year, I want to emphasize that by draining off a sizable portion of our national income, it will help to stabilize our economy, and will give Fred Vinson a hand in trying to keep prices down to the point that the lowest income groups will be able to sustain themselves through the remainder of the war.

Gentlemen:

On October 4, I went before the Ways and Means Committee of the House with the Administration's suggestions for a new tax bill.

At that time, I asked for 10.5 billion dollars in new revenue.

Back of that figure of 10.5 billion dollars there lies a firm conviction in the minds of the Administration that we should pay off, through taxation, as much of our war debt in these days of prosperity as is humanly possible. The figure of 10.5 billion, therefore, represents our judgment as to the maximum amount of taxes that the American people and American business can stand at this time. If we had thought that taxpayers safely and without undue hardship, could pay more in war taxes, we would have asked for more. But we confidently believe 10.5 billion to be the ceiling.

Since October 4, nothing has happened to make us revise our estimate of the amount of money that we should ask for, or that the taxpayers can and should pay. *(The not even will talk to the other)*

On July 1, 1944, the end of the current fiscal year, the war will have brought us a debt of two hundred billion dollars. It is this debt which we should not pass on to the returning soldiers, and to their children and ours. It is this debt which we should plan to pay off as rapidly as possible while we have the means.

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11-23-43

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Gentlemen:

I ~~was~~ ^{ad} talking to an officer of the Quartermaster Corps in Marrakech, French Morocco, about three weeks ago. I ~~was~~ ^{asked} asking about getting food supplies -- where the ~~Quartermaster Corps~~ ^{the} got them, and whether he was having any trouble supplying his needs.

The officer said; "Well, of course, Mr. Secretary, we don't get any food here at all. The prices are too high. The Quartermaster Corps ships ~~it~~ ^{in the food we need} ~~to~~ us. It would break the Army's Treasury ~~in no time to have~~ ^{anything} to buy ~~it~~ ^{at} the prices they ask for it around here."

Three or four days ago I read an Associated Press report from Bari, Italy. ~~I had been in Bari, and I knew what was going on.~~ ^{Cost of living in Bari} But ~~this~~ ^{about the high prices} was the first comprehensive report I had seen ~~that~~ ^{this report} ~~that~~ ^{showed} how a suit of clothes in the cheapest quality had ~~quickly~~ ^{risen} risen to about 3,000 lira during the war and in the last two months had ~~increased~~ ^{increased in cost} ~~to~~ ^{risen} twice that amount. A couple of months ago you could get a pair of shoes for 500 lira, ~~now~~ ^{but} they cost 1,800 lira. Not long ago you could buy shirts for 100 lira ~~a piece~~ ^{each} but now they cost 350 lira.

Back of these steep price rises, lies just one simple phenomenon. ~~British and American Troops~~ ^{have} money to spend, and the supply of goods is limited. So ~~the~~ ^{short} prices ~~go~~ ^{run} up.

~~Of course this does not make things too difficult for the British and American troops, because they have no real need to buy the necessities of life at such high prices; and the Quartermaster Corps can almost always go some place else for its food.~~ ^{And} But the common people of Italy who have been out of work for a long time, because the war has taken away their employment, are not finding it ~~so~~ ^{to live} easy. They are up against a nearly impossible situation.

As Rome seems to think ~~that~~

that civilization has

I bring this up to point out that inflation ~~is not an old-fashioned idea.~~ It is not something we have outgrown ^{during} the past twenty years. ~~It is something that~~ ^{Inflation} can happen today. It is happening, ^{with dire results to the low-income people,} in every country but ours. And it can happen here.

There is a lot of extra money in the United States today -- ^{billions of dollars} ~~money~~ that can play the same ^{have} role in our economy as the spendable dollars that ~~our~~ soldiers have abroad. We have a shortage of goods, ^{- not to the same extent, but} exactly as they have abroad. The only thing that we have which they haven't is an OPA, and Fred Vinson, whose responsibility is sitting on the lid. How long Fred Vinson will be able to ^{hold prices in line under present circumstances} sit on the lid is a question. He is doing everything he can, but the wild horses of inflation are growing wilder every hour, and ~~express~~ no one seems disposed to give him any help. Our economic picture at this writing seems to be a galaxy of punctured ceilings, ^{with rising wage formulas} ~~basic wage~~ ^{increase demands,} legal doubts of ^{OPAs} constitutionality, and political ^{alternate timidity and} ~~viewing-with~~ alarm.

As you know, ^{when} I appeared before the House Ways and Means Committee a few weeks ago, ^{in behalf of the Administration} ~~and suggested~~ that they frame a tax bill that would increase Government revenue by 10.5 billion dollars ^{to help} ~~and~~ ^{to help finance the costs of the war and to} ~~absorb~~ 10.5 billions from the ~~inflationary~~ pool. Not all of it, of course, could be inflationary; but we gave the House some ~~ingenious~~ suggestions which, in our estimation, tapped this inflationary pool as heavily, and yet as fairly, as possible.

You all know what the House did about it. ^{passed} They came up with a bill calling for two billion dollars in increased revenue, ^{provided} and a minority and a majority report which attempt to prove that we don't need 10.5 billions in taxes because we aren't going to spend as much

in the hands of the American people. If excess money is provided which threatens inflation.

a backlog of

as we thought we were. No thought was given the fact that the war ~~is~~ ^{has} already costing a great deal, and that debt ~~of~~ ^{amounting to} two hundred billion dollars will have been piled up by the end of this fiscal year.

A few days ago the Washington Post put it very well in an editorial; the Post said ... "the fact that the ~~Army~~ ^{Army} over-estimated the amount of funds it would require this year does not mean that we can regard its unexpended appropriation as 'savings' warranting a relaxation of our efforts to keep more of our war costs from ~~xxxxxx~~ tax revenues." The Post then continues, "If Congress wants to make such excess appropriations an excuse for inadequate taxation, all it need ~~do~~ is to approve ~~an~~ over-liberal appropriations and recapture them at the end of the year. ~~By~~ ^{By page 4} such means 'savings' could easily be boosted so high that we might conclude that we don't need to collect any taxes at all."

I have come here today to renew the Administration's request for a tax bill that will ~~increase revenue~~ ^{help pay off our war debt at the rate of an extra} ~~by~~ 10.5 billion dollars; and that will, by draining off a sizeable portion of our national income, help to stabilize our economy, and will give Fred Vinson a hand in trying to keep prices down to the point that ~~those among us who can least afford price rises~~ ^{the lowest income groups} ~~and~~ ^{will} be able to sustain themselves through ~~this period.~~ ^{the remainder of the war.}

I do not believe that this is an unreasonable ~~demand.~~ ^{request} Of course, there has been a great deal of opposition to so large a tax bill ~~and~~ ^{get} on the other hand, a great many ~~of the~~ reliable sources have commended the courage of such a bill ^{at this time.}

The Birmingham News points out that "there is no doubt that sound procedure, with respect to the Nation's financial position and to controlled prices, causes the additional levies against the greatly increased incomes of the American people."

The Portland Journal says "Taxes could and should be increased if we are to ~~close~~^{close} the inflation gap."

The New York Post states that "if we don't have the tax increased the Treasury has called for, the taxpayer will pay out just as much in increased food prices as he would have paid in taxes, except that neither he nor the Treasury will have anything to show for it."

The Birmingham Age Herald says "The Treasury has asked for 10.5 billion in new taxes, both to ease the financing of the war and also to drain off surplus earning power and thereby decrease the chances of dangerous inflation. Both are goals of which the general public approves."

The Cincinnati Inquirer says "The Administration is taking action which has been too long delayed in advocating a tax program which is in closer relationship to the actualities of war. The principal which all our lawmakers must realize is that conditions demand higher current payments in order to hold as low as possible the National debt."

The New York Times, in disapproving of the House bill, says, "Ways and Means Committee ^{has} ~~is~~ now approved a wholly inadequate tax bill which would raise only a fifth of the new revenue asked for by the Treasury. To the extent that we fail to siphon off excess

purchasing power in the hands of the people, the alternative must be inflation. There is no possible way to escape paying for the war. If we don't do it by taxes on the statute books, we must do it by the form of tax known as inflation."

The Administration's basic reason for suggesting 10.5 billion dollars, ^{of additional} ~~strictly temporary~~ taxes, to be eliminated after the war, arose out of the obvious fact that the war is costing ^{us} two hundred million dollars a day more than our present tax receipts. At the same time, the aggregate earnings of the people of the Nation are higher than they have ever been. Thus we are piling up a debt, in this period of prosperity, of two hundred million dollars a day which ~~some day must~~ ^{may have to} be paid ~~perhaps~~ ^{perhaps} by American taxpayers far less able to pay it than we are today. While we are fighting the war, and while the stimulation of war production has expanded the incomes ~~of~~ and taxpaying ability of a majority of taxpayers, we should go as far as possible towards keeping abreast of our expenses.

Does anyone doubt that it is vital to the maintenance of a sound Government fiscal policy that we finance a much greater portion of the war through taxation than at present? The huge bill for guns, ammunition, war equipment, training our soldiers, sending them abroad and taking care of them -- this bill ~~is to~~ ^{must} be met ~~either~~ either by taxation or by borrowing. And every dollar that we raise through taxation is a dollar less that will have to be returned, with interest, when the war is over. Therefore, ~~we~~ securing additional taxes at this time would not only improve our present position, but would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems in connection

The Ways and Means Committee

with reconstruction and readjustment of our economic system.

Since making the presentation to Congress, ~~I have~~
~~about~~ I have talked to our soldiers -- to the men who are actually fighting the war -- men living for the most part on \$50 a month and trying to hold together their families ^{And as many of them possess as possible} until they can get back, get jobs, and pick up the broken threads of their lives.

I can tell you that if they had the power to pass a tax bill, it wouldn't stop at 10.5 billion dollars. And I think they have earned the right to have their feelings in the matter considered seriously.

To the extent that we fail to raise this 10.5 billion dollars, ~~exactly that extent~~ these returning soldiers will ~~have~~ inherited an unnecessary portion of the bill for the war they risked their lives to fight.

And if I know soldiers, they will not be too happy about receiving a glib explanation that instead of raising taxes in the midst of plenty to help pay off a two hundred billion dollar ^{debt} bill, we asked the Army to revise its estimates of the amount of money it needed.

~~And~~ I can assure you that we will have a job on our hands if we attempt to explain how economy in war expenditures can substitute for taxes ^{if they should be faced with inflation - bloated prices when they} on the ~~inflation front~~.

I have spent two weeks trying to find ~~an answer to that question~~ ^{Someone who could show that we will} saving money on the war ^{had materially} lessen the inflation danger ^{and I can find out so} ~~am told~~ that the reduction of inflationary pressure resulting would be only a slight fraction in the cut in expenditures.

In so far as this cut ^{represents} ~~reported~~ renegotiation of war contracts, it would leave income payments to individuals almost entirely

has a hard time demonstrating how we fought inflation in earlier 40's crises instead of now

If we can save money, if we can reduce our expenditures -- either war or non-war -- it ought to be done. I am sure you know where I stand on that. You may even remember ^{that} my recommendations to the Byrd Committee ~~which~~ resulted in nearly two billion dollars savings over a period of the last two years.

From the standpoint of inflation, as well as from the standpoint of paying off our huge war debt, we need to gather as much in new taxes during the coming year as ~~it is~~ possible to get ~~fairly~~. We recognize that any tax bill is limited by the capacity to pay of taxpayers in the lower and middle brackets who have not enjoyed ~~substantial~~ increases in income.

They don't help combat inflation and they don't reduce the considerable bill we have already ~~to~~ created.

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and would therefore have no effect.

unaffected. Renegotiation has the affect of applying funds which corporations were ~~holding~~ holding to meet an accrued excess profits tax as payments for current production. We gain nothing on the inflation front by rechristening what would have been excess profits tax revenues as "reduction of expenditures."

^{over} Where the cut in expenditures is real and not nominal, the ^{on} affect ~~in~~ reducing inflationary pressure still will not be great. The only way these economies could be made affective from an inflation~~ing~~ standpoint would be ~~to~~ ^{if they should} release men and materials for the manufacture of consumer goods, in order to increase the amount of materials upon which ^{people can spend their incomes} ~~money can be ~~expended~~ spent~~. But there is no indication that we can afford yet to release either men or materials from vital war production, regardless of any economies which can safely be made at this time.

So ~~I believe~~ it is ~~thoroughly~~ safe to say that ~~xxxxxx~~ savings are not an alternative for new taxes.

It was ^{On} ~~the~~ judgment of ~~our tax research people~~ that the taxable limit at the present time would be reached with 10.5 billions in new taxes, *and that is why we set that figure, also*
~~From the standpoint of individuals, it was ^{the} ~~their~~ judgment that~~
an increase in individual income taxes would ~~prove to~~ be the fairest form of tax to use under the circumstances. It is the one most adaptable to the abilities of our people to pay taxes. It is a better tax for reaching the middle and lower income groups than ~~any~~ any other form of tax now in use.

I am as aware as anyone that we are faced with great problems in setting up a system of taxation that will get this money without injustice; and that we have reached the saturation point on taxation in the case of many people throughout the Nation. There are literally millions of people whose incomes have not increased as a result of the war; and there are millions ^{also} whose incomes are so low that they can not maintain even a reasonable standard of living, and still pay the taxes which are even now levied against them.

I have said many times before that four-fifths of our entire national income rests with those people earning less than five thousand dollars a year. I should like to make it very clear, however, that among those people earning less than five thousand a year, there are 21.5 million people -- a third of all the Nation's salary and wage earners -- who make less than a thousand dollars a year. These 21.5 million people earn a total of only 18.5 million dollars. Thus, it is obvious that these 21.5 millions who earn, on an average, less than \$18 a week, must be given special consideration in times

of the eleven millions now

like these, ~~when we speak of tax programs.~~ In fact, some of them -- nine ~~million of them now~~ paying Victory taxes, whose incomes are pitifully small, ^{they} should ^{be} relieved even of their present taxes. I don't believe that is an unreasonable request. I believe it is a case of simple justice.

And ^{it is} because of these millions with sub-standard earnings, ^{that} we have consistently opposed the sales tax as a means of raising additional revenue. The cold facts are these: on a straight dollars and cents basis, a sales tax on all commodities including food and the necessities of living would fall with a devastating thud on these 21.5 million people earning less than a thousand a year. From the standpoint of food, which is usually the largest item in a low-income budget, perhaps it would fall even more heavily, for the simple reason that most of these people are laborers whose food and basic requirements are greater than those of the higher income groups. The percentage of their earnings paid in taxes, in relationship to their incomes, would be, of course, entirely out of proportion.

There is only one way of sparing these 21.5 million people an inexcusable injustice under any sales tax scheme -- and that is by eliminating from taxation food and the necessities of life -- and that, gentlemen, would make the revenue to be secured from the sales tax almost too small to be practical as a revenue measure. An over-all, unjust sales tax might get us about six billion dollars. If the necessities of life were eliminated, we would be fortunate to get two billion dollars, much of which we propose to get anyway through selected excise levies. Most of that extra four billion would come from the blood and sweat of people who honestly can't afford it.

It's unthinkable. Badly as we need the money, we can not take it from those who would face certain hardship as a result of new taxation.

Of the total of 6.5 billions of new income taxes in our suggested program, ___ billions would come from those 43 millions of taxpayers who earn, after present taxes, between \$1,000 and \$5,000 -- or a total of 97 million dollars. At present, these taxpayers are paying a total of about 10.6 millions, or a little more than half of all the income taxes levied against all taxpayers. Under the suggested new plan, they would be paying a slightly higher proportion of the total.

And we ~~do~~ need not
Worry about this group
contributing to inflation!
They cannot make inflation,
they can only suffer as a
result of it.

When I appeared before the House Ways and Means Committee, I presented a specific proposal for raising the revenues that we should have. I suggested that we raise ___ billion dollars in new selected excise taxes. ~~As a result of an investigation of the financial status of corporations,~~ We suggested a tax schedule that would raise ___ billions from ^{corporations} ~~this source~~. We felt that estate and gift taxpayers were not contributing as much as other taxpayers to the war program, and after careful investigation, we increased rates to produce _____ billions in revenue. *from this source*

In income taxes, we presented a plan adding up to 6.5 billion dollars in increased levies.

At that time, I also presented to the House Ways and Means recommended ^{again for} ~~ways~~ of handling this income tax program. This I am not going to do today. *How you raise this money, what schedules are used, I leave to you.*

~~We want to impress upon you the importance of raising this 6.5 billions in income taxes and I have simply asked our Tax Research Division to provide you with a substantial number of schedules, distributing the tax burden, ^{of 6.5 billion} in nearly every possible, plausible way. If you have ideas which are not covered by these schedules, the Tax Research Division will prepare a schedule to take care of any suggestions you may have.~~

In presenting an income tax proposal to the Ways and Means Committee, I suggested that we drop the Victory Tax in the interest of simplification. If the tax were simply dropped, this would relieve 11 million people in paying any tax whatever. Of these

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 11 million, the upper two million paid the bulk of the Victory Tax, and the other 9 million, whose average pay is considerably less than a thousand dollars a year, accounted for about 300 million dollars. Compared to the total of 24 billion dollars ~~that~~ ~~are~~ now payable under individual income taxes, this is not very much. When you think of it as \$30 dollars a year out of a wage of much less than a thousand dollars a year, the load is ~~obviously~~ considerable -- particularly in a period of increasing costs of living.

We still believe that these 9 million people should be relieved of ~~their~~ any tax liability, and we ~~are~~ earnestly making that recommendation to you. ~~But~~ Under any circumstances, I hope you will eliminate the Victory Tax. The American public is entitled to simplification of its tax laws. We don't have the right to ask every taxpayer to become a bookkeeper, and under the present circumstances, for which the Victory Tax is largely responsible, a person outside the range of a simplified tax form is faced with some very perplexing problems, ^{and calculations}. We at the Treasury are doing everything in our power to simplify the returns. We have managed to simplify, to an extent never before achieved, the returns required of taxpayers earning up to 3,500 dollars. Beyond that, however, the toils of the most complicated tax laws to be found any place in the world, have us completely at their mercy. I implore you, therefore, to keep simplification in the fore-front of your minds while considering the new tax bill. I hope you will not

drop the Victory Tax, and then add in its place a ^{New tax}~~secondary tax~~ ~~Victory Tax~~ which
is equally as complicated. ^{The} the House did in its Tax Bill.

I hope you will consider the long-term significance of this tax bill before you decide upon a course of action. I hope you will never lose sight of the fact that to the extent that the 10.5 billion figure is reduced, just to that extent we will be levying additional taxes upon the men who are now fighting the war and upon their children and ours. We can not forever put off the payment of the huge war bill which is accumulating at the rate of 260 million dollars a day -- less than a third of which is being met in Government revenue at the present time.

And I hope you also will remember that every dollar taken in taxes is one less dollar which can cause an inflation that will burden us, that will unnecessarily increase our war bill, and that will make the job of reconstruction infinitely harder once the war is over.

I should like to say one thing more. On my recent trip to Europe, I spent a great deal of time investigating our war expenditures abroad. I wanted to know whether or not reasonable care was being given to the spending of money at the front. I did not, of course, make a detailed study, but I came away with the distinct impression that the war is being fought as economically as it is possible to fight against Nazi fanatics who are perfectly willing to throw their every resource into battle.

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I am convinced that our commanding Generals are not wastrels either of money or men, which is a comforting thought. And I gained the distinct impression that our money, translated into war equipment, and into the training which makes our soldiers the best in the world, is winning the war for us, and it is our money and resources which turned away the huge tidal wave of Nazi oppression which, not so long ago, seemed irresistible.

That is certainly ample recompense for any sacrifice we may have made or will be called upon to make.

Higher taxes are little enough of a sacrifice if it means Victory, and a sound peace and the opportunity to rebuild our Nation as we want it, not as some dictator wants it.

Higher taxes are little enough compared to the hardships that most of our allies are facing today. We have no bombs dropping on our homes. Our friends and neighbors have not been lined up against a wall and shot, as literally hundreds of people in Naples were viciously murdered by the Nazis. Our streets are not filled with rubble like I saw obstructing the streets of Malta.

In short, we have been spared the horrible destruction of war, so very horrible that no one who has not seen it can possibly imagine it. For this, we must be truly thankful -- so thankful that we will willingly tighten our belts and pay whatever it costs to fight the war to a finish -- to so complete a finish that it can never happen again.

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These are the things I hope you will bear in mind above all else when you are debating the disposition of the tax program for 1944.

New Draft #1

// -24-43

Gentlemen:

I talked to an officer of the Quartermaster Corps in French Morocco about three weeks ago. I asked him about food supplies -- where he got them, and whether he was having any trouble supplying his needs.

The officer said; "Well, of course, Mr. Secretary, we don't get any food here at all. The prices are too high. The troops around here have bid the prices up. So the Quartermaster Corps ships in the food we need. It would break the Army's treasury to buy anything at the prices they ask around here."

Three or four days ago I read an Associated Press report from Bari, Italy. This report said that a suit of clothes in the cheapest quality had risen to about 3,000 lira during the war and in the last two months had increased in cost to twice that amount. A couple of months ago you could get a pair of shoes for 500 lira, but now they cost 1,800 lira. Not long ago you could buy shirts for 100 lira but now they cost 350 lira.

Yesterday I received a report from Algiers concerning living conditions in France. It stated that eggs were selling for 40 francs a dozen, and chickens cost 200 francs, if anyone had that much money.

Back of these steep price rises, lies just one simple phenomenon. Troops have come into these areas with money to spend, and the supply of goods is limited. So prices shoot up.

And the common people of Morocco, Italy and France -- and Greece and China and Germany, for that matter -- are not finding it easy to live. They are up against a nearly impossible situation.

This should serve to remind us that inflation is not something that civilization has outgrown during the past twenty years, as some seem to think. Inflation can happen today. It is happening, with exceedingly dire results to the low income people, in every country but ours. And it can happen here.

The extra money which stimulated production has brought to the people of America today -- can play the same havoc in our economy as the soldiers' spendable dollars are causing abroad. The principle is the same. We have a shortage of goods, exactly as they have abroad -- not to the same extent, but to a great enough extent to cause trouble. The only thing that we have which they haven't is an OPA, and Fred Vinson, whose responsibility is sitting on the lid.

How long Fred Vinson will be able to hold price in line under present circumstances is a question. He is doing everything he can, but the wild horses of inflation are growing wilder every hour, and no one seems disposed to give him any help. Our economic picture at this writing seems to be a galaxy of punctured ceilings, tottering wage formulae, legal doubts of OPA's constitutionality, and political viewing-with-alarm or with-timidity.

As you know, when I appeared before the House Ways and Means

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Committee a few weeks ago, I suggested on behalf of the Administration that a tax bill be passed to increase Government revenue by 10.5 billion dollars. Its purpose was to help finance the costs of the war and to absorb 10.5 of the billions which threaten inflation.

You all know what the House did about it.

They passed a bill calling for two billion dollars in increased revenue, and provided a minority and a majority report which attempted to prove that we don't need 10.5 billions in taxes because we aren't going to spend as much as we thought we were. No consideration was given the fact that the war has already cost a great deal, and that a backlog of debt amounting to two hundred Billion dollars will have been piled up by the end of this fiscal year.

A few days ago the Washington Post put it very well in an editorial; the Post said ... "the fact that the Army over-estimated the amount of funds it would require this year does not mean that we can regard its unexpended appropriation as 'savings' warranting a relaxation in our efforts to cover more of our war costs from tax revenues." The Post then continues, "If Congress wants to make such excess appropriations an excuse for inadequate taxation, all it need do is to approve over-liberal appropriations and recapture them at the end of the year.

By such means 'savings' could easily be boosted so high that we might conclude that we don't need to collect any taxes at all."

I have come here today to renew the Administration's request for a tax bill that will help pay off our war debt at the rate of an extra 10.5 billion dollars a year; and that will, by draining off a sizable portion of our national income, help to stabilize our economy, and will give Fred Vinson a hand in trying to keep prices down to the point that the lowest income groups will be able to sustain themselves through the remainder of the war.

I do not believe that this is an unreasonable request. Of course, there has been a great deal of opposition to so large a tax bill. Yet on the other hand, a great many reliable sources have commended the courage of such a bill at this time.

The New York Post states that "If we do not have tax increases the Treasury has called for, the taxpayer will pay out just as much in increased food prices as he would have paid in taxes, except that neither he nor the Treasury will have anything to show for it."

The Birmingham Age Herald says "The Treasury has asked for ten and a half billion in new taxes, both to ease the financing of the war and also to drain off surplus earning power and thereby decrease the chances of dangerous inflation. Both are goals of which the general public approves."

The Cincinnati Enquirer says "The Administration is taking action which has been too long delayed in advocating a tax program which is in closer relationship to the actualities of war. The principle which all our law makers must realize is that conditions demand higher current payments in order to hold as low as possible the national debt."

The New York Times, in disapproving of the House Bill, says, "Ways and Means Committee has now approved a wholly inadequate tax bill which would raise only a fifth of the new revenue asked for by the Treasury. To the extent that we fail to siphon off excess purchasing power in the hands of the people, the alternative must be inflation. There is no possible way we can escape paying for the war. If we do not do it by taxes on the statute books, we must do it by the form of tax known as inflation."

The Administration's basic reason for suggesting 10.5 billion dollars of additional taxes, to be eliminated after the war, arose out of the obvious fact that the war is costing us two hundred million dollars a day more than our present tax receipts. At the same time, the aggregate earnings of the people of the Nation are

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higher than they have ever been. Thus we are piling up a debt, in this period of prosperity, of two hundred million dollars a day which may have to be paid by future American taxpayers far less able to pay it than we are today.

Does anyone doubt that it is vital to the maintenance of a sound Government fiscal policy that we finance a much greater portion of the war through taxation than at present? The huge cost of guns, ammunition, war equipment, training our soldiers, sending them abroad and taking care of them -- this bill must be met either by taxation or by borrowing. And every dollar that we raise through taxation is a dollar less that will have to be returned, with interest, when the war is over. Therefore, securing additional taxes at this time would not only improve our present position, but would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems in connection with reconstruction and readjustment of our economic system.

Since making the presentation to the Ways and Means Committee I have talked to many of our soldiers overseas -- to the men who are actually fighting the war -- men living for the most part on \$50 a month and

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trying to hold together their families and as many of their possessions as possible until they can get back, get jobs, and pick up the broken threads of their lives.

I can tell you that if they had the power to pass a tax bill, it wouldn't stop at 10.5 billion dollars. And I think they have earned the right to have their feelings in the matter considered seriously.

To the extent that we fail to raise this 10.5 billion dollars, these returning soldiers will inherit an unnecessary portion of the bill for the war they risked their lives to fight.

And if I know soldiers, they will not be too happy about receiving a glib explanation that instead of raising taxes in the midst of plenty to help pay off a two hundred billion dollar debt, we asked the Army to revise its estimates of the amount of money it needed. I can assure you that we will have a job on our hands if we attempt to explain how projected economies in war expenditures can substitute for the collection of taxes. If these returning soldiers should be faced with inflation-bloated prices, or if their mail from home tells how difficult it is to live in the midst of rising prices on soldier's pay, we will have a hard time demonstrating how we are fighting inflation by asking bookkeepers to change some figures, perhaps only temporarily, on the books for 1944 and 1945, instead of raising taxes.

As a matter of fact, I have spent two weeks trying to find someone who could show me that actually saving money on the war -- not simply changing estimates -- will materially lessen the inflation danger.

All I can find out is that the reduction of inflationary pressure resulting would be only a slight fraction of the cut in expenditures.

Insofar as this cut represents renegotiation of war contracts, it would leave income payments to individuals almost entirely unaffected and would therefore have no effect. ~~Renegotiation has the effect of applying funds which corporations were holding to meet an accrued excess profits tax as payments for current production. We gain nothing on the inflation front by rechristening what would have been excess profits tax revenues as "reduction of expenditures."~~

Even where the cut in expenditures is real ~~and not nominal~~, the affect on reducing inflationary pressure still would not be great. The only way these economies could be made affective from an inflation standpoint would be if they should release men and materials for the manufacture of consumer goods, in order to increase the amount of materials upon which people can spend their incomes. But there is no indication that we can afford yet to release either men or materials from vital war production, regardless of any economies which can safely be made at this time.

So it is safe to say that savings are not an alternative for new taxes. They don't help combat inflation and they don't reduce the considerable bill we have ^{already} created.

If we can save money, if we can reduce our expenditures -- either war or non-war -- it ought to be done. I am sure you know where I stand on that. You may even remember that my recommendations to the Byrd Committee resulted in nearly two billion dollars savings over a period of the last two years.

From the standpoint of inflation, as well as from the standpoint of paying off our huge war debt, we need to gather as much in new taxes during the coming year as possible.

I am as aware as anyone that we are faced with great problems in setting up a system of taxation that will get this money without injustice; and that we have reached the saturation point on taxation in the case of many people throughout the Nation. There are literally millions of people whose incomes have not increased as a result of the war; and there are millions also whose incomes are so low that they cannot maintain even a reasonable standard of living, and still pay the taxes which are even now levied against them.

I have said many times before that four-fifths of our entire national income rests with those people earning less than five thousand dollars a year. I should like to make it very clear, however, that among those people earning less than five thousand a year, there are 21.5 million people -- a third of all the Nation's

salary and wage earners -- who make less than a thousand dollars a year. These 21.5 million people earn an average of less than \$18 a week. They must be given special consideration in times like these.

At the present time, too many of these 21.5 million wage-earners, who earn an aggregate of only 18.5 million dollars, are taxpayers. If all of them were relieved of the responsibility of paying taxes -- if everyone under the present income tax, ^{exemptions} including all those paying Victory Tax but no income tax -- were dropped from the tax rolls, there still would be 40 million taxpayers to share the burden of taxation.

These 40 million account for % of the total income. It is in this group, of course, that we will find all the existing inflationary money.

Because of these millions with sub-standard earnings, we have consistently opposed the sales tax as a means of raising additional revenue. The cold facts are these: on a straight dollars and cents basis, a sales tax on all commodities including food and the necessities of living would fall with a devastating thud

on these 21.5 million people earning less than a thousand a year. From the standpoint of food, which is usually the largest item in a low-income budget, perhaps it would fall even more heavily, for the simple reason that most of these people are laborers whose food and basic requirements are greater than those ^{of} the higher income groups. The percentage of their earnings paid in taxes, in relationship to their incomes, would be, of course, entirely out of proportion.

There is only one way of sparing these 21.5 million people an inexcusable injustice under any sales tax scheme -- and that is by eliminating from taxation food and the necessities of life -- and that, gentlemen, would make the revenue to be secured from the sales tax almost too small to be practical as a revenue measure. An over-all, unjust sales tax might get us about six billion dollars. If the necessities of life were eliminated, we would be fortunate to get two billion dollars, much of which we propose to get anyway through selected excise levies. Most of that extra four billion would come from the blood and sweat of people who honestly can't afford it. It's unthinkable. Badly as we need the money, we can not take it from those who would face certain hardship as a result of new taxation. And we need not worry about this group contributing to inflation. They can not make inflation, they can only suffer as a result of it.

If you want to pass a Sales tax under these circumstances, it is your privilege. You are the lawmakers. You are the elected representatives of the people. You should know whether or not they -- that is the majority of the people you represent -- want it. I don't believe they do.

