U.S. Treasury Dept.

Press Releases

PRESS
RELEASES

39-0

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Oct. 11, 1943
Nov. 19, 1943

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Monday, October 11, 1943.

Press Service

39-0

The Secretary of the Treasury today announced the subscription figures and the bases of allotment for the cash offering to commercial banks for their own account of 7/8 percent Treasury Certificates of Indebtedness of Series F-1944 and of 2 percent Treasury Bonds of 1951-53.

For the 7/8 percent Treasury Certificates of Indebtedness of Series F-1944, reports received from the Federal Reserve Banks show that subscriptions total approximately $5,381,000,000. Subscriptions in amounts up to and including $50,000, totaling about $190,000,000, were allotted in full. Subscriptions in amounts over $50,000 were allotted 26 percent, on a straight percentage basis, but not less than $50,000 to any one subscriber, with adjustments, where necessary, to the $1,000 denomination.

For the 2 percent Treasury Bonds of 1951-53, reports received from the Federal Reserve Banks show that subscriptions total approximately $5,516,000,000. Subscriptions in amounts up to and including $50,000, totaling about $252,000,000, were allotted in full. Subscriptions in amounts over $50,000 were allotted 25 percent, on a straight percentage basis, but not less than $50,000 to any one subscriber, with adjustments, where necessary, to the $1,000 denomination.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

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FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 12, 1943.

Press Service
no. 39-1

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated October 14, 1943, and to mature January 13, 1944, which were offered on October 8, were opened at the Federal Reserve Banks on October 11.

The details of this issue are as follows:

Total applied for - $1,185,062,000
Total accepted - 1,004,964,000 (includes $53,557,000 entered on a fixed-price basis at 99.905 and accepted in full)

Range of accepted bids:

High	- 99.926	Equivalent rate of discount approx. 0.293% per annum
Low	- 99.905	" " " " " 0.376% " "
Average price	- 99.905+	" " " " " 0.375% " "

(93 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 44,005,000	$ 41,478,000
New York	774,033,000	614,587,000
Philadelphia	37,170,000	35,287,000
Cleveland	18,905,000	17,511,000
Richmond	31,083,000	30,092,000
Atlanta	8,145,000	7,832,000
Chicago	100,320,000	95,948,000
St. Louis	40,454,000	36,143,000
Minneapolis	10,505,000	10,134,000
Kansas City	22,462,000	22,152,000
Dallas	11,955,000	11,671,000
San Francisco	86,025,000	82,129,000
TOTAL	$1,185,062,000	$1,004,964,000

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if I cannot get both together I will let the fish go and take the bears' paws." Like history, philosophy sometimes repeats itself: in modern times the late Justice Holmes pointed out that for everything we have we give up something else, and urged that we balance advantages gained against other advantages lost, knowing what we are doing when we elect.

The issue of simplicity requires a choice in which the advantage we gain must be set against the advantage we lose. We should know what we are doing when we elect. We should know that ultimate simplicity and perfect equity are incompatible. Somewhere in the wilderness there is a middle road between these two extremes.

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Simplification is an intensely desirable objective, particularly in respect to individual taxes paid by the mass of the people. It is also desirable that provisions affecting smaller groups be untangled. But simplification is not the offhand job many people suppose it to be. To a degree it can be accomplished; the Treasury is giving more than lip service to the task. We hope we may have your help as we take each step on this uphill road.

But let us not delude ourselves. There can be no perfectly simple tax statute that he who runs may read. Let me correct myself; there can be such a statute. But you would be the first to protest if it were enacted. The price of too much simplicity would be too much injustice, and too much escape from tax by too many. The wise choice must be the greatest possible simplification consistent with the greatest equity to all taxpayers.

Many years ago the Chinese philosopher Mencius said, "I like fish, and I also like bears' paws, but

if I cannot

bar to help us in the solution of this problem, and have appointed a committee to make a careful study of the subject. In the Treasury we are working upon all these, and many other, problems.

The problem of simplification is one of degree. Undoubtedly the popular demand for simplification has greatly increased in the last few years as our rates have mounted to new high levels and as our taxes have extended their reach to many more taxpayers. Without doubt the Current Tax Payment Act of 1942 has touched off the most recent demands for simplification. This Act, with its esoteric forgiveness and windfall provisions, has confounded confusion. With these provisions and the victory tax in the statute it has become impossible to prepare a reasonably simple tax form. Yet we must have such a form. The law must be simplified so that the average man of the street will not need to employ a lawyer or an accountant to compute his income tax liability.

Simplification is

and employees. Clearly the capital stock tax and the declared value excess profits taxes should be eliminated even at the cost of revenue. As a matter of fact, any loss in revenue could easily be regained, without any substantial redistribution of the corporate tax burden, by increasing the corporate income tax rates.

Turning to complications which affect only limited groups of taxpayers, everyone will readily admit that there is much work to be done. The so-called reorganization provisions are almost unbelievably complicated. Various trust provisions have resulted in a flood of litigation. The corporate relief provisions of the 1942 Act present a staggering administrative problem. The new powers of appointment provisions of the 1942 Act fall far short of solving the problems with which they courageously deal.

The whole problem of co-relation of the income, estate and gift taxes has had little realistic thinking for many years. We have called upon the outside tax

bar to help

This recommendation, if accepted, will have the beneficial result of eliminating quarterly declarations for all persons who have salaries taxable at brackets above the first bracket rate and no other substantial source of income.

While most corporations are in a better position than most individuals to employ legal and accounting assistance in the preparation of their returns and the determination of their tax liability, many small corporations are in much the same position as the ordinary individual taxpayer. Undue complication is inexcusable even in the corporate field. In this connection I call to your attention the fact that we now have five principal kinds of corporate taxes. We have (1) the ordinary normal and surtax, (2) the excess profits tax, (3) the declared value excess profits tax, (4) the capital stock tax, and (5) the personal holding company tax. The whole administrative machinery operates separately with respect to each tax. The result is much duplication and waste of manpower on the part of corporate executives

and employees.

owners of partially tax exempt Government securities if we give the income from those securities special treatment by permitting a credit against the total tax computed by multiplying the income from such securities by the existing normal tax rate. Such a credit would have effect only with respect to the limited number of taxpayers owning such securities, and would free other taxpayers from the extra burden of two computations. It would, of course, entirely respect the exemption now enjoyed by the owners of partially exempt securities.

Another suggestion originating with Judge Vinson and recently made to the Ways and Means Committee was that withholding be put on a gross basis under a system which would enable taxpayers to understand instantly what percentage of their salaries ~~were~~ was being withheld at the source. We also recommended to the Committee that collection at the source be made to apply on a graduated basis to the taxpayer's full liability rather than his partial liability under the first bracket.

This recommendation,

In recognition of this grim fact the Treasury has made many suggestions in the last two years, some at the cost of reducing the revenue. For example, in 1941 we recommended the short form return to Congress. In 1942 we recommended the elimination of the earned income credit, not because we were out of sympathy with some differentiation in favor of earned income, but because the mis-named earned income credit in the existing law was not worth the complexity it involved. In 1942 we also recommended the elimination of the capital stock-declared value guessing contest. Recently, in his appearance before the Ways and Means Committee, the Secretary of the Treasury recommended the elimination of the victory tax. The Treasury had originally opposed this measure on the ground that it would unduly complicate the tax system. Now that chicken has come home to roost.

In his recent appearance before the Ways and Means Committee the Secretary of the Treasury also recommended the consolidation of the normal tax and the surtax into one tax, thus avoiding the necessity of separate calculation. Such a consolidation will not result in a windfall to the

owners of

There is another way of approaching the subject of simplification. We may divide complications into two types. Under the first classification one could put those provisions which affect large numbers of taxpayers. Under the other classification one might put provisions which affect only limited groups of taxpayers.

The necessity of simplifying provisions for the benefit of large numbers of taxpayers has increased in importance in the war years. In 1932 we had slightly less than 2 million taxable individual returns. There will be about 40 million taxable returns for the year 1943. A reasonable number of complications may be handled in 2 million returns. To handle complications in 40 million returns is a horse of a different color. And while our tax system might safely, though not wisely, irritate 2 million of our citizens, it will run serious risks if it irritates twenty times that number.

In recognition

administrative rulings. Then the courts make their retail contribution to a wholesale statute. The Tax Court, the Court of Claims, the District Courts, the Circuit Courts of Appeal, and the Supreme Court, all add their quota of judge-made law. It must be remembered that the courts quite properly do not restrict themselves to the literal language of the statute. Words are not crystals; they have many meanings depending on the context. No matter how articulate a statute may be, there is always room for interpretation; the meaning of each sentence may be more than that of the separate words, as a melody is more than the notes of music. No degree of particularity can ever obviate recourse to the setting in which all statutory language appears and which all the words of the statute collectively create. To paraphrase former Chief Justice Hughes' remark about the Constitution: "We are under an income tax statute, but the statute is what the judges say it is."

There is

will look at the Code, you will find that 11 sections are devoted to this one item of avoidance prevention, each of which has required much administrative and judicial interpretation.

A perhaps more important cause of complication is the necessity, intensified when rates are high, of giving relief in exceptional cases. The 1942 Act beat all records in the quantity and scope of its relief provisions. Page after page is devoted to relief; 120, or more than half of the total 208 pages, are devoted to the cancellation of inequities. In addition, 42 pages are devoted to clarifications and definitions to enable more equitable and fair enforcement. This makes a total of 104 corrective sections out of a total of 173. In pages, this is nearly 78 percent of the Act, 162 pages out of 208.

To these causes of complexity there must be added another underlying cause. Income tax law begins with the statute, but it does not end there. It journeys on into interpretative regulations and many informal

administrative

and I am sure that all of you will agree, particularly in time of war, to the necessity of insuring the end that "no one should be permitted to avoid his just share of the tax burden." The escaped burden is inevitably passed on to others.

If we are to prevent tax avoidance we must have provisions designed to that end. Such provisions, of necessity, are often complicated. They must be complicated because one dare not fire a shotgun into a crowd. They must be precise instruments which do their job of preventing avoidance without injuring innocent taxpayers. " * * * it is not enough to attain to a degree of precision which a person reading in good faith can understand; * * * it is necessary to attain if possible to a degree of precision which a person reading in bad faith cannot misunderstand."

An example in point is the personal holding company provisions. The 1937 tax investigation amply demonstrated the need of preventing the avoidance of tax by the use of incorporated pocketbooks. If you

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the person who applied for the policy and paid the first premium, since such a naive construction of the statute would have opened the floodgates to wholesale tax avoidance.

A scientific analysis of the problem of simplification requires that we inquire at the outset into the causes of complexity. I suggest that there are three primary causes. The first is the necessity for protecting the revenue. There are always taxpayers and tax specialists who are on the hunt for loopholes. Indeed, one court has said that tax avoidance is in the nature of mortals. I should be the last person to put blame upon anyone who attempts to minimize tax liability. The Supreme Court itself has hardly ever failed to render mandarin courtesy to the doctrine that "When the law draws a line, a case is on one side of it or the other", and if the case is on the safe side, it "is none the worse legally that a party has availed himself to the full of what the law permits." But I do insert in parenthesis that it is better at least for the uninitiated not to get too near the line,

and I am

It is a job that will never be completely done. Yet it is a job that must be tackled.

The job had better be tackled with an understanding of the distinction between simplicity and simple language. This is an audience which can readily appreciate that distinction. You are all familiar with the famous insurance section of the estate tax statute, which was first enacted in 1918 and remained unchanged until the 1942 Act. The laconic five lines of this provision once seemed simple enough. There were no complicating amendments for more than twenty years. Yet the few words contained in this provision have furnished a remarkable example of what Professor Chafee has called "the disorderly conduct of words." At different times the apparently simple language of the insurance section has meant many things to many men. The one thing the language did not mean, according to regulations and court opinions, was what it seemed on its face to mean. The language, "taken out by the decedent upon his own life," did not refer to

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the 1927 Finance Act the learned Justice expressed his exasperation in the following language:

> "That section in five pages of the 'Law Reports' edition of the statutes, makes piecemeal amendments of section 21 of the Finance Act, 1922, which make it perfectly unintelligible to the layman, and to any lawyer who has not made a prolonged study of it with all his law books at his elbow. It is a crying scandal that legislation by which the subject is taxed should appear in the Statute-book in that utterly unintelligible form. I am told by the Attorney-General--and rightly told, I am sure--that it is only in this form that the legislation can be carried through at all. Then all I have to say is that the price of getting this legislation through is that the people of this country are taxed by laws which they cannot possibly understand. This is the worst example that there has ever been upon the Statute-book."

I do not want you to think that I am in a defeatist mood about simplification. Far from it. But I am well aware, and I hope you too are well aware, that simplification is a complicated task. It is a task that cannot be easily or quickly accomplished. It is a problem which cannot be solved by airy generalities. It is a long term and full time assignment for all who are sincerely interested in the future of taxation.

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The same realistic note is to be observed in the famous report of the Colwyn Commission in England, which listened to many pleas for simplicity made by a great number of witnesses, some of them experts in dealing with income tax matters on behalf of the public. The Colwyn Commission found the suggestions made "generally vague and indefinite." "They were either unable to give us concrete or definite proposals, or, where they did make proposals, we found that to adopt them would be to do injustice to taxpayers whose peculiar circumstances would not have been recognized, or to expose the Revenue unnecessarily to the risk of loss. We have formed the opinion that in Income Tax matters simplicity is not the sole object to be aimed at, and that the price that would have to be paid for a simple Income Tax could not be justified."

I cannot leave the subject of simplification of British taxes without quoting a remark made by Mr. Justice Rowlatt, whose unhappy lot it has been to spend his days unravelling the revenue laws of the United Kingdom. In a case dealing with a section of a rearrangement of the law in the 1928 Act, so that the ordinary taxpayer was better able to find at the beginning of the Act the material that interested him most. The committee reached the following conclusion:

> "It must be recognized that while a degree of simplification is possible, a simple income tax for complex business is not. The task is to simplify the law and the administration for all taxpayers so far as possible, without causing real hardship to those with complex sources of income and various business enterprises who cannot be taxed justly under a simple, elementary law."

The demand for simplification has not been restricted to the territorial limits of the United States. Back in 1915 the late Sir Josiah Stamp, an eminent British authority on revenue matters, was prompted to write: "There is the usual failure to see that modern life and modern commerce are so complex and diversified that to expect a tax form which shall read like a pill advertisement on the railway, and yet close down upon every case, is asking for the moon."

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life simpler for us. We like to go fishing too. But we also must realistically respect the vast difficulties we face. Simplicity cannot be pulled out of a hat by any white rabbit process. The problem must be understood before we can even begin to solve it.

The first point to have in mind about simplification is that it is not a new idea. In an opinion issued in 1918 Mr. Justice McKenna referred petulantly to the 1913 Act as one which "concerns the activities of men and intended, it might be supposed, to be without perplexities and readily solvable by the off-hand conceptions of those to whom it was addressed." I am old enough to remember much tax discussion back in the Twenties. Even then things were in a bad way. By 1927 complaints about the complexity of the income tax reached a crescendo, and the Joint Committee on Internal Revenue Taxation undertook a careful consideration of how the income tax could best be simplified. Its report resulted in

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that he does resent an attempt on the part of the Government to convert him into a combination of bookkeeper, accountant, lawyer and tax expert. Pollock wants to devote himself to writing. The average taxpayer may not want to write, but neither does he want his life to be frittered away by income tax detail.