Of the total of 6.5 billions of new income taxes in the program suggested to the Ways and Means Committee, ___ billions would come from those 43 millions of taxpayers who earn, after present taxes, between \$1,000 and \$5,000. At present, these taxpayers are paying a total of about 10.6 millions, or a little more than half of all the income taxes levied against all taxpayers. Under any plan to increase taxes, they should pay at least the same proportion of the total.

When I appeared before the House Ways and Means Committee, I presented a specific proposal for raising the revenues that we should have.

I suggested that we raise 2.5 billion dollars in new selected excise taxes. We suggested a tax schedule that would raise 1.1 billion from corporations. We felt that estate and gift taxpayers were not contributing as much as other taxpayers to the war program, and after careful investigation, we ^{suggested} increased rates to produce 400 millions in revenue from this source.

In income taxes, we presented a plan adding up to 6.5 billion dollars in increased levies.

At that time, I also presented to the House Ways and Means a recommendation for handling this income tax program. This I am not going to do today.

How you raise this money, what schedules are used, I leave to you. I have asked our Tax Research Division to provide you with a substantial number of schedules, distributing the tax burden of 6.5 billion in nearly every possible, plausible way. If you have ideas which are not covered by the schedules, the Tax Research Division will prepare a schedule to take care of any suggestions you may have.

In presenting an income tax proposal to the Ways and Means Committee, I suggested that we drop the Victory Tax in the interest of simplification. If the tax were simply dropped, this would relieve 11 million people in paying any tax whatever. Of these 11 million, the upper 2 million paid the bulk of the Victory Tax, and the other 9 million, whose average pay is considerably less than a thousand dollars a year, accounted for about 300 million dollars. Compared to the total of 24 billion dollars now payable under individual income taxes, this is not very much. When you think of it as \$30 a year out of a wage of much less than a thousand dollars a year, the load is considerable -- particularly in a period of increasing costs of living. We still believe that these 9 million people should be relieved of any tax liability, and we earnestly make that recommendation to you.

Under any circumstances, I hope you will eliminate the Victory Tax. The American public is entitled to simplification of its tax laws. We don't have the right to ask every taxpayer to become a bookkeeper, and under the present circumstances, for which the Victory Tax is largely responsible, a person outside the range of a simplified tax form is faced with some very perplexing problems and calculations. We at the Treasury are doing everything in our power to simplify the returns. We have managed to simplify, to an extent never before achieved, the returns required of taxpayers earning up to 3,500 dollars. Beyond that, however, the toils of the most complicated tax laws to be found any place in the world, have us completely at their mercy. I implore you, therefore, to keep simplification in the forefront of your minds while considering the new tax bill. I hope you will not drop the Victory Tax, and then add in its place a new tax which is equally as complicated. This the House did in its Tax Bill.

I hope you will consider the long-term significance of this tax bill before you decide upon a course of action. I hope you will never lose sight of the fact that to the extent that the 10.5 billion figure is reduced, just to that extent we will be . levying additional taxes upon the men who are now fighting the war and upon their children and ours. We can not forever put off the

- 15 -

payment of the huge war bill which is accumulating at the rate of 260 million dollars a day -- less than a third of which is being met in Government revenue at the present time.

And I hope you also will remember that every dollar taken in taxes is one less dollar which can cause an inflation that will burden us, that will unnecessarily increase our war bill, and that will make the job of reconstruction infinitely harder once the war is over.

I should like to say one thing more. On my recent trip to Europe, I spent a great deal of time investigating our war expenditures abroad. I wanted to know whether or not reasonable care was being given to the spending of money at the front. I did not, of course, make a detailed study, but I came away with the distinct impression that the war is being fought as economically as it is possible to fight against Nazi fanatics who are perfectly willing to throw their every resource into battle.

I am convinced that our commanding Generals are not wastrels either of money or men, which is a comforting thought. And I gained the distinct impression that our money, translated into war equipment, and into the training which makes our soldiers the best in the world, is helping to win the war for us. Our men, aided by the money and resources which the American people have provided without complaint, have turned away the huge tidal wave of Nazi oppression which, not long ago, seemed irresistible.

That is certainly ample recompense for any sacrifice we may have made or will be called upon to make.

Higher taxes are little enough of a sacrifice if it means Victory, and a sound peace and the opportunity to rebuild our Nations as we want it, not as some dictator wants it.

Higher taxes are little enough compared to the hardships that most of our allies are facing today. We have no bombs dropping on our homes. Our friends and neighbors have not been lined up against a wall and shot, as literally hundreds of people in Naples were viciously murdered by the Nazis. Our streets are not filled with rubble like I saw obstructing the streets of Malta.

In short, we have been spared the horrible destruction of war, so horrible that no one who has not seen it can possibly imagine it. For this, we must be truly thankful -- so thankful that we will willingly tighten our belts and pay whatever it costs to fight the war to a finish -- to so complete a finish that it can never happen again.

These are the things I hope you will bear in mind above all else when you are debating the disposition of the tax program for 1944.

Members of the Senate Finance Committee:

~~Several months~~ I presented to the House Ways and Means Committee the Administration's suggestions in connection with ~~a~~ new tax bill.

At that time, I made it clear that ~~the~~ the Administration ~~felt~~ ^{felt} that we could ~~plan~~ get an additional 10.5 billion dollars in taxes next year. It was stipulated ~~that~~ ^{that} ~~the~~ ^{additional} tax ~~was~~ necessary to secure this very large amount, ~~which~~ ^{which} ~~was~~ ^{were to be} strictly temporary, and ~~was~~ ^{were to be} completely eliminated after the war.

Our basic reason for making this suggestion arose out of the quite obvious fact that the time to pay for ~~the~~ ^{the} war is while ~~we~~ ^{we} are fighting it, and while the stimulation of war production ~~is~~ ^{is} greatly ~~increased~~ ^{expanding} the incomes of a vast majority of taxpayers.

In order to keep the Government on a sound fiscal basis, the Administration ~~felt~~ ^{felt} ~~it~~ ^{it} ~~is~~ ^{is} ~~highly~~ ^{highly} ~~advisable~~ ^{advisable} that we ~~finance~~ ^{must} a much greater portion of the war through taxation than ~~we~~ ^{we} at present ~~do~~ ^{do} ~~the~~ ^{the} War costs are mounting, and ~~the~~ ^{the} money must come from somewhere. Every dollar that we raise through taxation means a dollar less that we will have to return to the people, with interest, when the war is over. Therefore, raising taxes at this time would not only solidify our present position, but would ~~make~~ ^{make} ~~it~~ ^{it} ~~easier~~ ^{easier} and put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems of reconstruction.

There is a 20 million dollar deficit in the current year's budget.

The Administration had a second reason for asking 10.5 billion dollars; and that was to help hold the line on inflation.

facts about inflation, which + mentions and what
of it seems obvious

... that out of our national income, only a small portion can be spent without driving prices upward; and that the only satisfactory way of keeping that money from being spent is to take it out of circulation before it has a chance to be spent -- to drain it off in taxation which, however painful it ^{seem to the taxpayer} during 1944, will certainly ^{prove} a prophylaxis ^{which cannot help us} during 1945 and perhaps 1955, and all future generations better able to maintain

a satisfactory and strong fiscal position. Tax for inflation

is not something that will simply make it difficult for us.

If it comes, it will not go without

leaving deep scars that will be years of healing.

So, for these two reasons -- to raise money that is ^{now and in the future} badly needed, and to protect ourselves against the ravages of inflationary price rises, we suggested that the Congress raise these 10.5 billion dollars.

Nothing has happened since the time I made that first presentation to ~~change~~ change our minds, or ~~to~~ to ~~increase~~ increase our estimates. The fact that Ways and Means Committee could not agree in principal with our thesis does not in any way change the facts in the case. We still need the money. We still must fight inflation

is similar with other in our piece of
large amount of
Milton Eisenhower, so they are talking

Members of the Senate Finance Committee

I recently presented to the House Ways and Means Committee the Administration's suggestions in connection with a certain bill.

At that time, I made it clear that the Administration felt we should get an additional 10.5 billion dollars in taxes each year. The additional taxes necessary to secure this very large amount, it was stipulated, were to be strictly temporary, and were to be eliminated after the war.

Our basic reason for making this suggestion arose out of the quite obvious fact that the war is costing more than 200 million dollars a day more than our present tax receipts, yet the time to pay for the war is while we are fighting it, and while the stimulation of war production is greatly expanding the incomes of a vast majority of taxpayers.

In order to keep the Government on a sound fiscal basis, the Administration feels we must finance a much greater portion of the war through taxation than at present. War costs are mounting, and the money must come from somewhere. Every dollar that we raise through taxation means a dollar less that we will have to return to the people, with interest, when the war is over. Therefore, raising taxes at this time would not only

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- 2 -

solidify our present position, but would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems of reconstruction.

The Administration had a second reason for asking 10.5 billion dollars; and that was to help hold the line on inflation.

You all know the facts about inflation, which threatens and which is coming much closer as our price and wage structure are threatened, as they are today.

It seems obvious that out of our national income, only a small portion can be spent without driving prices upwards; and that the only satisfactory way of keeping that money from being spent is to take it out of circulation before it has a chance to be spent -- to drain it off in taxation which, however painful it seems to the taxpayer during 1944, will certainly prove a prophylaxis which cannot help making 1945 and perhaps 1955, and all future generations, better able to maintain a satisfactory and strong fiscal position. For inflation is not something that will simply make it difficult for us. If it comes, it will not go without leaving deep scars that will be years healing.

So, for these two reasons -- to raise money that is badly needed, and to protect ourselves now and in the future against the ravages of inflationary price rises, we suggested that the Congress raise these 10.5 billion dollars.

- 3 -

Nothing has happened since the time I made that first presentation to change our minds, or to amend our estimates. The fact that the Ways and Means Committee could not agree in principal with our thesis does not in any way change the facts in the case. We still need the money. We still must fight inflation.

Since making the presentation to Congress, I have been abroad. I have talked to our soldiers -- to the men who are actually fighting the war -- men living for the most part on \$50 a month and trying to hold together their families until they can get back, get jobs, and pick up the broken threads of their homes.

I can tell you that if they had the power to pass a tax bill, it wouldn't stop at 10.5 billion dollars. And I think they have earned the right to have their feelings in the matter considered seriously.

Members of the Senate Finance Committee:

I ~~was~~ presented to the House Ways and Means Committee the Administration's suggestions in connection with a new tax bill.

At ~~the~~ time, I made it clear that the Administration felt we should get an additional 10.5 billion dollars in taxes next year. The additional taxes necessary to secure this ~~was~~ large amount, it was stipulated, were to be strictly temporary, and were to be eliminated after the war.

Our basic reason for making this suggestion arose out of the quite obvious fact that the war is costing ~~more than~~ 200 million dollars a day more than our present tax receipts,

The time to pay for the war is while we are fighting it, and while the stimulation of war production is ^{now} greatly expanding ^{and} the incomes of a ~~great~~ majority of taxpayers. ^{And this paying ability} ^{It is vital to the maintenance of} In order to keep the Government on a sound ^{government} fiscal basis,

~~the Administration feels we must~~ ^{that} finance a much greater portion of the war through taxation than at present. War costs are mounting, and the money must come from somewhere. Every dollar that we raise through taxation ^{is} ~~means~~ a dollar less that ~~we~~ will have to return ^{be} ^{ad} to the people, with interest, when the war is over. Therefore, raising taxes at this time would not only

And then how are paying 200 million dollars a day which must ^{Some day be paid - perhaps by people}

Don't see to pay it then we are trying

And the readjustment of the economic system
- 2 -

solidify our present position, but would put us in a far better position at the conclusion of the war, when we will be faced with vast and expensive problems ^{in connection with} reconstruction.

The Administration had a second ^{major} reason for asking 10.5 billion dollars; and that was to help hold the line on inflation.

You all know the facts about inflation, which threatens ^{more seriously} ~~and~~ ~~which is coming much closer~~ ^{each time that} our price and wage structure are threatened, as they ~~are today~~ ^{have been over and over again in recent years.}

It seems obvious that out of our ^{huge} national income, only a small portion can be spent without driving prices upwards; and ^{at least one} that ~~the only~~ satisfactory way of keeping ^{this} ~~that~~ money from being spent, ^{and causing trouble,} is to take it out of circulation before it has a chance to be spent; ~~to~~ ^{may} drain it off in taxation which, however painful it seems to the taxpayer during 1944, will certainly ^{help to} ~~prove a~~ ^{make times easier on him in} ~~emergency which cannot help making~~ 1945, and perhaps 1955, and ^{throughout} ~~all~~ future generations ¹ ~~better able to maintain a satisfactory and strong fiscal position.~~ For ~~inflation is not something that will simply make it difficult for us. If it comes, it will not go without leaving deep scars that will be years healing.~~

So, for these two reasons -- to raise money that is badly needed, and to protect ourselves now and in the future against the ravages of inflationary price rises, we suggested that the Congress raise these 10.5 billion dollars.

of the amount needed.

- 3 -

Nothing has happened since ~~the time~~ I made that first presentation ^{to the Ways and Means Committee} to change our minds, or to amend our estimates. The fact that the ~~Ways and Means~~ Committee could not agree in principal with our thesis does not in any way change the facts in the case. ^(and we believe it advisable to collect the money) We still need the money, ^{how} we still must fight inflation. ^{And}

Since making the presentation to Congress, I have been ^{and} have talked to our soldiers -- to the men who are actually fighting the war -- men living for the most part on \$50 a month and trying to hold together their families until they can get back, get jobs, and pick up the broken threads of their lives.

I can tell you that if they had the power to pass a tax bill, it wouldn't stop at 10.5 billion dollars. And I think they have earned the right to have their feelings in the matter considered seriously.

when it is over, and when there is a security of summer goods to spend on,

Let me outline them: We suggested a rise of - billions in selected excises; - billions in excise taxes, and - billions in increased

All of you know the nature of the suggestions which we made to the House Ways and Means Committee. ~~and say two~~ ~~show how~~

~~reason is to save your time. The suggestion is to~~ I want to put all the emphasis here today on the necessity for raising a substantial amount of revenue. *That is the basic problem, and the basic*

You know, and the public knows, that the war is costing us ~~hundreds of million dollars a day more than we are raising~~

~~in revenue. That is a fantastically large amount of money. It is amounting into a bill that we will be paying off for the next quarter or a half century unless far more of it is paid off~~

currently than we are now doing. *and on returning soldiers and on our children* (It is not a comforting to project your vision so many years ahead and see relief from high taxes, regardless of *little possibility of* our national income

~~whether we are in periods of prosperity or depression. It certainly doesn't seem~~ *The state vs* *happen to be* *neither* *a better idea than we have* of what that future may bring.

We have asked for 10.5 billions. In many quarters this request has been held as thoroughly unreasonable, and the protests have been long and loud. Obviously, it was not a popular request to make. We knew that when we made it. Obviously, it

could be considered ~~was~~ *in an election year* ~~politically unwise to suggest raising taxes to such an extent~~ ~~to get an extra 10.5 billion dollars.~~ We also know *is not one of political expediency, but*

that ~~that was~~ the question. *reduces as much as possible* of financing the war, and of ~~reducing~~ the national debt, so that soldiers returning from the battle fronts could concentrate

Some 2 changes on this page

like the sword of Damocles,

of the reconstruction of their lives and business and the re-
establishment of their incomes, ~~with the burden hanging over them.~~
~~with the burden hanging over them.~~
A huge bill for the costs of the war, which we ~~solidly~~ refused to pay when we had
no money to do it.

and we do have the money to do it.

I am as severe as anyone that ~~has the money to do it~~ ^{we are faced with great problems}
~~in setting up a~~ ^{system} of taxation that will get this money without

injustice. ~~and~~ ^{and} ~~that we have reached the saturation~~
~~point of taxation in~~ ^{the case of} many people throughout the
nation. There are literally millions of people whose incomes
have not increased as a result of the war; and there are millions
whose wages are so low that they cannot maintain even a reasonable
standard of living, and still pay the taxes ^{which are even now} ~~generally~~ levied
against them.

I have said many times before that four-fifths of our entire
national income rests with those people earning less than five
thousand dollars a year. I should like to make it very clear,
however, that among those people earning less than five thousand
a year ^{there} are 21.5 million people -- a third of ^{the nation's} ~~all~~ salary and
wage earners who make less than a thousand dollars a year. ~~and~~
~~and these 21.5 million people have not made less than a thousand dollars~~

~~in a year when you realize that~~ These 21.5 million people
~~earn~~ ^{only} a total of 18.5 million dollars. Thus, it is obvious that
~~these 21.5 million people~~ ^{who earn on an average less than \$20 a week}
~~cannot be considered~~ ^{when we speak of} tax programs.

In fact, some of them -- nine million of them whose incomes are ~~with~~
~~in the~~ ^{should} ~~relieve~~ even of paying their
~~in times like these~~

among these 21.5 millions with
sub-standard earnings

XXXXXXXXXXXX

present taxes. I don't believe that is an unreasonable request.

I believe it is ^a case of simple justice.

because of the situation which exists

And [^] ~~because of the situation which exists~~ we have ~~XXXXXXXXXX~~ consistently
opposed the sales tax as a additional means of raising revenue.

~~All sorts of motives have been attributed to this stand which~~

~~we have consistently taken. But I can assure you we have only~~

~~one motive, and that is to spread our additional taxes as~~

~~equally as possible. [^] ~~Conversely~~ a sales tax on all commodities~~

including food and ^{the} necessities of living would fall ^{at least} as heavily

on these 21.5 million people whose incomes are less than a thousand

a year, as it would on all the rest of the people. Perhaps it

would fall even more heavily for the simple reason that most of

these people are ~~laborers~~ ^{whose} food ^{and their} requirements are

greater than those of the so-called white-collar ~~group~~.

The ^{percentage} [^] ~~taxes~~ ^{their savings paid in} in relationship to their incomes would,

[^] of course, be entirely out of proportion.

There is only one way of sparing these 21.5 million people

~~of that is~~ [^] by eliminating ^{an ineliminable injustice} food and the bare necessities of

life -- and that, gentlemen, would make the revenue to be secured

from the sales tax almost too small to be worth ^{the bother} ~~bothering~~. An over-

^{unjust.} sales tax might get us about six billion dollars. If the

necessities of life were eliminated, we would be fortunate to get

two billion dollars, ^{5 more} ~~of that extra four billion would come~~

from the blood and sweat of people who can't afford it. It's

unthinkable.

under any sales tax scheme
much of which we propose to get anyway
through an suggested selected excise taxes

change of policy and death taxes

12

I hope will long-term consider the significance of this tax before you decide upon a course of action.

hope you will never lose sight of the fact that to the extent that the 10.5 billion figure is reduced, just to that extent we will be levying additional taxes upon the men who are now fighting the war and upon their children and ours. We can not forever put off the payment of the huge war bill which is accumulating at the rate of 250 million dollars a day -- less than a third of what is being met in Government revenue at the present time.

And I hope you also will remember that every dollar taken in taxes is one less dollar which can cause an inflation that will burden us, that will unnecessarily increase our war bill, and that will make the job of reconstruction infinitely harder once the war is over.

I should like to say one thing more. On my recent trip to Europe, I spent a great deal of time investigating our war expenditures abroad. I wanted to know whether or not reasonable money was being given to the spending of money at the front. I did not, of course, make a detailed study, but I came away with the distinct impression that the war is being fought as economical as it is possible to fight against Nazi fanatics who are perfectly willing to throw their every resource into battle. [I am convinced that our commanding Generals are not wastrels either of money or men, which is a most comforting thought. And I gained the distinct impression -- translated into war equipment, and into the training of the best in the world -- which makes our soldiers it is that money which is winning the war for us and which is turned away the huge tidal wave of Nazi opposition which, not so long ago, seemed irresistible

11/29/43

THIS IS MATERIAL WHICH
SECRETARY TOOK WITH HIM WHEN HE TESTIFIED BEFORE
SENATE FINANCE COMMITTEE TODAY ON THE TAX BILL.

MEMORANDUM

November 26, 1943.

TO: The Secretary
FROM: Mr. Sullivan

JHS

I am attaching herewith a memorandum relating to the cost of administration of a retail sales tax and the cost of compliance.

Federal Retail Sales Tax: Costs of Administration and
Taxpayer Compliance

I. Cost of administration

According to a Bureau of Internal Revenue estimate completed in February 1943, a 5 to 10 percent Federal retail sales tax with a minimum of exemptions (that is, exempting seed, feed, fertilizer, fuel, machinery and military machinery and ordnance but not exempting food, clothing, or medicines) would cost about \$18.2 million to administer in the first year of operation. Of this about \$13.9 million would be required for the payment of somewhat more than 6,700 employees. The cost of administration would be about 0.3 percent under a 10 percent tax estimated to yield \$6.3 billion, and about 0.6 percent under a 5 percent tax yielding \$3.2 billion.

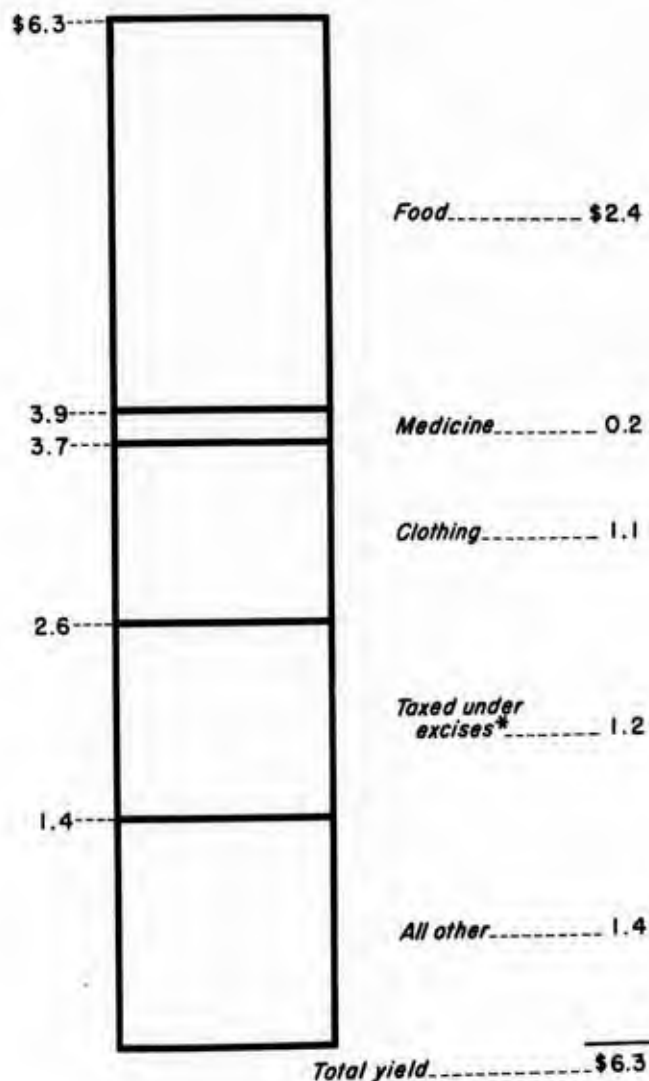
II. Taxpayer cost of compliance

Little information is available on taxpayers' costs of complying with a retail sales tax. Eight of the 23 sales tax States, however, reimburse the retailer by permitting him to retain varying percentages of the tax, ranging from 2 percent to 5 percent. These allowances should not be interpreted to represent costs of taxpayer compliance. Take, for example, the case of two sellers with total annual sales of \$100,000. One might make only taxable sales, and, assuming a tax of 10 percent and an allowance of 3 percent of the tax, would receive a benefit from the allowance of \$300. The other might make both taxable and nontaxable sales and, assuming an even division between the two classes of sales, would receive an allowance of only \$150. Despite the fact that the sales-tax-compliance costs of the latter would probably be greater than those of the former, since he would have to obtain resale or exemption certificates and keep his records in such a manner as to separate the taxable and nontaxable sales for tax-reporting purposes, he would receive only one-half the allowance granted the former.

TEN PERCENT FEDERAL RETAIL SALES TAX

(Dollar figures are in billions)

Cumulative
Totals



*Excludes a small amount of food and clothing now subject to excises.

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)

Article or service	Present law	Treasury proposal	House bill	Estimated additional revenue 1/	
				Treasury proposal	House bill
<u>EXCISES</u>					
1. Distilled spirits	\$6 per gal. (drawback of \$3.75 per gal. on non-beverage alcohol)	\$10 per gal. (drawback of \$7 per gal. on nonbeverage alcohol)	\$9 per gal. (drawback of \$5 per gal. on non-beverage alcohol)	\$ 487.2 2/	\$ 376.1 3/
2. Beer	\$7 per barrel	\$10 per barrel	\$8 per barrel	210.5	70.5
3. Wine					
a. Still:					
Under 14% alcohol	10¢ per gal.	50¢ per gal.	15¢ per gal.	) 61.1	) 20.0
14-21% alcohol	40¢ per gal.	\$1.00 per gal.	60¢ per gal.		
Over 21% alcohol	\$1.00 per gal.	\$2.00 per gal.	\$2.00 per gal.		
b. Sparkling	10¢ per half pt.	20¢ per half pt.	15¢ per half pt.	) 61.1	) 20.0
c. Other	5¢ per half pt.	10¢ per half pt.	10¢ per half pt.		
4. Cigarettes					
a. Small	\$3.50 per M	\$5.00 per M	No increase	) 371.3) -
b. Large	\$8.40 per M	\$12.00 per M			
5. Cigars	Intended retail price	Tax per M	Intended retail price	Tax per M	
	Over : Not : over : over :		Over : Not : over : over :		
	2 1/2¢	\$ 2.50	3 1/2¢	\$12.50	) No increase
	2 3/4¢	3.00	5¢	13.00	
	4¢	4.00	7¢	14.00	
	6¢	7.00	9¢	17.00	
	8¢	10.00	17¢	30.00	
	15¢	15.00	22¢	35.00	
	20¢	20.00	22¢	40.00	

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3637)
(continued - 2)

Article or service	Present law	Treasury proposal	House bill	Estimated additional revenue 1/	
				Treasury proposal	House bill
<u>EXCISES - (cont'd.)</u>					
6. Chewing, smoking tobacco and snuff	18¢ per lb.	34¢ per lb.	No increase	\$ 46.2	-
7. General admissions, lease of boxes or seats, etc.	1¢ per 10¢ 11% of charge	3¢ per 10¢ 30% of charge	2¢ per 10¢ 20% of charge	) 327.0	\$ 163.5
8. Cabarets	5% of charge	30% of charge	30% of charge		
9. Club dues and initiation fees	11% of charge	20% of charge	20% of charge	5.1	5.1
10. Bowling alleys, billiard parlors	\$10 per alley \$10 per table	20% of charge \$20 per table	20% of charge \$20 per table	) 27.0	27.0
11. Transportation of persons	10% of charge	25% of charge	15% of charge			212.7	70.9
12. Communications					
a. Toll service	20% of charge	25% of charge	25% of charge	) 31.5	36.9
b. Telegraph, etc.					
(1) Domestic	15% of charge	20% of charge	25% of charge		
(2) International	10% of charge	10% of charge	15% of charge		
c. Leased wires, etc.	15% of charge	20% of charge	20% of charge	) 48.9	48.9
d. Wire and equipment services	5% of charge	No increase	7% of charge		
13. Local telephone service	10% of charge	15% of charge	15% of charge		

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)
(continued - 3)

Article or service	Present law	Treasury proposal	House bill	Estimated additional revenue 1/	
				Treasury proposal	House bill
EXCISES - (cont'd.)					
14. Jewelry	10% of retail price	30% of retail price	20% of retail price (exempts silver-plated flatware)	\$ 167.3	\$ 81.9
15. Fur and fur-trimmed articles	10% of retail price	25% of retail price	25% of retail price	54.8	54.8
16. Luggage, handbags, wallets, etc.	10% of mfrs. sales price on luggage only	25% of retail price	25% of retail price	53.4	53.4
17. Toilet preparations	10% of retail price	25% of retail price	25% of retail price	51.4	51.4
18. Electric light bulbs and tubes	5% of mfrs. sales price	No increase	25% of mfrs. sales price	-	20.0
19. Soft drinks	None	Bottled drinks, 1¢ per each 5¢ of intended retail price; the equivalent taxes of \$1 per gal. on sirup and 25¢ per lb. on carbonic acid gas used in unbottled soft drinks	None	177.0	-
20. Candy and chewing gum	None	Articles intended to retail from 5¢ to 15¢ per bar or package, 1¢ per each 5¢ of intended retail price; other items, the equivalent tax of 35% of mfrs. sales price	None	190.0	-

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)
(continued - 4)

Article or service	Present law	Treasury proposal	House bill	Estimated additional revenue 1/	
				Treasury proposal	House bill
<u>EXCISES - (Concluded)</u>					
21. Pari-mutuel wagering	None	None	5% of amount wagered	-	\$ 29.1
22. Transportation of property	3% of charge (4¢ per short ton on coal)	Repeal	No change	\$ -170.3	-
Additional revenue from excises				\$2,511.1	\$1,194.8
<u>POSTAL RATES</u>					
a. First class -- local	2¢ per oz.	No change	3¢ per oz.	-	\$ 56.6
b. Airmail	6¢ per oz.	No change	8¢ per oz.	-	10.4
c. Third class	1¢ and 1½¢ per 2 oz.	No change	2¢ and 3¢ per 2 oz.	-	73.8
d. Fourth class	Various	No change	3% of present law rate or 1¢, whichever is greater	-	4.7
e. Registered mail	15¢ to \$1 per article	No change	20¢ to \$1.35 per article	-	4.3
f. Insured mail	5¢ to 35¢ per article	No change	10¢ to 70¢ per article)		
g. O.C.D. mail	12¢ to 45¢ per article	No change	24¢ to 90¢ per article)	-	12.1
h. Money orders	6¢ to 22¢ per article	No change	10¢ to 37¢ per article	-	21.9
Additional revenue from postal rates				-	\$ 183.8
Additional revenue from excise taxes and postal rates				<u>\$2,511.1</u>	<u>\$1,378.6</u>

Comparison of excise taxes and postal rates under present law, Treasury proposal and House bill (H.R. 3687)
(concluded)

- 1/ Estimated change in budget position of the United States for a full year of operation at levels of income for the calendar year 1944.
- 2/ Estimated additional net revenue yield after allowance for increased drawback on nonbeverage alcohol of \$12.8 million.
- 3/ Estimated additional net revenue yield after allowance for increased drawback on nonbeverage alcohol of \$ 4.9 million.

War Expenditures, including government corporations

<u>1943</u>	<u>(millions)</u>
January	\$ 6,285
February	5,984
March	7,094
April	7,244
May	7,364
June	7,775
July	6,743
August	7,537
September	7,189
October	<u>7,214</u>
Total	70,429

Secretary Morgenthau - 3

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

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

(In billions of dollars)

	Calendar years					Fiscal years	
	1939	1940	1941	1942	1943	1943	1944
Income payments to individuals.....	71	76	92	116	142	130	148
Less: Direct taxes on individuals (Federal, State and local).....	3	3	4	7	14	10	22
Equals: Disposable incomes.....	68	73	88	109	124	120	126
Less: Available goods and services.....	64	66	77	84	90	88	90
Equals:							
Liquid savings of individuals, or....	4	5	11	25	34	32	...
Gross incomes.....	...	...	...	...	...	...	36

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

ML:RPH:lv 11/27/43

Month	Sales (In Millions of dollars)	Amount of Bonds Outstanding (In Millions of dollars)	Redemptions (In Millions of dollars)	Redemptions as percent of Amount Outstanding
1941				
May	\$ 319.8	4,000.1	614.0	0.351
June	314.5	4,314.0	14.0	0.34
July	342.1	4,649.4	10.0	0.39
August	265.6	4,907.8	12.9	0.26
September	232.3	5,131.8	14.4	0.28
October	270.7	5,394.0	13.7	0.25
November	233.5	5,619.7	12.8	0.23
December	528.6	6,139.7	10.3	0.27
1942				
January	1,060.5	7,198.3	15.4	0.21
February	703.2	7,893.4	15.8	0.20
March	557.9	8,435.9	22.0	1.26
April	530.5	8,951.0	21.3	0.24
May	634.4	9,569.0	22.1	0.23
June	633.9	10,180.2	22.0	0.22
July	900.9	11,077.8	25.5	0.23
August	734.3**	11,751.2	32.2	0.27
September	830.2	12,470.8	34.3	0.27
October	814.4	13,380.8	40.1	0.30
November	734.5	14,078.9	43.2	0.31
December	1,014.2	15,049.8	54.7	0.36
1943				
January	1,240.4	16,246.1	63.0	0.39
February	887.2	17,067.5	70.4	0.15
March	944.3	17,890.7	131.2	0.73
April	1,469.7	19,267.0	102.8	0.53
May	1,335.0	20,507.4	104.0	0.51
June	875.5	21,256.2	141.1	0.66
July	809.7	22,050.2	135.2	0.63
August	801.7	22,693.5	152.0	0.67
September	1,926.6	24,470.4	155.3	0.63
October	1,708.2	26,056.0	143.7	0.55

No. R-15

Promotional Research Section
War Finance Division

*This represents the redemption value of bonds outstanding at the end of each month

**Including \$37,085,000 adjustment for late mail reports.

Regraded Unclassified

November 4, 1943

The attached tables show redemptions of all series of United States Savings Bonds and redemptions of Series E, F and G Bonds through the 31st of October 1943.

Resume of Savings Bond Redemptions

(1) United States Savings Bonds (so-called "Baby Bonds") Series A, B, C and D were first issued March 1, 1935. They were withdrawn from sale April 30, 1941. Cumulative sales during the six-year period aggregated approximately \$4 billions.

Redemptions (cost plus accrued interest) through October 31, 1943 total \$706.1 millions, or 17.88% of total sales.

In other words, 82.12% of the \$4 billions invested in Series A, B, C and D bonds is still invested in them.

(2) United States Savings Bonds (Defense and War) Series E, F and G were first issued on May 1, 1941. Since that date through October 31, 1943 cumulative sales total over \$25,772 millions.

Redemptions (cost plus accrued interest) through October 31, 1943 total \$1,397 millions, or 5.88% of cumulative sales.

Therefore, 94.12% of the funds invested in Series E, F and G bonds since they were first offered for sale is still invested in these bonds.

(3) United States Savings Bonds (Defense and War) Series E, cumulative sales aggregate over \$16 billions.

Redemptions (cost plus accrued interest) through October 31, 1943 total \$1,264 millions or 7.86% of cumulative sales.

As of October 31, 1943, 92.14% of the \$16 billions bonds (Series E) placed remain in the hands of the public.

Promotional Research Section
War Finance Division

The Secretary also took with him the letter to Senator Overton, which is dated and filed October 4, 1943, concerning the Bankhead Bill for paid advertising in connection with sale of U. S. Bonds.

How Senate Finance Committee voted on S. 1457 - A BILL
 To aid in the stabilization program and the war effort
 by paid newspaper advertising in connection with the
 sale of United States bonds, and for other purposes

George	Yea
Walsh	Nay
Barkley	Yea
Connally	Yea
Bailey	Not Voting
Clark	Yea
Byrd	Nay
Gerry	Nay
Guffey	Yea
Johnson	Yea
Radcliffe	Yea
Lucas	Yea

LaFollette	Not Voting
Vandenburg	Yea
Davis	Not Voting (paired against)
Lodge	Not Voting
Danaher	Nay
Taft	Nay
Thomas	Nay
Butler	Nay
Millikin	Not Voting

November 29, 1948

Reading copy of the Secretary's testimony
before the Senate Finance Committee today on the
Tax Bill.

When I appeared before the Ways and Means Committee of the House on October 4 to present the Administration's suggestions for increased war taxes, I gave to that Committee as best I could a picture of the financial position of the nation and its wartime revenue needs. I stated that the fiscal situation required much heavier wartime taxation and that it was our opinion that the people could pay additional wartime taxes of at least \$10.5 billion. The Ways and Means Committee and the House reached a different result and approved a bill increasing revenues by only \$2 billion. In view of this wide difference on a matter so important to the present and future welfare of this nation, we have carefully reviewed the fiscal situation. I am appearing before you today to present our conclusions.

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The outstanding fact in our financial picture is the stupendous bill which this war will leave behind. On that point there can be no quibbling. We are accumulating debt at the rate of over \$150 million a day. Last month (October, 1943) the Federal Government spent \$5.6 billion more than it collected in revenue. In the fiscal year 1942 the deficit was \$21 billion, in 1943 it was \$57 billion, and in 1944 it is expected to be \$57 billion again. On the basis of any estimates we can now make, we foresee a public debt at the end of the present fiscal year of about \$200 billion. On such a debt the interest charges alone will be close to \$4 billion a year. As the war continues, the debt, the interest, and the problems of repayment will grow larger and larger.

- 3 -

In this situation if we pay in taxes any less than we can now afford to pay, we shall be unfair to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil. We shall not only be asking the 10,000,000 members of the armed forces to give the most important years out of their lives to fight the war. We shall also be requiring them as a large body of future taxpayers to pay in taxes after the war what we could and should have paid while they were fighting.

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It is clear that we are not paying all the wartime taxes that we can and should pay. We are not now fighting an all-out war on the fiscal front. All the estimates of national income, by whomever made, bear eloquent testimony to the fact that the ability of the American people to pay increased taxes is far from being exhausted. In the fiscal year 1939 individuals had incomes, after personal taxes, of \$65 billion. In the fiscal year 1944, it is estimated that individuals will have incomes of \$126 billion, after allowance for all present taxes. That is, after paying taxes, incomes of people in the United States will have almost doubled since 1939.

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The incomes of the American people are not only ample to pay much higher taxes. The spending power of these incomes is so great as to threaten rapid and burdensome increases in the cost of living. About half of American productive effort is going into war equipment and supplies for our armed forces. These products are not available for civilian consumption. Yet our people are being paid for all they produce. They thus have far more money to spend than there are goods on which to spend it. In the fiscal year 1944 this surplus of income over goods is expected to amount to about \$36 billion after payment of personal taxes.

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If those who hold this surplus income try to spend it on consumer goods the inevitable result will be black markets, ruptured price ceilings, and substantial increases in the cost of living, followed by tremendous pressures for higher wages and farm prices, which will set in motion further forces in the spiral of inflation.

Up to this point spending has been held down and we have avoided disastrous price increases. We have done this through a variety of measures. Price ceilings and rationing, wage and salary stabilization, and the taxes already imposed have all had a restraining effect. The campaigns for the voluntary purchase of War Bonds with their emphasis on saving have been a strong influence in curbing spending.

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But we cannot expect these controls to hold indefinitely in the face of a continued large surplus of income over goods and a great accumulation of spendable liquid wartime savings. Day after day, the continuous pressure of spending power has been cracking our price controls a little here and a little there and threatens to produce a major breakdown. We are courting danger if we do not do all that is possible through the tax mechanism to strengthen the foundations of our stabilization program.

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I have been told that the American people do not believe in the dangers of inflation. I cannot believe that is true, but there may be a confusion of meaning. If by inflation is meant a situation where money becomes worthless, I agree that the danger now is not of that character. It is rather the danger of substantial and continuous and, at least in part, permanent rises in prices that would undermine standards of living, reduce the value of investments and impair the security we seek to achieve through savings and insurance. Unfortunately, lack of belief in the danger of inflation does not remove that danger.

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There are few indeed who have followed with care the developments of the recent past who are not concerned over the possible breakdown of the stabilization program. Higher wartime taxes obviously cannot meet the danger alone but they are necessary if it is to be met.

I have also been told that some people have a defeatist attitude toward our fiscal problem. They argue that since the deficit is so large, the Government debt so huge, and the inflationary possibilities of surplus income and accumulated private savings so great, a few billion dollars more or less will not make a great deal of difference and that therefore we might as well avoid the unpopularity of imposing additional taxes.

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I think this would be a poor excuse to give to the returning soldier who will be interested to know what sacrifices we incurred at home to protect his future.

In fact, however, \$10.5 billion of additional taxes would have very important effects on the deficit, the debt, and the inflationary pressure. In its direct effects on spending, in the renewed assurance it would give that the elected and appointed representatives of the people take the problems of the public debt seriously, and in the sobering influence it would have on public understanding of the true cost of the war, a \$10.5 billion increase in taxes would be immensely beneficial.

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Perhaps the most superficially plausible and therefore the most insidious argument I have recently heard is that economy in governmental expenditures is a substitute for higher taxes. Economy is always an important objective and a tax bill makes it neither more nor less desirable. I am in complete and hearty sympathy with any measure that can be adopted to reduce governmental costs, to reduce even war costs so long as the reductions do not impair our war effort. But if we are to fight the war to a speedy conclusion we cannot relax our fighting or our production for war.

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That means we cannot significantly relax our spending.

I am not in sympathy with any measures or any proposal to cut expenditures in any way that will make our total production anything less than an all-out effort.

At the time I appeared before the Ways and Means Committee, I said that "while it may be possible, and I hope it is, to curtail some governmental expenditures, even that will not lessen our need for getting at this time all that the American people can possibly give us in additional taxation." That is still my position.

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The Bureau of the Budget has just released estimates that total expenditures for the fiscal year 1944 which ends next June 30 will amount to \$98 billion instead of the \$106 billion in the estimate issued last August. It is understood that this decrease in expenditures represents a combination of changes in the war program and a delay in reaching the production goals of some items. Revenues were estimated at \$41 billion instead of \$38 billion. The over-all result of the revision is to reduce the previously expected deficit from \$68 billion to \$57 billion for the fiscal year 1944.

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There is nothing in the new budget figures in our opinion to warrant reducing our goal below \$10.5 billion of additional wartime taxes. If no one had originally expected more than a \$57 billion deficit for the fiscal year 1944, the amount would appear tremendous, which it truly is. It is no less so because it represents a reduction from a previously estimated higher figure. \$57 billion is equal to last year's record deficit, and is almost three times the deficit of 1942.

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The budget revisions do not alter the fact that we can pay much higher taxes; they do not in any degree affect our moral obligation to meet now all of the costs of the war that can be met by current taxation; and they do not affect in significant degree the serious inflationary dangers that face us for the balance of this fiscal year, the succeeding fiscal years as long as the war shall last, and in the postwar period. Our tax goal, as I pointed out to the Ways and Means Committee, was the amount that we believed could be fairly distributed without undue sacrifice and hardship.

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From every point of view it is a minimum fiscal program in the light of the deficit, the accumulated debt, and the inflationary pressure.

In view of all these facts, the House Bill, in my opinion, falls far short even of an attempt to meet our fiscal needs in a realistic or courageous way.

Let us bear in mind that an essential part of fighting a war is paying for it in the right way at the right time. There is no escape from the costs of war. It is a great fallacy to suppose that we can fight history's greatest war to save what we hold most dear without financial sacrifice.

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Inevitably we shall experience much greater financial sacrifice than we have thus far. Taxation now, during the war, is the easiest way to make that sacrifice.

In presenting our national fiscal problem to you, I have endeavored to perform the duty placed on the Secretary of the Treasury by law and tradition. I have endeavored to show you as objectively and as clearly as I can that a tax program of not less than \$10.5 billion is needed to safeguard the financial and economic future of this country during the war and after the war.

November 29, 1943
5:15 p.m.

TAXES

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

H.M.JR: Paul, let's hear.

MR. PAUL: When did you leave? I didn't see you when you left. Was it right after?

H.M.JR: I left when they told me that I could go home and that they would then call on Bell.

MR. PAUL: I went on right after Bell and gave my full statement. They interrupted me. They didn't live up to the rule that you are supposed to let a witness complete his statement, so I couldn't get through my statement this morning, and I went on again this afternoon. After the whole statement they asked me a number of questions. The attendance was even slimmer this afternoon than this morning.

H.M.JR: Slimmer! Why, the audience was packed this morning.

MR. PAUL: I mean the attendance of the Committee. They asked me one question about inflation, whether I thought we would have explosive inflation. They went around on that. They asked me that question about the labor unions, but they put it in such a way that I had no trouble with it. Vandenberg asked it, and said would I desire to make any comment on that. I said we had not suggested the provision nor been consulted about it; and I did not desire to make any comment. So he dropped it there.

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MR. BLOUGH: You didn't say you didn't desire to make a comment, as I recall. The impression that I got was you indicated you saw no particular reason why you should.

MR. PAUL: He asked me and I said no. Then I said we had never - . They didn't ask me any really difficult questions.

Have you anything to add, Roy? You were there. It is hard, sometimes, when you are testifying, to remember.

MR. BLOUGH: They just weren't there; and that, I think, means a good deal. It means they have made up their mind.

MR. BELL: They are not interested in discussing any proposals.

H.M.JR: I got quite a kick out of this Dow-Jones. (Reads from Release of November 29, 1943, 4:02 p.m.) "Treasury Secretary said he carefully refrained from mentioning the sales tax in his originally prepared statement for presentation to the Committee. He said also that he did not mention joint returns, oil well depletion, taxation of state and municipal bonds, all subjects of revenue-raising which he had favored. These and other subjects, he said, could have been brought up as revenue-raisers which were supported by the Treasury."

MR. PAUL: That was one of your best answers.

H.M.JR: Were you there? (To Sullivan)

MR. SULLIVAN: No.

H.M.JR: I thought you were going up.

MR. SULLIVAN: I was, and then I talked with Gaston about having too many. I knew Hannegan would be there.

MR. PAUL: They are going to be tied up the rest of this week on public witnesses.

H.M.JR: The thing which I liked when he started trying to tell me, "Now, you are just an appointed

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officer"--I said, "If you don't do what I recommend, don't think you are hurting me. It is the people you are letting down."

MR. PAUL: I wondered if they were going to pick it up, but they didn't.

H.M.JR: I thought George was a little more sour than I have ever seen him before.

MR. PAUL: I think that is true. He went after me more than anybody else.

MR. GASTON: I think they must have realized they were being put on the spot a little bit.

MR. PAUL: I put in my statement all the dirty corporate figures that George didn't want to hear, even the amount of their liquid position as well as their earnings.

H.M.JR: How do you feel now that you have heard me?

MR. PAUL: I feel that we did everything we could, and that we won't get anything out of it except possibly some results on simplification, and I am afraid not much there.

MR. BLOUGH: I saw Mr. Alvord at noon. He thinks the Senate will probably hold the Victory Tax.

H.M.JR: Keep it?

MR. BLOUGH: As in the present law--not the House Bill, but the present Victory Tax. He said that apparently the taxation of those nine million people, just the idea of it, has become so controversial that it isn't something that you can do on simplification grounds. That is the impression.

H.M.JR: He usually knows.

MR. BLOUGH: He is usually pretty close to George.

MR. PAUL: George told me he was for it.

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MR. BELL: Any chance of getting any more excise taxes?

MR. PAUL: No. The chances are we will lose some ground in the Senate, in my opinion, because all of the relief people are in there now for the rest of this week, and we have heard about this and that relief provision that they must get in. They asked me about the administration bill, "Is there any assurance we will get one next year." We had better get them in now. The idea was--

H.M.JR: Did they ask you the question, "Would rather have the bill go over after January 1st and get additional revenue?"

MR. PAUL: No, they didn't.

H.M.JR: I was surprised at Barkley. When I got through on this sales tax, he said, "I agree with the Secretary of the Treasury." Did you hear him say that? He said, "I am just where he is."

MR. PAUL: He has always been all right on that.

H.M.JR: I didn't know. Has anybody been around to see you, Fred?

MR. SMITH: Warner, the United Press man. He hadn't been at the hearing, but he has been hearing reverberations around. He said he thinks that you did very well considering that everybody knew you weren't going to get anywhere, anyhow, that you put up a good front and were going to come out all right. I don't know what kind of a witness he is.

MR. SURREY: That is what that fellow said that went up in the elevator with us, that other reporter. Do you know his name? He is with United States News.

MR. PAUL: Oh, Helm said you did a fine job.

MRS. KLOTZ: He is a tough baby, too.

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MR. SURREY: He said they had to admire you for putting up the battle you did.

H.M.JR: Well, the P.M. reporter, one of three or four that talked--got up and talked to me when I left--

MR. GASTON: Robertson.

H.M.JR: He said "Good."

MR. SMITH: The last crack you left them with took the newspaper men. That was made to order.

MR. HAAS: It is still a hell of a big debt.

H.M.JR: A hell of a lot of money in anybody's country.

MR. PAUL: "Hell of a big deficit," you said, and that is on the ticker.

H.M.JR: That shows how my mind - go ahead, Charlie.

MR. SHAEFFER: Three newspapermen have been in and said the same thing that Warner told Mr. Smith, substantially. They think it was the most unpleasant proposal that was ever brought up there. They knew it was coming, and you must have known it too, and you had courage enough to go up and present it in the manner you did. They admire you very much.

H.M.JR: They seemed to like it. There were no sour notes.

MR. SHAEFFER: Oh, no.

H.M.JR: Now Charlie has taken over for Chick. I don't know what all the rules and regulations are, but I think it is a good thing to dust them off once a year, and I have to speak to everybody in the room for cooperation with Charlie Shaeffer. The spirit of the regulations - I haven't seen them in a long time.

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MR. THOMPSON: I looked them over today. I think they are pretty adequate and complete, that everything must flow through that office.

H.M.JR: I must speak to everybody and tell them that Charlie has taken on this job and needs full cooperation. The idea is that if people want to see these newspapermen and women, let Charlie know so he knows what is going on and he isn't caught off base; and I say from my own personal experience that if you keep the press room informed they can be helpful to you. So if everybody isn't familiar with the rules and regulations, you (Thompson) might circulate them once more. But Charlie has earned this job, and he can only do a good job if everybody cooperates with him. So I ask everybody--

MR. PAUL: How about that offer you made last week?

H.M.JR: Offer?

MR. PAUL: I won't bring it up, but you said everybody could get drunk tonight at your expense.

MR. GASTON: Yes, you did.

H.M.JR: O.K. That still holds good.

MR. PAUL: I have to go to another party.

H.M.JR: That is all right. Everybody can get drunk at my expense as long as I don't have to supply the liquor.

MR. BLOUGH: That is the way you said it, Mr. Secretary, "I will supply the liquor."

H.M.JR: All right.

MR. PAUL: We won't hold you to it.

MR. GASTON: This happens to be the night I don't want to get drunk. (Laughter)

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H.M.JR: I will stick by it.

Well, for those who assisted me, I think the combined effort is all right. I am very proud of the group that helped me.

MR. WHITE: That was a nice letter that Dean Acheson sent, wasn't it?

H.M.JR: It was so nice I was suspicious. When I saw it, I said, "My God, Dean Acheson wrote a letter complimenting us. Oh, milk and money!" What was his name?

MR. WHITE: Harold Glasser.

H.M.JR: When I read it, I said, "My God, Glasser must have cut Herbert Lehman's throat to get a letter like that out of Dean Acheson."

MR. WHITE: I will find out. (Laughter)

H.M.JR: Incidentally, I only heard five minutes the other night because one of my children phoned me. Leon Henderson was on at six forty-five, which is the new hour. He was awfully good.

MR. PAUL: I sent for the manuscript.

MR. WHITE: He also said something there that we want to check up on.

MR. SHAEFFER: There will be two copies in tomorrow morning's mail. They had to make them up in Henderson's office.

H.M.JR: He wasn't complimenting the Treasury. He knew - he quoted the copy that--

MR. WHITE: That is what I wanted to see it for, to get the exact words, because I think on the basis of that - I was wondering whether you wouldn't think it is appropriate for somebody to ask the White House or the Army whether such an order exists.

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H.M.JR: After what I asked Mr. Stimson this morning, I think I will rest a day or so. Did you see what I asked him?

MR. WHITE: Yes.

H.M.JR: So I think I will wait a day. I don't think I will ask them two in a week, unless you want to call them up and ask them. You could wait a day, too.

MR. WHITE: We will wait a while.

H.M.JR: I feel all right. I just feel, gentlemen, that I, as the spokesman for the Treasury and Paul following me did everything that we possibly could do to get the ten and a half. I don't see what other things we could possibly do. I will go home with a very nice feeling.

MR. PAUL: I think you should.

H.M.JR: I feel that you and I did everything with the assistance that people gave us that we could do. I don't expect anything. If I do--I have grown up; I don't believe in Santa Claus any more; but if Santa Claus should come around and give us about half a billion dollars or something it would be very nice.

MR. PAUL: I would suggest that some of the people who had some of the heaviest work on this, not particularly including myself, take it a little easy for a couple of days.

MR. BLOUGH: I have sent some of our boys home.

H.M.JR: I think that Blough and Surrey should.

MR. SURREY: We will be knee-deep in lobbyists tomorrow morning.

H.M.JR: Well, anyway, I don't know--

MR. SULLIVAN: It is a lot different from yesterday morning, isn't it?

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MR. SMITH: By the way, speaking of comment from the gallery over here, did you notice that we got about seventy-five tons of stuff for the war drive coming over on the John L. Sullivan.

MR. SULLIVAN: Then it will get here all right. What is the matter?

H.M.JR: Could White and Smith stay behind one minute.

Fred Smith
The Secretary

November 29, 1943

I saw Ted Gamble late Sunday afternoon and let him read my tax statement, which he liked very much. I then asked him to merchandise it through War Bonds which he said he would be delighted to do because it will be helpful. I also emphasized to him that he should consult with you and that is the purpose of this memorandum, just to be sure that all loose ends are tied up. *Furnished*

Fred Smith
The Secretary

November 29, 1943

Sometime Tuesday will you show me the memorandum which has to do with people in the Treasury having somebody from Public Relations present when they see newspaper men and get together with Norman Thompson on whatever regulations I have put out in connection with our contact with the Press. I would like to review it with you in view of the fact that Shaeffer is now taking over.

Done - 11/29/43

NOV 23 1943

Mr. Charles P. Shaeffer,
Information Specialist,
Office of the Secretary.

Dear Mr. Shaeffer:

You are hereby designated Director of Public Relations, succeeding Mr. Charles Schwarz who has relinquished this post to join the military service. All authority, functions, and duties heretofore vested in and directed by Mr. Schwarz are hereby transferred and delegated to you as Director of Public Relations.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

WST:aja

November 29, 1943.

Dear Joe:

I am sorry to see you retire from your post as Assistant Chief of the Secret Service, although I recognize that after nearly forty-five years of the most completely loyal and brilliant service you are richly entitled to the rest that you now plan to take.

Your record includes many important investigations carried through with zeal, discretion and high ability, but I know you take the greatest satisfaction from the fact that your vigilance has protected seven Presidents of the United States from harm and thus has shed great glory on the Service.

To me a striking feature of your long career of conscientious service to your country has been the modest and self-effacing manner in which you have gone about your duties, so that your reward has not been in any public notoriety or acclaim, but in the inner satisfaction of knowing that your work has been well and faithfully performed.

It is my earnest hope that freedom and leisure will improve your health and give you many years of pleasant living.

Sincerely,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Joseph E. Murphy
Assistant Chief
United States Secret Service

Copied Thompson
Del. by hand to Chief Wilson

November 29, 1943

Dear John:

Your prompt and most effective reply to Representative Fish's unwarranted and uninformed attack on me in connection with the debate in the House on the tax bill last Wednesday has been brought to my attention.

Please accept my personal thanks for your kind action in my behalf.

Sincerely,
(Signed) Henry

Hon. John W. McCormack,
House of Representatives.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE Nov. 29, 1943

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending November 27, 1943.Summary

Industrial production: An encouraging gain in munitions output more than offset losses in coal output in October, and the FRB adjusted index of industrial production for the month rose slightly to 245 from 244 in September. A 5 percent rise in the MPE index of munitions production during the month to 642 (November 1941=100) was featured by a 9 percent rise in aircraft production. Nondurable goods output in the aggregate showed little change in October.

Cost of living: With the BLS cost-of-living index rising 0.4 percent in October following a comparable rise in the preceding month, more than one-half of the subsidy-induced decline of the index during June, July, and August has been regained. The index is now 4.5 percent above that of a year ago and is 26.2 percent above the pre-war level of June 1939.

Commodity prices: Despite noticeable declines around the middle of last week, commodity prices showed little net change for the week. The BLS index of 25 basic commodities was slightly higher. In the week ended November 20 the all-commodity index broke out of its narrow range of the past four months, declining 0.2 percent to the lowest level since last February. Lower prices for livestock, poultry and eggs largely accounted for the decline in this index.

Retail trade: This year's Christmas trade now appears likely to be the largest on record, with department store sales in the week ended November 20 rising 21 percent above year-earlier levels. Total retail sales in 1943 are expected to run 10 percent above 1942 in dollar value, according to a recent estimate of the Department of Commerce.

Corporation profits: Earnings reports of 359 large industrial companies for the first 9 months of 1943 show a rise in net profits of 11 percent over the corresponding period in 1942. Net railway operating income of Class I railroads in the first 9 months of 1943 was 10 percent above the corresponding period last year, but a decline which has been in progress since May threatens to wipe out the gain by the end of the year.

- 2 -

Industrial production at peak level

Bolstered by a further rise in munitions output, the FPE adjusted index of industrial production in October (on the revised basis) rose slightly to a new peak of 245 from 244 in the previous month. (See Chart 1.) The slight gain in the index, however, was due entirely to seasonal adjustment factors, as actual industrial output was unchanged from the previous month. On the other hand, it is gratifying to note that peak production levels were maintained last month despite the loss in coal output and steel production near the end of the period as a result of the work stoppages in the coal mines.

Output of war goods was particularly encouraging in October, with the WPE's index of munitions production rising to a new high at 648 (November 1941=100) from 619 in the previous month. The improvement was attributed in part to lessened shortages of materials and manpower and fewer interruptions in production as a result of changes in designs. Aircraft production rose 9 percent during the month, with the number of planes produced reaching a record high of 8,362 as compared with 7,598 in September. Shipbuilding showed a gain of 5 percent with the estimated value of work done in the month running well above a billion dollars. Of the other major munitions groups, output of communications and electronic equipment, ammunition, and guns also showed gains while only combat and motor vehicles declined.

Production of nondurable goods in the aggregate showed little change in October. Output of manufactured foods declined slightly less than seasonally due in part to a gain in wheat flour production and unusually high activity in the meat packing industry. New peak levels were attained in the output of industrial chemicals and rubber products while activity in the textile and leather products industries showed little change.

Conversion problems engage increasing attention

Despite the recent advance in munitions output to new peak levels, increasing concern over conversion problems is being manifested by business executives, financial writers and labor leaders. Many months ago it became evident that the peak in war plant construction had been passed, but more recently signs of easing metal supplies and substantial cut-backs in finished war goods output have appeared. These developments, along with rising peace talk growing out of Axis reverses and projected partial resumption of production in some civilian goods lines, have focused greater attention on the dislocations which will occur when the transition from war-time to peace-time production gains greater momentum.

- 3 -

In addition to the recent improvement in supplies of aluminum and most non-ferrous metals, an easier supply situation also appears to be developing in the steel industry, although operations last week were scheduled to rise to 99.1 percent of capacity. As a result of an increase in steel ingot production above needs, 9 open hearth furnaces were not operating in the early part of last week.

Commenting on this situation, the Iron Age last week said: "The general feeling was that additional furnaces were likely to be closed. Operating under tight Government control, steel producers are unable to pick up additional business freely or to take steps which they might normally adopt. While labor has lodged vigorous complaints, Washington is not fully prepared to open civilian goods production on a large scale, because other factors are interfering with such a simple resolving of the complicated production picture."

Increased metal supplies for civilian repairs

Further reflection of the improvement in the metal supply situation is seen in recent WPB loosening of controlled materials restrictions on supplies of aluminum, copper and steel for civilian repairs and maintenance. While definite limitations on materials use will remain in effect, the measure is expected to result in a noticeable improvement in repairs of such scarce civilian goods items as refrigerators, radios and vacuum cleaners.

While considerable attention has been given recently to indications of impending improvement in some civilian goods lines, such tendencies may be easily overemphasized, however, in view of the long list of items which continue in very tight supply, and the unpredictable demands which sudden shifts in the military situation may require.

Stock prices reflect uncertainties

Expectation of impending international developments of great importance, and apprehension over dislocations during the transition of industry from war to peace-time operation, continued to be reflected in gradually sagging stock prices during the past week. Industrial, railroad and utility stock prices moved steadily lower, although the volume of trading was not heavy. At the close on Saturday the Dow-Jones average of 45 stocks was down about 2 percent from a week earlier and stood near the low for the month. Prime war stocks, such as airplanes, and railroads, were under noticeable pressure, but peace stocks also declined. Reference to Chart 2 will disclose that the November decline in stock prices has carried both war

- 4 -

and peace stocks down noticeably, although peace stocks have shown greater resistance to the selling.

Cost of living again rises

While wage demands continue to pile up, and Congress debates the proposed ban on food subsidies, living costs are creeping upward. The BLS cost-of-living index rose 0.4 percent in October, following a comparable rise in the preceding month. Consequently, more than one-half of the decline in the index during June, July and August, resulting largely from the subsidized rollback of butter and meat prices, has been regained. The index now stands 26.2 percent above the pre-war month of June 1939, and is 23.4 percent above the level of January 1941, the base date of the Little Steel wage formula. (The Little Steel formula permits a 15 percent rise in wages to compensate for higher war-time living expenses.)

All components of the index except rent rose last month. (See Chart 3.) Food costs were up 0.6 percent, due largely to a seasonal rise in egg prices. Under the OPA regulations, however, ceiling prices of eggs will decline from November 8 until early in March. In the aggregate the cost of all other foods was unchanged. Clothing costs rose moderately, with the prices of almost all the types of clothing in the index showing some increase. Further advances were registered in house-furnishings, and higher costs for medical services and laundry services were noted.

In the face of the threat by Congress to ban food subsidies, Price Administrator Bowles warned last week that an immediate 7 percent rise in average food costs would result from the prohibition of subsidies. Items that would be principally affected by the elimination of food subsidies are: meat, butter, cheese, milk, dried prunes, canned vegetables, sugar and dry beans.

Reductions in citrus fruit prices announced

An indication of progress in the OPA program to roll back fresh fruit and vegetable prices is seen in a recent announcement that retail ceilings for citrus fruits during the current season are to be reduced by 10 to 15 percent as compared with prices in the 1942-43 season. The average retail ceiling price for oranges will be 9.5 cents a pound, representing a reduction of 1.5 cents a pound from last season. For grapefruit the average ceiling price will be 8 cents a pound, a reduction of 1 cent; and for lemons, 13.5 cents, a reduction of 1.5 cents. No subsidies will be involved in the price reductions.