Since there is misapprehension in some editorial quarters, let me say at the outset that we in the Treasury believe that many of the complaints against the complications of tax law are valid. We grant that the tax mechanism has become so hard to handle that it's time to stop for repairs. We even go so far as to admit that life has more interesting pursuits than filling out tax forms. Complications are not our stock in trade, as some people profess to think, -- at least, not our preferred stock in trade. We do not advocate an income tax law that passeth all understanding. We want a simple statute, if for no other reason -- than the selfish one that it makes

SIMPLIFICATION OF OUR TAX LAWS

However much many of you in the audience today may disagree with specific items in my remarks I doubt if any of you will disagree with the importance and timeliness of my subject. Tax simplification has become the topic of the day. Columnists are prodigal with graphic phrases on the subject. Editorials frequently dispose of it with a few solemn, and often inaccurate, lines. Cartoonists like to give us the spectacle of the bewildered taxpayer, otherwise known as the Too Well Remembered Man, who is better remembered today than ever before. This unhappy creature is pictured as foregoing vacations to fill out intricate forms devised by sadistic experts hell-bent upon the humiliation of taxpayers. The latest medical books attribute nervous disorders to patients' bouts with the income tax collector.

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An example in point is the personal holding company provisions. The 1937 tax investigation amply demonstrated the need of preventing the avoidance of tax by the use of incorporated pocketbooks. If you will look at the Code, you will find that 11 sections are devoted to this one item of avoidance prevention, each of which has required much administrative and judicial interpretation.

A perhaps more important cause of complication is the necessity, intensified when rates are high, of giving relief in exceptional cases. The 1942 Act beat all records in the quantity and scope of its relief provisions. Page after page is devoted to relief; 120, or more than half of the total 208 pages, are devoted to the cancellation of inequities. In addition, 42 pages are devoted to clarifications and definitions to enable more equitable and fair enforcement. This makes a total of 104 corrective sections out of a total of 173. In pages, this is nearly 78 percent of the Act, 182 pages out of 208.

To these causes of complexity there must be added another underlying cause. Income tax law begins with the statute, but it does not end there. It journeys on into interpretative regulations and many informal administrative rulings. Then the courts make their retail contribution to a wholesale statute. The Tax Court, the Court of Claims, the District Courts, the Circuit Courts of Appeal, and the Supreme Court, all add their quota of judge-made law. It must be remembered that the courts quite properly do not restrict themselves to the literal language of the statute. Words are not crystals; they have many meanings depending on the context. No matter how articulate a statute may be, there is always room for interpretation; the meaning of each sentence may be more than that of the separate words, as a melody is more than the notes of music. No degree of particularity can ever obviate recourse to the setting in which all statutory language appears and which all the words of the statute collectively create. To paraphrase former Chief Justice Hughes' remark about the Constitution: "We are under an income tax statute, but the statute is what the judges say it is."

There is another way of approaching the subject of simplification. We may divide complications into two types. Under the first classification one could put those provisions which affect large numbers of taxpayers. Under the other classification one might put provisions which affect only limited groups of taxpayers.

The necessity of simplifying provisions for the benefit of large numbers of taxpayers has increased in importance in the war years. In 1932 we had slightly less than 2 million taxable individual returns. There will be about 40 million taxable returns for the year 1943. A reasonable number of complications may be handled in 2 million returns. To handle complications in 40 million returns is a horse of a different color. And while our tax system might safely, though not wisely, irritate 2 million of our citizens, it will run serious risks if it irritates twenty times that number.

In recognition of this grim fact the Treasury has made many suggestions in the last two years, some at the cost of reducing the revenue. For example, in 1941 we recommended the short form return to Congress. In 1942 we recommended the elimination of the earned income credit, not because we were out of sympathy with some differentiation in favor of earned income, but because the mis-named earned income credit in the existing law was not worth the complexity it involved. In 1942 we also recommended the elimination of the capital stock-declared value guessing contest. Recently, in his appearance before the Ways and Means Committee, the Secretary of the Treasury recommended the elimination of the victory tax. The Treasury had originally opposed this measure on the ground that it would unduly complicate the tax system. Now that chicken has come home to roost.

In his recent appearance before the Ways and Means Committee the Secretary of the Treasury also recommended the consolidation of the normal tax and the surtax into one tax, thus avoiding the necessity of separate calculation. Such a consolidation will not result in a windfall to the owners of partially tax exempt Government securities if we give the income from those securities special treatment by permitting a credit against the total tax computed by multiplying the income from such securities by the existing normal tax rate. Such a credit would have effect only with respect to the limited number of taxpayers owning such securities, and would free other taxpayers from the extra burden of two computations. It would, of course, entirely respect the exemption now enjoyed by the owners of partially exempt securities.

Another suggestion originating with Judge Vinson and recently made to the Ways and Means Committee was that withholding be put on a gross basis under a system which would enable taxpayers to understand instantly what percentage of their salaries was being withheld at the source. We also recommended to the Committee that collection at the source be made to apply on a graduated basis to the taxpayer's full liability rather than his partial liability under the first bracket. This recommendation, if accepted, will have the beneficial result of eliminating quarterly declarations for all persons who have salaries taxable at brackets above the first bracket rate and no other substantial source of income.

While most corporations are in a better position than most individuals to employ legal and accounting assistance in the preparation of their returns and the determination of their tax liability, many small corporations are in much the same position as the ordinary individual taxpayer. Undue complication is inexcusable even in the corporate field. In this connection I call to your attention the fact that we now have five principal kinds of corporate taxes. We have (1) the ordinary normal and surtax, (2) the excess profits tax, (3) the declared value excess profits tax, (4) the capital stock tax, and (5) the personal holding company tax. The whole administrative machinery operates separately with respect to each tax. The result is much duplication and waste of manpower on the part of corporate executives and employees. Clearly the capital stock tax and the declared value excess profits taxes should be eliminated even at the cost of revenue. As a matter of fact, any loss in revenue could easily be regained, without any substantial redistribution of the corporate tax burden, by increasing the corporate income tax rates.

Turning to complications which affect only limited groups of taxpayers, everyone will readily admit that there is much work to be done. The so-called reorganization provisions are almost unbelievably complicated. Various trust provisions have resulted in a flood of litigation. The corporate relief provisions of the 1942 Act present a staggering administrative problem. The new powers of appointment provisions of the 1942 Act fall far short of solving the problems with which they courageously deal.

The whole problem of co-relation of the income, estate and gift taxes has had little realistic thinking for many years. We have called upon the outside tax bar to help us in the solution of this problem, and have appointed a committee to make a careful study of the subject. In the Treasury we are working upon all these, and many other, problems.

The problem of simplification is one of degree. Undoubtedly the popular demand for simplification has greatly increased in the last few years as our rates have mounted to new high levels and as our taxes have extended their reach to many more taxpayers. Without doubt the Current Tax Payment Act of 1942 has touched off the most recent demands for simplification. This Act, with its esoteric forgiveness and windfall provisions, has confounded confusion. With these provisions and the victory tax in the statute it has become impossible to prepare a reasonably simple tax form. Yet we must have such a form. The law must be simplified so that the average man of the street will not need to employ a lawyer or an accountant to compute his income tax liability.

Simplification is an intensely desirable objective, particularly in respect to individual taxes paid by the mass of the people. It is also desirable that provisions affecting smaller groups be untangled. But simplification is not the offhand job many people suppose it to be. To a degree it can be accomplished; the Treasury is giving more than lip service to the task. We hope we may have your help as we take each step on this uphill road.

But let us not delude ourselves. There can be no perfectly simple tax statute that he who runs may read. Let me correct myself; there can be such a statute. But you would be the first to protest if it were enacted. The price of too much simplicity would be too much injustice, and too much escape from tax by too many. The wise choice must be the greatest possible simplification consistent with the greatest equity to all taxpayers.

Many years ago the Chinese philosopher Mencius said, "I like fish, and I also like bears' paws, but if I cannot get both together I will let the fish go and take the bears' paws." Like history, philosophy sometimes repeats itself: in modern times the late Justice Holmes pointed out that for everything we have we give up something else, and urged that we balance advantages gained against other advantages lost, knowing what we are doing when we elect.

The issue of simplicity requires a choice in which the advantage we gain must be set against the advantage we lose. We should know what we are doing when we elect. We should know that ultimate simplicity and perfect equity are incompatible. Somewhere in the wilderness there is a middle road between those two extremes.

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TREASURY DEPARTMENT

WASHINGTON

FOR RELEASE, MORNING NEWSPAPERS,
October 20, 1943

Press Service
No. 39-3

The Treasury Department today issued regulations relating to frozen domestic securities accounts of banks and other financial institutions located in countries blocked under the freezing order. The new regulations, officially styled General Ruling No. 17, constitute a further measure to prevent Axis nationals and Axis sympathizers from cloaking their securities holdings and financial transactions in in the United States.

Securities accounts maintained in the United States in the name of foreign financial institutions are known to contain securities beneficially owned by clients or customers of such institutions. However, such securities are in no way differentiated from securities owned by the foreign financial institution itself. If securities held in an account of a foreign financial institution are sold, the proceeds revert to its general blocked account. However, this may mean that the foreign financial institution will credit the proceeds in its home office to the account of the beneficial owner of the securities. Such owner might well be an Axis national who would thus receive the benefits of free foreign exchange. Furthermore, such Axis national might have acquired his "ownership", either literally or figuratively, at the point of a gun.

For some time the Treasury has been scrutinizing this situation and its various ramifications. Controls have been imposed in specific cases, and today's ruling formalizes such controls in a general manner.

Under General Ruling No. 17 there may not be any sales or purchases of securities or receipt of income on securities held in the account of a foreign financial institution within a blocked country unless the banking institution in the United States which holds the securities has complete information as to the past and present beneficial ownership of the securities. As an alternative to the obtaining of such information, the banking institution in the United States may conduct such securities transactions on the basis of a certification obtained from the foreign financial institution. The terms of the certification are specifically spelled out in the new regulations. Among other things, they require such foreign institutions to commit themselves to submit, upon request, full evidence of beneficial ownership of the securities.

In order to avoid creating additional burdens for domestic coupon and dividend paying agents and to minimize possible losses where neither such information nor certification is available, the regulations also permit sales of securities and the receipt of dividends and interest thereon, provided the proceeds are deposited into a specially restricted account called a General Ruling No. 6 account.

The new regulations exempt from their operation every transaction effected under the general licenses extended to Portugal, Spain, Sweden and Switzerland or their central banks. However, it is to be noted that such general licenses contain restrictive provisions similar to those incorporated into the new regulations. Thus, in using their general licenses, these neutral countries commit themselves not to engage in any transaction involving Axis nationals or Axis interests.

TREASURY DEPARTMENT
Foreign Funds Control
October 20, 1943

GENERAL RULING NO. 17

UNDER EXECUTIVE ORDER NO. 8389, AS AMENDED, EXECUTIVE ORDER NO. 9193, SECTIONS 3(a) and 5(b) OF THE TRADING WITH THE ENEMY ACT, AS AMENDED BY THE FIRST WAR POWERS ACT, 1941, RELATING TO FOREIGN FUNDS CONTROL.*

REGULATIONS RELATING TO SECURITIES ACCOUNTS OF BANKS OR OTHER FINANCIAL INSTITUTIONS LOCATED IN BLOCKED COUNTRIES.

(1) Scope of Ruling. This ruling is applicable to (i) every sale of securities held in any account maintained in the name of any bank or other financial institution which is located in a blocked country and which is not licensed as a generally licensed national, (ii) every purchase of securities where the cost thereof is to be debited to any account maintained in the name of any such bank or financial institution, and (iii) the receipt of dividends or interest or other income on securities held in any account maintained in the name of any such bank or financial institution, except --

(a) Transactions effected under General Licenses Nos. 49, 50, 52, or 70; or

(b) Sales of securities or the receipt of dividends, interest or other income on securities effected under any other general license or under any specific license, provided that the proceeds thereof are deposited in a General Ruling No. 6 account in the name of such bank or other financial institution; or

(c) Transactions effected pursuant to certification as provided in Section (3) hereof.

(2) Purchase and sales of securities and the receipt of dividends, interest or other income on securities not authorized in the absence of certain information. No purchase or sale of securities or the receipt of dividends, interest or other income on securities to which this ruling is applicable may be effected under any specific or general license which does not expressly refer to this General Ruling unless the person with whom the account is maintained is in possession of the following information:

(a) In the case of any proposed sale of securities or the receipt of dividends, interest or other income on securities --

(i) The name, address and nationality of each person having an interest in the securities on the date when such securities were received into the account or on April 8, 1940, whichever is later; and

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*Appendix A; - Sec. 3(a), 40 Stat. 412; Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; 55 Stat. 838; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, Ex. Order 8963, Dec. 9, 1941, and Ex. Order 8998, Dec. 26, 1941; Ex. Order 9193, July 6, 1942; Regulations, April 10, 1940, as amended June 14, 1941 and July 26, 1941.

(ii) The name, address and nationality of each person having an interest in the securities on the date when the transaction is effected; and

(iii) If the information submitted with respect to (i) and (ii) discloses that there has been any change in any interest in such securities, the name, address and nationality of each transferee of any such interest, the date of each such transfer, and the license under the Order, if any, pursuant to which it is claimed that each such transfer was effected; or

(b) In the case of any proposed purchase of securities --

(i) The name, address and nationality of each person who will have an interest in such securities as a result of such transaction.

(3) Certification. Notwithstanding Section (2) hereof, this ruling shall not be applicable to any purchase or sale of securities or the receipt of dividends, interest or other income on securities if the bank or other financial institution in whose name the account is maintained has certified to the person with whom such account is maintained:

(a) In the case of any proposed sale of securities or the receipt of dividends, interest or other income on securities --

(i) That no person who is a national of any blocked country other than the country in which such bank or other financial institution is located, and that no person whose name appears on The Proclaimed List of Certain Blocked Nationals has an interest in the securities, and that no such person has had an interest in such securities since April 8, 1940, or the date when such securities were received into the account, whichever is later; and

(ii) That such bank or other financial institution will upon request at any time promptly submit to the diplomatic or consular representatives of the Government of the United States, duly accredited to the country in which it is located, satisfactory evidence of, and, in any event, will submit to the Treasury Department, Washington, D.C., in duplicate, not later than one year after the termination of the present war, a verified statement disclosing

(A) the name, address and nationality of each person having an interest in the securities on the date when such securities were received into the account or on April 8, 1940, whichever is later; (B) the name, address and nationality of each person having an interest in the securities on the date when the transaction was effected; and (C) if the information submitted with respect to (A) and (B) discloses that there has been any change in any interest in such securities, the name, address and nationality of each transferee of any such interest, the date of each such transfer, and the license under the Order, if any, pursuant to which it is claimed that each such transfer was effected; or

(b) In the case of any proposed purchase of securities --

(i) That no person who is a national of any blocked country other than the country in which such bank or other financial institution is located, and that no person whose name appears on The Proclaimed List of Certain Blocked Nationals will have an interest in such securities as a result of such transaction; and

(ii) That such bank or other financial institution will upon request at any time promptly submit to the diplomatic or consular representatives of the Government of the United States duly accredited to the country in which it is located, satisfactory evidence of, and, in any event, will submit to the Treasury Department, in Washington, D. C., in duplicate, not later than one year after the termination of the present war, a verified statement disclosing (A) the name, address and nationality of each person who acquired an interest in the securities at the time of their purchase; (B) the name, address and nationality of each person having an interest in the securities as of any date or dates (hereafter prescribed) subsequent to the deposit of such securities in, and prior to their withdrawal from the account; and (C) if the information submitted with respect to (A) and (B) discloses that there has been any change in any interest in such securities, the name, address and nationality of each transferee of any such interest, the date of each such transfer, and the license under the Order, if any, pursuant to which it is claimed that each such transfer was effected.