- 5 -

Dollar and cent maximum mark-ups will be established for wholesalers and retailers to replace the percentage mark-up method used last year. The new method is expected to prevent the pyramiding of margins, and will result in smaller returns to the middlemen. Growers, however, will receive somewhat higher prices than last year. A regulation involving the above provisions is reported in preparation.

Commodity prices show little change

Despite noticeable weakness around the middle of the week, commodity prices showed little net change last week. The BLS index of 29 basic commodities was slightly higher. Steers and cotton were the only items to show appreciable price changes, with steer prices rising 3.4 percent and cotton prices declining 2.4 percent. Favorable war developments have had a particularly depressing influence on cotton prices, which are now at the lowest point since a year ago. However, with cotton prices at approximately the Government loan rate, it is unlikely that they will decline much further. (See Chart 4.)

Although wheat prices rose at the beginning of the week to the highest level in 18 years, profit taking later drove prices down, and at the end of the week they were slightly lower than in the previous week. Approval by the House Ways and Means Committee of a resolution suspending import duties on livestock feed for 90 days also had a bearish influence on wheat prices. This action was taken as a means of relieving the feed shortage which continues in some sections of the country.

Hog prices remained at the Government support levels last week. Packing houses appeared to be handling the heavy hog marketings without serious difficulties. The WFA announced that quota limitations on livestock slaughter have been suspended until further notice in order to facilitate livestock marketing and slaughter.

Breaking out of the narrow range of the past four months, the BLS all-commodity index declined 0.2 percent in the week ended November 20, and now stands at the lowest level since last February. At 102.6 percent of the 1926 average, the index is only 2.5 percent above last year's level, although it is 36.3 percent above the pre-war month of August 1939. Lower prices for livestock, poultry, and eggs largely accounted for the decline in the index.

- 6 -

Department store sales rising rapidly

Probably in reflection of the numerous factors tending to stimulate earlier than usual Christmas shopping, department store sales in November have shown an unusually rapid rise, and in the week ended November 20 touched a new peak for the year 21 percent above the corresponding week in 1942. (See Chart 5.) While earlier expectations were that the November buying would be largely at the expense of the usually heavy December volume, some retailers are now reported to be of the opinion that December trade also will be heavy if sufficient merchandise can be procured. On the basis of recent trends, Christmas trade this year promises to be the largest on record.

Sales of all retail stores for the full year 1943 are also expected to set a record, according to the Department of Commerce, which recently estimated the 1943 total at \$62.9 billions. This would be about 10 percent above last year's record figures. After allowance for price increases, the 1943 total is expected to be still slightly above 1942 levels but about 7 percent below 1941. The rise in the total value of retail sales this year has occurred in the face of a 10 percent decline in durable goods sales. All groups of stores selling nondurable goods have shown gains except filling stations, while the largest gains in the group have been recorded by clothing stores, and eating and drinking places.

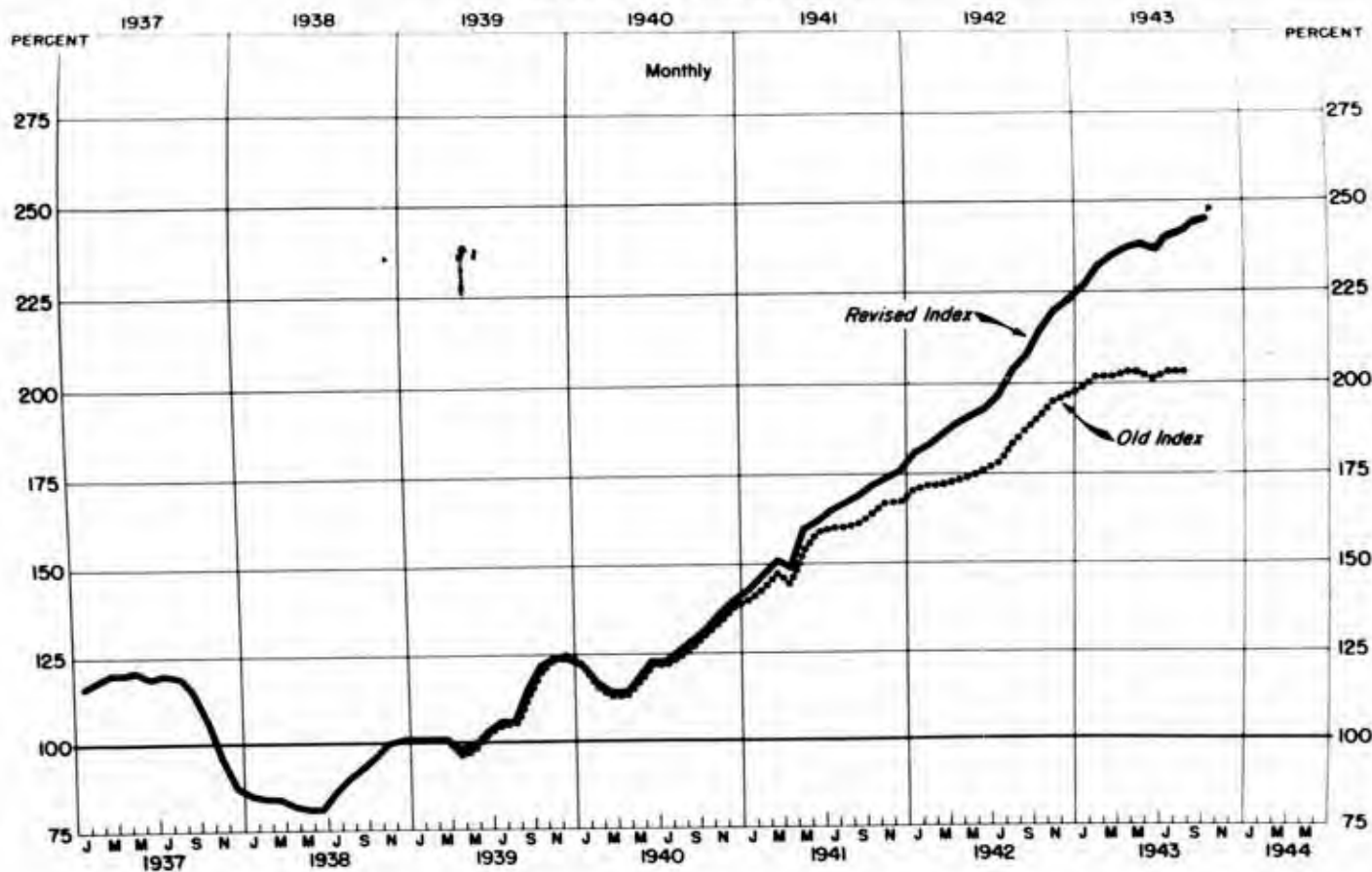
Corporation profits rise in 1943

A recent (unpublished) FRB compilation of earnings reports for 359 large industrial companies reveals that aggregate net profits for the first 9 months of 1943 were 11 percent higher than a year earlier. Data covering earnings results before and after taxes are available for only 260 companies. These figures show that profits before taxes in the first 9 months of this year were 15 percent higher than a year earlier, while profits after taxes were 13 percent higher. Reserves for Federal taxes in both years amounted to about 68 percent of net before taxes.

Net railway operating income (earnings after taxes but before fixed charges) of Class I railroads in the first 9 months of 1943 was about 10 percent above the 1942 level. However, reference to Chart 6 will show that since last May net railway operating income has been running under year-earlier levels, with the result that net railway operating income for 1943 seems likely to be less than in 1942 despite the gains shown in the first 5 months of the year. As a result, of the great expansion in traffic, railroad operating revenues in the first 9 months of 1943 were 26 percent higher than in 1942, but a 21 percent rise in operating expenses and a 67 percent rise in taxes cut the gain in net railway operating income to only 10 percent.

F.R.B. INDEX OF INDUSTRIAL PRODUCTION, REVISED

1935-'39 = 100, Seasonally Adjusted



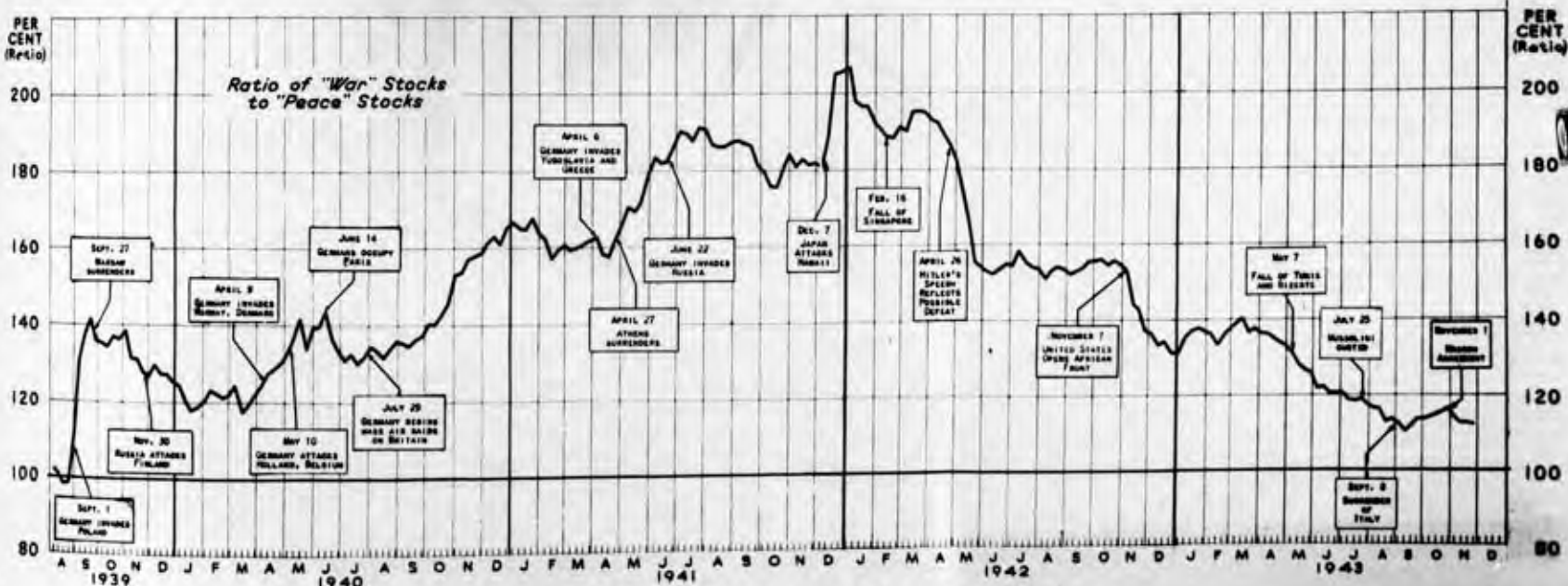
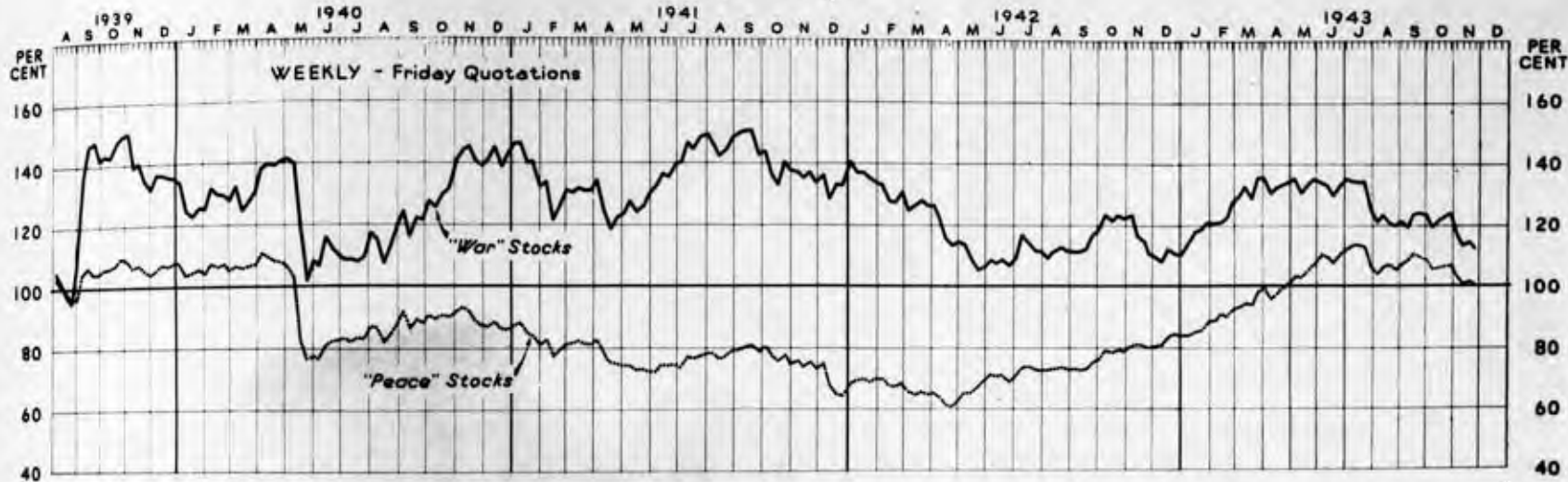
Office of the Secretary of the Treasury
Division of Research and Statistics

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179

COMPARISON OF PRICE MOVEMENTS OF 20 "WAR" STOCKS AND 20 "PEACE" STOCKS*

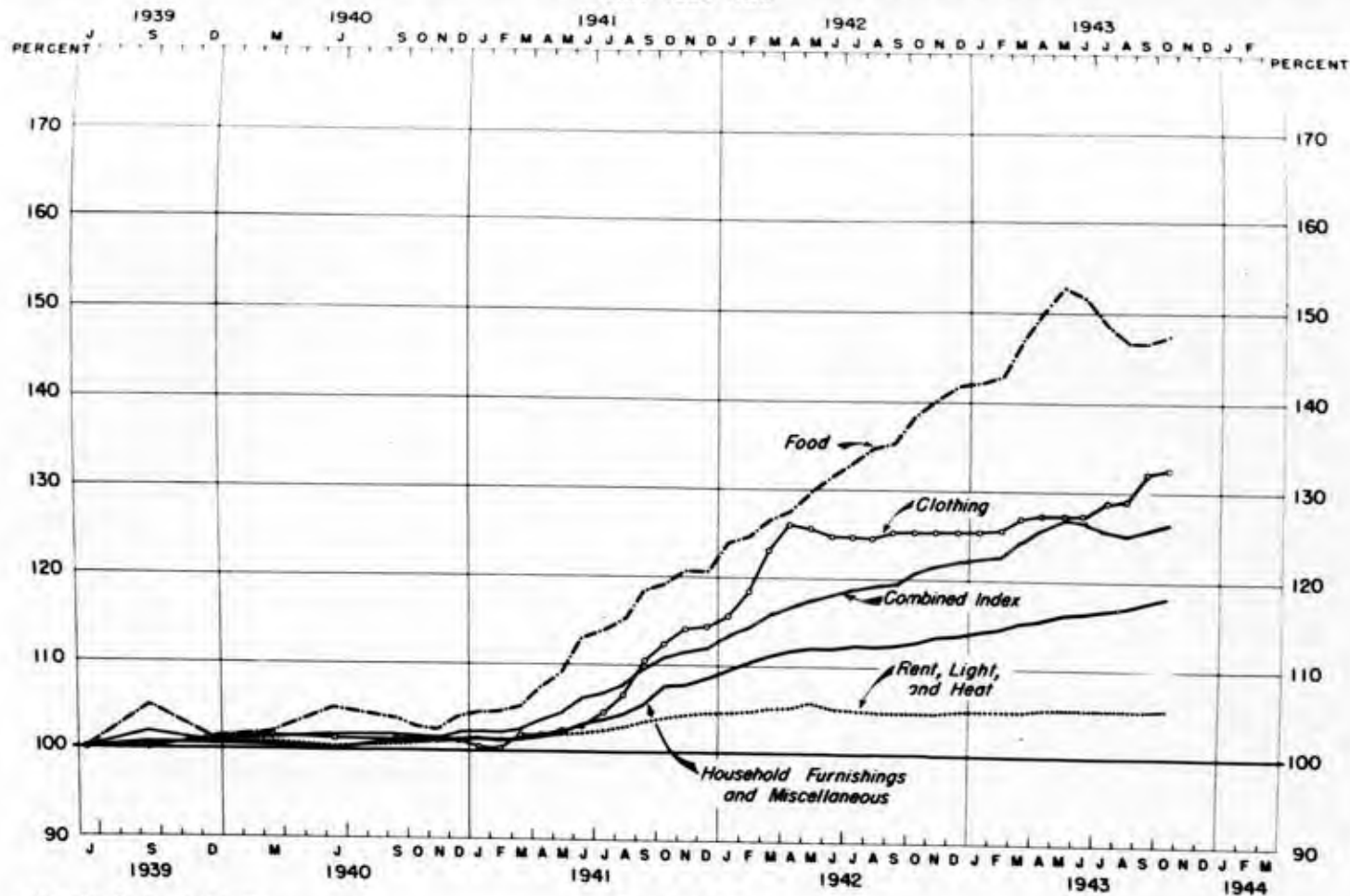
August 1939 = 100



* Stocks selected on basis of relative benefits from prolonged war vs. early peace. Indexes are weighted averages of price relatives.

COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



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

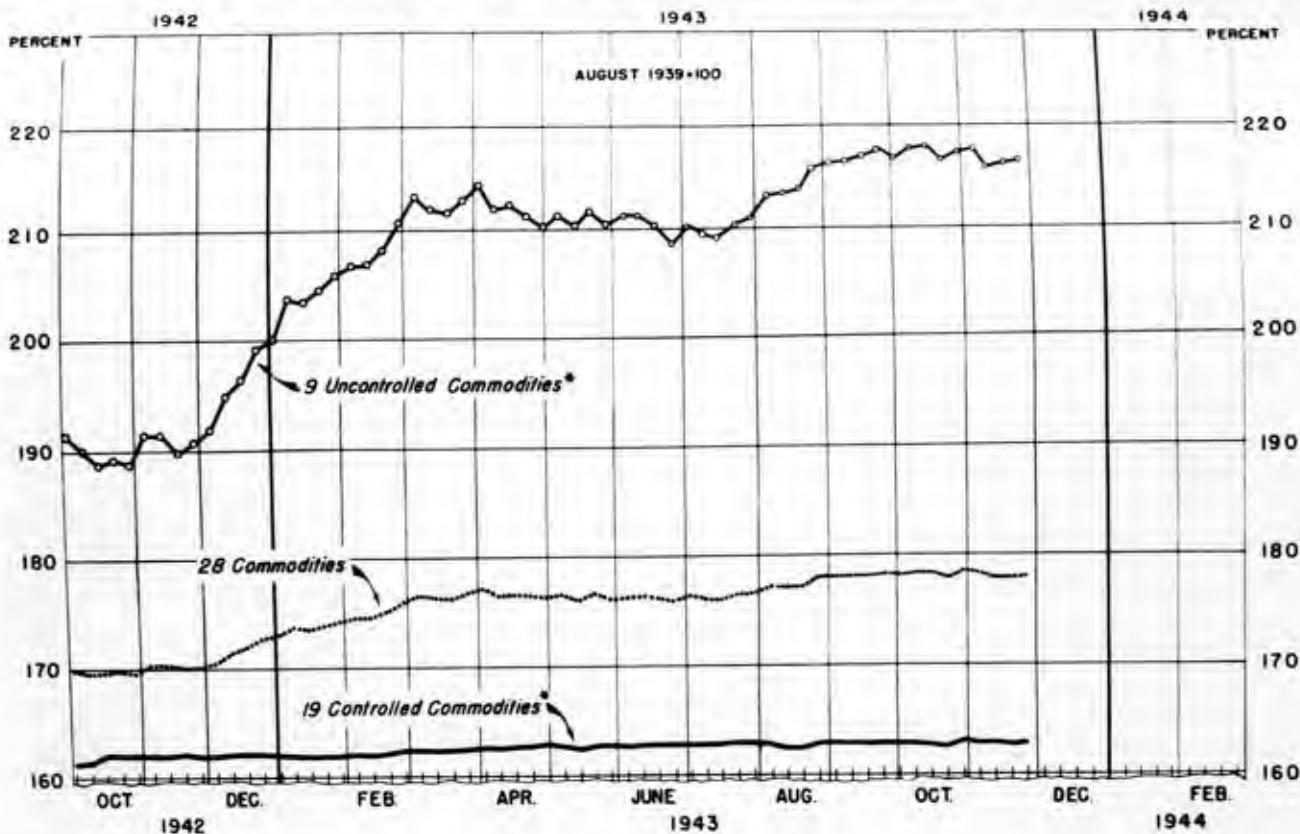
Source: B. L. S.

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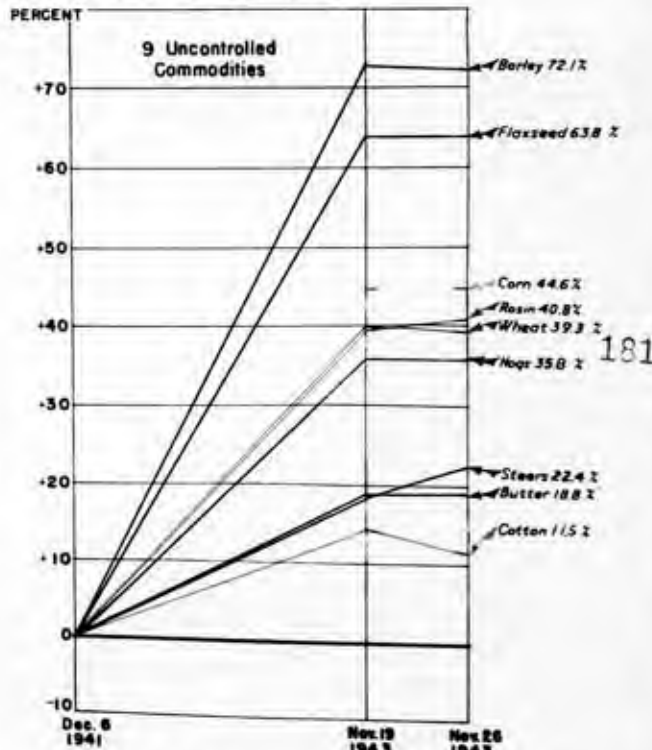
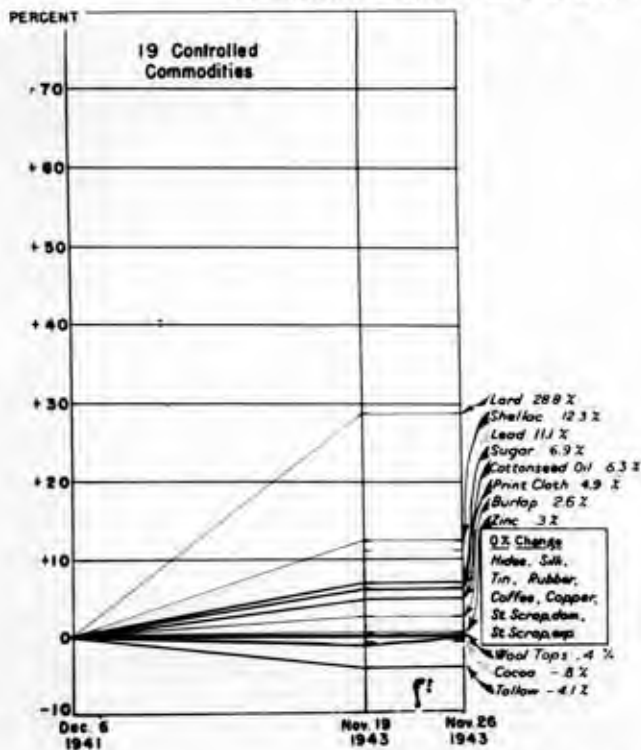
Chart 3

160

MOVEMENT OF BASIC COMMODITY PRICES

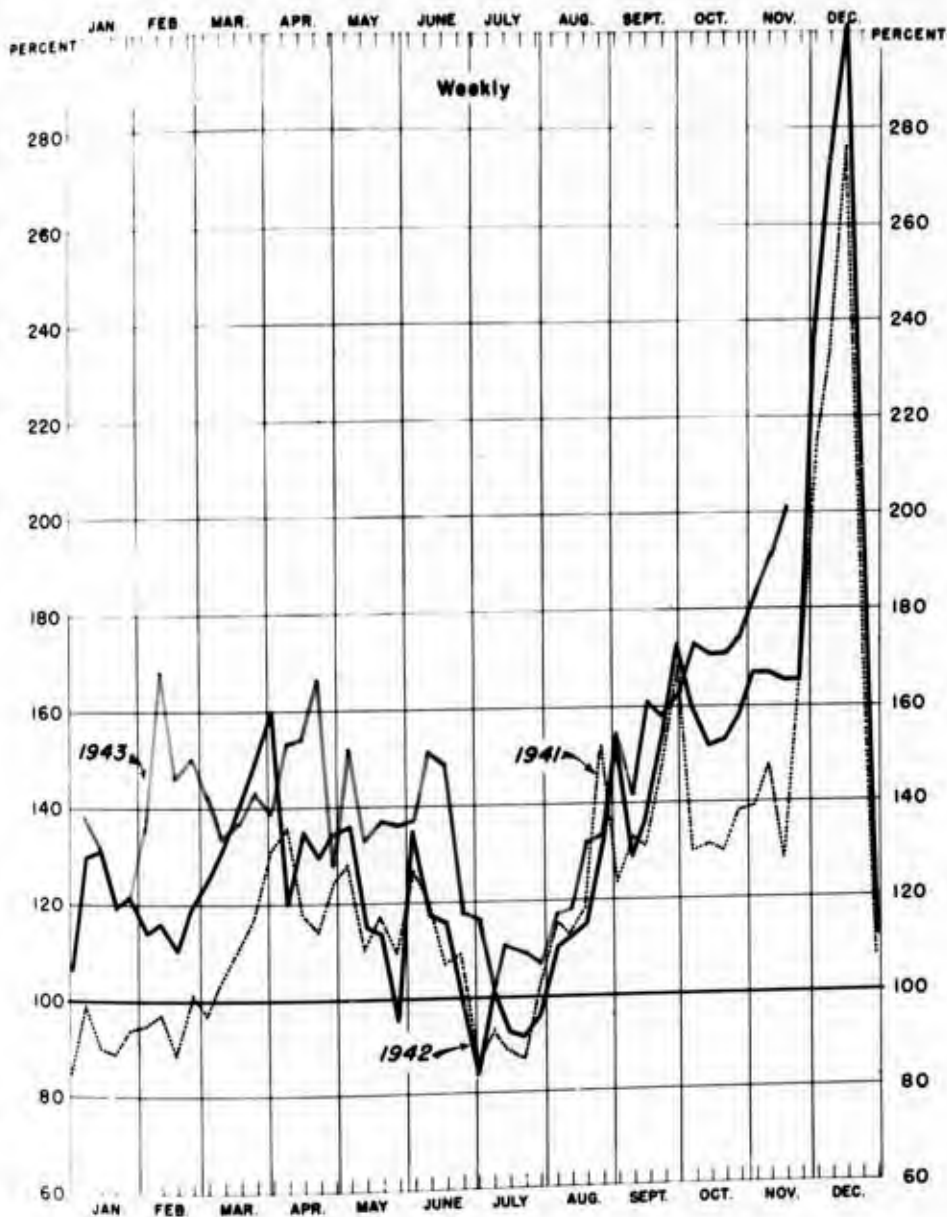


PERCENTAGE CHANGE DEC. 6, 1941 TO NOV. 19, AND NOV. 26, 1943



* 20 Controlled & 8 Uncontrolled previous to June 26, 1942

DEPARTMENT STORE SALES 1935 - '39 = 100, Unadjusted



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

C-390-B

RAILROAD EARNINGS

Net Railway Operating Income, Class I Railroads



^a Earnings after taxes, but before interest and other fixed charges.

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

C-483

Chart 5

1943

Regraded Unclassified

November 29, 1943

My dear General George:

The map you sent me showing the route of my eighteen-thousand mile trip is certainly appreciated. I will keep it as a memento of one of the most interesting trips I have ever taken. I hope you will thank the personnel of the Air Transport Command for preparing it.

I have already written General Marshall to tell him of the fine service I received at the hands of the A.T.C. throughout the trip. I felt that the crew was very able, and was interested in what we were doing and made every effort to look out for the safety and welfare of my party.

I should like to thank you again for all you did for me in connection with the trip.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

H. L. George, Major General,
USA, Commanding,
Air Transport Command,
War Department,
Washington, D. C.

W:alf

FS

Hope to take
map home
with him.

WAR DEPARTMENT
ARMY AIR FORCES
COMMANDING GENERAL, AIR TRANSPORT COMMAND
WASHINGTON

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185

November 25, 1943.

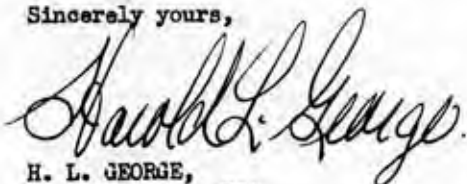
The Honorable,
The Secretary of the Treasury,
Washington, D. C.

Dear Mr. Morgenthau:

I am taking the liberty of presenting to you a graphic memento of your recent 18,000-mile trip by air to the United Kingdom, Africa and other points which, I trust, may interest you.

This record was prepared by personnel of the Air Transport Command which takes pleasure in the fact that members of the organization had a part in the successful accomplishment of your journey.

Sincerely yours,



H. L. GEORGE,
Major General, USA,
Commanding.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

November 29, 1943

TO Dan Eell
FROM The Secretary *JK*

Could I have a copy of that memorandum from ^{Samuel Richards} ~~Gouverneur Harrison~~, I think it was, the Budget Officer in the War Department, please?

Also Navy letter attached

*SWB
11/29/43*

THE SECRETARY OF THE NAVY

Washington

24 November 1943

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

My dear Mr. Morgenthau:

In accordance with your request of yesterday I am pleased to forward to you herewith a statement that sets forth the best estimates that can now be made of expenditures (cash withdrawals from the Treasury) for the Navy Department and the Naval Establishment for the fiscal years 1944 and 1945.

You will note from this statement that expenditures from Naval appropriations for the fiscal year 1944 are estimated at \$31,423,000,000 and for the fiscal year 1945 at \$30,093,000,000. At this point I think I should make clear that rapidly changing war conditions bring about corresponding changes in the procurement programs of the Navy which makes it impossible that the estimate for the fiscal year 1945 be other than an approximation. I think the estimate for the fiscal year 1944 is reasonably sound, though the rate of recent monthly expenditures does not indicate that the amount of \$31,423,000,000 shown in the statement will be reached.

Your records will show that the 1944 Naval Appropriation Act made cash appropriations available to the Naval Establishment and Department of \$27,435,000,000 for the fiscal year 1944. The estimated expenditures for the fiscal year 1944 cannot directly be related to this figure because there was an unexpended balance of approximately \$15,000,000,000 brought forward from prior fiscal years on 30 June 1943. This balance, plus the 1944 appropriations, is available for expenditure in this fiscal year, and, in part, available for expenditure in later fiscal years.