(4) Recording and reporting of information and the effectuation of transactions under Section (2) hereof. (a) When any sale of securities or the receipt of any dividends, interest or other income to which this ruling is applicable has been effected, the proceeds may be credited to any account authorized by license, provided that, if such account is not maintained in the name or names of the beneficial owner or owners of the securities, a memorandum record is kept of the amount so credited and of the name, address and nationality of each such beneficial owner. In the case of the receipt of dividends, interest or other income on securities, a memorandum record shall also be kept with respect to such securities in the manner prescribed in Section (4)(b) hereof.

(b) When any purchase of securities to which this ruling is applicable has been effected, the securities may be deposited in any account authorized by license, provided that if such account is not maintained in the name or names of the beneficial owner or owners of the securities, a memorandum record is kept of the securities so deposited and of the name, address and nationality of each such beneficial owner.

(c) Any information specified in Section (2)(a) hereof required to be reported on Form TFR-300 by the person holding the securities, but which has not heretofore been so reported, shall be reported on Form TFR-300, as provided in Section 130.4 of the Regulations and Public Circular No. 4, not later than thirty days after a sale of the securities or the receipt of dividends, interest or other income thereon effected under Section (2) hereof. All information specified in Section (2) of this ruling with respect to securities in an account maintained in the name of a bank or other financial institution which is located in a blocked country, and which is not licensed as a generally licensed national, not otherwise required to be reported on Form TFR-300, shall be reported by the person with whom such account is maintained on Form TFR-300, Series L, in the manner provided in Public Circular No. 4C, as of the date of the receipt of such securities in such account. Every such report on Form TFR-300, Series L, shall be filed within thirty days after a purchase or sale of the securities or the receipt of dividends, interest or other income thereon effected under Section (2) hereof, whichever occurs first, and shall state that it is made in accordance with General Ruling No. 17.

(5) Effectuation and recording of certified transactions. When any purchase or sale of securities or the receipt of any dividends, interest or other income thereon to which this ruling would otherwise be applicable has been effected pursuant to the certification specified in Section (3) hereof, the proceeds of the securities

sold, or the dividends, interest or other income received may be credited to, or the securities purchased may be deposited in, any account authorized by license, provided, however, that a memorandum record is kept of the transaction and that it was effected pursuant to certification under Section (3) of this ruling. Each such memorandum record shall bear the name of the bank or other financial institution making the certification, and the number of such certification.

(6) Form of certification and continuing effect of certain certifications. (a) No form is prescribed for the certification specified in Section (3) hereof, but the certifications of each bank or other financial institution shall be numbered consecutively and every statement submitted to the Treasury Department in accordance with Sections (3)(a)(ii) and (3)(b)(ii) hereof shall refer to the number of the certification pursuant to which the transaction was effected. The certification specified in Section (3) hereof may be made by a cable or wireless message which clearly identifies the transaction, and states, in code or otherwise, that the sender makes the certification specified in Section (3) of General Ruling No. 17.

(b) A certification made under Section (3)(a) hereof with respect to the receipt of dividends, interest or other income on securities will, unless the bank or other financial institution making the certification expressly stipulates otherwise, be deemed to be a continuing certification applicable to the further receipt of dividends, interest or other income on the same securities, and the phrase "the date when the transaction was effected" in clause (B) of Section (3)(a)(ii) hereof shall be deemed, in the case of such certification, to mean the date of each receipt of dividends, interest or other income on such securities effected under such certification.

(7) Proceeds of sales and income from securities to be deposited in General Ruling No. 6 accounts. All proceeds of sales of securities and all dividends, interest or other income received on securities held in any account maintained in the name of any bank or other financial institution which is located in a blocked country, and not licensed as a generally licensed national, shall be deposited in a General Ruling No. 6 account in the name of such bank or other financial institution, unless --

(a) The person with whom the account is maintained is in possession of the information specified in Section (2)(a) hereof with respect to such securities; or

(b) The bank or other financial institution in whose name the account is maintained has made the certification specified in Section (3)(a) hereof with respect to such securities; or

(c) The sale of such securities or the receipt of such dividends, interest, or other income was effected under General Licenses Nos. 49, 50, 52, or 70.

(8) Savings Provision. None of the provisions of this General Ruling shall be applicable (a) to purchases or sales of securities effected within thirty calendar days after the date hereof pursuant to orders to buy or to sell specific securities, provided, however, that such orders are outstanding on the date hereof; or (b) to the receipt of dividends, interest or other income on securities within thirty calendar days after the date hereof.

(9) Dollar accounts maintained with a bank or other financial institution which is a national of a blocked country. The Secretary of the Treasury may, in his discretion, as a condition to the exercise of the privileges of a license issued, or the issuance of a license, under the Order, or otherwise, require a verified statement from any bank or other financial institution which is a national of a blocked country and maintains a dollar or securities account with a person within the United States, disclosing the names, nationalities and such other information as may be prescribed, concerning any or all persons who have maintained dollar accounts with such bank or other financial institution since the effective date of the Order with respect to such persons.

(10) Definitions. For the purposes of this General Ruling:

(a) The term "bank or other financial institution" shall include every person engaged in the business of (i) banking, (ii) insurance, (iii) buying, selling or otherwise dealing in securities, or (iv) managing, operating, conducting or otherwise holding securities or securities accounts for others;

(b) The term "dividends, interest or other income on securities" shall include payments of principal and payments on account of the retirement or redemption of securities; and

(c) The term "nationality" shall mean the names of all countries of which a person is a national within the meaning of the Order.

RANDOLPH PAUL
Acting Secretary of the Treasury.

COTTON CARD STRIPS,2/ COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE. Annual quotas commencing September 20, by Countries of Origin:

Total quota, provided, however, that not more than 33-1/3 percent2/ of the quotas shall be filled by cotton wastes other than card strips/ and comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany and Italy:

(In Pounds)

Country of Origin	Established TOTAL QUOTA	TOTAL IMPORTS Sept. 20, 1943 Oct. 2, 1943	ESTABLISHED: 33-1/3% of Total Quota	Imports Sept. 20, 1943, to Oct. 2, 1943 1/
United Kingdom......	4,323,457	-	1,441,152	-
Canada..............	239,690	-	-	-
France..............	227,420	-	75,807	-
British India.......	69,627	-	-	-
Netherlands.........	68,240	-	22,747	-
Switzerland.........	44,388	-	14,796	-
Belgium.............	38,559	-	12,853	-
Japan...............	341,535	-	-	-
China...............	17,322	-	-	-
Egypt...............	8,135	-	-	-
Cuba................	6,544	-	-	-
Germany.............	76,329	-	25,443	-
Italy...............	21,263	-	7,088	-
TOTALS	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

2/ The President's proclamation, signed March 31, 1942, exempts from import quota restrictions card strips made from cottons having a staple 1-3/16 inches or more in length.

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39-4

FOR IMMEDIATE RELEASE,
October 13, 1943.

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of cotton and cotton waste chargeable to the import quotas established by the President's proclamations of September 5, 1939, and December 19, 1940, as follows, during the period September 20, 1943, to October 2, 1943:

COTTON HAVING A STAPLE OF LESS THAN 1-11/16 INCHES (OTHER THAN HARSH OR ROUGH COTTON OF LESS THAN 3/4 INCH IN STAPLE LENGTH AND CHIEFLY USED IN THE MANUFACTURE OF BLANKETS AND BLANKETING, AND OTHER THAN LINTERS). Annual quotas commencing September 20, by Countries of Origin:

(In Pounds)

Country of Origin	Staple length less than 1-1/8": Established Quota	Staple length less than 1-1/8": Imports Sept. 20, 1943, to Oct. 2, 1943	Staple length 1-1/8" or more but less than 1-11/16": Established Quota 45,656,420	Staple length 1-1/8" or more but less than 1-11/16": Imports Sept. 20, 1943, to Oct. 2, 1943
Egypt and the Anglo-Egyptian Sudan........	783,816	-		4,801,485
Peru..................	247,952	73,576		248,653
British India..........	2,003,483	-		-
China..................	1,370,791	-		-
Mexico.................	8,883,259	8,883,259		-
Brazil.................	618,723	410,330		-
Union of Soviet Socialist Republics...	475,124	-		-
Argentina..............	5,203	-		-
Haiti..................	237	-		-
Ecuador................	9,333	-		-
Honduras...............	752	-		-
Paraguay...............	871	-		-
Colombia...............	124	-		-
Iraq...................	195	-		-
British East Africa.....	2,240	-		-
Netherlands East Indies.	71,388	-		-
Barbados...............	-	-		-
Other British West Indies 1/...........	21,321	-		-
Nigeria................	5,377	-		-
Other British West Africa 2/...........	16,004	-		-
Other French Africa 3/.	689	-		-
Algeria and Tunisia.....	-	-		-
	14,516,882	9,367,165	45,656,420	5,050,138

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 13, 1943.

Press Service
No. 39-4

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(In Pounds)

Country of Origin	Staple length less than 1-1/8"		Staple length 1-1/8" or more but less than 1-11/16"	
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(Over)

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Switzerland.........	44,388	-	14,796	-
Belgium.............	38,559	-	12,853	-
Japan...............	341,535	-	-	-
China...............	17,322	-	-	-
Egypt...............	8,135	-	-	-
Cuba................	6,544	-	-	-
Germany.............	76,329	-	25,443	-
Italy...............	21,263	-	7,088	-
	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

2/ The President's proclamation, signed March 31, 1942, exempts from import quota restrictions card strips made from cottons having a staple 1-3/16 inches or more in length.

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Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Oct. 2, 1943
Silver or black foxes, furs, and articles: Foxes valued under $250 each and whole furs and skins	Period - May - Nov. 1943 All countries	33,229	Number	31,169
Tails	12 months from Dec. 1, 1942	5,000	Piece	463
Paws, heads, or other separated parts	"	500	Pounds	(Quota filled)
Piece plates	"	550	Pounds	-
Articles, other than piece plates	"	500	Unit	77

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FOR IMMEDIATE RELEASE
October 12, 1943

39-5

The Bureau of Customs announced preliminary figures for imports of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to October 2, 1943, inclusive, as follows:

Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Oct. 2, 1943
Whole milk, fresh or sour	Calendar year	3,000,000	Gallon	5,585
Cream, fresh or sour	Calendar year	1,500,000	Gallon	702
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	17,804,128	Pound	12,854,791
White or Irish potatoes:	12 months from Sept. 15, 1943			
certified seed		90,000,000	Pound	1,485,000
Other		60,000,000	Pound	553,631
Red cedar shingles	Calendar year	2,506,072	Square	1,127,083
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000	Pound (unstemmed equivalent)	(Quota filled)
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	254,096

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 13, 1943.

Press Service
No. 39-5

The Bureau of Customs announced preliminary figures for imports of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to October 2, 1943, inclusive, as follows:

Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Oct. 2, 1943
Whole milk, fresh or sour	Calendar year	3,000,000	Gallon	5,585
Cream, fresh or sour	Calendar year	1,500,000	Gallon	702
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	17,804,128	Pound	12,854,791
White or Irish potatoes:	12 months from Sept. 15, 1943			
certified seed		90,000,000	Pound	1,485,000
Other		60,000,000	Pound	553,631
Red cedar shingles	Calendar year	2,506,072	Square	1,127,083
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000	Pound (unstemmed equivalent)	(Quota filled)
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	254,096

(Over)

Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Oct. 2, 1943
Silver or black foxes, furs, and articles:				
Foxes valued under $250 each and whole furs and skins	Period - May - Nov. 1943 All countries	33,229	Number	31,169
Tails	12 months from Dec. 1, 1942	5,000	Piece	463
Paws, heads, or other separated parts	"	500	Pounds	(Quota filled)
Piece plates	"	550	Pounds	-
Articles, other than piece plates	"	500	Unit	77

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39-6

FOR IMMEDIATE RELEASE,
October 12, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1942, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption As of (Date)	Authorized for entry for consumption (Pounds)
Signatory Countries:			
Brazil	2,172,359,753	Sept. 30, 1943	898,099,394
Colombia	735,840,277	"	635,463,404
Costa Rica	46,718,031	"	40,648,408
Cuba	18,692,451	"	13,738,617
Dominican Republic	25,752,947	(Import quota filled)	
Ecuador	35,041,235	Sept. 30, 1943	21,690,313
El Salvador	140,776,585	"	120,347,172
Guatemala	124,978,598	"	107,206,186
Haiti	64,236,136	"	56,747,838
Honduras	4,278,467	(Import quota filled)	
Mexico	111,292,661	Sept. 30, 1943	65,078,793
Nicaragua	45,818,819	"	25,745,750
Peru	5,839,588	"	358,878
Venezuela	90,021,490	Sept. 30, 1943	67,503,303
Non-signatory Countries:			
British Empire, except Aden and Canada; Kingdom of the Netherlands and its possessions; Aden, Yemen, and Saudi Arabia; Other countries not signatories of the Inter-American Coffee Agreement	75,969,017	Sept. 30, 1943	35,334,929

1/ Quotas revised as of March 5, 1943.

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39-6

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 13, 1943.

Press Service
No. 39-6

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1942, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption: As of (Date)	Authorized for entry for consumption: (Pounds)
Signatory Countries:			
Brazil	2,172,359,753	Sept. 30, 1943	898,099,394
Colombia	735,840,277	"	635,463,404
Costa Rica	46,718,031	"	40,648,408
Cuba	18,692,451	"	13,738,617
Dominican Republic	25,752,947	(Import quota filled)	
Ecuador	35,041,235	Sept. 30, 1943	21,690,313
El Salvador	140,776,585	"	120,347,172
Guatemala	124,978,598	"	107,206,186
Haiti	64,236,136	"	56,747,838
Honduras	4,278,467	(Import quota filled)	
Mexico	111,292,661	Sept. 30, 1943	65,078,793
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Peru	5,839,588	"	358,878
Venezuela	90,021,490	"	67,503,303
Non-signatory Countries:			
British Empire, except Aden and Canada; Kingdom of the Netherlands and its possessions; Aden, Yemen, and Saudi Arabia; Other countries not signatories of the Inter-American Coffee Agreement	75,969,017	Sept. 30, 1943	35,334,929

1/ Quotas revised as of March 5, 1943.

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39-7

FOR IMMEDIATE RELEASE,
October 12, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamations of April 13, 1942, and April 29, 1943, for the 12 months commencing May 29, 1943, as follows:

Country of Origin	WHEAT		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota	Imports May 29, 1943 to Oct. 2, 1943	Established Quota	Imports May 29, 1943 to Oct. 2, 1943
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	795,000	3,815,000	162,913
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	162,913

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 13, 1943.

Press Service
No. 39-7

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamations of April 13, 1942, and April 29, 1943, for the 12 months commencing May 29, 1943, as follows:

Country of Origin	WHEAT		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota	Imports May 29, 1943 to Oct. 2, 1943	Established Quota	Imports May 29, 1943 to Oct. 2, 1943
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	795,000	3,815,000	162,913
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	162,913

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Checked with Linsay - State Dept 649

11 o'clock
Oct 14

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, Oct 14, 1943.

Press Service
No. 39-8

Mr. Hjalmar J. Procope, Minister of Finland, and acting Secretary ~~Morgenthau~~ Bell today executed an agreement under which the Republic of Finland will undertake to pay the sum of $845,287.24 to the United States, in twenty equal annuities payable in semi-annual instalments.

The sum of $845,287.24 was payable by Finland to the United States during the period from January 1, 1941, to December 31, 1942, but was postponed under a joint resolution of Congress approved on June 12, 1941.

The amounts postponed were as follows:

Date Payable	Funding Agreement of May 1, 1923 Principal	Funding Agreement of May 1, 1923 Interest	Agreement of May 23, 1932	Agreement of May 1, 1941	TOTAL
June 15, 1941	--	$139,037.50	$19,030.50	$13,695.06	$171,763.06
December 15, 1941	$79,000	139,037.50	19,030.50	13,695.06	250,763.06
June 15, 1942	--	137,655.00	19,030.50	13,695.06	170,380.56
December 15, 1942	82,000	137,655.00	19,030.50	13,695.06	252,380.56
TOTAL	$161,000	$553,385.00	$76,122.00	$54,780.24	$845,287.24

Under the terms of the agreement, Finland is required to pay annually $42,264.36. These payments are to be made in two instalments of $21,132.18 on June 15 and on December 15. The first payment under this agreement will be due on June 15, 1945.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, October 14, 1943.

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December 15, 1941	$79,000	139,037.50	19,030.50	13,695.06	250,763.06
June 15, 1942	--	137,655.00	19,030.50	13,695.06	170,380.56
December 15, 1942	82,000	137,655.00	19,030.50	13,695.06	252,380.56
TOTAL	$161,000	$553,385.00	$76,122.00	$54,780.24	$845,287.24

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for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on October 21, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 15, 1943 ~~(1)~~.

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000 ~~(2)~~, or thereabouts, of 91 ~~(3)~~-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated October 21, 1943 ~~(4)~~, and will mature January 20, 1944 ~~(5)~~, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, October 18, 1943 ~~(6)~~. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

39-9

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 15, 1943.

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated October 21, 1943, and will mature January 20, 1944, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000 and $1,000,000 (maturity value).

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Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on October 21, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT
FISCAL SERVICE
WASHINGTON

BUREAU OF ACCOUNTS
OFFICE OF THE COMMISSIONER

October 7, 1943.

TO MR. D. W. BELL: Schwarz

During the month of September the following market transactions took place in direct and guaranteed securities of the Government:

Sales	$2,651,600
Purchases	-
Net sales	$2,651,600

For release on Oct 15th

CB

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, Wednesday, ~~September~~ Oct 15, 1943.

Press Service No. ~~38-59~~ 39-10

During the month of ~~August~~ Sept. 1943, market transactions in direct and guaranteed securities of the Government for Treasury investment and other accounts resulted in net sales of ~~$15,813,800~~ 2,651,600, Secretary Morgenthau announced today.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, October 15, 1943.

Press Service
39-11

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of 2 percent Treasury Bonds of 1951-53, 2-1/2 percent Treasury Bonds of 1964-69 and 7/8 percent Treasury Certificates of Indebtedness of Series F-1944.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

CASH OFFERING

Federal Reserve District	Treasury Bonds of 1951-53: Total Subscriptions Received	Treasury Bonds of 1951-53: Total Subscriptions Allotted	Certificates, Series F-1944: Total Subscriptions Received	Certificates, Series F-1944: Total Subscriptions Allotted
Boston	$ 305,127,500	$ 83,988,500	$ 283,230,000	$ 78,608,000
New York	2,027,289,500	520,945,500	2,080,806,000	550,958,000
Philadelphia	388,932,500	112,376,500	316,426,000	91,346,000
Cleveland	394,517,500	118,726,000	382,723,000	113,662,000
Richmond	252,969,000	80,094,000	234,742,000	71,893,000
Atlanta	223,874,000	73,790,500	214,794,000	69,439,000
Chicago	728,096,500	233,190,500	698,571,000	219,434,000
St. Louis	186,945,000	70,995,000	165,744,000	58,920,000
Minneapolis	145,250,500	60,147,000	135,432,000	53,882,000
Kansas City	192,462,000	76,965,000	188,956,000	71,615,000
Dallas	155,602,500	53,580,500	130,593,000	47,261,000
San Francisco	529,790,000	141,208,000	554,048,000	151,519,000
Treasury	-	-	-	-
TOTAL	$5,530,856,500	$1,626,007,000	$5,386,065,000	$1,578,537,000

EXCHANGE OFFERING

Federal Reserve District	Treasury Bonds of 1951-53: Called 3¼% Bonds Exchanged	Treasury Bonds of 1964-69: Called 3¼% Bonds Exchanged	Certificates, Series F-1944: Certs. Maturing 11/1/43 Exchanged
Boston	$ 21,826,000	$ 6,007,000	$ 106,563,000
New York	874,899,500	14,172,500	1,222,056,000
Philadelphia	24,286,000	2,201,500	46,515,000
Cleveland	35,852,500	9,087,000	66,286,000
Richmond	14,350,500	1,317,000	34,433,000
Atlanta	6,004,500	2,315,500	29,360,000
Chicago	68,625,500	7,610,000	257,228,000
St.Louis	10,808,000	4,202,500	20,641,000
Minneapolis	16,306,000	1,199,500	26,535,000
Kansas City	11,884,000	4,094,500	41,322,000
Dallas	7,365,000	2,506,500	17,542,000
San Francisco	32,778,000	1,968,500	92,688,000
Treasury	2,808,500	1,005,000	2,258,000
TOTAL	$1,127,794,000	$57,687,000	$1,963,427,000

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, October 15, 1943.

Press Service
No. 39-11

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of 2 percent Treasury Bonds of 1951-53, 2-1/2 percent Treasury Bonds of 1964-69 and 7/8 percent Treasury Certificates of Indebtedness of Series F-1944.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

CASH OFFERING

Federal Reserve District	Treasury Bonds of 1951-53: Total Subscriptions Received	Treasury Bonds of 1951-53: Total subscriptions Allotted	Certificates, Series F-1944: Total Subscriptions Received	Certificates, Series F-1944: Total Subscriptions Allotted
Boston	$ 305,127,500	$ 83,988,500	$ 283,230,000	$ 78,608,000
New York	2,027,289,500	520,945,500	2,080,806,000	550,958,000
Philadelphia	388,932,500	112,376,500	316,426,000	91,346,000
Cleveland	394,517,500	118,726,000	382,723,000	113,662,000
Richmond	252,969,000	80,094,000	234,742,000	71,893,000
Atlanta	223,874,000	73,790,500	214,794,000	69,439,000
Chicago	728,096,500	233,190,500	698,571,000	219,434,000
St. Louis	186,945,000	70,995,000	165,744,000	58,920,000
Minneapolis	145,250,500	60,147,000	135,432,000	53,882,000
Kansas City	192,462,000	76,965,000	188,956,000	71,615,000
Dallas	155,602,500	53,580,500	130,593,000	47,261,000
San Francisco	529,790,000	141,208,000	554,048,000	151,519,000
Treasury	-	-	-	-
	$5,530,856,500	$1,626,007,000	$5,386,065,000	$1,578,537,000

EXCHANGE OFFERING

Federal Reserve District	Treasury Bonds of 1951-53: Called 3¼% Bonds Exchanged	Treasury Bonds of 1964-69: Called 3¼% Bonds Exchanged	Certificates, Series F-1944: Certs. Maturing 11/1/43 Exchanged
Boston	$ 21,826,000	$ 6,007,000	$ 106,563,000
New York	874,899,500	14,172,500	1,222,056,000
Philadelphia	24,286,000	2,201,500	46,515,000
Cleveland	35,852,500	9,087,000	66,286,000
Richmond	14,350,500	1,317,000	34,433,000
Atlanta	6,004,500	2,315,500	29,360,000
Chicago	68,625,500	7,610,000	257,228,000
St. Louis	10,808,000	4,202,500	20,641,000
Minneapolis	16,306,000	1,199,500	26,535,000
Kansas City	11,884,000	4,094,500	41,322,000
Dallas	7,365,000	2,506,500	17,542,000
San Francisco	32,778,000	1,968,500	92,688,000
Treasury	2,808,500	1,005,000	2,258,000
	$1,127,794,000	$57,687,000	$1,963,427,000

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~~Siler — draft~~

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Saturday, October 16, 1943

Press Service
No. 39-12

An extraordinary war production venture by the town of Stillwater, Minnesota, today yielded $5,000.09 as a contribution to the Government's war expenses. Receipt of a check for this amount from the Stillwater War Industries, Inc., was announced by Acting Secretary of the Treasury Bell.

The check represented the entire profits of the company for its fiscal year ended April 30, 1943, after payment of taxes. The Treasury listed the donation along with thousands of others, large and small, which have been made by individuals, institutions and communities since Pearl Harbor.

The history of the Stillwater enterprise was cited by Acting Secretary Bell as typical of American patriotism. Four Stillwater citizens -- John R. Stoltze, Karl G. Neumeier, J.A. Goggin and R.M. Hadrath -- organized the concern shortly after the war began. Their purpose was to put to work in furtherance of the nation's war program the idle men and machines located in the town. They determined to turn all profits over to the Government, and a resolution carrying out this idea was adopted at the first meeting of the Board of Directors.

As part of the patriotic basis on which the concern operates, its general manager receives only a nominal salary, and other officers and directors receive neither salary nor dividends.

The company will receive from the Treasury a ~~an~~ ~~engraved~~ citation ackowledging the gift.

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to diverting the stream of dangerous dollars that is battering against price and rationing controls, it will be very difficult to hold the line; and if new revenues take the form of a general sales tax, the line is more than likely to be broken, and then, at best, to be reestablished at a very much higher level of prices.

Let me add to that forecast a related warning. The war against inflation does not end with unconditional military surrender. It may have to be intensified for a time afterward to prevent the disaster of postwar inflation. If we fall prey to economic complacency and thus relax our anti-inflationary efforts, and if we identify the end of the war on inflation with the end of the war on the Axis, we are inviting economic chaos. We could win the war against the Axis and lose a large part of the victory at home.

XX

the former case you had better satisfied customers. Selling the prevention of inflation is much like selling a dollar for fifty cents. A dollar of taxes is worth much more than a dollar in terms of what it will buy if inflation comes. I am confident that you will be satisfied customers if you buy my goods.

[redacted]

In conclusion, I should like to return to the question which is the subject of this morning's discussion: "Will we hold the line?" Since taxation is a back-stop rather than the front line of defense against inflation, I shall not attempt an explicit answer. The field is open to Mr. Morse and Mr. Gilbert. I shall, however, venture this prediction: if present taxes are not substantially increased with an eye

to diverting the stream

fictional option they would have under a general sales tax, which strikes all commodities alike.

C. Other taxes

Today I shall not discuss the other taxes in the Treasury's 1943 program. Their bearing on inflation is less direct, though they are significant. This is true particularly of corporate tax increases, which are necessary if we are to persuade individual taxpayers to shoulder their part of the total burden.

V. Conclusion

You may have noted that I have been trying to sell something this morning - the prevention of inflation. A discerning gentleman, who has had much experience in selling, recently told me that it took almost as much original effort to sell a dollar for ten cents as it did to sell a dollar for two dollars. The only difference, he thought, was that in the former case as liquor, tobacco, communications, amusements, and jewelry that excises would draw for additional wartime revenue. They require little or no increase in administrative machinery. They have been carefully selected in such a way as to avoid burdening the necessaries of life. The items chosen are either luxuries, or goods and services which need to be conserved for war purposes, or they are non-essentials, such as liquor and tobacco. The prices of such items do not enter into parity relationships. While the proposed excises would lead to some increase in the cost of living, that increase would be far less than that generated by a sales tax designed to raise an equal amount of revenue. Taxpayers with modest or low incomes have a real option to avoid excise taxes by reducing their purchases of taxable items, not the

fictional option they

are dull statistics, but they illustrate in concrete terms how a general retail sales tax would breach our first line of defense against inflation.

It seems reasonable to assume also that the direct and indirect price effects of a sales tax would create irresistible pressure on our wage stabilization program. If wage increases had to be granted in contradiction of that program, as I believe they would, the development of inflation would be greatly encouraged by the mutual interaction of price and wage increases.

Fortunately, the defects which discredit a sales tax do not apply to carefully selected excises on specific commodities. The Treasury has proposed additional excise taxes to provide an additional $2.5 billion annually. It is on such objects

as liquor, tobacco,

percent sales tax on a reasonably broad basis would increase that index by 6 or 7 percent. The operation of the parity formula would immediately raise the parity prices for agricultural commodities by 6 or 7 percent. Ceiling and support prices of various products would probably have to be adjusted to take the change in parity into account.

If a 10 percent sales tax had become effective July 1, 1943, estimates made by the Bureau of Agricultural Economics indicate that there would have been an average increase of 6 percent in retail food prices during 1944. This increase, added to a 10 percent levy on food sales, would raise food costs by approximately 16 percent. Finally, taking into account both the direct price increases and the indirect tax-induced increase in food prices, it is estimated that the cost-of-living index would rise about 10 percent. These are dull statistics, several billions of spending power and in providing a deterrent to spending, a sales tax would in some degree curb inflationary pressure. But to the extent that the tax encroached upon minimum living standards, the result might well be a serious increase in the pressure for higher wages, offsetting the anti-inflationary effect of the tax.

A major threat to stable prices would arise from the entry of the sales tax into agricultural, commercial, and industrial costs and the necessary revision of price ceilings. The damaging effects on our price control structure may be illustrated in the field of agriculture. Directly or indirectly, the ceiling and support prices of most farm products are linked to farm parity prices. This link means that these prices are relative rather than fixed, and that they respond to the parity index. A ten

A general sales tax, more than any other tax, produces an irresistible drive for higher wages and farm prices. Unlike the income tax, it enters directly into the cost of living of all wage earners and into the index of prices paid by farmers which underlies farm parity prices. Both in the field of wages, where increases in response to a sharp rise in living costs would have the sanction of a sympathetic public, and in the field of farm prices, where an increase would have the sanction of law, the line we are holding against inflation would be broken.

I do not mean to imply that a sales tax has no anti-inflationary aspects. Certainly, in skimming off

several billions of

that a 10 percent rate would stimulate much more evasion and delinquency than the 2 percent rates prevalent in state sales taxation. Conflict with existing sales tax laws in 23 states would create another troublesome problem. The Bureau of Internal Revenue is already confronted with the huge task of shifting the individual income tax to a current payment basis. To saddle the Bureau with the tremendous additional load of sales tax administration would invite a breakdown of its machinery.

To my mind, the inequity and the administrative difficulties of a sales tax are sufficient reason to bar it from the Federal statute books. B ut if another nail is needed to seal the coffin of the sales tax, it is certainly provided by the upsetting effect of this measure on our stabilization program.

A general sales tax,

The gain in revenue from a sales tax is realized in large part at the expense of the essentials of life for the low income groups. The imposition of the tax would therefore undermine the morale and productive efficiency of these groups. It would strike hardest at the very people who are bearing the brunt of the price increases to date.

In wartime, moreover, the sales tax presents formidable administrative difficulties. Unlike the income tax, which offers an established mechanism for the job of raising new taxes, the sales tax would require much new administrative machinery. The critical shortage of trained auditors, transportation facilities, and business machines would make it difficult to administer and enforce the tax effectively. It is worth noting also

that a 10 percent

B. Sales and excise taxes

The major device currently receiving attention as an alternative to increased individual income taxes is the general retail sales tax. A tax of 10 percent on retail sales, designed to raise about $6 billion, is being urged in many quarters. As in the past, the Treasury stands unalterably opposed to a general sales tax. Our opposition is based upon the inequity of this tax, and also on its inadequacy as an anti-inflationary measure.

In war as in peace, the Treasury opposes a tax which impairs the already inadequate standard of living of persons with low incomes. The general sales tax fails to differentiate between rich and poor, between necessities and luxuries, and between large families and small families.