With respect to cut-backs or reductions in procurement and construction programs, many of which have taken place, it cannot be said that estimated expenditures will in the aggregate be materially affected thereby because of augmented or new programs such as, for example, the greatly increased landing craft program. Moreover, only a relatively minor portion of the value of cut-backs that have been effected in the programs to date would be reflected in reduced expenditures during the fiscal year 1944.

Mr. Henry Morgenthau, Jr. - 2

I am hopeful that this information will satisfy the purpose you have in mind. If it does not, please let me know and I shall be glad to supply any additional information you may desire.

Sincerely yours,

s/ Frank Knox

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NAVY DEPARTMENT

Estimated Expenditures for Fiscal Years
1944 and 1945

Bureau	(Millions of Dollars)	
	Fiscal Year 1944	Fiscal Year 1945
Ships	11,498	8,759
Aeronautics	6,306	6,600
Supplies and Accounts	4,857	6,277
Ordnance	4,797	4,386
Yards and Docks	1,690	1,690
Marine Corps	999	1,232
Coast Guard	600	473
Naval Personnel	507	497
Medicine and Surgery	115	125
All other	<u>54</u>	<u>54</u>
Total Navy	31,423	30,093
OLIA FUNDS	<u>1,001</u>	<u>461</u>
Grand Total	32,424	30,554

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"The House Subcommittee on Appropriations conducted hearings on 15, 16, and 17 November 1943 to determine the War Department's budgetary and financial position. At the conclusion of these hearings, it was publicly announced that the War Department had already placed \$10,943,519,000 in the Bureau of the Budget reserve, and had consented to add an additional \$2,200,000,000 to this, making a total of \$13,163,519,000 in the Bureau of the Budget reserve. (Of the additional \$2,200,000,000, \$1,900,000,000 was already in process of being placed in the Bureau of the Budget Reserve by the War Department.)

There is an understanding between the War Department and the Bureau of the Budget that any funds which the War Department places in the Bureau of the Budget reserve will be released to the War Department upon showing a reasonable cause for the necessity for their release. .

The House Subcommittee on War Department Appropriations has evidenced a desire to exercise some additional control of the use of these funds. The Committee is particularly interested in being consulted before funds are diverted from the uses for which they were originally appropriated. The War Department has, therefore, agreed, and the Chairman of the House Subcommittee has officially announced, that the War Department "will not seek the release of funds of any magnitude, should subsequent events make such course necessary, without conferring with the Subcommittee."

- 2 -

Reference is made to a study made by the War Department, and referred to by the Chairman of the House Subcommittee on War Department Appropriations, in his remarks which appear on page 9815 of the Congressional Record of November 18, 1943, which indicated that \$13,163,519,000 of the funds available to the military establishment for obligation during the fiscal year 1944 would not be required.

The savings were made possible by the following changes in the military situation:

Reduction in military personnel strength from 8,248,000, officers and men, to 7,700,000 resulting in saving in pay, travel, subsistence, clothing and so forth of	\$1,946,039,000
Curtailment of the armament and equipment programs	8,262,759,000
Reduction in facilities, including maintenance	780,447,000
Modification and possible permanent deferment of the airplane program	2,086,069,000
Miscellaneous projects	88,205,000
	<hr/>
Total	\$13,163,519,000

- 3 -

With respect to the effect this announced reduction in obligations would have on Treasury Withdrawals for the current fiscal year, Mr. J. Buell Snyder, Chairman of the House Subcommittee on War Department Appropriations made the following remarks which appear on page 9816 of the Congressional Record of November 18:

"Now, what do these reductions mean, Mr. Chairman? They mean, that unless some unforeseeable situation should arise, all of the 13 billions-plus will revert to the Treasury on next July 1, and that our ultimate debt will be diminished by a corresponding amount, and hence our tax levies over the years will be to that extent lightened."

* * * * *

"It has no immediate bearing upon the need to raise additional revenue, but it means that some day there will be that much less debt to be liquidated and, consequently, a lesser amount of taxes to be paid ultimately." (Underscoring supplied)

In connection with the immediate bearing that such a reduction in obligations might have upon current fiscal year withdrawals, it is pertinent to point out that the War Department had been working for some time on the study of obligations and withdrawals. Monthly estimates of withdrawals furnished to the Treasury Department and to the Bureau of the Budget have substantially reflected the decreases in actual expenditures for the fiscal year 1944 which will result from the decreases in amounts to be obligated. The estimates of withdrawals for the current fiscal year submitted on July 1, 1943 and August 1, 1943 were 60 billion

- 4 -

dollars, while those of September 1, October 1 and November 1, 1943 were 56 billion dollars.

There is no additional information available to the War Department at this time which indicates that its latest estimate of cash withdrawals of 56 billion dollars should be materially modified.

Treasury Department
Division of Monetary Research

Date December 1, 1943 19

To: Secretary Morgenthau

From: Mr. White

Information

Appended is our compilation of U.S. Government expenditures abroad during the first eight months of this year. I think you will be interested in glancing at the first page which contains a summary of the data.

There are, of course, other out-payments, but on balance they are not large.

We are increasing the gold and dollar balances of the rest of the world at the rate of a little over \$2 billion a year. Approximately 1/2 of this goes to U.K. and a couple of hundred million to Canada. The bulk of the remainder goes to Latin American countries.

195 ✓

Forwarded
Secret

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Nov. 29, 1943

TO Mr. White

FROM Miss Kistler

Subject: U.S. Government Expenditures Abroad

Attached are a series of tables setting forth figures, as reported by the Army, the R.F.C. and the Federal Reserve Bank of New York, of U.S. Government expenditures abroad by principal areas and agencies, January through August 1943.

Eliminating the known duplications between the three sets of figures, U.S. Government expenditures in foreign countries during the first eight months of 1943 totalled \$1.1 billion. This is at an annual rate of \$1.7 billion. As shown by the table below, over half the expenditures made abroad during this period represented net disbursements of the Army and about half of the total were made in Sterling Area countries.

	Net Army Disbursements	Cost of Commodities Purchased Abroad by R.F.C. Subsidiaries	Other Transfers Made by N.Y.F.R.B.	Total
(In millions of dollars)				
Br. Empire (ex. Can. & Newf.)...	253	77	76	406
Other Sterling Area.....	44	20	14	78
Canada & Newfound- land.....	92	59	186	337
French Areas.....	127	5	2	134
All other coun- tries.....	<u>86</u>	<u>54</u>	<u>32</u>	<u>172</u>
Total.....	602	215	310	1,127

Summary
U.S. Government Expenditures in Foreign Countries
by Principal Areas
January - August 1943
(In millions of dollars)

	Net Army Dis- bursements as reported by Army	Cost of Commodities purchased abroad by RFC Subsidiaries as reported by RFC	Transfers made in behalf of other U.S. Gov't. Agencies by N.Y.F.R.E.*	Total*
British Empire (excl. Canada & Newfoundland)				
British Isles & North Ireland.....	74.9	2.6	18.7	96.2
British India & Burma	25.6	30.2	1.5	57.3
Ceylon.....	-	14.6	.1	14.7
Australia.....	97.9	12.1	32.0	142.0
New Zealand.....	.7	-	15.7	16.4
Union of S. Africa...	.1	.5	.6	1.2
Other Br. Empire.....	54.0	16.5	7.9	78.4
Total - Br. Empire (excl. Canada & Newfoundland)	253.2	76.5	76.5	406.2
Other Sterling Area				
Egypt, Libya & Tri- politonia.....	18.3	.1	-	18.4
Iran & Iraq.....	12.7	-	.3	13.0
Iceland.....	12.6	2.2	13.4	28.2
Belgian Congo.....	.1	18.0	-	18.1
Total Sterling Area.....	296.9	96.8	90.2	483.9
Other Countries				
Canada & Newfoundland.	92.1	58.6	185.9	336.6
China.....	33.6	16.1	8.5	58.2
U.S.S.R.....	-	6.7	.3	7.0
Non-Bri. Latin America	46.7	-	20.0	66.7
Fr. Liberated Areas				
French Africa.....	112.6	3.1	1.8	117.5
Other.....	14.4	2.1	-	16.5
Turkey.....	-	24.6	.4	25.0
Neth. E. Indies & Java	-	-	-	-
Dutch E. Indies (Curacao, Surinam, Aruba).....	4.5	2.2	-	6.7
All other.....	1.1	5.1	2.7	8.9
Total - All Countries...	601.9	215.3	309.8	1,127.0

The figures in this column have been adjusted to eliminate known duplications, as in the case of Army payments to War Supplies Ltd. and Army expenditures/financed by U.S. Treasury checks or U.S. currency negotiated abroad, both of which are included in figures shown in first column.

Table I
U.S. Government Expenditures in Foreign Countries
January - August 1943
(In millions of dollars)

		: Transfers at N.Y.F.R.E.	
	: Net Army Disbursements :	: Total - U.S.	
	: as Reported by Army* :	: Army* :	: Government
British Empire (excl. Canada & Newfoundland)			
British Isles & North Ireland	74.9	130.1	167.9
British India & Burma.....	25.6	26.0	27.5
Ceylon.....	-	-	.1
Australia.....	97.9	91.0	130.1
New Zealand.....	.7	.7	16.4
Union of South Africa.....	.1	-	.6
Other British Empire.....	54.0	2.0	9.9
Total - British Empire (excl. Canada & Newfoundland).....	253.2	249.8	352.5
Other Sterling Area			
Egypt, Libya & Tripolitania..	18.3	15.0	16.0
Iran and Iraq.....	12.7	16.5	16.8
Iceland.....	12.6	6.0	21.6
Belgian Congo.....	.1	-	.1
Total - Sterling Area.....	296.9	287.3	407.0
Other Countries			
Canada & Newfoundland.....	92.1	18.2	278.1
China.....	33.6	-	42.1
U.S.S.R.....	-	-	.3
Non-British Latin America....	46.7	5.6	43.7
French Liberated Areas			
French Africa.....	112.6	74.3	93.7
Other.....	14.4	.8	3.6
Turkey.....	-	-	12.1
Netherlands E. Indies & Java.	-	-	-
Dutch West Indies (Curacao, Surinam, Aruba).....	4.5	-	-
All others.....	1.1	.1	6.7
Total - All Countries.....	601.9	386.3	887.3

Treasury Department, Division of Monetary Research
November 16, 1943.
*The difference between these two sets of figures is in part accounted for by the fact that some Army expenditures abroad are financed by U.S. checks or U.S. currency and are thrown into this category in the N.Y.F.R.E. tabulation. In the case of Canada, the discrepancy apparently represents Army payments to War Supplies Ltd. which in the N.Y.F.R.E. tabulation appear under transfers made to that company.

Table II
 Army Disbursements in Foreign Countries
 January - August 1943
 (The figures below are as reported by the Army)
 (In millions of dollars)

	: Gross	:	:	Net
	: Disbursements	:	: Collections	: Disbursements
British Empire (excl. Canada & Newfoundland)				
British Isles & North Ireland	93.5		18.6	74.9
British India & Burma.....	29.4		3.8	25.6
Ceylon.....	-		-	-
Australia.....	115.7		17.8	97.9
New Zealand.....	.8		.1	.7
Union of South Africa.....	.1		1/	.1
Other British Empire.....	61.3		7.3	54.0
Total - British Empire (excl. Canada & Newfoundland).....	300.8		47.6	253.2
Other Sterling Area				
Egypt, Libya & Tripolitania..	20.3		2.0	18.3
Iran & Iraq.....	13.9		1.2	12.7
Iceland.....	16.5		3.9	12.6
Belgian Congo.....	.1		1/	.1
Total - Sterling Area.....	351.6		54.7	296.9
Other Countries				
Canada & Newfoundland.....	95.7		3.6	92.1
China.....	34.0		.4	33.6
U.S.S.R.....	-		-	-
Non-British Latin America....	49.1		2.4	46.7
French Liberated Area				
French Africa.....	146.2		33.6	112.6
Other.....	17.4		3.0	14.4
Turkey.....	-		-	-
Netherlands E. Indies & Java.	-		-	-
Dutch West Indies (Curacao, Surinam, Aruba).....	4.7		.2	4.5
All others.....	1.2		.1	1.1
Total - All Countries.....	699.9		98.0	601.9

1/ less than \$50,000.

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Table IIA
 Army Disbursements in British Empire Countries
 January - August 1943
 (The figures below are as reported by the Army)
 (In millions of dollars)

	: Gross : Disbursements	: Collections	: Net : Disbursements
British Empire (excl. Canada & Newfoundland)			
British Isles & North Ireland.....	93.5	18.6	74.9
British India & Burma.....	29.4	3.8	25.6
Ceylon.....	-	-	-
Australia.....	115.7	17.8	97.9
New Zealand.....	.8	.1	.7
Union of South Africa.....	.1	<u>1/</u>	.1
Other British Empire.....	61.3	7.3	54.0
Caribbean Area			
Bermuda.....	8.0	.7	7.3
British Guiana.....	.7	.2	.5
Trinidad.....	18.9	1.6	17.3
St. Lucia (Windward Islands)...	.3	.1	.2
North African Area			
Gold Coast & Nigeria.....	2.0	.4	1.6
Eritrea, Aden & Anglo-Egyptian Sudan.....	5.4	1.1	4.3
Ascension Islands (St. Helena & Dep.).....	.5	.1	.4
Western Asia Area			
Palestine & Syria.....	.4	<u>1/</u>	.4
Pacific Islands			
Fiji.....	9.3	.7	8.6
Solomon Islands.....	8.8	1.3	7.5
Russell.....	.7	.1	.6
Kfate.....	2.0	.3	1.7
Espiritu Santo.....	3.8	.7	3.1
Tongatabu.....	.1	<u>1/</u>	.1
Tongareva.....	.2	<u>1/</u>	.2
Aitutaki.....	.2	<u>1/</u>	.2
Total - British Empire (excl. Canada and Newfoundland).....	300.8	47.6	253.2

1/ Less than \$50,000.

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Table II-b
Army Disbursements Outside Continental United States
by Principal Areas

January - August 1943

(The figures below are as reported by the Army)

(In millions of dollars)

	: Gross	:	:	Net
	: Disbursements	:	: Collections	: Disbursements
British Empire (excl. Canada & Newfoundland)				
British Isles & North Ireland	93.5		18.6	74.9
British India & Burma.....	29.4		3.8	25.6
Ceylon.....	-		-	-
Australia.....	115.7		17.8	97.9
New Zealand.....	.8		.1	.7
Union of South Africa.....	.1		<u>1/</u>	.1
Other British Empire.....	61.3		7.3	54.0
Total - British Empire (excl. Canada & Newfoundland).....	300.8		47.6	253.2
Other Sterling Area				
Egypt, Libya & Tripolitania..	20.3		2.0	18.3
Iran & Iraq.....	13.9		1.2	12.7
Iceland.....	16.5		3.9	12.6
Belgian Congo.....	.1		<u>1/</u>	.1
Total - Sterling Area.....	351.6		54.7	296.9
Other Countries				
Canada & Newfoundland.....	95.7		3.6	92.1
China.....	34.0		.4	33.6
U.S.S.R.....	-		-	-
Non-British Latin America....	49.1		2.4	46.7
French Liberated Areas				
French Africa.....	146.2		33.6	112.6
Other.....	17.4		3.0	14.4
Turkey.....	-		-	-
Netherlands E. Indies & Java.	-		-	-
Dutch West Indies (Curacao, Surinam, Aruba).....	4.7		.2	4.5
Other Western Hemisphere (incl. Hawaii).....	68.1		8.6	59.5
All other.....	1.2		.1	1.1
Total - All Countries.....	768.0		106.6	661.4

1/ Less than \$50,000.

Treasury Department, Division of Monetary Research

November 15, 1943.

SECRET

Table III
U.S. Government Payments to Foreign Countries by
Principal Agencies and Countries
January - August 1943

(The figures below are based on transfers handled by the Foreign Department of the New York Federal Reserve Bank; they do not include payments made through the R.F.C. custody account to accounts held with banks other than the New York Federal Reserve Bank)

(In millions of dollars)

	U. S. : Army	U. S. : Navy	Treas. : Dept.	State : Dept.	Other : U.S. Gov't. : Agencies	War : Supplies : Ltd.	Total
British Empire (excl. Canada & Newfoundland).							
British Isles & North Ireland.....	130.1	6.0	2.4	1.8	27.6	-	167.9
British India & Burma..	26.0	-	1.5	1/	-	-	27.5
Ceylon.....	-	1/	.1	1/	-	-	.1
Australia.....	91.0	5.0	34.0	-	.1	-	130.1
New Zealand.....	.7	1.0	13.6	-	1.1	-	16.4
Union of South Africa..	-	-	.6	-	-	-	.6
Other British Empire...	2.0	-	7.9	-	-	-	9.9
Total - British Empire (excl. Canada & Newfound- land).....	249.8	12.0	60.1	1.8	28.8	-	352.5
Other Sterling Area							
Egypt, Libya & Tripoli- tania.....	15.0	-	1.0	-	-	-	16.0
Iran & Iraq.....	16.5	-	.3	-	-	-	16.8
Iceland.....	6.0	1/	.1	-	15.5	-	21.6
Belgian Congo.....	-	-	.1	-	-	-	.1
Total - Sterling Area....	287.3	12.0	61.6	1.8	44.3	-	407.0
Other Countries							
Canada & Newfoundland..	18.2	5.5	.7	-	-	253.7	278.1
China.....	-	-	42.0	.1	-	-	42.1
U.S.S.R.....	-	-	-	.3	-	-	.3
Non-British Latin America.....	5.6	1.1	18.1	-	18.9	-	43.7
French Liberated Areas							
French Africa.....	74.3	.4	14.5	-	4.5	-	93.7
Other.....	.8	-	2.8	1/	-	-	3.6
Turkey.....	-	-	-	.4	11.7	-	12.1
Netherlands E. Indies & Java.....	-	-	-	-	-	-	-
Dutch W. Indies (Curacao, Surinam, Aruba).....	-	-	-	-	-	-	-
All others.....	.1	-	.4	2.7	3.5	-	6.7
Total - All Countries....	386.3	19.0	140.1	5.3	82.9	253.7	887.3
Less than \$50,000.							

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November 29, 1943.

Dear Mr. Knollenberg:

On behalf of the Secretary, I am acknowledging your letter of November 26, transmitting his personal and private copy of the report on the status of the Soviet Aid Program, as of October 31, 1943.

Mr. Morgenthau appreciates your sending him this current information and will go through the report with a great deal of interest.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Bernhard Knollenberg,
Executive Advisor to the Administrator,
Foreign Economic Administration,
Five-fifteen 32nd Street, N.Y.,
Washington 25, D. C.

GEF/dbs

FOREIGN ECONOMIC ADMINISTRATION
~~OFFICE OF LEND-LEASE ADMINISTRATION~~
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON 25, D. C.

November 26, 1943

The Honorable Henry Morgenthau
Secretary of the Treasury
Room 280, Treasury Department
Washington, D. C.

Dear Mr. Secretary,

Attached hereto is your personal and private copy of the report on the status of the Soviet Aid Program, as of October 31, 1943.

This report summarizes the aid furnished to the Soviet Union in the period covered by the First and Second Protocols and the first four months of the Third Protocol.

Very truly yours,

Bernhard Knollenberg

Bernhard Knollenberg
Executive Advisor to the Administrator

Copy No. TRA
SECRET

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STATUS OF THE SOVIET AID PROGRAM
AS OF OCTOBER 31, 1943



Foreign Economic Administration
~~Office of Lend Lease Administration~~
Washington, D. C.

SECRET

PERFORMANCE DURING OCTOBER 1943

Shipments to the U.S.S.R. from United States and Canadian ports during October amounted to 439,700 long tons. This was equal to 116 percent of the protocol monthly shipping rate. Shipments during the first four months of the Third Protocol period have totaled 1,756,000 long tons - 116 percent of protocol schedule.

Cargo shipped during October is summarized in the following table:

	October		July-October	
	Tons	Percent	Tons	Percent
U. S. SUPPLIES				
Trucks & Other Vehicles	60,600	14%	184,200	10%
Metals	86,200	20	327,200	19
Chemicals & Explosives	38,100	8	153,100	9
Petroleum Products	47,100	11	196,600	11
Industrial Equipment	34,700	8	189,000	11
Food	106,000	24	479,600	27
Other U.S. Supplies	46,500	10	174,600	10
U.S. Total	419,200	95	1,704,300	97
CANADIAN SUPPLIES	18,200	4	36,600	2
BRITISH SUPPLIES	2,300	1	16,500	1
TOTAL	439,700	100%	1,757,400	100%

Shipments are expected to rise to 540,000 long tons in November and 610,000 long tons in December, with foodstuffs comprising larger proportions of the totals.

During October 471 U. S. manufactured aircraft departed from North America for the U.S.S.R. - 336 for U. S. protocol account and 125 for U. K. account. 379 planes were flight-delivered - 83 from Miami via the South Atlantic and Abadan and 296 from Fairbanks, Alaska via the Siberian ferry route. 92 planes were shipped by water - 82 for North Russia and 10 for the Persian Gulf. At the end of the month 669 aircraft were in the Persian Gulf area awaiting assembly or servicing before delivery to U.S.S.R. pilots.

Increased Soviet demands for certain items offered in the Third Protocol and additional requests not considered in Third Protocol offerings are being met where possible by substitution of such items for materials scheduled for production under original Protocol offerings. This method has been adopted to prevent undue accumulation of stocks.

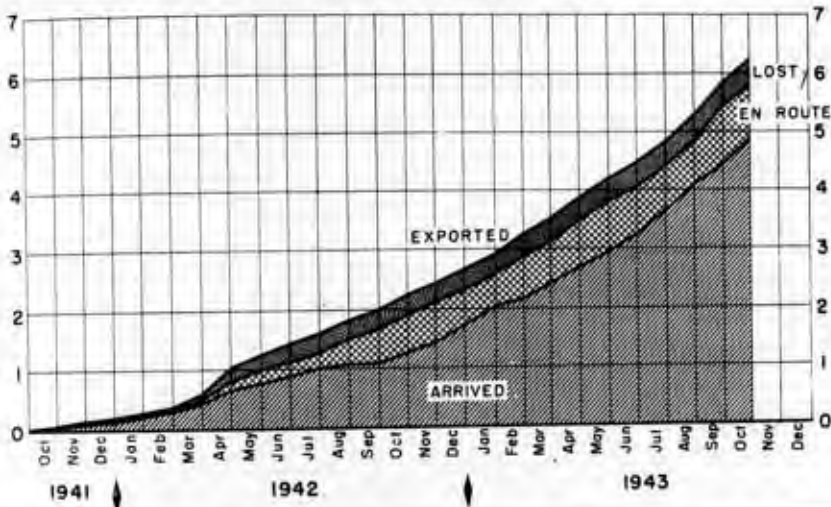
Foreign Economic Administration
November 24, 1943

8-0788

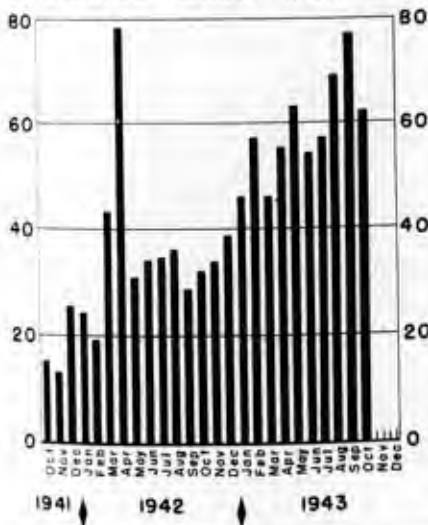
Regraded Unclassified

SHIPMENTS TO U. S. S. R.

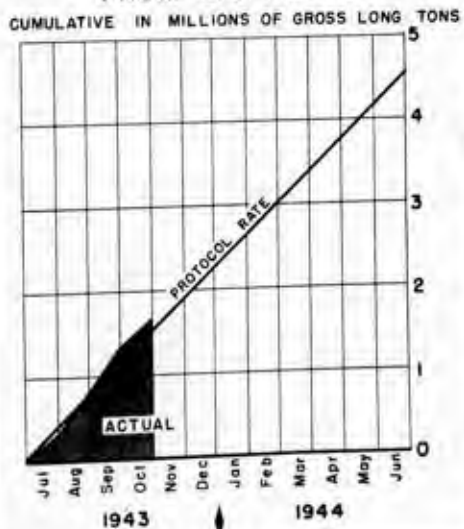
SHIPMENTS, ARRIVALS AND LOSSES
CUMULATIVE IN MILLIONS OF GROSS LONG TONS



NUMBER OF SHIPS
SAILING EACH MONTH



THIRD PROTOCOL CLEARANCES
FROM U.S. PORTS

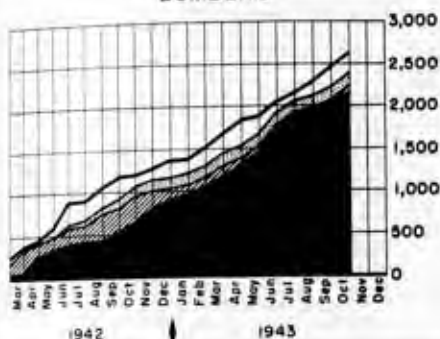


EXPORTS AND AVAILABILITY OF SELECTED ITEMS CUMULATIVE SINCE OCTOBER 1, 1941

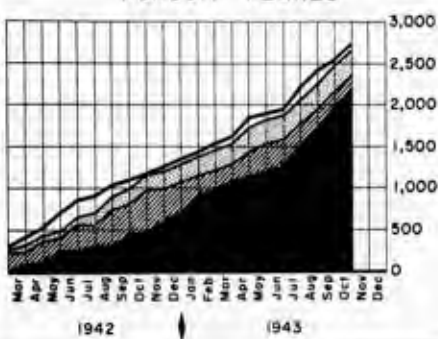


— Quantity made available at U.S. centers of production

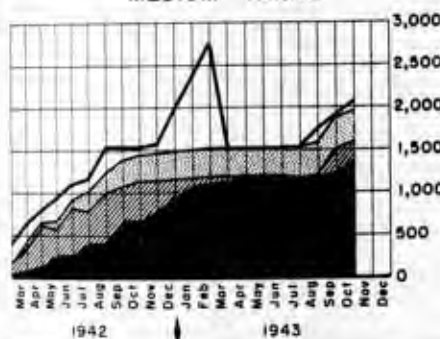
BOMBERS



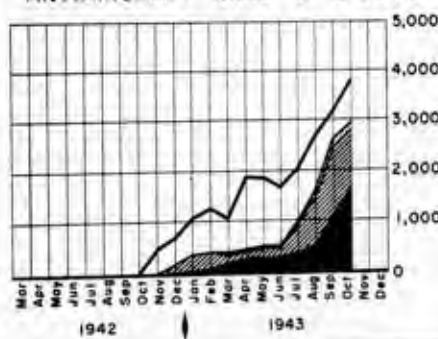
PURSUIT PLANES



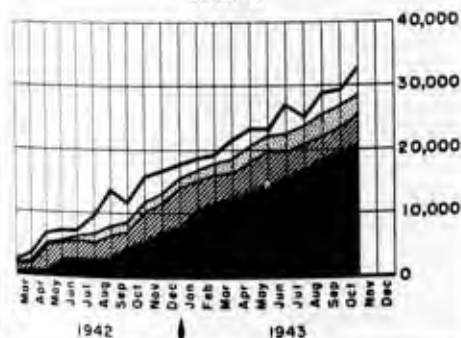
MEDIUM TANKS



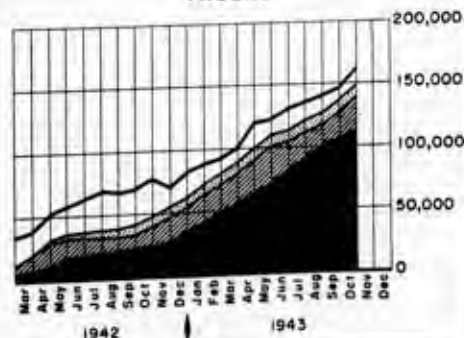
ANTI-AIRCRAFT GUNS 37 & 40 mm



JEEPS



TRUCKS



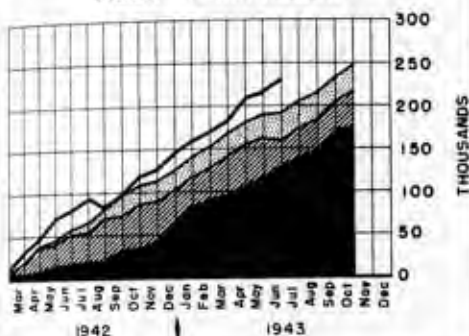
EXPORTS AND AVAILABILITY OF SELECTED ITEMS

CUMULATIVE SINCE OCTOBER 1, 1941

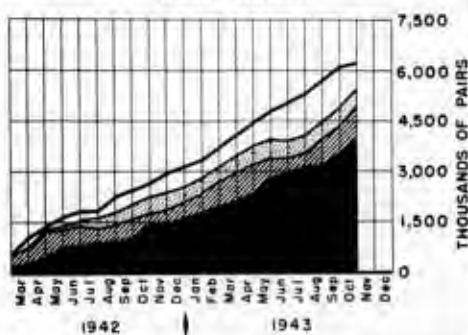


Quantity made available at U.S. centers of production

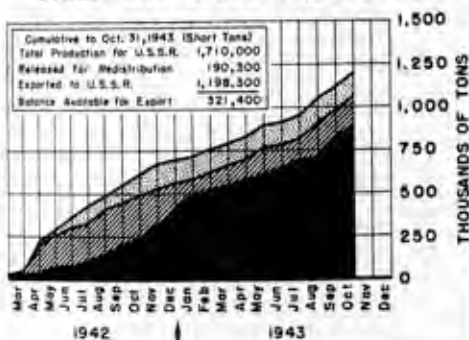
FIELD TELEPHONES



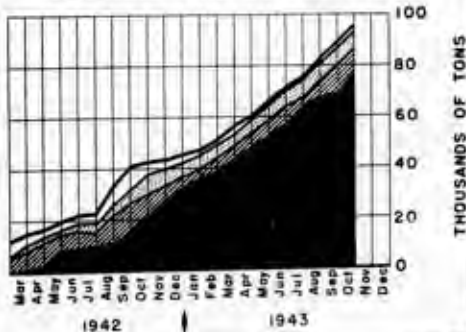
ARMY BOOTS



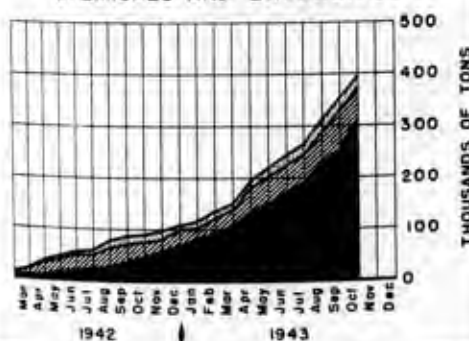
STEEL AND STEEL PRODUCTS



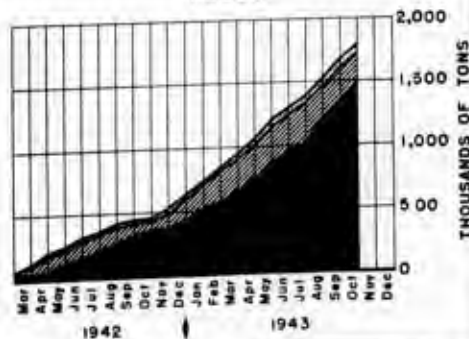
ALUMINUM AND DURALUMINUM



CHEMICALS AND EXPLOSIVES



FOODS



AIRCRAFT DELIVERIES TO U.S.S.R.