The gain in revenue

The Treasury has also recommended the repeal of the Victory tax and the elimination of the earned income credit, with compensating adjustments in the rate schedule. These recommendations, if adopted, will go a long way toward simplifying our unnecessarily complicated income tax structure. Such simplification is vital to the full utilization of income taxes in the fight to hold the line against inflation. I wish I could now go into the whole question of simplification of our tax laws. But that is a speech in itself and I made it in Chicago last week. I refer you to it, if you would like to pursue the subject.

B. Sales and excise taxes

source of the bulk of our income tax liabilities, has greatly eased the payment of any given amount of income taxes. But a great deal remains to be done on the simplification front.

You will be interested to know that the Treasury has had its research and legal experts working on the simplification of income tax returns to be filed in 1944, and that the Treasury and the Department of Agriculture conducted a special joint project last summer to improve the income tax return for farmers. Hundreds of farm returns from all parts of the country were studied in an effort to find out how the farmer's return could be modified and the job of reporting farm income simplified. I might add that the ulterior motive of promoting more accurate reporting of farm income also played a part in our revision of this form.

The Treasury has

individual income tax would be allowed as a postwar credit. It has recommended further that part of any such refundable tax imposed by Congress be made available currently to persons with heavy fixed commitments and to persons whose incomes have failed to increase materially. The refundable tax would on the one hand serve to provide a backlog for the income groups most in need of such a safeguard. On the other hand, it would permit current use of the credit to persons whose economic status or commitments would make it a hardship to wait until after the war for their refunds.

As we broaden and deepen the income tax, it becomes necessary to make our tax system as simple as possible. The Current Tax Payment Act of 1943, by eliminating the one-year lag in tax payments and by providing for collection at

source of the

capital reserve for emergencies. The great majority of our people have low or modest incomes. Four-fifths of the national income goes to persons earning less than $5,000 a year. It is these people who must bear by far the largest share of the wartime increases in taxation. As individuals with low or modest incomes are called upon to shoulder an ever larger proportion of the total tax load, the problem of protection against postwar insecurity becomes ever greater.

Special provision for the postwar security of those with low or modest incomes and relief for those with fixed incomes or fixed commitments can be provided by the use of a postwar credit under the income tax. The Treasury has, therefore, submitted to the Ways and Means Committee a plan under which over half of the proposed increase in the

individual income

at all. Some have suffered a deterioration in economic status as a result of the dislocations of the war. The current ability of many persons to meet wartime tax bills is also limited by fixed commitments for life insurance and for repayment of debt on their homes. To avoid inequity, and even hardship, in our tax system wartime taxes must distinguish between those who are debt-ridden and those who are debt-free, between those whose economic status has been improved, and those whose economic status has been impaired, by the war.

In drawing up a necessarily severe schedule of wartime income tax rates it is important also to guard against impairment of the postwar security of those in the low income groups. Normally, such persons have little or no

capital reserve

When taxes reach present and proposed high levels, it becomes increasingly vital that they be levied in accordance with the principle of ability to pay.

Income payments to individuals have increased $87 billion since 1938. In the same period, individual income taxes have risen only $18 billion. This means that we have absorbed only about one-fifth of the increase in income payments generated by defense and war activities.

This is impressive evidence of aggregate taxpaying ability. But it is aggregate evidence. We should not let it blind us to the sharp differences in individual circumstances. We are all keenly aware that the monetary gains and losses of the war are unevenly distributed. Some persons have had large increases in income, others, little or none at all.

power, the individual income tax looms as the predominant source of additional taxes.

More than half, or $6.6 billion, of the Treasury's $10-1/2 billion proposal, consists of increases in individual income tax rates. This strong emphasis is put on the individual income tax because by the use of this tax we can best achieve our standards of justice and fairness in taxation -- standards which, if <u>important</u> in peacetime, become <u>crucial</u> in wartime. The income tax enables us to distribute burdens fairly among income groups, and with due regard to size of income and family status. No other tax can be imposed with the same assurance that a fair and intelligent distribution of the tax burden will be achieved.

When taxes

IV. Specific taxes

Tax programs are not merely a matter of over-all goals and impressive aggregates. They are composed of specific tax measures, some of which are more effective, others less effective, and still others ineffective or even harmful, in the fight against inflation. Taxes available to the Federal Government include principally, those on personal incomes, on corporate profits, on estates and gifts, and on sales. It is from these materials that the back-stop to wage and price controls must be constructed.

A. Taxes on individual incomes

The individual income tax is our chief reliance to date, both as a source of wartime revenue and as a damper on inflationary spending. Moreover, from the standpoint of equity, taxable capacity, and ability to reach excess spending

power,

of the $41 billion inflation potential, a strong case could be made for $21 billion of additional taxes, or just twice the Treasury proposal. In fact, since the $21 billion would be personal taxes and the Treasury program contains several billions of nonpersonal taxes, the disparity is even greater than 2 to 1.

But the Treasury has recognized that taxes of sufficient magnitude to trim off all the fat of excess spending power would inevitably cut into the lean of justifiable expenditures and necessary savings. The resultant inequity and hardship would impair morale and productive effort, and would leave many citizens in a weakened financial position at the end of the war. To avoid such results, the Treasury tax program was limited in amount. Furthermore, the proposed taxes were carefully selected.

IV. <u>Specific taxes</u>

III. The magnitude of the tax job

A few moments ago I cited figures showing that money incomes will exceed available goods and services by more than $40 billion in the fiscal year 1944. Consumers will be able to buy only 70 cents worth of goods per dollar of income left burning in their pockets. Thirty cents out of each dollar can go only into savings, additional taxes, or higher prices. This excess offers striking evidence, not only of acute inflation dangers, but also of enormous taxable capacity. If we were to apply the most rigorous possible standards of anti-inflationary war finance, and if we were to disregard the implicit hardships for persons who have not shared in wartime prosperity or are bound by pre-war commitments, the Treasury's proposed $10-1/2 billion tax program would seem modest indeed. Even allowing for $20 billion of savings out

of the $41

that the peak of the inflation danger comes after a war. Pent-up desires, backed by accumulations of cash and Government bonds, are ready to express themselves in a spending spree. At the same time an individualistic public is impatient to cast off irksome wartime controls. Administrators of such controls are anxious to go back to peacetime pursuits. The unhappy result of this apparently happy combination adds up to uncontrolled inflation.

Our best insurance against postwar inflation, our best guarantee of prompt "decontrol" and return to the free economy we are fighting to retain, is a vigorous wartime tax policy. Part of our postwar planning should take the form of wartime taxes designed to hold liquid savings within manageable limits, and to curb excessive spending immediately after the war.

incomes would also remain constant. Even in the face of fixed prices per unit of output, farm incomes rise in response to expanded output. Similarly, even in the face of rigid wage rate control, such factors as overtime pay, the up-grading of workers into more lucrative jobs, and the drawing of women into industry, will generate greater total wage payments. And remember that a large part of current production is not available for civilian consumption here at home. The direct control of prices and wage rates, however effective, cannot prevent the creation of an overflow of spending power. It is the job of tax policy to dam the overflow, and thus to buttress our wage and price policy.

In cutting down excessive spending power, wartime taxes serve another purpose, namely, to reduce the threat of postwar inflation. The record of past wars indicates

that the

II. The role of tax policy

From our brief survey of the anatomy of inflation, the role of taxes in the fight to hold the line becomes clear. Taxes impound spending power, and reduce to manageable limits the strain on the defense line of rationing and price control. Taxation is thus a companion of, not a substitute for, other control devices. By striking at the spending power root of inflation, taxes reinforce our stabilization program.

It is true, of course, that wage, price, and rent controls in themselves impose limits on the creation of income and thereby reduce spending power. But even if wage rates and the prices of, say, farm products were held constant, it would not follow that workers' and farmers'

incomes

resurgence of civilian production, an inflated and disjointed price structure will promote a policy of "watch and wait" until prices are again in line. And once they are in line -- that is, when they have come down from their heights -- all debts incurred at high levels will become immeasurably harder to pay. The great farm debt was one of the most disastrous economic legacies of inflation in the last war. It exercised its depressing effect on agriculture for more than a decade. The aftermath of inflation would impair our peacetime efforts after this war, just as inflation itself would impair our effort during the war.

II. The role of tax policy

keeping up with prices. If profit is to be found not in producing more, but rather in outsmarting inflation; if higher wages are to be had not by working harder, but by bargaining on the basis of rising costs of living -- in short, if inflation calls the tune to which our economy dances, our output will surely fall and our war effort will surely suffer.

The damage inflation inflicts on production cannot be adequately described in the present tense. The future tense is equally important. One has to venture prophecy. The wake of inflation will greatly magnify the problem of economic readjustment after the war. It will leave us with a price system that is seriously out of joint. The shaking-down process will increase business risks and discourage enterprise. Instead of a vigorous

resurgence

wholesome effect on production. Unless inflation is strongly resisted, consumers will bid up the prices of civilian goods and thus stimulate the wrong kind of production. This will increase the difficulty of diverting resources to war industries. When total production is at a maximum, there will even be a tendency to divert production from war into non-war channels. If the Government does not check the rise in prices of consumer goods, its only alternative is to outbid consumers in order to get necessary war production. The process of outbidding consumers greatly magnifies the costs of war and virtually guarantees runaway inflation.

Inflation may also impede war production by shifting the emphasis of industry and labor from the <u>real</u> job of producing the implements of war to the <u>monetary</u> job of

keeping up

C. The effect of inflation on production

Before I go on to describe the specific part that taxes may play in holding the line, I should like to address myself briefly to the persistent minority who feel that inflation is a tonic for the economic system, that it invigorates production, and that it should therefore be allowed to run its course. When our economy is running at less than full capacity, it is true that rising prices have a stimulating, albeit not always wholesome, influence on production. In the Thirties when we were faced with deflation, the stimulus of rising prices was to be welcomed, and even invited by means of deficit financing.

But in time of total war, when we approach, or actually reach, the limits of production, and when our resources and efforts must be focussed on victory, it is sheer madness to maintain that inflation will have a to price stabilization. These leakages indicate that inflationary money is not easily discouraged: they tell us that unless tax policy puts an increasing portion of easy dollars out of temptation's way, price and wage policy may be unable to hold the line. It is unfortunately true that many people will make illegitimate use of money when they can find no legitimate use for it.

C. The effect of inflation on production.

Qualitative evidence that inflationary money is straining our rationing and price controls is also uncomfortably ample. A recent sampling of prices by OPA indicated that in many instances actual retail food prices are above legal ceilings. Illicit trafficking in ration coupons and the tendency of meat, poultry, and gasoline to leak out of regular channels, and into black markets, are further threats to price stability. But markets, like many other things cannot be clearly divided into fields of black and white. Black markets have many penumbral shadings. In the shadows lie the "gray" markets, the corner stores where housewives, sometimes knowingly and sometimes unknowingly, pay higher-than-ceiling prices, and where inferior goods are sold at superior prices. This is another persistent menace

to price

for Government bonds they customarily set up "war loan accounts" payable to the United States Treasury. As the Treasury draws on these accounts to finance war expenditures, new funds are created -- funds that very promptly flow into the pocketbooks and bank accounts of individual citizens and business firms.

During the fiscal year 1943 banks thus increased their holdings of Federal securities by about $30 billion. This constituted the bulk of the increase in bank investments, which in the same period expanded by about 36 percent the total of coin, paper money, and checking deposits held by the public. These holdings are liquid fuel which constantly threatens to fan the fires of inflation.

Qualitative

figure adds up to $55 billion. Of this increase $24 billion are in the form of currency and checking accounts. From the standpoint of inflation, it is no exaggeration to call these savings liquid dynamite.

The record of commercial bank lending also yields ominous evidence of "dangerous dollars." War financing through bank purchases of Government securities expands the assets held by the public. To the extent that bank depositors lend their deposits to the Government by buying bonds, no new funds are created; funds are merely transferred from private to Treasury accounts. But when banks buy Government securities for themselves they have no right to make charges against their depositors' accounts. In payment

for Government

personal taxes, primarily the Federal individual income tax. Available supplies of consumer goods and services, at present ceiling prices, will account for close to $89 billion. That leaves an inflation potential of $42 billion, which threatens to break through the lines established by our price and rationing controls. Any part of the $42 billion which is used to push consumer spending beyond the $89 billion level will be inflationary money in the purest sense of the term. In the aggregate, it will not buy goods; it will simply raise prices and thus further inflate the cost of living. And back of it, also ready to raise prices and further inflate the cost of living, are billions of dollars of accumulated savings. Since the beginning of 1940, the total

figure adds up

prosperity. When more than half of our manpower and equipment is devoted to supplying the sinews of war, it follows that the resultant flow of incomes to consumers cannot be matched by a corresponding flow of goods to civilian markets. Thus, we are confronted with the paradox of wartime prosperity; consumer buying power cannot keep pace with consumer spending power. The response to a large part of wartime civilian spending is not more goods, but higher prices.

Quantitative evidence that we are confronted with a dangerous excess of spending power is plentiful. Present prospects are that citizens will receive incomes of about $152 billion during the current fiscal year. Some $21 billion of this total will be skimmed off by existing

personal taxes,

to the prices of goods entering into the farmer's parity base, may breach rather than bulwark the line we are trying to hold against inflation.

B. Excess of monetary demand over physical supply.

When we recognize that rising costs are a source of wartime price increases, we have not yet touched the core of wartime inflation. That core consists of the great and growing unbalance between the volume of spending power and the supply of civilian goods and services. Each is uncomfortable in the presence of the other -- So-called "wartime prosperity" fills the pockets of consumers with unprecedented money incomes. Yet, unlike peacetime prosperity, it does not fill civilian markets with the goods and services which alone can put meat on the bones of

prosperity.

in a better position to bargain for higher wage rates, and in addition requires overtime work commanding higher pay. Competition for scarce raw materials and machinery also tends to raise prices, thus again increasing costs of production. These are some of the forces that are constantly straining to break through wage and price controls -- forces that must be denied in all but the most exceptional cases where it is clearly necessary to accept higher costs to get indispensable output not otherwise obtainable.

The role of tax policy with respect to the leverage of increased costs on prices is negative rather than positive. It should carefully avoid interference with the cost-price and parity relationships which underlie present price ceilings. Taxes which add to producers' money costs, or

to the

agriculture, where record crops are achieved by more intensive -- and often more expensive -- cultivation of land already in use and by resort to inferior land normally held out of use. Costs of industrial production are increased by the necessity of using less efficient labor and substitute materials. Where necessary to secure essential production these costs must be covered. This is entirely consistent with a realistic anti-inflationary program and with a tax policy that is part of that program.

Apart from the consequences of having to use less efficient labor, land, and materials, costs tend to rise because prices paid by producers are prone to rise. The intensified demand for labor, for example, places workers

in a better

mistakes both in our appraisal of inflation, and in our choice of tax measures to combat it, unless we recognize that economic forces other than excess spending power cause price increases. It is not merely that dangerous dollars are exerting a strong upward pull on prices. Costs are pushing hard from below. In choosing tax measures to reduce the pull <u>from above</u> it is important to avoid increasing the push <u>from below</u>.

As output in the factory and on the farm rises, costs are affected by conflicting forces -- some operating to raise costs and some to lower them. But as production is pushed toward the limits of capacity, as at present, conditions working toward higher costs are very likely to predominate. This tendency is especially noticeable in

agriculture

the kind of taxes we have the courage to levy.

I. The anatomy of inflation

If we are to understand the role of tax policy in holding the line, we must know something about the anatomy of inflation. What causes price increases and on which causes can taxes operate? Close inspection will reveal whether the taxes we have, and are likely to get, will merely snap at the heels of inflation or whether they will strike at its very vitals.

A. Rising Costs.

In dealing with the problem of wartime inflation, it is customary to concentrate on the enormous excess of consumer spending power over the available supply of goods and services. And this, to be sure, is the central issue. But it is not the only issue, and we are likely to make he meant by the term "bureaucrat". I wish I knew, so that I could appraise his indictment. Sometimes I wonder whether a bureaucrat is not just a person who doesn't believe the same things everybody else in his set thinks are vital to the American way of life.

In relating tax policy to inflation, I shall start with the premise that inflation is bad -- a premise that all of us, as <u>consumers</u>, are willing to grant, but one that some of us, as producers, are reluctant to accept. I propose to show two things: <u>first</u>, that a forceful tax policy is a prerequisite to effective wage, price and rationing controls; and <u>second</u>, that the answer to the question, "will we hold the line?" depends, insofar as taxes are a critical factor, both upon the <u>amount</u> and upon

the <u>kind</u>

It is a privilege to raise the curtain at the 21st Annual Agricultural Outlook Conference. I suspect that I have been placed in the position of prologue rather than epilogue, because there is a psychological, if not a therapeutic, value to be derived from administering the bitterest pill first. Taxes are a bitter pill. No layers of sugar coating, no admonitions that they are good for what ails the country, can disguise that fact. Because of my close association with taxes, I have become a kind of symbol of something that's hard to take. If I had not known this before, I should know it now. I wish I could repeat to you some of the names I have been called. By way of mild example, I was once advised to "close my bureaucratic trap." My friendly critic did not explain what

he meant by the

TREASURY DEPARTMENT
Washington

Washington, D.C

(The following address by Randolph E. Paul, General Counsel of the Treasury, before the Agricultural Outlook Conference, of theBureau of Agricultural Economics, in the Auditorium of the Department of Agriculture, is scheduled for delivery at 10 a. m. Eastern War Time, Monday, October 18, 1943, and is for release at that time.)

Will He "Hold the Line?"

TREASURY DEPARTMENT
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WILL WE "HOLD THE LINE?"

It is a privilege to raise the curtain at the 21st Annual Agricultural Outlook Conference. I suspect that I have been placed in the position of prologue rather than epilogue, because there is a psychological, if not a therapeutic, value to be derived from administering the bitterest pill first. Taxes are a bitter pill. No layers of sugar coating, no admonitions that they are good for what ails the country, can disguise that fact. Because of my close association with taxes, I have become a kind of symbol of something that's hard to take. If I had not known this before, I should know it now. I wish I could repeat to you some of the names I have been called. By way of mild example, I was once advised to "close my bureaucratic trap." My friendly critic did not explain what he meant by the term "bureaucrat". I wish I knew, so that I could appraise his indictment. Sometimes I wonder whether a bureaucrat is not just a person who doesn't believe the same things everybody else in his set thinks are vital to the American way of life.

In relating tax policy to inflation, I shall start with the premise that inflation is bad -- a premise that all of us, as consumers, are willing to grant, but one that some of us, as producers, are reluctant to accept. I propose to show two things: first, that a forceful tax policy is a prerequisite to effective wage, price and rationing controls; and second, that the answer to the question, "will we hold the line?" depends, insofar as taxes are a critical factor, both upon the amount and upon the kind of taxes we have the courage to levy.

I. The anatomy of inflation

If we are to understand the role of tax policy in holding the line, we must know something about the anatomy of inflation. What causes price increases and on which causes can taxes operate? Close inspection will reveal whether the taxes we have, and are likely to get, will merely snap at the heels of inflation or whether they will strike at its very vitals.

A. Rising Costs.

In dealing with the problem of wartime inflation, it is customary to concentrate on the enormous excess of consumer spending power over the available supply of goods and services. And this, to be sure, is the central issue. But it is not the only issue, and we are likely to make mistakes both in our appraisal of inflation, and in our choice of tax measures to combat it, unless we recognize that economic forces other than excess spending power cause price increases. It is not merely that dangerous dollars are exerting a strong upward pull on prices. Costs are pushing hard from below. In choosing tax measures to reduce the pull from above it is important to avoid increasing the push from below.

As output in the factory and on the farm rises, costs are affected by conflicting forces — some operating to raise costs and some to lower them. But as production is pushed toward the limits of capacity, as at present, conditions working toward higher costs are very likely to predominate. This tendency is especially noticeable in agriculture, where record crops are achieved by more intensive — and often more expensive — cultivation of land already in use and by resort to inferior land normally held out of use. Costs of industrial production are increased by the necessity of using less efficient labor and substitute materials. Where necessary to secure essential production these costs must be covered. This is entirely consistent with a realistic anti-inflationary program and with a tax policy that is part of that program.

Apart from the consequences of having to use less efficient labor, land, and materials, costs tend to rise because prices paid by producers are prone to rise. The intensified demand for labor, for example, places workers in a better position to bargain for higher wage rates, and in addition requires overtime work commanding higher pay. Competition for scarce raw materials and machinery also tends to raise prices, thus again increasing costs of production. These are some of the forces that are constantly straining to break through wage and price controls — forces that must be denied in all but the most exceptional cases where it is clearly necessary to accept higher costs to get indispensable output not otherwise obtainable.

The role of tax policy with respect to the leverage of increased costs on prices is negative rather than positive. It should carefully avoid interference with the cost-price and parity relationships which underlie present price ceilings. Taxes which add to producers' money costs, or to the prices of goods entering into the farmer's parity base, may breach rather than bulwark the line we are trying to hold against inflation.

B. Excess of monetary demand over physical supply.

When we recognize that rising costs are a source of wartime price increases, we have not yet touched the core of wartime inflation. That core consists of the great and growing unbalance between the volume of spending power and the supply of civilian goods and services. Each is uncomfortable in the presence of the other. So-called "wartime prosperity" fills the pockets of consumers with unprecedented money incomes. Yet, unlike peacetime prosperity, it does not fill civilian markets with the goods and services which alone can put meat on the bones of prosperity. When more than half of our manpower and equipment is devoted to supplying the sinews of war, it follows that the resultant flow of incomes to consumers cannot be matched by a corresponding flow of goods to civilian markets. Thus, we are confronted with the paradox of wartime prosperity; consumer buying power cannot keep pace with consumer spending power. The response to a large part of wartime civilian spending is not more goods, but higher prices.

Quantitative evidence that we are confronted with a dangerous excess of spending power is plentiful. Present prospects are that citizens will receive incomes of about $152 billion during the current fiscal year. Some $21 billion of this total will be skimmed off by existing personal taxes, primarily the Federal individual income tax. Available supplies of consumer goods and services, at present ceiling prices, will account for close to $89 billion. That leaves an inflation potential of $42 billion, which threatens to break through the lines established by our price and rationing controls. Any part of the $42 billion which is used to push consumer spending beyond the $89 billion level will be inflationary money in the purest sense of the term. In the aggregate, it will not buy goods; it will simply raise prices and thus further inflate the cost of living. And back of it, also ready to raise prices and further inflate the cost of living, are billions of dollars of accumulated savings. Since the beginning of 1940, the total figure adds up to $55 billion. Of this increase $24 billion are in the form of currency and checking accounts. From the standpoint of inflation, it is no exaggeration to call these savings liquid dynamite.

The record of commercial bank lending also yields ominous evidence of "dangerous dollars." War financing through bank purchases of Government securities expands the assets held by the public. To the extent that bank depositors lend their deposits to the Government by buying bonds, no new funds are created; funds are merely transferred from private to Treasury accounts. But when banks buy Government securities for themselves they have no right to make charges against their depositors' accounts. In payment for Government bonds they customarily set up "war loan accounts" payable to the United States Treasury. As the Treasury draws on these accounts to finance war expenditures, new funds are created -- funds that very promptly flow into the pocketbooks and bank accounts of individual citizens and business firms.

During the fiscal year 1943 banks thus increased their holdings of Federal securities by about $30 billion. This constituted the bulk of the increase in bank investments, which in the same period expanded by about 36 percent the total of coin, paper money, and checking deposits held by the public. These holdings are liquid fuel which constantly threatens to fan the fires of inflation.

Qualitative evidence that inflationary money is straining our rationing and price controls is also uncomfortably ample. A recent sampling of prices by OPA indicated that in many instances actual retail food prices are above legal ceilings. Illicit trafficking in ration coupons and the tendency of meat, poultry, and gasoline to leak out of regular channels, and into black markets, are further threats to price stability. But markets, like many other things cannot be clearly divided into fields of black and white. Black markets have many penumbral shadings. In the shadows lie the "gray" markets, the corner stores where housewives, sometimes knowingly and sometimes unknowingly, pay higher-than-ceiling prices, and where inferior goods are sold at superior prices. This is another persistent menace to price stabilization. These leakages indicate that inflationary money is not easily discouraged: they tell us that unless tax policy puts an increasing portion of easy dollars out of temptation's way, price and wage policy may be unable to hold the line. It is unfortunately true that many people will make illegitimate use of money when they can find no legitimate use for it.

C. <u>The effect of inflation on production.</u>

Before I go on to describe the specific part that taxes may play in holding the line, I should like to address myself briefly to the persistent minority who feel that inflation is a tonic for the economic system, that it invigorates production, and that it should therefore be allowed to run its course. When our economy is running at less than full capacity, it is true that rising prices have a stimulating, albeit not always wholesome, influence on production. In the Thirties when we were faced with deflation, the stimulus of rising prices was to be welcomed, and even invited by means of deficit financing.

But in time of total war, when we approach, or actually reach, the limits of production, and when our resources and efforts must be focussed on victory, it is sheer madness to maintain that inflation will have a wholesome effect on production. Unless inflation is strongly resisted, consumers will bid up the prices of civilian goods and thus stimulate the wrong kind of production. This will increase the difficulty of diverting resources to war industries. When total production is at a maximum, there will even be a tendency to divert production from war into non-war channels. If the

Government does not check the rise in prices of consumer goods, its only alternative is to outbid consumers in order to get necessary war production. The process of outbidding consumers greatly magnifies the costs of war and virtually guarantees runaway inflation.

Inflation may also impede war production by shifting the emphasis of industry and labor from the real job of producing the implements of war to the monetary job of keeping up with prices. If profit is to be found not in producing more, but rather in outsmarting inflation; if higher wages are to be had not by working harder, but by bargaining on the basis of rising costs of living -- in short, if inflation calls the tune to which our economy dances, our output will surely fall and our war effort will surely suffer.

The damage inflation inflicts on production cannot be adequately described in the present tense. The future tense is equally important. One has to venture prophecy. The wake of inflation will greatly magnify the problem of economic readjustment after the war. It will leave us with a price system that is seriously out of joint. The shaking-down process will increase business risks and discourage enterprise. Instead of a vigorous resurgence of civilian production, an inflated and disjointed price structure will promote a policy of "watch and wait" until prices are again in line. And once they are in line -- that is, when they have come down from their heights -- all debts incurred at high levels will become immeasurably harder to pay. The great farm debt was one of the most disastrous economic legacies of inflation in the last war. It exercised its depressing effect on agriculture for more than a decade. The aftermath of inflation would impair our peacetime efforts after this war, just as inflation itself would impair our effort during the war.

II. <u>The role of tax policy</u>

From our brief survey of the anatomy of inflation, the role of taxes in the fight to hold the line becomes clear. Taxes impound spending power, and reduce to manageable limits the strain on the defense line of rationing and price control. Taxation is thus a companion of, not a substitute for, other control devices. By striking at the spending power root of inflation, taxes reinforce our stabilization program.

It is true, of course, that wage, price, and rent controls in themselves impose limits on the creation of income and thereby reduce spending power. But even if wage rates and the prices of, say, farm products were held constant, it would not follow that workers' and farmers' incomes would also remain constant. Even in the face of fixed prices per unit of output, farm incomes rise in response to expanded output. Similarly, even in the face of rigid wage rate control, such factors as overtime pay, the upgrading of workers into more lucrative jobs, and the drawing of women into industry, will generate greater total wage payments. And remember that a large part of current production is not available for civilian consumption here at home. The direct control of prices and wage rates, however effective, cannot prevent the creation of an overflow of spending power. It is the job of tax policy to dam the overflow, and thus to buttress our wage and price policy.

In cutting down excessive spending power, wartime taxes serve another purpose, namely, to reduce the threat of postwar inflation. The record of past wars indicates that the peak of the inflation danger comes after a war. Pent-up desires, backed by accumulations of cash and Government bonds, are ready to express themselves in a spending spree. At the same time an individualistic public is impatient to cast off irksome wartime controls. Administrators of such controls are anxious to go back to peacetime pursuits. The unhappy result of this apparently happy combination adds up to uncontrolled inflation.

Our best insurance against postwar inflation, our best guarantee of prompt "decontrol" and return to the free economy we are fighting to retain, is a vigorous wartime tax policy. Part of our postwar planning should take the form of wartime taxes designed to hold liquid savings within manageable limits, and to curb excessive spending immediately after the war.

III. The magnitude of the tax job

A few moments ago I cited figures showing that money incomes will exceed available goods and services by more than $40 billion in the fiscal year 1944. Consumers will be able to buy only 70 cents worth of goods per dollar of income left burning in their pockets. Thirty cents out of each dollar can go only into savings, additional taxes, or higher prices. This excess offers striking evidence, not only of acute inflation dangers, but also of enormous taxable capacity. If we were to apply the most rigorous possible standards of anti-inflationary war finance, and if we were to disregard the implicit hardships for persons who have not shared in wartime prosperity or are bound by pre-war commitments, the Treasury's proposed $10-1/2 billion tax program would seem modest indeed. Even allowing for $20 billion of savings out of the $41 billion inflation potential, a strong case could be made for $21 billion of additional taxes, or just twice the Treasury proposal.

But the Treasury has recognized that taxes of sufficient magnitude to trim off all the fat of excess spending power would inevitably cut into the lean of justifiable expenditures and necessary savings. The resultant inequity and hardship would impair morale and productive effort, and would leave many citizens in weakened financial position at the end of the war. To avoid such results, the Treasury tax program was limited in amount. Furthermore, the proposed taxes were carefully selected.

IV. Specific taxes

Tax programs are not merely a matter of over-all goals and impressive aggregates. They are composed of specific tax measures, some of which are more effective, others less effective, and still others ineffective or even harmful, in the fight against inflation. Taxes available to the Federal Government include principally, those on personal incomes, on corporate profits, on estates and gifts, and on sales. It is from these materials that the backstop to wage and price controls must be constructed.

A. Taxes on individual incomes

The individual income tax is our chief reliance to date, both as a source of wartime revenue and as a damper on inflationary spending. Moreover, from the standpoint of equity, taxable capacity, and ability to reach excess spending power, the individual income tax looms as the predominant source of additional taxes.

More than half, or $6.6 billion, of the Treasury's $10-1/2 billion proposal, consists of increases in individual income tax rates. This strong emphasis is put on the individual income tax because by the use of this tax we can best achieve our standards of justice and fairness in taxation — standards which, if important in peacetime, become crucial in wartime. The income tax enables us to distribute burdens fairly among income groups, and with due regard to size of income and family status. No other tax can be imposed with the same assurance that a fair and intelligent distribution of the tax burden will be achieved. When taxes reach present and proposed high levels, it becomes increasingly vital that they be levied in accordance with the principle of ability to pay.

Income payments to individuals have increased $87 billion since 1938. In the same period, individual income taxes have risen only $18 billion. This means that we have absorbed only about one-fifth of the increase in income payments generated by defense and war activities.