October 1, 1941 to October 31, 1943

Protocol requirements are considered filled upon delivery of aircraft from factories. Departure points from North America are, U. S. ports, Fairbanks for the Alaskan Siberian Ferry Route and Miami, Florida or adjacent fields for the South Atlantic Ferry Route. Deliveries are made when planes arrive at Murmansk or Archangel, or when flown by Russian pilots from Abadan for Persian Gulf shipments and planes ferried via the South Atlantic. Alabib planes are delivered to Soviet custody at Fairbanks.

The schedules include all aircraft departed from the U. S. for direct shipment to the U.S.S.R. Aircraft shipped from the U. S. intended for use in the United Kingdom but retransferred by the United Kingdom to the U.S.S.R. are not included.

	Delivered at Factories	In North America Oct. 31, 1943		Lost in North America		Departed North America and Alaska	Lost After Departure	Diverted to Others	En Route N.A. to Destination 10/31/43	Arrived at Destination	Delivered at Destination
		In U.S.	In Canada and Alaska	In U.S.	In Canada and Alaska						
BY ROUTE											
Alaskan-Siberian Ferry Route											
P-40	2,622	309	115(284)	43	30	2,185	-	-	-	2,185	2,185
P-40	704	11	-	12	-	711	33	1	64	613	573
P-39	1,278	19	-	-	-	1,259	304	1	85	869	869
P-39	2,818	0	-	-	-	2,818	175	0	112	2,531	1,902
Total	7,512	339	115(284)	55	30	6,973	512	2	261	6,198	5,529
U.S. PROTOCOL ACCOUNT											
Pursuit Planes											
P-40	50	0	1(0*)	0	1	48	-	-	-	48	48
P-40	950	19	0	0	0	931	242	1	82	606	606
P-39	621	0	0	0	0	621	25	0	111	485	-
P-39	484	16	33(9*)	5	8	422	-	-	-	422	422
P-39	57	0	0	0	0	57	7	0	0	50	50
P-39	577	0	0	0	0	577	28	0	0	549	-
P-47	3	0	3(0*)	0	0	0	-	-	-	0	0
Total Pursuit Planes	2,742	35	37(9*)	5	9	2,656	302	1	193	2,160	-
Light Bombers											
A-20	868	104	25(7*)	15	6	718	-	-	-	718	718
A-20	606	11	0	12	0	583	29	1	64	489	449
A-20	165	0	0	0	0	165	39	0	0	126	126
A-20	637	0	0	0	0	637	79	0	0	558	558
Total Light Bombers	2,276	115	25(7*)	27	6	2,103	147	1	64	1,891	1,851
Medium Bombers											
B-25	211	39	15(4*)	0	1	156	-	-	-	156	156
B-25	128	0	0	0	0	128	1	0	0	124	124
B-25	5	0	0	0	0	5	0	0	0	5	5
Total Medium Bombers	344	39	15(4*)	0	1	289	4	0	0	285	285
Heavy Bombers											
B-24	(b) 1	0	0	0	0	1	-	-	-	1	1
Cargo Planes											
C-47	174	40	9(4*)	1	0	124	-	-	-	124	124
Observation Planes											
O-32	30	0	0	0	0	30	11	0	0	19	19
Advanced Trainers											
A-1-C	8	0	0	0	0	8	0	0	3	5	5
A-1-C	22	0	0	0	0	22	0	0	0	22	19
A-1-C	30	0	0	0	0	30	0	0	3	27	24
Total Advanced Trainers											
U.K. PROTOCOL ACCOUNT											
(Under Reciprocal Agreements)											
P-40	300	0	0	0	0	300	0	0	0	300	-
P-39	861	110	29(4*)	22	11	689	-	-	-	689	689
P-39	35	0	0	0	0	35	5	0	0	30	30
P-39	540	0	0	0	0	540	43	0	1	496	-
Total (Pursuits)	1,736	110	29(4*)	22	11	1,566	48	0	1	1,515	-
REIMBURSEMENT ACCOUNT											
P-39	30	0	0	0	3	27	-	-	-	27	27
P-39	121	0	0	0	0	121	0	0	0	121	28
P-39	179	0	0	0	3	176	0	0	0	176	-
Total (Pursuits)											

* At Fairbanks

(a) Does not include 99 P-40 pursuit planes shipped to Murkhusia in September 1941 and all of which arrived.

(b) One heavy bomber carrying a U.S. Mission because stranded in Siberia and was turned over to the Soviet Government.

Cumulative Performance - 1st, 2nd and 3rd Periods

Discovered in 1943 by 20/31/43

Discovered in 1943 by 20/31/43

Discovered in 1943 by 20/31/43

Discovered in 1943 by 20/31/43

Discovered in 1943 by 20/31/43

Item	Phase Production		Discovered in 1943 by 20/31/43	Discovered in 1943 by 20/31/43	Expected	Arrived	Lost	Discovered in 1943 by 20/31/43	Discovered in 1943 by 20/31/43	Discovered in 1943 by 20/31/43
	Made Available	Offered to the State								
Non-Ferrous Metals										
Aluminum Ingots (tons)	14,168	11,800	5,876	16,872	54,247	54,993	45,750	4,247	0	0
Aluminum (tons)	5,620	1,200	4,422	5,656	39,166	38,076	31,617	7,449	0	0
Aluminum Scrap (tons)	1,410	75	1,335	1,410	5,905	4,411	3,127	1,778	0	0
Moss Metal Scrap (tons)	2	2	0	2	77	75	75	2	0	0
Moss Products of Nickel (tons)	1,180	1,136	48	1,180	9,442	9,442	9,442	0	0	0
Moss Products of Nickel (tons)	1,180	1,136	48	1,180	9,442	9,442	9,442	0	0	0
Moss Products of Nickel (tons)	1,180	1,136	48	1,180	9,442	9,442	9,442	0	0	0
Copper, Brass, etc. (tons)	29,034	35,860	11,000	38,860	179,557	162,000	120,328	41,672	0	0
Copper, Brass, etc. (tons)	3,750	5,000	1,250	4,250	21,866	18,900	14,650	4,250	0	0
Magnesium Metal (tons)	5,906	4,460	1,446	5,876	2,859	2,859	2,859	0	0	0
Zinc Slabs (tons)	40	40	0	40	44,427	44,427	41,928	2,500	0	0
Special Non-Ferrous Wires (tons)	100	100	0	100	424	330	311	23	0	0
Electric Wires & Cables (tons)	13	13	0	13	82	82	82	0	0	0
Mercury (tons)	0	0	0	0	895	895	895	0	0	0
Mercury (tons)	0	0	0	0	18	18	18	0	0	0
Mercury (tons)	0	0	0	0	1,190	1,190	1,190	0	0	0
Mercury (tons)	0	0	0	0	11	11	11	0	0	0
Mercury (tons)	0	0	0	0	43	43	43	0	0	0
Mercury (tons)	0	0	0	0	21	21	21	0	0	0
Mercury (tons)	0	0	0	0	108	108	108	0	0	0
Mercury (tons)	0	0	0	0	201	201	201	0	0	0
Mercury (tons)	0	0	0	0	329	329	329	0	0	0
Total Non-Ferrous Metals (tons)	65,212	79,640	35,000	69,640	364,779	342,435	274,555	67,884	36	5,312
Iron, Non-Ferrous Metals and Products (\$1000)	3	3	1	3	13	13	13	0	0	1
Copper Cable and Wire										
Marion Cable (wires)	87	249	174	137	1,348	1,101	756	347	0	92
Shawmut Cable (wires)	74	134	60	255	649	613	283	366	0	130
Other Insulated Cables (\$1000)	10,784	2,485 w/s, w/	1,111	3,472	31,960	13,402	10,347	3,055	0	866
Bar Copper Cable & Wire (\$1000)	109	10,668 3.7-g	13	195	1,469	1,170	1,061	119	0	1,072
Ferrous Metals										
Ferro-Billion (tons)	0	3,136	323	3,459	8,247	6,138	1,009	7,139	0	28
Ferro-Chrome (tons)	0	1,792	1,792	1,792	6,133	2,743	1,870	4,263	0	1,200
Ferro-Phosphorus (tons)	0	0	0	0	4	4	4	0	0	0
Ferro-Silicon (tons)	0	0	0	0	2	2	2	0	0	0
Ferro-Sulphur (tons)	0	0	0	0	2	2	2	0	0	0
Total Ferro-Alloys (tons)	0	4,928	1,794	3,142	12,340	9,881	5,829	11,543	0	28
Ferrous Metals & Products										
Blanket (tons)	526	6,853	19,811	6,853	10,784	8,746	2,838	7,906	0	1,832
Armor Plate (tons)	0	0	1,951	0	1,951	1,951	1,951	0	0	45
Ball Bearing Steel (tons)	13	24	11	24	350	281	281	0	0	63
Ball Bearing Steel (tons)	2,187	2,055	1,379	2,055	7,157	5,613	4,259	1,404	0	81
Ball Bearing Steel (tons)	15,412	19,302	3,890	18,412	16,091	13,463	883	2,610	0	1,874
Cold Finished Bars (tons)	17,476	20,700	3,224	18,476	79,076	70,700	50,000	20,700	0	12,004
C. B. M. Billets (tons)	0	0	0	0	30,750	29,518	29,518	0	0	0
C. B. M. Billets (tons)	0	0	0	0	85,236	81,147	81,147	0	0	0
Cold Rolled Sheets (tons)	0	305	875	305	78,000	65,441	51,609	16,831	0	1,214
Cold Rolled Strip (tons)	0	122	305	122	78,000	65,441	51,609	16,831	0	1,214
Cr. B. M. Billets (tons)	0	0	0	0	6,960	5,304	4,806	574	0	682
Cr. B. M. Billets (tons)	0	0	0	0	92,100	79,954	63,833	16,117	0	1,307
Cr. B. M. Billets (tons)	0	0	0	0	59,010	49,132	35,272	13,858	0	2,608
Cr. B. M. Billets (tons)	0	0	0	0	2,421	1,921	1,421	500	0	1,707
Cr. B. M. Billets (tons)	0	0	0	0	5,348	3,940	2,979	969	0	1,096
Cr. B. M. Billets (tons)	0	0	0	0	153	2,459	2,459	0	0	0
Cr. B. M. Billets (tons)	0	0	0	0	48,026	47,449	34,705	12,744	0	1,214
Cr. B. M. Billets (tons)	0	0	0	0	141,000	83,258	55,095	28,163	0	3,996
Cr. B. M. Billets (tons)	0	0	0	0	18,911	18,911	15,918	2,993	0	1,214
Cr. B. M. Billets (tons)	0	0	0	0	8,533	8,533	7,079	1,454	0	1,214
Cr. B. M. Billets (tons)	0	0	0	0	246,419	218,298	156,163	62,136	0	782
Cr. B. M. Billets (tons)	0	0	0	0	34,793	34,079	26,977	7,102	0	1,214
Cr. B. M. Billets (tons)	0	0	0	0	31,910	20,975	15,800	5,175	0	1,214
Cr. B. M. Billets (tons)	0	0	0	0	4,914	10,498	6,483	4,015	0	1,214
Cr. B. M. Billets (tons)	0	0	0	0	6,057	6,057	5,854	203	0	1,214
Cr. B. M. Billets (tons)	0	0	0	0	355	355	355	0	0	0
Cr. B. M. Billets (tons)	0	0	0	0	252	252	252	0	0	0
Total Steel	115,948	72,900	286,440	1,119,507	3,108,282	892,241	179,176	9,892	34,219	121,774
Steel										
Gold Finished Bars	945	0	0	0	0	0	0	0	0	0
B.E. Aircraft Steel	0	28,446	28,446	28,446	28,446	28,446	28,446	28,446	0	0
Cr. B. M. Billets	4,141	31,896	31,896	31,896	31,896	31,896	31,896	31,896	0	0
Wire Rope	0	260	260	260	260	260	260	260	0	0
Total Steel	1,109	797	244	1,099	2,072	1,468	1,116	356	0	0
Steel and Products										
Steel	1,109	797	244	1,099	2,072	1,468	1,116	356	0	0
Steel and Products										
Steel	1,109	797	244	1,099	2,072	1,468	1,116	356	0	0

Notes: 1/ The following released for reconstruction to others have been deducted from the above amounts made available:

2/ -10/31/43 Oct-1943

20/31/43 Oct-1943

20/31/43 Oct-1943

20/31/43 Oct-1943

20/31/43 Oct-1943

20/31/43 Oct-1943

20/31/43 Oct-1943

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20/31/43 Oct-1943

20/31/43 Oct-1943

20/31/43 Oct-1943

20/31/43 Oct-1943

Notes: 1/ From production or assignments in addition to quantities made available but not reported at end of second previous period

2/ Offered to the State in 1943

3/ From production or assignments after production below offerings in many instances. Production control

4/ From production or assignments after production below offerings in many instances. Offerings for

5/ From production or assignments after production below offerings in many instances. Offerings for

6/ From production or assignments after production below offerings in many instances. Offerings for

7/ From production or assignments after production below offerings in many instances. Offerings for

8/ From production or assignments after production below offerings in many instances. Offerings for

9/ From production or assignments after production below offerings in many instances. Offerings for

10/ From production or assignments after production below offerings in many instances. Offerings for

11/ From production or assignments after production below offerings in many instances. Offerings for

12/ From production or assignments after production below offerings in many instances. Offerings for

13/ From production or assignments after production below offerings in many instances. Offerings for

14/ From production or assignments after production below offerings in many instances. Offerings for

15/ From production or assignments after production below offerings in many instances. Offerings for

16/ From production or assignments after production below offerings in many instances. Offerings for

17/ From production or assignments after production below offerings in many instances. Offerings for

18/ From production or assignments after production below offerings in many instances. Offerings for

Quantities Produced - Oct. 1, 1944, to Oct. 31, 1945

Ref.	Name	Third Production Performance July 1, 1944, to July 31, 1944		Fourth Production Performance October 1, 1944, to October 31, 1944		Exported	Diverted to Other Uses	Lost	In U. S. Military Stockpiles (ending 10/31/45)	In U. S. Civilian Stockpiles (ending 10/31/45)
		Made Available	Offered Available	Made Available	Offered Available					
II 37	Petroleum Products (tons) From Stocks for U.S. Army (tons)	313,783/3	520,000	81,970	311,782	611,472	486,899	10,786	55,076	0
	Chemicals									
II 43A	Acetone (tons)	608	2,240	162	660	1,587	1,298	0	0	0
II 43B	Acetic Acid (tons)	25,840	35,840	10,813	36,200	25,346	25,000	159	0	0
II 43C	Acetic Anhydride (tons)	12	1,400	17	1,400	1,382	1,375	0	0	0
II 43D	Acetic Acid (tons)	1,638	1,120	1,425	1,120	1,425	1,120	0	0	0
II 43E	Acetic Acid (tons)	2,994	2,240	2,953	2,240	10,120	9,700	0	0	0
II 43F	Acetic Acid (tons)	2,240	2,240	2,240	2,240	10,120	9,700	0	0	0
II 43G	Acetic Acid (tons)	4,000	4,000	3,999	4,000	17,799	17,799	0	0	0
II 43H	Acetic Acid (tons)	1,962	4,000	1,573	3,299	17,799	17,799	0	0	0
II 43I	Acetic Acid (tons)	1,521	2,240	1,521	2,240	17,799	17,799	0	0	0
II 43J	Acetic Acid (tons)	1,521	2,240	1,521	2,240	17,799	17,799	0	0	0
II 43K	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43L	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43M	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43N	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43O	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43P	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43Q	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43R	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43S	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43T	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43U	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43V	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43W	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43X	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43Y	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 43Z	Acetic Acid (tons)	1,978	2,240	1,978	2,240	17,799	17,799	0	0	0
II 44	Other Chemicals									
II 45	Ammonia Chloride (tons)									
II 46	Ammonia Chloride (tons)									
II 47	Ammonia Chloride (tons)									
II 48	Ammonia Chloride (tons)									
II 49	Ammonia Chloride (tons)									
II 50	Ammonia Chloride (tons)									
II 51	Ammonia Chloride (tons)									
II 52	Ammonia Chloride (tons)									
II 53	Ammonia Chloride (tons)									
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II 87	Ammonia Chloride (tons)									
II 88	Ammonia Chloride (tons)									
II 89	Ammonia Chloride (tons)									
II 90	Ammonia Chloride (tons)									
II 91	Ammonia Chloride (tons)									
II 92	Ammonia Chloride (tons)									
II 93	Ammonia Chloride (tons)									
II 94	Ammonia Chloride (tons)									
II 95	Ammonia Chloride (tons)									
II 96	Ammonia Chloride (tons)									
II 97	Ammonia Chloride (tons)									
II 98	Ammonia Chloride (tons)									
II 99	Ammonia Chloride (tons)									
II 100	Ammonia Chloride (tons)									

Notes: All Tons are 2000 lbs. net weight.
 * Data not available.
 ** Estimated.
 1/ From production or assignments in addition to quantities reported or diverted before report.
 2/ From production of quantities reported or diverted before report.
 3/ Certifications of the amount are based on the aggregate of shipping manifests and warehouse receipts.
 4/ Certifications of the amount are based on the aggregate of shipping manifests and warehouse receipts.
 5/ From production or assignments after production has been reported on in this report.
 6/ From production or assignments after production has been reported on in this report.
 7/ From production or assignments after production has been reported on in this report.
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 17/ From production or assignments after production has been reported on in this report.
 18/ From production or assignments after production has been reported on in this report.
 19/ From production or assignments after production has been reported on in this report.
 20/ From production or assignments after production has been reported on in this report.

SAC.

Zone

Cumulative Performance - 1st, 2nd and 3rd Periods
Initiated 1, 1943 to October 31, 1943

IV 1 IV 2 IV 3 IV 4 IV 5 IV 6 IV 7 IV 8 IV 9 IV 10 IV 11 IV 12 IV 13 IV 14 IV 15 IV 16 IV 17 IV 18 IV 19 IV 20 IV 21 IV 22 IV 23 IV 24 IV 25 IV 26 IV 27 IV 28 IV 29 IV 30 IV 31 IV 32 IV 33 IV 34 IV 35 IV 36 IV 37 IV 38 IV 39 IV 40 IV 41 IV 42 IV 43 IV 44 IV 45 IV 46 IV 47 IV 48 IV 49 IV 50 IV 51 IV 52 IV 53 IV 54 IV 55 IV 56 IV 57 IV 58 IV 59 IV 60 IV 61 IV 62 IV 63 IV 64 IV 65 IV 66 IV 67 IV 68 IV 69 IV 70 IV 71 IV 72 IV 73 IV 74 IV 75 IV 76 IV 77 IV 78 IV 79 IV 80 IV 81 IV 82 IV 83 IV 84 IV 85 IV 86 IV 87 IV 88 IV 89 IV 90 IV 91 IV 92 IV 93 IV 94 IV 95 IV 96 IV 97 IV 98 IV 99 IV 100	Production (All Units in Cans)	Units Available	Units Available by Date	Starting Date	Ending Date	Estimated 7/1/43 to 10/31/43	Units Available	Exportation	Lost	Diverted to Other Department	In U. S. (Including 1st 3 Months)	Balance on Hand (Including 1st 3 Months)
VI 1	Naval Stores and Marine Equipment	475,637	607,076	103,207	67,637	1,701,668	7,751,668	1,688,375	59,299	90,600	581	152,613
VI 2	Marine Diesel Engines	211	(1576/12)	65	337	2,817	509	510	9	0	0	0
VI 3	Marine Gasoline Engines	984	(1576/10)	43	528	2,817	509	2,817	46	0	0	0
VI 4	Outboard Motors	250		150	528	450	450	1,500	0	0	0	0
VI 5	Dry Cargo Vessels Transferred	4		0	4	57	57	11	0	0	0	0
VI 6	Marine Transferred	12	(10/31/43)	0	0	0	0	0	0	0	0	0
VI 7	Submarine Chasers	10		0	10	10	10	10	0	0	0	0
VI 8	Landings Boats	10		0	10	10	10	10	0	0	0	0
VI 9	Motor Torpedo Boats	10		0	10	10	10	10	0	0	0	0
VI 10	20' x 30' Oil, D.T. Deck Ovens	66		0	0	0	0	0	0	0	0	0
VI 11	20' x 30' Oil, D.T. Deck Ovens	43		0	0	0	0	0	0	0	0	0
VI 12	20' x 30' Oil, D.T. Deck Ovens	254		200	254	254	254	254	0	0	0	0
VI 13	Oilburner Gun	475		0	0	0	0	0	0	0	0	0
VI 14	Ammunition for Naval Guns	0		0	0	0	0	0	0	0	0	0
VI 15	Storage Batteries for Ships	0		0	0	0	0	0	0	0	0	0
VI 16	Diesel Generators & Dies. Comps.	0		0	0	0	0	0	0	0	0	0
VI 17	Gas Engine Generators	0		0	0	0	0	0	0	0	0	0
VI 18	20' x 30' Oil, D.T. Deck Ovens	0		0	0	0	0	0	0	0	0	0
VI 19	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 20	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 21	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 22	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 23	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 24	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 25	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 26	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 27	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 28	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 29	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 30	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 31	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 32	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 33	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 34	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 35	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 36	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 37	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 38	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 39	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 40	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 41	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 42	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 43	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 44	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 45	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 46	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 47	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 48	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 49	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 50	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 51	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 52	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 53	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 54	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 55	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 56	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 57	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 58	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 59	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 60	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 61	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 62	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 63	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 64	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 65	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 66	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 67	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 68	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 69	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 70	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 71	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 72	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 73	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 74	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 75	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 76	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 77	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 78	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 79	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 80	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 81	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 82	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 83	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 84	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 85	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 86	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 87	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 88	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 89	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 90	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 91	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 92	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 93	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 94	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 95	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 96	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 97	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 98	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 99	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0
VI 100	Variable Water Pump, 6 in. x 6 in.	0		0	0	0	0	0	0	0	0	0

In addition to the above Soviet Vessels have been repaired and armed in U. S. ports and supplied with stores and equipment for their return voyage.

Notes: All Tons are 2000 lbs. wt. weight.

* Data not available.

SECRET

PROGRESS OF INDUSTRIAL PROJECTS FOR THE U.S.S.R.
As of Oct. 31, 1943

Petroleum Refinery Program

This project was developed under the Second Protocol to replace Soviet facilities destroyed by the German Army. It was designed to produce aviation gas, motor gas and lubricating oils. The cost is expected to be approximately \$39,000,000. Approval has been given under the Third Protocol to additions, having an estimated cost value of \$25,150,000. Engineering on the additions has been started.

The Second Protocol Program is nearly complete. Out of an estimated 155,000 short tons comprising the program, 145,000 short tons had been made available at plant by October 31st, and 128,000 short tons had been exported. The tonnage yet to be supplied is primarily valves, instruments, spare parts and tank cars which will be made available before the end of the year. Eight U. S. engineers have arrived in the U.S.S.R. to aid in construction. More will follow.

Tire Production Program

This \$6,000,000 project is to permit the Soviet Government to produce a minimum of 1,000,000 military tires per year from their own supplies of synthetic rubber and natural rubber obtained from shrubs. To utilize idle American equipment, the tire plant of the Ford Motor Company has been purchased; all of this equipment has been dismantled and shipped. Ninety-five percent of the new equipment to supplement the Ford plant has been shipped from suppliers; the remaining 5% will be made available from production by January, 1944. Engineers are being retained to aid in installations. There is now being considered a request to supply raw material handling equipment to be used in conjunction with this plant.

Automatic Block Signal System

This \$12,000,000 project is to permit automatic signal operation of a portion of the U.S.S.R. railroad system. The equipment when installed will permit greater carrying capacity on existing rail facilities without increase of rolling stock. The system will consist of signal and signal operating equipment for 3000 km of track: 455 km single track alternating current supply, 1162 km single track storage battery supply, 800 km single track primary battery supply and 583 km double track storage battery supply. Equipment is being made available at the manufacturers' plant for export. Arrangements are being made to export 4000 tons in December.

Power Program

Steam and Diesel generating equipment and industrial boilers called for under the Second Protocol have been made available to the extent of 99% of the program. Miscellaneous equipment, valves and special piping will be made available in November. A considerable tonnage of this program has been exported.

Power equipment under the Third Protocol has been approved and is now being placed under contract. The program consists of 327,700 KW - steam generating equipment; 168,925 KW - Diesel generating equipment; 54,500 KW - Hydro-electric equipment.

8-0782

Regraded Unclassified

SECRET

STATEMENT OF VESSELS SAILED TO U.S.S.R.
As of Oct. 31, 1943

Date of Sailing	For North Russia	Number of Ships Sailing			Total	Arrived	En Route as of Oct. 31	Cargo Disch. in U.K.	Lost	Losses by Month
		For Persian Gulf	For Soviet Arctic	For Soviet Far East						
1941 Oct	10	-	-	5	15	14	-	-	1	-
Nov	9	1	-	3	13	12	-	-	1	-
Dec	14	7	-	4	25	22	-	-	3	1
1942 Jan	20	-	-	4	24	19	-	1	4	3
Feb	13	2	-	4	19	16	-	-	3	1
Mar	31	6	-	6	43	32	-	4	7	9
Apr	62	6	-	10	78	46	-	13	19	-
May	14	10	-	7	31	21	-	4	6	6
Jun	8	11	6	9	34	27	-	-	7	6
Jul	2	5	16	12	35	34	-	-	1	16
Aug	11	5	1	19	36	33	-	-	3	1
Sep	4	8	-	17	29	29	-	-	-	10
Oct	-	13	-	19	32	32	-	-	-	-
Nov	-	8	-	26	34	32	-	-	2	3
Dec	4	11	-	24	39	38	-	1	-	-
1943 Jan	12	12	-	22	46	38	-	8	-	-
Feb	22	7	-	28	57	35	-	20	2	1
Mar	1	19	-	26	46	44	-	1	1	2
Apr	-	18	-	37	55	54	-	-	1	1
May	-	15	4	44	63	62	-	-	1	-
Jun	-	4	5	45	54	54	-	-	-	2
Jul	-	17	16	24	57	57	-	-	-	-
Aug	-	24	7	38	69	64	3	-	2	2
Sep	-	27	-	50	77	45	32	-	-	-
Oct	10	25	-	27	62	4	58	-	-	-
Nov										
Dec										
Total Oct. 1941 to Oct. 31, 1943	247	261	55	510	1,073	864	93	52*	64	64

* 22 vessels discharged in 1942. All of the cargo has been forwarded or diverted to others.
30 vessels discharged in April, 1943. Cargo is being on-carried, stored, or diverted.

Of the 1,073 sailings from October 1, 1941 to October 31, 1943, 47% were made by American vessels, 40% by Soviet vessels, 17% by American vessels transferred to Soviet registry, 17 by British vessels and 1 by a Swedish vessel. In addition to the 1,073 sailings, there were 103 ships that loaded partial cargoes in the U.S. for the U.S.S.R. In addition to the 64 ships shown above as lost, several ships have been sunk on their return voyages.

8-2728

Regraded Unclassified

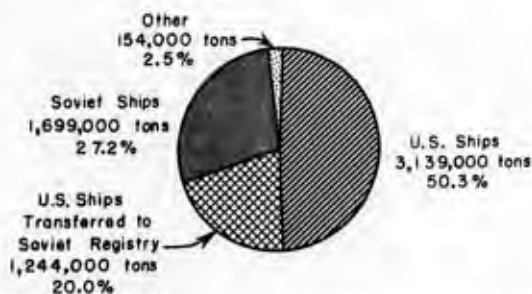
SECRET

STATEMENT OF CARGO SHIPPED TO U.S.S.R.
As of Oct. 31, 1943

(Thousands of Gross Long Tons)

Month	For North Russia	For Persian Gulf		For Soviet Arctic	For Soviet Far East		Total	Arrived	En Route as of Oct. 31	Cargo on Hand or Diverted In U. K.	Lost	Losses by Month
		Full Cargoes	Partial Cargoes		Full Cargoes	Partial Cargoes						
1941 Oct	48	-	-	-	17	-	65	62	-	-	3	-
Nov	41	3	-	-	14	-	58	55	-	-	3	-
Dec	50	10	-	-	11	-	71	63	-	-	8	3
1942 Jan	63	-	-	-	26	-	89	72	-	1	16	9
Feb	66	4	1	-	20	-	91	76	-	-	15	5
Mar	171	17	1	-	25	-	214	163	-	5	46	42
Apr	376	21	-	-	38	-	435	267	-	40	128	-
May	92	79	8	-	33	-	212	141	-	19	52	38
Jun	55	84	7	18	31	-	195	139	-	-	56	55
Jul	14	38	25	47	58	1	183	174	-	-	9	114
Aug	69	40	25	2	83	-	219	197	-	-	22	7
Sep	28	63	9	-	79	-	179	179	-	-	-	65
Oct	-	109	12	-	108	-	229	229	-	-	-	2
Nov	-	66	5	-	106	1	178	165	-	-	13	17
Dec	29	83	9	-	122	-	243	236	-	7	-	2
1943 Jan	73	83	4	-	98	-	258	210	-	48	-	2
Feb	164	40	-	-	129	-	333	168	-	150	15	4
Mar	9	131	-	-	123	-	263	246	-	9	8	16
Apr	-	139	5	-	194	-	338	331	-	-	7	7
May	-	112	9	13	217	-	351	344	-	-	7	-
Jun	-	25	4	16	229	1	275	275	-	-	-	15
Jul	-	117	9	57	153	-	336	336	-	-	-	-
Aug	-	173	4	31	262	-	470	441	15	-	14	14
Sep	-	194	4	-	313	-	511	282	229	-	-	-
Oct	66	187	6	-	181	-	440	36	404	-	-	-
Nov	-	-	-	-	-	-	-	-	-	-	-	-
Dec	-	-	-	-	-	-	-	-	-	-	-	-
Total Oct. 1941 to Oct. 31, 1943	1,414	1,818	147	184	2,670	3	6,436	4,887	648	279	422	422

**DISTRIBUTION OF TONNAGE SHIPPED TO OCT. 31, 1943
BY REGISTRY OF SHIPS**



DATA ARE GROSS LONG TONS

9-9728

Regraded Unclassified

NOT TO BE RE-TRANSMITTEDCOPY NO. 12U.S. SECRETBRITISH MOST SECRETOPTEL No. 390

Information received up to 10 A.M. 29th November, 1943.

1. NAVAL

One of H.M. Cruisers carried out a bombardment in the GULF OF GASIA on 27th. Another of H.M. Cruisers was torpedoed by U-Boat yesterday 50 miles Northwest of GERNA but is proceeding to port. One of H.M. Submarines has sunk a medium ship and 3 Caiques while patrolling in Aegean. Attempts by a concentration of 7 U-Boats to attack a heavy ward convoy in Southwestern Approaches on 27th/28th were beaten off without loss. One of H.M. Corvettes made a broadside attack on a U-boat and a Wellington made another attack.