This is impressive evidence of aggregate taxpaying ability. But it is aggregate evidence. We should not let it blind us to the sharp differences in individual circumstances. We are all keenly aware that the monetary gains and losses of the war are unevenly distributed. Some persons have had large increases in income, others, little or none at all. Some have suffered a deterioration in economic status as a result of the dislocations of the war. The current ability of many persons to meet wartime tax bills is also limited by fixed commitments for life insurance and for repayment of debt on their homes. To avoid inequity, and even hardship, in our tax system wartime taxes must distinguish between those who are debt-ridden and those who are debt-free, between those whose economic status has been improved, and those whose economic status has been impaired, by the war.

In drawing up a necessarily severe schedule of wartime income tax rates it is important also to guard against impairment of the postwar security of those in the low income groups. Normally, such persons have little or no capital reserve for emergencies. The great majority of our people have low or modest incomes. Four-fifths of the national income goes to persons earning less than $5,000 a year. It is these people who must bear by far the largest share of the wartime increases in taxation. As individuals with low or modest incomes are called upon to shoulder an ever larger proportion of the total tax load, the problem of protection against postwar insecurity becomes ever greater.

Special provision for the postwar security of those with low or modest incomes and relief for those with fixed incomes or fixed commitments can be provided by the use of a postwar credit under the income tax. The Treasury has, therefore, submitted to the Ways and Means Committee a plan under which over half of the proposed increase in the individual income tax would be allowed as a postwar credit. It has recommended further that part of any such refundable tax imposed by Congress be made available currently to persons with heavy fixed commitments and to persons whose incomes have failed to increase materially. The refundable tax would on the one hand serve to provide a backlog for the income groups most in need of such a safeguard. On the other hand, it would permit current use of the credit to persons whose economic status or commitments would make it a hardship to wait until after the war for their refunds.

As we broaden and deepen the income tax, it becomes necessary to make our tax system as simple as possible. The Current Tax Payment Act of 1943, by eliminating the one-year lag in tax payments and by providing for collection at source of the bulk of our income tax liabilities, has greatly eased the payment of any given amount of income taxes. But a great deal remains to be done on the simplification front.

You will be interested to know that the Treasury has had its research and legal experts working on the simplification of income tax returns to be filed in 1944, and that the Treasury and the Department of Agriculture conducted a special joint project last summer to improve the income tax return for farmers. Hundreds of farm returns from all parts of the country were studied in an effort to find out how the farmer's return could be modified and the job of reporting farm income simplified. I might add that the ulterior motive of promoting more accurate reporting of farm income also played a part in our revision of this form.

The Treasury has also recommended the repeal of the Victory tax and the elimination of the earned income credit, with compensating adjustments in the rate schedule. These recommendations, if adopted, will go a long way toward simplifying our unnecessarily complicated income tax structure. Such simplification is vital to the full utilization of income taxes in the fight to hold the line against inflation. I wish I could now go into the whole question of simplification of our tax laws. But that is a speech in itself and I made it in Chicago last week. I refer you to it, if you would like to pursue the subject.

B. Sales and excise taxes

The major device currently receiving attention as an alternative to increased individual income taxes is the general retail sales tax. A tax of 10 percent on retail sales, designed to raise about $6 billion, is being urged in many quarters. As in the past, the Treasury stands unalterably opposed to a general sales tax. Our opposition is based upon the inequity of this tax, and also on its inadequacy as an anti-inflationary measure.

In war as in peace, the Treasury opposes a tax which impairs the already inadequate standard of living of persons with low incomes. The general sales tax fails to differentiate between rich and poor, between necessities and luxuries, and between large families and small families. The gain in revenue from a sales tax is realized in large part at the expense of the essentials of life for the low income groups. The imposition of the tax would therefore undermine the morale and productive efficiency of these groups. It would strike hardest at the very people who are bearing the brunt of the price increases to date.

In wartime, moreover, the sales tax presents formidable administrative difficulties. Unlike the income tax, which offers an established mechanism for the job of raising new taxes, the sales tax would require much new administrative machinery. The critical shortage of trained auditors, transportation facilities, and business machines would make it difficult to administer and enforce the tax effectively. It is worth noting also that a 10 percent rate would stimulate much more evasion and delinquency than the 2 percent rates prevalent in state sales taxation. Conflict with existing sales tax laws in 23 states would create another troublesome problem. The Bureau of Internal Revenue is already confronted with the huge task of shifting the individual income tax to a current payment basis. To saddle the Bureau with the tremendous additional load of sales tax administration would invite a breakdown of its machinery.

To my mind, the inequity and the administrative difficulties of a sales tax are sufficient reason to bar it from the Federal statute books. But if another nail is needed to seal the coffin of the sales tax, it is certainly provided by the upsetting effect of this measure on our stabilization program.

A general sales tax, more than any other tax, produces an irresistible drive for higher wages and farm prices. Unlike the income tax, it enters directly into the cost of living of all wage earners and into the index of prices paid by farmers which underlies farm parity prices. Both in the field of wages, where increases in response to a sharp rise in living costs would have the sanction of a sympathetic public, and in the field of farm prices, where an increase would have the sanction of law, the line we are holding against inflation would be broken.

I do not mean to imply that a sales tax has no anti-inflationary aspects. Certainly, in skimming off several billions of spending power and in providing a deterrent to spending, a sales tax would in some degree curb inflationary pressure. But to the extent that the tax encroached upon minimum living standards, the result might well be a serious increase in the pressure for higher wages, offsetting the anti-inflationary effect of the tax.

A major threat to stable prices would arise from the entry of the sales tax into agricultural, commercial, and industrial costs and the necessary revision of price ceilings. The damaging effects on our price control structure may be illustrated in the field of agriculture. Directly or indirectly, the ceiling and support prices of most farm products are linked to farm parity prices. This link means that these prices are relative rather than fixed, and that they respond to the parity index. A ten percent sales tax on a reasonably broad basis would increase that index by 6 or 7 percent. The operation of the parity formula would immediately raise the parity prices for agricultural commodities by 6 or 7 percent. Ceiling and support prices of various products would probably have to be adjusted to take the change in parity into account.

If a 10 percent sales tax had become effective July 1, 1943, estimates made by the Bureau of Agricultural Economics indicate that there would have been an average increase of 6 percent in retail food prices during 1944. This increase, added to a 10 percent levy on food sales, would raise food costs by approximately 16 percent. Finally, taking into account both the direct price increases and the indirect tax-induced increase in food prices, it is estimated that the cost-of-living index would rise about 10 percent. These are dull statistics, but they illustrate in concrete terms how a general retail sales tax would breach our first line of defense against inflation.

It seems reasonable to assume also that the direct and indirect price effects of a sales tax would create irresistible pressure on our wage stabilization program. If wage increases had to be granted in contradiction of that program, as I believe they would, the development of inflation would be greatly encouraged by the mutual interaction of price and wage increases.

Fortunately, the defects which discredit a sales tax do not apply to carefully selected excises on specific commodities. The Treasury has proposed additional excise taxes to provide an additional $2.5 billion annually. It is on such objects as liquor, tobacco, communications, amusements, and jewelry that excises would draw for additional wartime revenue. They require little or no increase in administrative machinery. They have been carefully selected in such a way as to avoid burdening the necessaries of life. The items chosen are either luxuries, or goods and services which need to be conserved for war purposes, or they are non-essentials, such as liquor and tobacco. The prices of such items do not enter into parity relationships.

While the proposed excises would lead to some increase in the cost of living, that increase would be far less than that generated by a sales tax designed to raise an equal amount of revenue. Taxpayers with modest or low incomes have a real option to avoid excise taxes by reducing their purchases of taxable items, not the fictional option they would have under a general sales tax, which strikes all commodities alike.

C. Other taxes

Today I shall not discuss the other taxes in the Treasury's 1943 program. Their bearing on inflation is less direct, though they are significant. This is true particularly of corporate tax increases, which are necessary if we are to persuade individual taxpayers to shoulder their part of the total burden.

V. Conclusion

In conclusion, I should like to return to the question which is the subject of this morning's discussion: "Will we hold the line?" Since taxation is a back-stop rather than the front line of defense against inflation, I shall not attempt an explicit answer. The field is open to Mr. Morse and Mr. Gilbert. I shall, however, venture this prediction: if present taxes are not substantially increased with an eye to diverting the stream of dangerous dollars that is battering against price and rationing controls, it will be very difficult to hold the line; and if new revenues take the form of a general sales tax, the line is more than likely to be broken, and then, at best, to be reestablished at a very much higher level of prices.

Let me add to that forecast a related warning. The war against inflation does not end with unconditional military surrender. It may have to be intensified for a time afterward to prevent the disaster of postwar inflation. If we fall prey to economic complacency and thus relax our anti-inflationary efforts, and if we identify the end of the war on inflation with the end of the war on the Axis, we are inviting economic chaos. We could win the war against the Axis and lose a large part of the victory at home.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 19, 1943.

Press Service
No. 39-14

An extension to December 1, 1943, of the time for filing reports on form TFR-500 of property interests in foreign countries required of all persons subject to American jurisdiction was announced by the Treasury Department today. It was emphasized that no further extensions would be granted.

Although the need of a substantial number of holders of large foreign interests for more time to assemble extensive information made this extension desirable, the Treasury pointed out that the rapid progress of Allied troops in Europe makes it imperative that all reports should be filed immediately upon completion, regardless of the closing date.

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TREASURY DEPARTMENT
Foreign Funds Control
October 19, 1943

AMENDMENT OF SPECIAL REGULATION NO. 1*

Section 137.4 of Special Regulation No. 1 is hereby amended by the substitution of the date December 1, 1943, for the date November 1, 1943, wherever the latter appears.

RANDOLPH PAUL
Acting Secretary of the Treasury.

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*Part 137: - Sec. 3(a), 40 Stat. 412; Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; 55 Stat. 838; Sec. 3, Public No. 831, 77th Congress; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, Ex. Order 8963, Dec. 9, 1941, and Ex. Order 8998, Dec. 26, 1941; Ex. Order 9193, July 6, 1942; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941.

TREASURY DEPARTMENT
Foreign Funds Control
October 19, 1943

AMENDMENT OF PUBLIC CIRCULAR NO. 22*

Section II-9 of Public Circular No. 22 is hereby amended by the substitution of the date December 1, 1943, for the date November 1, 1943, wherever the latter appears.

RANDOLPH PAUL
Acting Secretary of the Treasury.

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*Appendix B: - Sec. 3(a), 40 Stat. 412; Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; 55 Stat. 838; Sec. 3, Public No. 831, 77th Congress; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, Ex. Order 8963, Dec. 9, 1941, and Ex. Order 8998, Dec. 26, 1941; Ex. Order 9193, July 6, 1942; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941; Special Regulation No. 1, June 1, 1943.

Subscriptions to Third War Loan Drive
FINAL REPORT

By issues and by classes of investors

(In millions of dollars)

Issue	Included in drive					Outside of drive	Grand total
	Individuals	Insurance companies and mutual savings banks	Other corporations, associations and investors	Dealers and brokers	Total	Federal agencies and trust funds	
E bonds	2,472	-	-	-	2,472	-	2,472
F and G bonds	565	5	261	*	831	-	831
Savings notes	193	2	2,288	*	2,483	-	2,483
Certificates	366	255	3,177	322	4,120	-	4,120
2% bonds	1,220	1,926	1,483	480	5,109	151	5,260
2-1/2% bonds	561	1,939	706	92	3,298	479	3,777
Total	5,377	4,127	7,915	894	18,313	630	18,943

~~October 18,~~ 1943.

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

Note: ~~Sales of Savings bonds and Savings notes included in this table since September 1.~~
~~Figures are rounded and do not necessarily add to totals.~~

* Less than $500,000.

Subscriptions to Third War Loan Drive Compared with Quotas by States and by Classes of Investors (Cont'd)

FINAL REPORT
(Dollars are millions)

State	Individuals, partnerships and personal trust accounts			Corporations, associations and other investors			Grand total		
	Sales	Quota	Percent achieved to date	Sales	Quota	Percent achieved to date	Sales	Quota	Percent achieved to date
New Mexico.............	$ 10	$ 12	80%	$ 8	$ 2	415%	$ 18	$ 14	130%
New York...............	851	796	107	4,729	3,913	121	5,580	4,709	118
North Carolina.........	70	70	100	112	75	150	182	145	126
North Dakota...........	21	17	124	14	12	118	35	29	121
Ohio...................	363	313	116	740	385	192	1,102	698	158
Oklahoma...............	58	45	129	68	55	124	127	100	127
Oregon.................	86	58	148	69	46	150	155	104	149
Pennsylvania...........	405	388	104	801	683	117	1,205	1,071	112
Rhode Island...........	26	31	84	86	50	172	112	81	138
South Carolina.........	30	33	92	48	28	170	78	61	128
South Dakota...........	23	20	117	19	15	127	42	35	121
Tennessee..............	89	64	139	96	77	125	185	141	131
Texas..................	262	201	130	258	219	118	520	420	124
Utah...................	17	20	84	37	21	175	54	41	132
Vermont................	8	9	86	19	18	103	26	27	98
Virginia...............	68	74	93	125	79	158	194	153	127
Washington.............	81	88	92	140	103	136	221	191	116
West Virginia..........	64	42	152	71	34	209	135	76	177
Wisconsin..............	98	103	95	248	195	127	346	298	116
Wyoming................	7	8	94	7	4	172	15	12	122
Territories & possessions	20	11	180	14	10	136	34	21	160
Subtotal...............	5,343	4,998	107	12,915	10,000	129	18,262	14,998	122
Unallocated............	34	2	-	21	-	-	51	2	-
Total..................	$ 5,377	$ 5,000	108%	$ 12,936	$10,000	129%	$ 18,313	$15,000	122%
Federal trust funds.....	-	-	-	630	-	-	630	-	-
Grand total............	$ 5,377	-	-	$ 13,566	-	-	$ 18,943	-	-

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

Note: Sales of Savings bonds and Savings notes included in this table since September 1. Figures are rounded do not necessarily add to totals. Percentages have been computed on unrounded figures.