2. MILITARY

Italy On night 27th/28th, Indian and New Zealand troops of the 8th Army with very effective air support attacked the main enemy defensive position on the high ground overlooking the SALGEO and heavy fighting is in progress. The Germans are resisting strongly and have launched repeated counter attacks using flame-throwers. Weather conditions have improved.

Aegean CASTELORIZZO was evacuated on 27th/28th by one of H.M. Destroyers and small craft except for a small garrison.

3. AIR OPERATIONS

Western Front 28th. One enemy aircraft made brief incursion over BASSOGATE. 28th/29th. Aircraft despatched:- ESSES 10 Mosquitoes, DUISBURG 1 Mosquito, Intruders 2, Anti-aircraft 3, Leaflets 14, Sea-mining 10. Four enemy raiders came up THAMES Estuary and a 5th crossed East Anglian Coast. No incidents of importance reported.

Italy 26th/27th. Wellingtons dropped 33 tons in GROSSETO area and hit railway bridge over TRASOPRONS CIVIL.

27th. Totals of 240 Medium and Light bombers and 229 Fighters supported our troops in the LADICIANO/POSSANCIANO battle zone 271 tons were released on enemy strong points. A total of 276 tons was dropped by Bortostops on railway centre and bridge at RIMINI and in the BOLOGNA area. 312 Invaders bombed a railway junction southwest of ROMA. enemy casualties 732. Ours 3 missing.

OFFICE
SECRETARY OF TREASURY

1943 NOV 30 PM 3-4

5:37/9/43

TREASURY DEPARTMENT

November 30, 1943
9:57 a.m.

Herbert
Gaston:

Hello.

HMJr:

Herbert.

G:

Yes.

HMJr:

I saw the results of some of your work with Walter Lippmann today.

G:

Yes.

HMJr:

And his answer on the -- more excise against sales tax....

G:

Yes.

HMJr:

....I thought was the best thing I've seen yet.

G:

Yes.

HMJr:

Have you read it?

G:

Yes, I have.

HMJr:

Well, now, how can we get that to Paul and get more publicity on that?

G:

(Aside: Come in.) I'll -- uh -- is Paul up on the Hill?

HMJr:

Yes, they say he's up on the Hill.

G:

Uh huh.

HMJr:

And the point is, that's an awfully good argument and I wondered if there's some way....

G:

Uh huh.

HMJr:

Could -- maybe....

G:

Yeah.

HMJr:

....Shaeffer or one of his boys, if you could point the thing out to him.

G:

Well, I think it would be a good idea to get it up to Paul and right -- uh -- he might be able to use it in some way.

- 2 -

HMJr: Somebody -- why don't you send for his secretary and see that she gets it to him?

G: Yes, I'll do that. And I'll also talk it over with Shaeffer, and get it....

HMJr: It's awfully good.

G:call the boys' attention to it.

HMJr: And it's an answer, you know, what he said about, "Well, if they can -- these people can pay a billion dollars -- below, nine million...."

G: Yes.

HMJr: "...then they're the people where the inflation will come from."

G: Yes.

HMJr: See?

G: Yes.

HMJr: Okay?

G: Right.

HMJr: That's a good dividend.

G: Yes. There's one -- there's one thing that we didn't get good play on yet.

HMJr: Yes.

G: And that's the large amount that we proposed to tax the people under \$5,000.

HMJr: Yes.

G: That we haven't got adequate play on yet.

HMJr: Well, you might tell Shaeffer. He might try to guide some of the boys.

G: Yes. Uh huh.

HMJr: Thank you.

G: Right.

Meeting in the Secretary's Office
November 30, 1943
11:00 A.M.

Present: Secretary Morgenthau
The Chinese Ambassador, Mr. Shi
Mr. White

The Chinese Ambassador stated that he had a communication from the Finance Minister which he had been asked to submit to the Treasury. The communication indicated the desire to permit the 1931 Chinese Agreement to lapse and also expressed the view that in that event certain changes should be made in our licensing provisions.

The Ambassador also had a suggested draft of an announcement to be made public by the governments when agreed upon.

The Secretary replied that he would study the document and that Mr. White would get in touch with him very soon about it.

After the Chinese left Mr. White brought the Secretary up to date on the negotiations with China and revealed that the message was quite misleading in that it was the United States that had requested that the agreement be permitted to lapse. White also added that he thought there would be no difficulty about changing the Foreign Funds Control licensing provisions in accord with the desires of the Chinese Government. White reminded the Secretary that the matter of the lapse of the agreement had been discussed at least twice with the Secretary and that he (the Secretary) had approved permitting the agreement to lapse and that the State Department had approved and that the matter had been discussed with the British as well. The Secretary nodded his head affirmatively and said he remembered.

H. D. White

November 30, 1948
11:15 a.m.

ARGENTINE BANKS

Present: Mr. Paul
 Mr. White
 Mr. Pehle
 Mr. DuBois
 Mr. Luxford

H.M.JR: I have been doing a little checking up which I didn't tell you fellows about. This is the first important communication I have received, although it is the third one. (Secretary refers to letter of November 24, 1943 from General George V. Strong, Military Intelligence Division, to the Secretary)

MR. WHITE: The first important communication?

H.M.JR: This is the third one I have received, but the only important one I have from General Strong on the Argentinian thing. No one has ever seen these. I have been doing a little checking on my own. I'll read this to you. It is so interesting and so new that I thought you would like to hear about it. (Secretary commences reading of letter)

(Secretary leaves the room momentarily to take a telephone call; Mr. Paul enters, and Mr. Pehle completes reading of letter)

H.M.JR: Hello, Paul.

MR. PAUL: Hello. I just got back, so I joined the conference.

H.M.JR: I told them I had been doing a little secret snooping without telling anybody. Did you read this? (Refers to Strong letter)

MR. PAUL: I heard it read.

MR. PEHLE: It is very interesting.

H.M.JR: And certainly it is--how shall I say?--an unbiased statement.

MR. PEHLE: Yes.

- 2 -

H.M.JR: In the light of that I thought that we could be fairly stiff.

MR. PAUL: That becomes relevant in connection with this new monetary system that has to be discussed with them now.

H.M.JR: May I ask you people--don't tell anybody that I have this or that I am getting this on your word of honor--all of you.

MR. WHITE: But how would you be able to make use of their additional support of your position?

H.M.JR: It is just this. After all, your training with people, and if you know that this background sooner or later will seep up to the State Department. That is all.

MR. PERLE: It comes from the Military Attache.

H.M.JR: Surely; and considering this attitude here, we simply know we can stand firm and sooner or later this attitude will get to Hull, I hope. That is all.

MR. WHITE: Of course, the Military and Naval Intelligence were even stronger in favor.

H.M.JR: Yes, but you couldn't get a more intelligent report than this, I believe.

MR. WHITE: It is stated a little bit cagey from Strong's point of view.

H.M.JR: Anyway, I thought I'd let you people read it. I don't want anybody to know I am getting this.

MR. PAUL: It is going to be followed up with subsequent reports?

H.M.JR: This is the third I have on it. The others weren't any use. I didn't show them to anybody. This is the third. They come in weekly.

I might as well make a full confession: I get one, also, on the French in Africa. Confession is good for the soul.

- 3 -

MR. PEMLE: I don't know whether you knew it, Mr. Secretary, but General Strong's Lieutenant Colonel in the outer office is Norman E. Towson, who was my assistant, who is well versed in freezing matters and who has given the General some background.

H.M.JR: You didn't know I got this?

MR. PEMLE: No, but he is acquainted with Treasury interests and various problems.

MR. PAUL: We ought to have a man like that everywhere!

MR. PEMLE: We have one in Argentina.

MR. WHITE: We have one who is head of Naval Intelligence.

H.M.JR: What do we do now?

MR. PAUL: The next thing is the question of discussing with State this new monetary system. That is what they brought up over there in their meeting.

MR. PEMLE: May I explain a little bit what they have in mind?

H.M.JR: Yes. I'm against it! Go ahead. (Laughter)

MR. WHITE: That is the same position to take, anyway.

MR. PEMLE: These boys will agree with you, but I am not so sure. This is what Collado says he has in mind: He is trying, according to his own statement, to work out a method whereby Argentina would be frozen, but that the freezing would on its face look a little different from what it was in the case of Switzerland and Sweden.

Now, I think we all agree that if you could get that, it might accomplish much of what we are trying to accomplish. The difficulty is that if you start to negotiate for that, we may come out with something that is far less than that and something that the Treasury definitely should not have anything to do with.

- 4 -

H.M.JR: You are talking a little loudly--do you mind?

MR. PERLE: So the question becomes one of tactics, and I take it your feeling is that we ought to say we are interested.

H.M.JR: I am not interested. I'll tell you why. I was being facetious; now I am serious.

If the Argentine--you see, this is the point. I have thought a lot about this, and I got your memo (Paul). If Argentina had been, let's say, better in their dealings than either Switzerland or Sweden, then I'd say, all right, they have behaved so beautifully--I mean, not good enough to leave them alone, but so much better than Switzerland or Sweden, we have to give them better treatment. But the facts are the other way.

MR. PAUL: Sweden has been pretty good.

H.M.JR: They have been much worse--

MR. PAUL: Even than Switzerland.

H.M.JR: He (Paul) is silly. He is used to interrupting Senators. He has been in a bad atmosphere! (Laughter)

Now, where was I? In my own mind--maybe you boys covered all this--I have been thinking about this thing. We started a year and a half ago to recommend to freeze, when there was a different kind of government in there. The previous government that was in there would not play ball. Now, a government comes in by that unmentionable name, according to Mr. Adolph Berle; a fascist government comes in, and why should we say that a government with a friendly ambassador up here, with an American wife, a government that signed the Rio agreement and all that, they wouldn't play ball. They are tarrown out, and a military dictatorship comes in; and we should say, "You are a lot of gentlemen. We believe you. We will unfreeze these two banks and we are going to give you a special formula because you are such a nice little fascist group"!

MR. PAUL: Don't you want to imitate the way they do things in North Africa?

- 5 -

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

MR. PAUL: I mean Giraud.

H.M.JR: Well, it just doesn't make sense, and therefore I am going to maintain, unless you people all gang up against me, what I told Mr. Hull. It is up to him to say whether he wants to move. If he moves, then it is up to us to say what technique we want to use.

MR. PAUL: Then it would follow from that that we shouldn't discuss this new alternative.

MR. PERLE: That is right. In other words, we should say the Treasury's view is that either we ought to freeze them or not.

MR. WHITE: Shouldn't the Treasury's view be this, that the Treasury was agreed with the recommendation and suggestion of Secretary Hull that they canvass the various governments, prepare a joint memorandum which will be sent around, and that is the next step we want to see--and stand on that?

MR. PERLE: They want to talk to us about that.

MR. WHITE: But say that was the last thing settled, and that is the thing to agree on.

MR. LUXFORD: If they wish by their freezing action to indicate this is against the Government more than the people, I think that the press release that we drew up before does that. That isn't what we are talking about.

H.M.JR: But the point is this--I, of course, wasn't here and I think the State Department got themselves in a very untenable position when they approved our freezing these two banks. I don't know what they had in mind.

MR. PERLE: They did.

H.M.JR: What?

MR. WHITE: It was initiated with them.

MR. PERLE: I am not so sure of that, Harry. We put

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them in a position where they had to do something.

H.M.JR: Now they can't go from that position to a position where they are going to say, "Well, let them do business as before without any control." And I think that Hull was impressed when I said, "You decide whether it is good foreign policy, and I'll decide the technique." You people have spent hours explaining to me the Collado technique, and I don't like it.

MR. WHITE: Well, I think it would only take a minute; I am not sure that you understand it.

H.M.JR: On a purely tactical basis I don't want to go along with it.

MR. WHITE: Yes, but I do think the purpose -

H.M.JR: Yes, I understand it, and particularly in view of this cable. After all, we have information from "inside of Troy" what is going on. And the tide is turning our way. I think we should rub these fellows' noses in it. It has been a week now since we have been over there, and I think Mr. Hull should go ahead with this thing.

MR. WHITE: And why should they recede from the position?

MR. PAUL: They have called up about the other South American governments. We do have to discuss these documents they are drafting.

MR. PERLE: We want to.

MR. PAUL: Haven't they suggested it?

MR. PERLE: Yes.

MR. PAUL: We certainly want to. That is why Harry said what he did to me.

H.M.JR: You boys go ahead. It is all right as far as I am concerned. I think the thing to do, Randolph, is to take Mr. Hull at his word and say, "Fine." In

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other words, you circularize these other governments.

MR. WHITE: I'll bet if we had discussions with the treasuries of the various countries we would get them to agree.

Incidentally, you would all be interested in this remark, that Glasser has come back and has been telling me about the various things. He says that the prestige and the status of the Treasury in Latin American countries and in European countries stands way above that of any other agency or department. It stands very high.

H.M.JR: That is for the Treasury, I think.

MR. WHITE: I'll pass the thanks on to the Treasury.

H.M.JR: I can't say to Mr. Hull, "Let us do this." But if he says he, Hull, is going to do that - -

MR. WHITE: It is all in how it is presented.

MR. PAUL: We might as well see how it is presented.

H.M.JR: Paul, all I was trying to do - I got your memo - was have you fellows read this and know, after reading it, unless you disagreed, I wanted to stand firm on what I call, for lack of a better name, the Swiss-Swedish formula. Does anybody feel very strongly?

MR. WHITE: Rather than turn them down flatly, because Hull said in the meantime he would like to have you examine the Collado formula, we could tell them that the time to consider that is after we have seen the results of this first step.

H.M.JR: Anyway, so long as he can't say we don't cooperate.

Thank you all very much.

November 30, 1943

My dear General Strong:

Thank you very much for your letter of November 24 on the Argentinian situation.

Please continue to send these reports to me, as they are very useful.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Major General G. V. Strong
A. C. of S., G-2
War Department General Staff
Washington, D. C.

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

November 24, 1943.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

In accordance with your request for a weekly report on the Argentine reaction to the freezing of funds, the following is submitted:

A reliable view is expressed to the effect that action should be taken directly against the Argentine Government, in preference to the singling out of individual banks for freezing. This view is supported by the argument that the Presidencia recently applied pressure to a certain unnamed bank to contribute some 5,000 pesos to "Cabildo", a newspaper noted for its anti-American attitude. It is asserted that this same type of persuasion is responsible for the violation of Section 5 of the Rio Resolutions by the Banco de la Nacion and the Banco de la Provincia.

On 16 November an elaborate luncheon was given at which American bankers in Buenos Aires aired their views to five economic officers of the Embassy. It was asserted that other countries of South America are not abiding by Section 5 of the Rio Resolutions, and implied that, therefore, action against the two Argentine banks was unjustly taken. The definitely selfish attitude of these bankers is specifically commented upon. They complained of the coolness toward them exhibited by officials of the Central Bank since the freezing action as evidence of the disapproval by those officials of such freezing, and they repeated the expressions of disapproval voiced to them by Argentine and American business men who are clients of the two American banks in Buenos Aires. These bankers pointed out that the measures taken are not sufficiently strong to accomplish anything and only serve to provoke reprisals such as discontinuance of export licenses for critical materials needed by the United States, or retaliatory measures against American banks and business enterprises.

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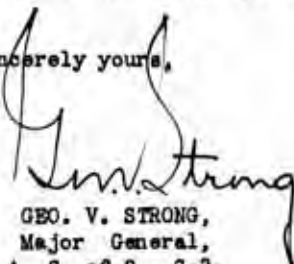


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These bankers admitted that it would be a mistake for the Government of the United States to reverse its action and unblock the two banks now, but they argued that since (in their view) the United States had made a mistake in the original blocking action, it should now adopt some "face-saving" formula such as permitting the two banks to operate under broad licenses which would afford the United States a certain amount of supervision over the dollar transactions of the two banks. It is noted that the "face-saving" is that of the United States rather than of Argentina.

Very sincerely yours,



GEO. V. STRONG,
Major General,
A. C. of S., G-2.

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November 30, 1943
11:30 a.m.

TAXES

Present: Mr. Paul

MR. PAUL: I got your message about Lippmann. There is no way I can use the Lippman now, because I am not on the stand, except to talk with them.

H.M.JR: Talk to Gaston, would you, and see what we could do, because that is a nice argument.

MR. PAUL: I didn't get your other stuff in the record first in reply to that remark of George's, because we couldn't get it done yesterday. It may not be a very good answer. I'll wait until we get it this -

H.M.JR: Will you show it to me? What are they doing this morning?

MR. PAUL: I left when Judge Fletcher got on the stand for an hour.

H.M.JR: Who is he?

MR. PAUL: He is a man who represents the railroads. The first man on this morning was Johnson, of Metropolitan Opera.

H.M.JR: Did he sing?

MR. PAUL: No, but he is a nice fellow.

H.M.JR: He is a darned nice fellow!

November 30, 1943
11:45 a.m.

STABILIZATION BOARD

Present: Mr. White

MR. WHITE: I'll give you very briefly the background. It was we who indicated we had some doubt in our mind as to the wisdom of renewing the agreement, because we didn't want to take the responsibility for the five cent rate, and we wanted to pave the way to ask for a better rate, because the opposition was becoming more vulnerable.

We talked it over with you, and you said it was all right. We also took the position that you agreed with before: We indicated to them that in the event the stabilization arrangement is not in effect, the Stabilization Board which is a part of that would, so far as the American member was concerned, have to be withdrawn. He would have to resign. They could keep the Board if they liked, or if they wished to ask him to be a member we would be glad to receive their request; but since it was part of the Stabilization Board we would ask him to resign. They could take any action to reinstate they wanted. They communicated that message to K'ung, and of course they liked the idea very much--the Stabilization Board being dissolved--because the British are on it and they regard it as foreign interference. It is the only country that has that sort of a thing.

And they came back to us after many discussions. The final cable from K'ung was that whichever the Treasury wishes, if the Treasury wishes to renew it or not, either way it is all right--something to that effect--after we had already indicated we would prefer not to.

So we said that since K'ung feels that way and we generally agreed that it would not be renewed and we would ask Adler to resign from the Board. We informed the British of our decision first, and the British said they wanted the Stabilization Board continued, and they would like to have us renew the Stabilization Board, because they have got twenty million dollars in the kitty and they want to have a finger in the pie. We

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told them as far as we were concerned we didn't feel that we could.

It was at that point that Waley said to me, "It is unfortunate that we can't pursue a common policy," and I said we'd be glad to pursue a common policy but that is as we see it, and if they feel a common policy is essential they can do what we are doing.

Now, then, this coming from K'ung is very amusing in that light, but there is something in here which is new, I gathered from the quick reading, and that is, "...if agreeable to the United States Government, the Treasury's general licenses, such as number 75, be amended appropriately."

Now, I gather what they mean by that--they don't specify--is that whether they mean to reduce our controls on remittances or eliminate it entirely, I don't know. But that is new and that would find out what they have in mind. And we'll discuss it.

With respect to the gold, we have no evidence that prices have risen other than what they have told us.

H.M.JR: You mean going down.

MR. WHITE: Other than what they have said. They have sold very little gold. That is our information. In the first place they have very little, and they have sold little. I think they are going to follow that with the statement that it has been so successful "we want more gold."

Another point is that they are getting ready, according to Adler's comments, to ask us for another big loan.

H.M.JR: I see. Well, I'll be seeing you more!

One thing, aren't we waiting to hear from Joint Chiefs of Staff on this Indian question--silver for India?

MR. WHITE: We didn't get a reply. Now, if you want to jog them -

- 3 -

H.M.JR: No.

MR. WHITE: We have cabled to K'ung asking him in the circumstances with which he is familiar to give us a quotation on Yuan up to now. Up to now we have been paying five cents. He gave us a quotation that they might consider forty to the dollar if the difference between twenty to the dollar which we are now paying and forty to the dollar will be regarded as Lend-Lease in Reverse. He has come back with no kind of a quotation at all. We are now drafting a cable I'd like to clear with you.

DRAFT ANNOUNCEMENT

The National Government of the Republic of China and the Central Bank of China entered into an agreement with the Governments of the United States and the United Kingdom on 1st April, 1941, in order to facilitate monetary and financial cooperation between China on the one hand and the United States and the United Kingdom on the other, and the stabilization of the Dollar-(U.S.)-Yuan and Sterling-Yuan rate of exchange for the purpose of eliminating fluctuation in this rate of exchange and of promoting trade and fostering the welfare and friendly relationship of the three countries. The Stabilization Board of China was instituted under this Agreement and commenced operations on 18th August, 1941.

During its existence the Board has not only fulfilled these objectives, but it has also played an important role in China's war effort by its contribution to the development of an effective system of exchange control in China, the curbing of unnecessary imports into Shanghai before the outbreak of the Pacific War, the handling of freezing problems involving China on the one hand and the United States and the United Kingdom on the other, and the fostering of the inflow of imports into free China prior to the fall of the Burma Road. The Board has thus fully justified the hope of the contracting parties.

Under existing conditions, however, when the relation between the three allied powers have become still closer in the financial as well as in other spheres, and when the United Nations

Nations are engaged in preliminary discussions envisaging the creation of a more all-embracing mechanism for financial cooperation, the Board, having fulfilled the purpose for which it was set up, is no longer necessary as an instrument of financial collaboration. Accordingly, the Chinese Government, having performed its obligation under the Agreement of 1941, and after consultations with, and with the full agreement of the Governments of the United States and the United Kingdom, has decided to have the Agreement of 1st April, 1941, terminated as of 31st December, 1943. The Board shall therefore wind up its affairs, and its duties and functions shall be taken over by the Central Bank of China and the Commission for the Control of Foreign Exchange Assets.

Dr. H. H. K'ung, Minister of Finance, wishes to take advantage of this opportunity to express his appreciation on behalf of the National Government of China to the Governments of the United States and the United Kingdom, and to the Secretary of the Treasury, the Chancellor of the Exchequer, the Bank of England, the Federal Reserve Bank and the Central Bank of China for their unfailing collaboration, and to the Chinese members and staff of the Board and their American and British colleagues for their loyal service to China under conditions which were often arduous and difficult.

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Telegram to The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury,
from Dr. H. H. K'ung, Minister of Finance
Chungking, November 25, 1948

On behalf of the Chinese Government I have the honor to state that the Chinese Government and the Central Bank of China have decided not to request extension of the Stabilization Agreement dated as of 1st April, 1941. Likewise the Chinese Government is requesting the termination of the Agreement made as of 1st April, 1941, with the British Government.

These agreements were entered into to facilitate monetary and financial cooperation between China and the U.S.A. and the United Kingdom, and to maintain exchange stability for the purpose of promoting trade and fostering the welfare and friendly relationship of the three countries.

During its existence the Board has not only fulfilled these objectives, but it has also played an important role in China's war effort. Under existing conditions, however, when the relations between the three allied powers have become still closer in the financial as well as in other spheres, and in view of the prospect for the establishment of new mechanism for monetary and financial cooperation among the members of the United Nations, the Board is no longer necessary as an instrument of financial collaboration.

Therefore

Therefore the Chinese Government proposes the following:

(1) That the Stabilization Board of China shall liquidate its affairs as soon as practicable, it being understood that the Board as now constituted shall continue to function for such time as necessary for the purpose of effecting final liquidation.

(2) That, if agreeable to the United States Government, the Treasury's general licenses, such as number 75, be amended appropriately.

In this connection I wish to express the great appreciation of the Chinese Government for the cooperation of the Treasury and of the Federal Reserve Bank and also of the American nationals who have served so effectively on the Board.

H. H. K'UNG

November 30, 1943
11:57 a.m.

HMJr:was talking to me today about your....

Ted
Gamble: Slogan?

HMJr:slogan, so I'm coming back at you because
a promise is a promise.

G: Good.

HMJr: What have you got?

G: Well, right here in the middle of a meeting....

HMJr: Oh.

G:of New Yorkers and advertising people....

HMJr: Do you want to talk to me after lunch?

G: No, sir. I'd just as soon tell you right now.
We've discussed it. That's what we're discussing
here.

HMJr: Yeah.

G: And I think our judgment all is on "Let's all
back the attack".

HMJr: Well, it's all right with me as long as "Let's all"
is kept in small letters.

G: I understand that.

HMJr: Is that all right with the boys?

G: Yes, sir. That's all right with the boys.

HMJr: Well, you can go ahead.

G: Well, that's on -- we're on our way. That's
official.

HMJr: Right.

G: Thank you, sir.

HMJr: You're welcome.

G: Bye.

November 30, 1943
12:30 p.m.

DEFERMENTS

Present: Mr. Gaston
Mr. Thompson

H.M.JR: Go ahead.

MR. THOMPSON: I was up at the Appropriation Committee yesterday for a couple of hours.

H.M.JR: I am leaving Friday night to be gone for a week. I am just telling you.

MR. THOMPSON: You want to take this on before then?

H.M.JR: I am saying, I am going away Friday night for a week.

MR. THOMPSON: I am all ready. I have his statement and Fred Smith has just cleared.

H.M.JR: If you want to do it Friday morning, it is all right with me.

MR. THOMPSON: Friday or Thursday either.

H.M.JR: Thursday I made a couple of appointments. You had better tell them outside.

MR. THOMPSON: Mr. Ludlow and the members of the Committee were very complimentary over your deferment policy.

H.M.JR: Were they?

MR. THOMPSON: They thought it was amazing, with a Department as large as the Treasury, that we had so few deferments.

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H.M.JR: You know, the thing that surprises me - just to digress a minute - the Senators have thrown up the ghost on the sales tax.

MR. GASTON: Have they?

H.M.JR: Yes. Let me see this a minute. (The Secretary reads editorial from the Evening Star, dated November 30, 1943, entitled "Senators Seemed Unimpressed by Tax Boost Plea.")

MR. GASTON: Is he more or less poison than he usually is?

H.M.JR: Less poison - much less. (The Secretary hands editorial to Mr. Gaston.)

MR. GASTON: Well, that is hypocritical rot, anyway. (Hands editorial to Mr. Thompson.)

H.M.JR: Yes, but the answer is a little less poison.

And this is better. This is sales tax stuff (referring to editorial entitled "Congress Can Tax," from the Evening Star, dated November 30, 1943.

And this is very funny. (The Secretary hands cartoon from the Evening Star of November 30, 1943, to Mr. Gaston.)

I don't see where these boys are going to get. Here they have thrown up the sponge already. (Editorial entitled "Revenue Now and Later," from the News, dated November 30, 1943, handed to Mr. Gaston.)

This is a proposal that the hotels have. They want to duplicate their maintenance, their operating expenses, as a reserve after the war - charge it all as current expense. (Article entitled "Senators Won't Include Sales Tax in House Bill," from the News, dated November 30, 1943, handed to Mr. Gaston.)

Now, (to Mr. Thompson) I will do yours.

MR. THOMPSON: They are coming in - quite a good many.

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H.M.JR: Tripp.

MR. THOMPSON: ^{made} Mac says he just can't release him. He is definitely needed there.

H.M.JR: That is all right. This is Perry C. Tripp, Procurement Division. How many months is this?

MR. THOMPSON: They are all for six months. That is the limit on the deferment.

(The Secretary signed deferment application of Percy C. Tripp.)

MR. THOMPSON: This man has just finished six months and he is up for another six months.

H.M.JR: John W. Flatley, Chief of Contract and Purchase Branch, Procurement Division.

MR. THOMPSON: He won't be taken for full service. He has a flare in one eye which would make him only available for limited service.

H.M.JR: But you think he is pretty good?

MR. THOMPSON: He is excellent. I dealt with him on this Western Newspaper matter. He is a hundred percent.

H.M.JR: Well, that wasn't so hot.

MR. THOMPSON: I mean in the investigation of re-negotiation.

H.M.JR: John W. Flatley, O.K. (The Secretary signed deferment application of John W. Flatley.)

Who is Wilson?

MR. THOMPSON: Director of Personnel; a member of the Committee.

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H.M.JR: Why doesn't he come in here?

MR. THOMPSON: I will have him in if you would like him.

(The Secretary asks the operator for Ted Wilson in Norman Thompson's office.)

MR. THOMPSON: This fellow is rather young, but he is an engraver in the Bureau and we can't replace him.

H.M.JR: Photographer, K. C. Wiram. He is an apprentice engraver.

MR. GASTON: That doesn't mean a great deal. It means he hasn't served the full time. We just can't replace him.

MR. THOMPSON: We just can't replace him. Mr. Hall said that is the worst situation he has in the Bureau of Engraving. Four or five engravers and no way in the world to replace them.

H.M.JR: O.K. He is rather young. (The Secretary signed deferment application of K.C. Wiram.)

All right.

MR. THOMPSON: He is the youngest one we have deferred, but considering the job he has, it is all right.

Here is a narcotic agent who has about fifteen or twenty court cases pending and Anslinger says if they take him in, he will be out six months in these court cases. Mr. Leahy, the Chairman of the District of Columbia Selective Service System thinks we should defer him.

MR. GASTON: That is the local man here.

H.M.JR: Leroy W. Morrison, Narcotic Agent.

MR. GASTON: He is the agent in charge?

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MR. THOMPSON: Yes. I think it is a good case.

MR. GASTON: I think so. Leahy is very tough.

H.M.JR: Who is he?

MR. THOMPSON: Chairman of the District of Columbia.

H.M.JR: How do you know he favors that?

MR. THOMPSON: Mr. Anslinger contacted him.

H.M.JR: O.K. (The Secretary signed deferment application of Leroy W. Morrison.)

MR. THOMPSON: Here is a plate printer. The first plate printer we have had.

H.M.JR: Charles F. Schoepflin, a plate printer. Why doesn't that come to me the way the others do?

MR. THOMPSON: They had prepared a letter which was initialed.

H.M.JR: Are we short on plate printers?

MR. THOMPSON: Yes, sir; not quite as bad as the engravers, but they can't find any.

H.M.JR: All right. (The Secretary signed deferment application of Charles F. Schoepflin.)

These are all six months.

MR. THOMPSON: There is Dan Bell's top man in the Chicago organization. He is a technical man.

H.M.JR: Orville M. Traver - you think so, too?

MR. THOMPSON: Yes. Dan thinks it would be fatal to lose him.

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H.M.JR: O.K. (The Secretary signed deferment application of Orville M. Traver.)

I am getting very soft-hearted. I hope not soft-headed!

MR. THOMPSON: Well, I think all these fellows are important.

That man, Elmer Ireys, is investigating the tax case down in Texas that you know about.

H.M.JR: Elmer C. Werner.

MR. GASTON: He is on the Roop thing.

H.M.JR: A contractor. Is this the second one? I thought one had been drafted on that.

MR. THOMPSON: No, there was one who had been drafted, and the Draft Board changed his position. That is another one.

H.M.JR: All right. (The Secretary signed deferment application of Elmer C. Werner.)

Do you fellows turn any down before they come to me?

MR. THOMPSON: Yes, sir. I turned Elmer Ireys down on one this morning.

H.M.JR: All right. Laurie W. Tomlinson, Chief Field Deputy of Florida Collection, Bureau of Internal Revenue.

This is not on the key list. (heading) "Mr. Tomlinson is thirty-five years old and married, with two children." Why do I get it if he is not on the list?

MR. GASTON: He is Chief Deputy under Jack Fahs, in Jacksonville. They don't know where to get a man to take his place.

H.M.JR: How about putting him on the key list?

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MR. THOMPSON: This would automatically go through the Committee and they would put him on the key list at the time of deferment. We could put it up that way if you prefer to have him on the key list first. But in view of the fact that they are getting in 1-A and subject to call, Barnett suggested we submit them.

H.M.JR: Do you really think this fellow ought to be in?

MR. THOMPSON: I think so. We send them through Barnett, and he sends them to the Board.

H.M.JR: O.K. on this. (The Secretary signed deferment application of Laurie W. Tomlinson.)

Did you say the Committee was complimentary?

MR. THOMPSON: Yes, very complimentary.

H.M.JR: Lawyers?

MR. THOMPSON: Taber, Ludlow, Mahon, O'Neal, and Dworshak, I think, from Idaho. Two Republicans and three Democrats.

H.M.JR: How about lawyers?

MR. THOMPSON: It was just a general question of deferment.

H.M.JR: John S. Richards, Assistant Director of Enforcement, Foreign Funds, married, two children.

MR. THOMPSON: He was on Pehle's suggestion. He is the last one of his list.

H.M.JR: Is he?

MR. THOMPSON: Yes.

H.M.JR: Think it is important?

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MR. THOMPSON: Well, I think so. You just can't replace these fellows.

H.M.JR: How do these men feel about it themselves?

MR. THOMPSON: They are all willing to stay on if we want them to stay on.

H.M.JR: O.K. (The Secretary signed deferment application of John S. Richards.)

MR. GASTON: When you get a man in his middle thirties with a family - don't many of them feel that they are under obligations, possibly.

MR. THOMPSON: There are three more plate printers coming through. Do you want them to come to you?

H.M.JR: You bring them to me.

MR. THOMPSON: All right sir.

H.M.JR: I want to be able to say, honestly, I consider every one myself.

MR. THOMPSON: I told the Committee; they wanted to know if you consider them. I told them the practice here and they were very much pleased.

H.M.JR: I do every one myself.

MR. THOMPSON: Yes, sir.

November 30, 1943
3:45 p.m.

HMJr: Harry?

Harry
Byrd: Henry?

HMJr: How are you?

B: How are you feeling?

HMJr: Fine. I'm calling you up on a personal matter.

B: All right.

HMJr: I thought you'd like to know that one of your fellow townsmen from Richmond, Colonel Reid....

B: Yeah.

HMJr:is the head of the Second Cavalry and I was down there Thanksgiving Day with my boy who is one of his Lieutenants.

B: Uh huh.

HMJr: And he wanted to be particularly remembered to you.

B: That's fine. He's the son of one of the best friends I've got.

HMJr: And when I was up there the other day, there were so many people around....

B: Yeah.

HMJr:I didn't have a chance to talk to you personally.

B: That's fine, Henry. It certainly was nice of you to call me. You handled yourself fine before the Committee.

HMJr: Well....

B: (Laughs)

HMJr:from you that's quite a compliment.

B: Well, you did. You handled it all right.

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HMJr: According to the newspapers you've kind of thrown up the sponge on the sales tax.

B: Well, I don't reckon there's any hope of it. Do you think so?

HMJr: No.

B: (Laughs)

HMJr: (Laughs)

B: If I thought we could get it through, I'd fight but I don't see much use of fighting just for nothing.

HMJr: Well, did they quote you correctly?

B: Well, I -- I didn't see it. What did they say?

HMJr: Well, in tonight's papers they quoted you and Vandenberg as deciding it wasn't worth fighting for.

B: Well, I think it's about right. I -- I didn't say that. I don't -- don't tell anybody that but I reckon that's a fact, I think.

HMJr: Yeah. Well, you people were very nice to me yesterday.

B: Yeah, you handled yourself well.

HMJr: Well, thank you.

B: Henry, thank you for calling me and I'll tell his father that you called.

HMJr: Yes, well, he's a very fine officer and I'm delighted that Henry's serving under him.

B: Yeah. That's good.

HMJr: Right.

B: Your boy's under him? Well, that's fine.

HMJr: Yeah, he's a....

B: I'll tell his father that.

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HMJr: He's a Second Lieutenant in his Regiment.

B: Uh huh. Fine. Thank you, Henry.

HMJr: Bye.

B: Good bye.

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○ Secretary's ideas for newsreel as dictated by him to Gamble and Smith.

In the twelve months ending June 30, 1944, the Federal Government would incur a debt of \$57 billion. In this situation, if we pay in taxes any less than we can now afford to pay, we should be unfair to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil. We shall not only be asking the 10 million members of the armed forces to give the most important years of their lives to fight the war. We shall also be requiring them as a large body of future taxpayers to pay in taxes after the war what we could and should have paid while they were fighting. Let us bear in mind that an essential part of fighting a war is paying for it in the right way, at the right time. There is no escape from the cost of war. It is a great fallacy to suppose that we can fight history's greatest war to save what we hold most dear without financial sacrifice. Inevitably we shall experience much greater financial sacrifice than we have thus far. Taxation now, during the war, is the easiest way to pay for the war.

With a \$57 billion deficit, it means that from now until the first of July the Government is spending \$5 billion more each month than it collects. What we can't get through increased taxes, we have got to borrow.

This means that we are spending \$5 billion more a month than we take in. Unless we get increased taxes we will have to raise it all through borrowing.

Draft I

11-30-43
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Total expenditures of the Government for the fiscal year 1944, ending next June 30, will amount to 98 billion dollars. This is 8 billion less than we expected to spend. In taxes we will get about 41 billions instead of 38 billions that we previously expected. These changes, added together, will reduce our previously expected deficit from 68 billions to 57 billions for the fiscal year 1944. This reduction is important, but it does not change our need to get all the money we can through taxes and War Bonds. With our war continuing to cost a total of over eight billion dollars a month, we must continue our all-out effort to raise huge sums.

The new budget reduction does not affect, in significant degree, the inflationary dangers that face us. It is a great fallacy to suppose that we can fight history's greatest war to save what we hold most dear without financial sacrifice. It is better to make the financial sacrifice today, by buying Bonds, than to wait until inflation overtakes us and demands a greater financial sacrifice over which we have no control.

11-30-43

243
Draft 11

Recently there has been a great deal of discussion about the Army and Navy reducing our need for taxes, by turning back huge amounts of money to the Treasury. These reports have been misunderstood, ~~and exaggerated~~.

During the twelve months ending June 30, 1944, the Federal Government will have incurred a debt of \$57 billion ^{dollars}. This means that we are spending ^{about} \$5 billion more a month than we take in. Unless we get increased taxes we will have to raise it all through borrowing.

In this situation, if we pay in new taxes any less than we can now afford to pay, we should be unfair to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil. ~~(We shall not only be asking the 10 million members of the armed forces to give the most important years of their lives to fight the war.)~~ ~~We shall also be~~ requiring them as a large body of future taxpayers to pay in taxes after the war what we could and should have paid while they were fighting.

~~Taxation now, during the war, is the easiest way to pay for the war.~~

Secretary of The Treasury, Henry M. Morgenthau, Jr., ²¹⁴
November 30, 1943 at The Treasury

Recently there has been a great deal of discussion about the Army and Navy reducing our need for taxes, by turning back huge amounts of money to the Treasury. These reports have been misunderstood. ↗

During the twelve months ending June 30, 1944, the Federal Government will have incurred a debt of \$57 billion. This means that we are spending about \$5 billion more a month than we take in. Unless we get increased war taxes we will have to raise it all through borrowing. STOP

In this situation, if we pay in new taxes any less than we can now afford to pay, we should be unfair to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil, by requiring them, as a large body of future taxpayers to pay in taxes after the war what we could and should have paid while they were fighting.

TREASURY BILLS

	<u>Dec. 2</u>	<u>Nov. 26</u>	<u>Nov. 18</u>	<u>Nov. 12</u>
Amount offered	\$1,000 M	\$1,000 M	\$1,000 M	\$1,000 M
Bids tendered	✓ 1,544	✓ 1,622	1,222	1,247
Accepted at fixed rate	64	78	74	76
Low rate .....	.297%	.360%	.297%	.340%
High rate .....	.376	.376	.376	.376
Average rate .....	.375	.376	.375	.3757
Amount in New York	\$690 M	\$684 M	\$627 M	\$642 M
Amount in Chicago	110	75	129	129
Amount in San Francisco	59	81	64	74
Amount in balance of country.	141	160	180	155

sub B

November 30, 1943

TREASURY DEPARTMENT

Washington

Office of the Administrative
Assistant to the Secretary

November 30, 1943

To Staff Members, and
Heads of Bureaus, Offices and Divisions.

Mr. Charles F. Shaeffer has been designated by the Secretary to be Director of Public Relations, succeeding Mr. Charles Schwarz who has relinquished this post to join the military service. All authority, functions, and duties heretofore vested in and directed by Mr. Schwarz have been transferred and delegated by the Secretary to Mr. Shaeffer as Director of Public Relations. Mr. Shaeffer will perform his official duties under the general supervision of Mr. Fred Smith, Assistant to the Secretary, to whom he will report directly.

It is the Secretary's instruction that no statements, formally or informally, are to be given to members of the Press without clearance through Mr. Shaeffer, Director of Public Relations, or in his absence, through Mr. Dillon of his office.

W. N. THOMPSON
Administrative Assistant
to the Secretary.

November 30, 1943.

Memorandum to The President:

I think you may wish to sign the attached letter, or something in this vein, for Joe Murphy who is retiring on account of ill health after having been in the Secret Service since 1899 and on the Presidential detail from T. R.'s time until he became Assistant Chief. You of course know Joe very well. He is a fine person and I think deserves such a letter.

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Dear Joe:

I learn that you are retiring after a career of nearly forty-five years in the Secret Service, a major part of which has been devoted to guarding seven successive Presidents.

Each of my predecessors, I am sure, felt the same sense of personal gratitude to you that I feel. The admirable organization that functions so well to insure the safety of the President in office is, I know, in large part the fruit of your unceasing zeal and devotion. I know also the great affection in which you are held by those who have worked with you in the present and preceding White House Details. It is most eloquent testimony to your work and service.

You have amply earned the citation which I am privileged to give: Well done.

Sincerely your friend,

Mr. Joseph E. Murphy
Assistant Chief
United States Secret Service

Treasury Department
Division of Monetary Research

Date Nov. 30, 1943 19

To: Secretary Morgenthau

I received this letter several weeks ago but delayed taking the matter up with you until I had talked to Glasser about it.

I should like to discuss it with you at your convenience.

I say no. Unless
H.D.W.
Glasser insists insists
in leaving Mr. J.
MR. WHITE
Branch 2058 - Room 214

FOREIGN ECONOMIC ADMINISTRATION

OFFICE OF THE ADMINISTRATOR

WASHINGTON 25, D. C.

November 11, 1943

Mr. Harry White
Assistant to the Secretary
Treasury Department
Washington, D. C.

Dear Harry:

If you would consent, we would like to obtain the services of Mr. Harold Glasser for the Foreign Economic Administration.

Mr. Glasser would become our top advisor on international finance and work closely with those allocating funds for various war purposes. The work is of the highest priority - if it were not I should not approach you for transfer. For this work we think it important that the head should have had practical experience in the Treasury, and be familiar with the balance payments problems which are involved.

Will you let me know how you feel about this proposal?

Sincerely yours,


Lauchlin Currie
Deputy Administrator

November 30, 1948

My dear Mr. Ambassador:

Thank you so much for your letter of November 25th, informing me of how many rifles England had on hand at the time of Dunkirk.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

His Excellency,
The British Ambassador,
Washington, D.C.

CONFIDENTIAL

*Raymond Roberts 5:35
11/30/48*

**BRITISH EMBASSY
WASHINGTON, D. C.**

November 25th, 1943.

My dear Morgenthau,

My military people tell me that they have enquired from England regarding the number of rifles in England at the time of Dunkirk and find that the total at that time was 700,000.

Yours sincerely,

Halifax

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



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

SF

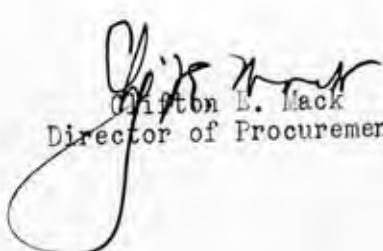
November 30, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the weekly report of Lend-Lease purchases.

We are cooperating with Army Engineers in the acquisition of used equipment for the coal mining project in the United Kingdom. Some of this equipment will be available from U. S. Engineers' stores of reconditioned used equipment.

The program will involve the purchase of 250 crawler shovels and drive lines and 100 large tractors with scrapers.


Winston L. Mack
Director of Procurement

SECRET

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF NOVEMBER 24, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$3974.9 (3974.6)	\$1977.1 (1977.1)	\$1558.2 (1558.2)	\$109.8 (109.8)	\$11.0 (11.0)	\$318.8 (318.5)
Purchase Authoriza- tions (Requisitions)	\$3248.4 (3253.8)	\$1710.0 (1713.7)	\$1298.3 (1305.2)	\$44.1 (43.8)	- -	\$196.0 (191.1)
Requisitions Cleared for Purchase	\$3166.6 (3158.2)	\$1666.4 (1662.7)	\$1278.7 (1280.8)	\$43.6 (43.4)	- -	\$177.9 (171.3)
Obligations (Purchases)	\$3042.3 (3040.5)	\$1631.7 (1631.3)	\$1229.7 (1229.6)	\$43.5 (43.3)	\$8.5 (8.4)	\$128.9 (127.9)
Deliveries to Foreign Governments at U. S. Ports*	\$1491.9 (1464.7)	\$1028.6 (1010.9)	\$422.4 (412.9)	\$19.8 (19.8)	- -	\$21.1 (21.1)

*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 November 17, 1943.

EXPLANATION OF DIFFERENCES.

SECRET

The reductions in Purchase Authorizations, and Requisitions Cleared are a result of adjustments of requisitions to actual contracts.

7
12-1-43
White

~~AA~~ 256

FOREIGN ECONOMIC ADMINISTRATION
OFFICE OF THE ADMINISTRATOR
WASHINGTON 25, D. C.

NOV 30 1943

My dear Mr. Secretary:

I have read with great care the memorandum you sent to the President of November 4, 1943, recommending that we re-examine our policies of Lend-Lease assistance to the French, with a view to placing the entire program with them on a cash reimbursable basis.

I wish to inform you that we have given this matter our closest consideration and that we concur in the general policy outlined in your memorandum to the President. We are prepared therefore to join with you in presenting this position to the Secretary of State at an appropriate time.

Very sincerely yours,

Leo T. Crowley
Leo T. Crowley

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington 25, D. C.

NOV 30 1943

My dear Mr. Secretary:

In view of the discussions that we have had with representatives of the Navy Department, since our letter to you of November 18, concerning the release of Italian ships now in Spanish harbors, I would suggest that a conference should be held between the State, Treasury, War and Navy Departments. In this way, the issues involved could be examined in full and a decision reached as to the best method of handling the problems.

As we have already indicated to your representatives, a meeting the afternoon of November 30 would be agreeable.

Very truly yours,

(SIGNED) D. W. BELL

Under Secretary of the Treasury.

The Honorable,

The Secretary of War.

11/30/43 - Forwarded by special messenger, 11:50 a. m.

11/30/43

Cleared with H.D.W.

FILE COPY

TO:

Dr. White

*You were to
prepare another
letter asking
for a conference*

DWB

11/58

Office of the Under Secretary

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

November 26, 1943.

DR. WHITE:

Commander Butler just telephoned me about the Italian ships in Spanish ports. There seems to be a feeling that nothing can be done until the Treasury replies to the letter from the Secretary of War making a definite statement that funds are or are not available in view of the reply that was given to the letter in the first instance.

Instead of doing this I suggest that there be a conference between the State, Treasury, War and Navy Departments to see if we can't, first, determine whether we want to get the ships back in operation as a matter of policy, and, second, which is the best way to do it. He agrees with this. He says he is sure that the Navy has emergency money that could be used to get the ships back in operation. I took from his conversation that the Navy would not be in favor of buying them.

Why don't you write a further letter to the Secretary of War suggesting that there be such a conference?

awB

RECEIVED
NOV 27 1943
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

November 23, 1943.

MR. WHITE:

Regarding the Italian ships in Spanish ports, I have talked to Commander Butler of the Navy, who in turn has talked to several other officers over there. They apparently got the request to take over these ships in about the same manner as we got it. I asked him if he would let me know whether or not the Navy is actually interested in getting the ships, and if they are, have they the funds with which to buy them. He said he was sure they had the funds and could buy them if the Navy wanted to get them for Navy purposes in those waters.

He promised to talk to the "higher-ups" and let me know how the Navy felt about it.

COPI TO MISS CHAUNCEY

DWB:ew

Nov. 18, 1943, incoming and file sent
to Mr. Taylor, in Mr. Bell's office
(by Miss Chauncey, as requested).

Incoming letter, with several copies
of reply left with Mr. Bell for further
action. (Mr. Taylor told LS this would
probably be handled by phone.)

NOV 18 1943

NOV 18 1943

Dear Mr. McFlay:

This is to acknowledge your letter of the 13 of November regarding the need of the Italian Government for foreign exchange assets to finance costs such as those attaching to Italian merchant vessels now in Spanish harbors.

This matter raises a number of financial problems on which officials in the Treasury Department now are working. We will inform you in a few days regarding the means operandi by which these costs may be met until such time as Italy may have foreign exchange assets of her own.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. John J. McFlay,
Assistant Secretary of War,
Washington, D.C.

Mailed from Secretary's office.

WHF:nh
11/18/43

WAR DEPARTMENT

WASHINGTON, D. C.

13 November 1943

The Honorable,

The Secretary of the Treasury.


Dear Mr. Secretary:

The State Department has referred to the War Department for consideration by the Combined Civil Affairs Committee the question of financing the expenses of operating and maintaining Italian naval and merchant vessels in Spanish ports. Inclosed are copies of telegrams exchanged between the State Department, the U.S. Ambassador to Spain, and the State Department representative in the Mediterranean Theater, Mr. Robert Murphy, and a copy of the letter from the State Department relating to the advancement of funds to the Badoglio Government for this purpose.

The British Government has advanced 1,600,000 pesetas to Italian representatives at Madrid to meet urgent operating expenses of Italian merchant vessels in Spanish harbors. Similar instructions have been issued by the British Admiralty for the furnishing of supplies and advancement of funds to Italian naval vessels, as indicated in inclosed telegram No. 1767. All arrangements made by British authorities for the advancement of funds have been of a temporary nature and premised on the expectation that the United States would share in future advances equally with Great Britain.

It is understood that the Italian Government does not at present have available sufficient credit balances in pesetas, nor in other foreign currencies with which it might obtain pesetas, to meet the above-mentioned requirements. I would appreciate the Treasury Department's taking this problem under consideration and suggesting a procedure which it considers appropriate for financing such costs.

Sincerely yours,


Acting Secretary of War.

Incls. 9



ADVISER ON POLITICAL RELATIONS
DEPARTMENT OF STATE
WASHINGTON

Dear General:

I refer to our informal conversations concerning funds for the support and maintenance of Italian warships and merchant vessels in Spanish ports and their respective officers and crews. I am inclosing paraphrases of an exchange of telegrams between the Department, the American Embassy at Madrid and Mr. Murphy at Algiers concerning this problem as well as copies of British telegrams on the same subject which have been furnished by the British Embassy here.

While the State Department is working out an arrangement with the British Foreign Office to advance funds temporarily for the support of Italian diplomatic missions and consular offices loyal to the Badoglio Government in neutral countries, you will note that we have adopted the position that the question of the maintenance of Italian vessels in neutral ports falls more properly within the jurisdiction of AFHQ. We feel that the maintenance and final disposition of Italian naval craft in Spanish ports should be dealt with as part of the general problem of implementation of the Italian armistice.

If the Italian Government is unable to provide the necessary funds (and according to one of the enclosed cables from Mr. Murphy at Algiers, Marshal Badoglio has stated that he has no foreign exchange for this purpose), we submit to you and the Combined Civil Affairs Committee the problem of providing funds for the maintenance of Italian ships and crews in Spanish ports, assuming, of course, that the preservation of these ships and men for the United Nations war effort is desirable.

Sincerely yours,

(Signed)

RAY ATHERTON
Acting Adviser on
Political Relations

Enclosures:

1. No. 2809 from Madrid, September 30, 1943.
2. No. 1684 from Algiers, October 2, 1943.
3. No. 1789 to Algiers, October 2, 1943.
4. No. 1686 from Algiers, October 3, 1943.
5. No. 1767 from Algiers, October 15, 1943.
6. From British Ambassador, Madrid, September 30, 1943.
7. To British Ambassador, Madrid, October 4, 1943.
8. From British Ambassador, Madrid, October 7, 1943.

PARAPHRASE OF TELEGRAM RECEIVED

To: Secretary of State
From: Madrid
Dated: September 30, 10 p.m.
Number: 2809

My September 23, 6 p.m., to Murphy.

For the past five months the Italian diplomatic and consular personnel in this country have not been paid as I have already reported. Each day the Italian representation in Spain finds its financial difficulties more acute.

An average of 350,000 pesetas a month are estimated as the current expenses required for pay and maintenance of crews of the fourteen merchant ships in Spanish harbors. 250,000 pesetas is the amount of debts owed by the ships which must be paid prior to any departure. Prior to sailing additional expenses for necessary repairs and docking will also arise. One million pesetas a month is estimated as the amount required to pay the crew and cost of supplies for the Italian warships in the Balearics. It is obvious that funds must be made available to the Italian representation in Spain immediately if we wish to assure ourselves of their effective cooperation.

Please authorize me to hand over to the Italian Ambassador up to the equivalent of a half million dollars for his immediate emergency expenditures against his receipt and at the official rate of exchange. If we intend to take the Italian ships over any advances made by us might be against the value or rental of these ships or against the value of their cargo. This is reported to have a value of twelve million pesetas and includes textile paper, 7,000 tons of scrap iron, machinery and other miscellaneous cargo. It has been suggested to the Italian Government by its Ambassador in Madrid that the American and British Governments might in the spirit of collaboration existing between the armistice signatory powers assign normal pay to all officers, petty officers and sailors thus helping to meet the financial needs of the Italian warships. Such a step would undoubtedly have a favorable effect on morale, the Italian Ambassador stated.

It

-2-

It is most urgent that the Italian representation here, which is cooperating with us, should be supplied with funds immediately since the Germans are prepared to offer liberal financial support to those Italians who are willing to cooperate with them. If anything can be done it should be done at the earliest possible moment. London is receiving similar representations from the British Embassy here.

This telegram has been repeated to Murphy at Algiers and to London.

Su:JWJ:JFF

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Algiers
TO: Secretary of State
DATED: October 2, 8 p.m.
NUMBER: 1684

The following telegram is in reference to 2809 from Madrid dated the 30th of September and is from Murphy.

Marshal Badoglio brought up the question of financial assistance to Italian representatives abroad at the Malta conference. It was brought out by Badoglio that his administration in its present position was not able to make arrangements for funds to be transferred. It was his hope that a certain amount of assistance might be rendered in the nature of a temporary credit or some similar arrangement since this would facilitate resistance by the Italians.

Both myself and MacMillan agreed to make recommendations to our governments that some such facilities should be extended and urged that prompt consideration be given the matter.

Lisbon and Madrid have been advised of the foregoing.

PARAPHRASE OF TELEGRAM SENT

PROM: State Department
 TO: Algiers
 DATED: October 2, 1943, 11 p.m.
 NUMBER: 1789

The following message is intended for Murphy and refers to no. 2809 of September 30 to the Department from Madrid.

The Department has asked for an allocation of emergency funds for the support of Italian diplomatic and consular representatives in neutral countries, if official Italian funds which have been frozen in the United States are not available. This allocation would be shared 50-50 with the British Government.

Referring again to Madrid's number 2809, we are of the opinion that the expenses mentioned with respect to the Italian navy and merchant marine should be properly charged against APHQ. It is assumed that the staff of the Commander-in-Chief will want to take measures immediately to make funds available to the Italian Ambassador at Madrid for the maintenance of the vessels and crews since, under the terms of the armistice, these vessels passed under the Commander-in-Chief.

We request confirmation that APHQ is in accord with this.

COPY

PARAPHRASE OF TELEGRAM

To: Secretary of State

From: Algiers - Wiley

Dated: October 3

Number: 1686, 2 p.m.

Reference is made to your (Madrid's) 386, September 30.

The Allied Mission and Italian Government in Brindisi have been actively discussing the question of a payment of expenses of Italian diplomatic and consular representatives abroad. The necessary means nor the possibility of remittance are at the disposal of the Italians at the moment, who are, consequently, unable to handle the situation.

The fate of the assets of the Bank of Italy is problematical since they are all in that portion of Italy occupied by the Germans. This includes a certain amount of gold according to Signor Yung, a former Italian Minister of Finance. While the Italian Bureau of Printing and Engraving at Aquila is reported to be still in Italian hands, its fate is likewise unknown.

Some form of credit or advance of funds is understood to be under study by the British in those areas where Italian missions can be of practical assistance to us. I see no other method than the extension of temporary credits to them.

This telegram has been repeated to London and the Department. Reference is made to my 1684, October 2.

KU:JWJ;RMUS
10/5/43

PARAPHRASE OF TELEGRAM RECEIVED

To: Secretary of State
From: Algiers - Murphy
Dated: October 15, 1943
Number: 1767, 8 p.m.

Reference is made to the Department's telegram no. 1871, 10 p.m., dated October 13.

The procedure governing the position being taken is, according to the Acting Chief of Staff, AFHQ, as follows:

(1) Shipping (Merchant).

A relevant extract from AGWAR message timed 9155 of October 2, 1943 to the Allied Commander in Chief is as follows:

"Efforts should be made to place upon Italy the burden of expense and operation of merchant vessels."

Now the position is that a decree has been signed by the Badoglio Government requisitioning all Italian merchant shipping to be paid for and operated at Italian expense. Detailed arrangements for this purpose are now under consideration by the Ministry of War Transport representative and the War Shipping Administration.

(2) Naval vessels (Italian).

An extract from an admiralty directive to the Commander in Chief Mediterranean Area states, as regards issues to Italian warships, the procedure to be followed by British naval authorities.

"The following is an interim policy for pay and supplies to Italian warships:

(a) Against supply and receipt notes, essential messing stores including stores and other necessary supplies including clothing and naval stores may be issued, subject to supply being without prejudice to fleet requirements.

(b) For the purchase of necessities which cannot be provided under (a), cash may be issued.

(c)

(c) With respect to the foregoing, reasonable cash advances against receipts may be made to commanding officers. It should be made clear that Admiralty are not taking on responsibility for paying the Italian fleet and such advances should be strictly limited to what are necessary to meet current requirements. Explanation should be made that the Italian naval authorities will make arrangements through the Allied Commander in Chief for the administration of the Italian fleet.

(d) There is to be no distinction made between personnel interned, those serving ships and actively employed. These categories are all equally embodied in the Italian Navy and, leaving the general question to the Italian Government, the principle is to supply necessities.

Madrid has been informed.

RU:JWS:JFF

COPY

Text of a telegram from the British Ambassador at Madrid to the Foreign Office dated October 7th.

Sum of 1,600,000 pesetas has been handed over to the Italian Embassy. This is being applied entirely to ships' expenses, maintenance of crews, etc.

2. The Italian Embassy received an advance of 5,000,000 pesetas from Banca Nazionale del Lavoro, Madrid, to meet arrears and current needs of the Embassy, Consulates, schools, etc., but they cannot count on further advances from this source. They estimate this advance will be exhausted before the end of this month.

3. So far as can be ascertained, the Italian Embassy have no other funds at their disposal.

COPY

**Text of a telegram sent by the Foreign Office to the
British Ambassador at Madrid on October 4th.**

Arrangements are being made to put one million six hundred thousand pesetas at your disposal immediately.

2. We have confirmed that the Italian Government have at present no means of financing their ships in neutral countries. We have duly suggested to the United States Government that we and they should share this responsibility on a 50/50 basis. We await their views.

3. We shall naturally wish to reduce this expenditure to the minimum and I should be grateful if after consultation with your United States colleague you would advise whether Italian diplomatic or consular staffs in Spain can be reduced by repatriation to Italy of unnecessary personnel. We should also secure the removal of any Italian suspected Fascist sympathizers.

4. I presume you are satisfied that Italian Embassy have no undisclosed secret funds.

COPY

Text of a telegram sent by the British Ambassador at Madrid to the Foreign Office on September 30th, 1945.

The Italian Embassy have now made definite request for financial assistance both to myself and the United States Ambassador. Latter is asking his Government for a credit of \$500,000 to be made available for this purpose.

2. United States Embassy fear that necessary formalities in Washington and Madrid will entail some delay. Immediate problem is to provide for the Italians' most pressing needs. I feel these funds could be most speedily obtained under arrangements operated by Financial Adviser, and I have therefore arranged in consultation with the Americans that we should endeavour to provide first advance to the Italians. (Words undecypherable) this will amount to 1,600,000 pesetas which are required for wages of crews of refugee ships (300,000 pesetas) for liquidation of debts contracted ashore (300,000) and for the maintenance of crews of warships (1,000,000). No funds have been available for these purposes; Italian clearing was suspended.

3. There is grave risk of unsatisfactory state of affairs arising owing to discontent of crews, while payment of ships' debts contracted ashore is an essential prerequisite to departure of ships.

4. In the circumstances I shall be grateful if arrangements

can

can be made in consultation with the Treasury for the Acting Financial Adviser to be authorized immediately to pay over 1,600,000 pesetas to the Italian Embassy on Monday next, October 4th.

5. Italian Commercial Counsellor informed West..... yesterday that an appeal for advance against clearing had been refused by Director General of the Instituto. An advance believed to be one million pesetas had previously been obtained from the Madrid office of Banca del Lavoro but this had been largely utilized on pressing Embassy needs and no further sums were available from that source.

NOT TO BE RE-TRANSMITTEDCOPY NO. 12BRITISH MOST SECRET
U.S. SECRETOPTEL No. 392

Information received up to 10 A.M., 30th November, 1943.

1. NAVAL

A French submarine torpedoed a 2,000 ton ship off Toulon on 23rd. Between 14th and 18th one of H.M. Submarines sank 3 Caiques and a Schooner in the Aegean. On 22nd another of H.M. Submarines sank a floating dock in the Northern Aegean. On 24th one U-boat was sunk and another possibly sunk by Russian warships off the KOLA INLET.

2. MILITARY

ITALY. 8th Army. In the coastal sector our troops have advanced one to two miles on a five mile front and have captured the village of MOZZAGROGNO. Strong mobile forces are engaged in clearing the enemy from the ridge running southwest from FOSSACESIA.

3. AIR OPERATIONS

WESTERN FRONT. 29th. 163 escorted Fortress out of 361 despatched dropped 409 tons on BREMEN with unobserved results - 13 Fortresses and 16 Fighters missing. Escorted Marauders dropped 71 tons on CHIEVRES airfield and Typhoon bombers attacked MOORSALLE airfield. 29th/30th. 47 aircraft despatched - BOCHUM, DUSSELDORF and COLOGNE, 21 Mosquitoes; SHARICRICH, 1 Fortress; Leaflets 17; Intruders 8.

ITALY. 27th. Mitchells dropped 26 tons on PORTO CIVITANOVA, south of ANCONA.

28th. 38 escorted Liberators attacked a viaduct at DOGNA, 60 miles north-north west of TRIESTE.

YUGOSLAVIA. On 27th and 28th a total of 123 medium bombers attacked objectives at SIBENIK, DUBROVNIK and ZARA.