Subscriptions to Third War Loan Drive Compared with Quotas by States and by Classes of Investors

FINAL REPORT

(Dollars are millions)

State	Individuals, partnerships and personal trust accounts			Corporations, associations and other investors			Grand total		
	Sales	Quota	Percent achieved to date	Sales	Quota	Percent achieved to date	Sales	Quota	Percent achieved to date
Alabama	$ 71	$ 56	127%	$ 72	$ 52	138%	$ 143	$ 108	132%
Arizona	17	17	101	19	15	127	37	32	114
Arkansas	38	31	122	26	27	95	63	58	109
California-No	197	182	108	236	242	98	433	424	102
California-So	167	207	81	267	215	124	434	422	103
Colorado	49	37	132	53	35	152	102	72	142
Connecticut	78	99	79	432	354	122	511	453	113
Delaware	16	15	105	42	34	124	58	49	118
District of Columbia	43	50	86	60	44	136	103	94	109
Florida	84	58	145	74	59	126	159	117	136
Georgia	122	70	175	88	67	131	210	137	153
Idaho	16	15	109	12	10	120	28	25	114
Illinois	312	330	95	868	591	147	1,180	921	128
Indiana	118	118	100	187	139	134	304	257	118
Iowa	114	89	128	134	107	126	248	196	127
Kansas	71	65	109	54	47	116	125	112	112
Kentucky	76	57	134	66	69	96	142	126	113
Louisiana	66	58	114	74	65	113	140	123	114
Maine	23	27	84	39	27	143	62	54	114
Maryland	95	84	113	236	112	210	331	196	169
Massachusetts	165	176	94	707	607	116	873	783	112
Michigan	218	225	97	344	226	152	563	451	125
Minnesota	102	96	107	176	120	147	279	216	129
Mississippi	44	34	129	21	19	111	65	53	123
Missouri	125	129	97	246	191	129	372	320	116
Montana	22	19	117	19	16	118	41	35	117
Nebraska	52	47	112	66	56	117	118	103	115
Nevada	6	6	102	5	4	115	11	10	109
New Hampshire	12	13	92	39	26	150	51	39	131
New Jersey	167	185	90	544	400	136	710	585	121

(Continued on following page)

~~plant drives reported very large sales of E bonds which could not be processed by the various Federal Reserve Banks in time to be entered into the national tally. In the cases of some larger plants these sales are estimated to run into tens of millions of dollars.~~ The unprecedented sales to individuals ~~also~~ indicated that the number of individual bonds issued during this period would ~~also~~ break all records, ~~[illegible] running as high as [illegible] million individual bonds, according to a canvass of opinion among banking circles by [illegible] representatives.~~ In addition to the new totals on E, F and G bonds announced ~~by Acting Secretary Bell~~, the following recapitulation of the Third War Loan sales was issued:-

	(in millions of dollars)
7/8% Certificates	4,120
2% Bonds ('51-53)	5109
2½% Bonds ('6~~3~~4-69)	3298
Savings Notes (Series C)	2479
GOVERNMENT TRUST ACCTS:	
2% bonds ('51-53)	151
2½% bonds ('~~63~~-69)	479
Savings Bonds (Series E, F and G) [64]	3,303
GRAND TOTAL	18,939

39-N

(Suggest Press Statement)

October , 1943

Acting Secretary of the Treasury Daniel W. Bell announced today ~~the official completion of~~ final figures — $ — for the Third War Loan. ~~as~~ This total is reflected by deposits to the credit of the Treasury ~~as~~ reported by the twelve Federal Reserve Banks as of midnight Saturday, October 16~~th~~.

Mr. Bell~~, in releasing these figures~~, expressed the gratification of Secretary ~~Henry~~ Morgenthau ~~at the~~ over the impressive totals amassed during "this greatest of all War Loans." ~~The final total of the Drive, including all issues, reached \$18 billion~~ 939 million

In commenting on the sale of the various issues, the Acting Secretary ~~Bell~~ pointed out that the sales to individuals, which was the first objective of the Drive, was more than met with sales of \$5 billion ______ against a quota of \$5 billion. Sales to corporations, associations and other investors total \$12 billion 883 million against a quota of \$10 billion. ~~The E bond~~ Sales of E bonds total \$2 billion 472 million, ~~which contrasted~~ compared to \$1 billion 473 million, the prior all-time high in this class of securities, which was reached in the Second War Loan in April, 1943. The F and G bonds total also reached an all-time high in this class of securities with a total of \$ 831 million.

~~The Treasury statement also pointed out that sale of savings bonds, due to the difficulties of tabulation and issuance, necessarily fell short of the true accomplishment during the Third War Loan drive.~~

~~Large corporations throughout the country which conducted aggressive~~

604

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 19, 1943.

Press Service
No. 39-15

UNDER ~~Acting~~ Secretary of the Treasury Daniel W. Bell announced today final figures - $00,000,000,000 - for the Third War Loan. ~~This total is reflected by~~ subscriptions ~~deposits to the credit of the Treasury reported by the twelve Federal Reserve Banks as of midnight Saturday, October 16.~~

Mr. Bell expressed the gratification of Secretary Morgenthau over the impressive totals amassed during "this greatest of all War Loans."

In commenting on the sale of the various issues, the UNDER ~~Acting~~ Secretary pointed out that the sales to individuals, which was the first objective of the Drive, was more than met with sales of $0,000,000,000 against a quota of $5 billion. Sales to corporations, associations and other investors total $00,000,000,000 against a quota of $10 billion. Sales of E Bonds totaled $0,000,000,000, compared to $1,473,000,000, the prior all-time high in this class of securities, which was reached in the Second War Loan in April, 1943. The F and G bonds total also reached an all-time high in this class of securities with a total of $000,000,000.

The unprecedented sales to individuals indicated that the number of individual bonds issued during this period would break all records.

In addition to the new totals on Series E, F and G Bonds announced, the following recapituation of the Third War Loan sales was issued:

(In millions of dollars)

7/8% Certificates	
2% Bonds ('51-'53) 64	
2½% Bonds ('~~63-~~'69)	
Savings Notes (Series C)	
Government Trust Accounts:	
2% Bonds ('51-'53) 64	
2½% Bonds ('~~63-~~'69)	
Savings Bonds ~~(Series E, F and G)~~ Series E	
Series F & G	
GRAND TOTAL	

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 20, 1943.

Press Service
No. 39-15

Under ~~Acting~~ Secretary of the Treasury Daniel W. Bell announced today final figures - $18,943,000,000 - for the Third War Loan. ~~This total is reflected by deposits to the credit of the Treasury reported by the twelve Federal Reserve Banks as of midnight Saturday, October 16.~~

Mr. Bell expressed the gratification of Secretary Morgenthau over the impressive totals amassed during "this greatest of all War Loans."

In commenting on the sale of the various issues, the Under ~~Acting~~ Secretary pointed out that the sales to individuals, which was the first objective of the Drive, was more than met with sales of $5,377,000,000 against a quota of $5 billion. Sales to corporations, associations and other
12,936 investors total ~~13,546~~,000,000 against a quota of $10 billion. Sales of E Bonds totalled $2,472,000,000, compared to $1,473,000,000, the prior all-time high in this class of securities, which was reached in the Second War Loan in April, 1943. The F and G bonds total also reached an all-time high in this class of securities with a total of $831,000,000.

The unprecedented sales to individuals indicated that the number of individual bonds issued during this period would break all records.

In addition to the new totals on Series E, F and G Bonds announced, the following recapituation of the Third War Loan sales was issued:

(In millions of dollars)

7/8% Certificates	$4,120
2% Bonds ('51-'53) 64	5,109
2½% Bonds ('~~63~~-'69)	3,298
Savings Notes (Series C)	2,483
Government Trust Accounts:	
2% Bonds ('51-'53) 64	151
2½% Bonds ('~~63~~-'69)	479
Savings Bonds: (Series E, F and G)	
Series E	2,472
Series F and G	831
Grand Total	18,943

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 19, 1943

Press Service
No. 39-15

Under Secretary of the Treasury Daniel W. Bell announced today final figures - $18,943,000,000 - for the Third War Loan.

Mr. Bell expressed the gratification of Secretary Morgenthau over the impressive totals amassed during "this greatest of all War Loans."

In commenting on the sale of the various issues, the Under Secretary pointed out that the sales to individuals, which was the first objective of the Drive, exceeded the quota with sales of $5,377,000,000 against a quota of $5 billion. Sales to corporations, associations and other investors total $12,936,000,000 against a quota of $10 billion. Sales of E Bonds total $2,472,000,000, compared to $1,473,000,000, the prior all-time high in this class of securities, which was reached in the Second War Loan in April, 1943. The F and G Bonds total also reached an all-time high in this class of securities with a total of $831,000,000.

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(In millions of dollars)

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Savings Notes (Series C)	2,483
Government Trust Accounts:	
2% Bonds ('51-'53)	151
2½% Bonds ('63-'69)	479
Savings Bonds:	
Series E	2,472
Series F and G	831
GRAND TOTAL	$ 18,943

Subcriptions to Third War Loan Drive Compared with Quotas, by States and by Classes of Investors

Final Report

(Dollars are millions)

State	Individuals, partnerships and personal trust accounts			Corporations, associations and other investors			Grand total		
	Sales	Quota	Percent achieved	Sales	Quota	Percent achieved	Sales	Quota	Percent achieved
Alabama.................	$ 71	$ 56	127%	$ 72	$ 52	138%	$ 143	$ 108	132%
Arizona.................	17	17	101	19	15	127	37	32	114
Arkansas................	38	31	122	26	27	95	63	58	109
California-No...........	197	182	108	236	242	98	433	424	102
California-So...........	167	207	81	267	215	124	434	422	103
Colorado................	49	37	132	53	35	152	102	72	142
Connecticut.............	78	99	79	432	354	122	511	453	113
Delaware................	16	15	105	42	34	124	58	49	118
District of Columbia.....	43	50	86	60	44	136	103	94	109
Florida.................	84	58	145	74	59	126	159	117	136
Georgia.................	122	70	175	88	67	131	210	137	153
Idaho...................	16	15	109	12	10	120	28	25	114
Illinois................	312	330	95	868	591	147	1,180	921	128
Indiana.................	118	118	100	187	139	134	304	257	118
Iowa....................	114	89	128	134	107	126	248	196	127
Kansas..................	71	65	109	54	47	116	125	112	112
Kentucky................	76	57	134	66	69	96	142	126	113
Louisiana...............	66	58	114	74	65	113	140	123	114
Maine...................	23	27	84	39	27	143	62	54	114
Maryland................	95	84	113	236	112	210	331	196	169

(Continued on following page)

Subscriptions to Third War Loan Drive Compared with Quotas, by States and by Classes of Investors (Cont'd)

Final Report

(Dollars are millions)

State	Individuals, partnerships and personal trust accounts			Corporations, associations and other investors			Grand total		
	Sales	Quota	Percent achieved	Sales	Quota	Percent achieved	Sales	Quota	Percent achieved
Massachusetts...........	$ 165	$ 176	94 %	$ 707	$ 607	116 %	$ 873	$ 783	112 %
Michigan................	218	225	97	344	226	152	563	451	125
Minnesota...............	102	96	107	176	120	147	279	216	129
Mississippi.............	44	34	129	21	19	111	65	53	123
Missouri................	125	129	97	246	191	129	372	320	116
Montana.................	22	19	117	19	16	118	41	35	117
Nebraska................	52	47	112	66	56	117	118	103	115
Nevada..................	6	6	102	5	4	115	11	10	109
New Hampshire...........	12	13	92	39	26	150	51	39	131
New Jersey..............	167	185	90	544	400	136	710	585	121
New Mexico..............	10	12	80	8	2	415	18	14	130
New York................	851	796	107	4,729	3,913	121	5,580	4,709	118
North Carolina..........	70	70	100	112	75	150	182	145	126
North Dako[illegible]............	21	17	124	14	12	118	35	29	121
Ohio....................	363	313	116	740	385	192	1,102	698	158
Oklahoma................	58	45	129	68	55	124	127	100	127
Oregon..................	86	58	148	69	46	150	155	104	149
Pennsylvania............	405	388	104	801	683	117	1,205	1,071	112
Rhode Island............	26	31	84	86	50	172	112	81	138
South Carolina..........	30	33	92	48	28	170	78	61	128

(Continued on following page)

Subscriptions to Third War Loan Drive Compared with Quotas, by States and by Classes of Investors (Cont'd)

Final Report

(Dollars are millions)

State	Individuals, partnerships and personal trust accounts			Corporations, associations and other investors			Grand total		
	Sales	Quota	Percent achieved	Sales	Quota	Percent achieved	Sales	Quota	Percent achieved
South Dakota..........	$ 23	$ 20	117%	$ 19	$ 15	127%	$ 42	$ 35	121 %
Tennessee.............	89	64	139	96	77	125	185	141	131
Texas.................	262	201	130	258	219	118	520	420	124
Utah..................	17	20	84	37	21	175	54	41	132
Vermont...............	8	9	86	19	18	103	26	27	98
Virginia..............	68	74	93	125	79	158	194	153	127
Washington............	81	88	92	140	103	136	221	191	116
West Virginia.........	64	42	152	71	34	209	135	76	177
Wisconsin.............	98	103	95	248	195	127	346	298	116
Wyoming...............	7	8	94	7	4	172	15	12	122
Territories & possessions	20	11	180	14	10	136	34	21	160
Subtotal..............	5,343	4,998	107	12,915	10,000	129	18,262	14,998	122
Unallocated...........	34	2	-	21	-	-	51	2	-
Total.................	5,377	$5,000	108%	12,936	$10,000	129%	18,313	$15,000	122%
Federal trust funds....	-	-	-	630	-	-	630	-	-
Grand total...........	$5,377	-	-	$13,566	-	-	$18,943	-	-

Treasury Department

Note: Figures are rounded and do not necessarily add to totals. Percentages have been computed on unrounded figures.

Subscriptions to Third War Loan Drive
FINAL REPORT
By issues and by classes of investors

(In millions of dollars)

Issue	Included in drive					Outside of drive	Grand total
	Individuals	Insurance companies and mutual savings banks	Other corporations, associations and investors	Dealers and brokers	Total	Federal Trust Funds	
E bonds..............	2,472	-	-	-	2,472	-	2,472
F and G bonds........	565	5	261	*	831	-	831
Savings notes........	193	2	2,288	*	2,483	-	2,483
Certificates.........	366	255	3,177	322	4,120	-	4,120
2% bonds.............	1,220	1,926	1,483	480	5,109	151	5,260
2-1/2% bonds.........	561	1,939	706	92	3,298	479	3,777
Total...............	5,377	4,127	7,915	894	18,313	630	18,943

Treasury Department

* Les· than $500,000.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 19, 1943.

Press Service
39-16

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated October 21, 1943, and to mature January 20, 1944, which were offered on October 15, were opened at the Federal Reserve Banks on October 18.

The details of this issue are as follows:

Total applied for - $1,413,861,000
Total accepted - 1,000,798,000 (includes $71,945,000 entered on a fixed-price basis at 99.905 and accepted in full)

Range of accepted bids:

High	- 99.926	Equivalent rate of discount approx. 0.293% per annum
Low	- 99.905	" " " " " 0.376% " "
Average price	- 99.905/	" " " " " 0.375% " "

(66 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 49,900,000	$ 38,714,000
New York	788,491,000	496,725,000
Philadelphia	53,140,000	44,503,000
Cleveland	42,023,000	35,508,000
Richmond	29,510,000	26,127,000
Atlanta	20,110,000	15,882,000
Chicago	169,591,000	118,661,000
St. Louis	47,451,000	33,658,000
Minneapolis	29,398,000	25,896,000
Kansas City	29,787,000	27,849,000
Dallas	14,245,000	12,768,000
San Francisco	140,215,000	124,507,000
TOTAL	$1,413,861,000	$1,000,798,000

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 19, 1943.
10-18-43

Press Service
No. 39-16

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated October 21, 1943, and to mature January 20, 1944, which were offered on October 15, were opened at the Federal Reserve Banks on October 18.

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Minneapolis	29,398,000	25,896,000
Kansas City	29,787,000	27,849,000
Dallas	14,245,000	12,768,000
San Francisco	140,215,000	124,507,000
TOTAL	$1,413,861,000	$1,000,798,000

-oOo-

20 October 1943

Hon. Henry Morgenthau,
Secretary of the Treasury,
Care of Lieut. General Mark W. Clark, U.S.A.,
Headquarters, Fifth Army,
N A P L E S.

My dear Mr. Secretary:

In compliance with your request I give you herewith a brief report of acts of German cruelty and wanton destruction committed in Naples, chiefly during the three weeks before our capture of the city. This period is called "The Reign of Terror" by Neapolitans. I am, of course, not giving any instances of damage to the city or to individuals which took place as a result of acts of war (bombings, etc.). The things that I list were unnecessary from any military point of view.

OFFENSES AGAINST THE CITY AS A WHOLE

1. Water Supply: When the Fifth Army reached Naples we found that there was an almost total failure of the water supply. People were carrying water in pails, jugs, bottles and every type of container. There was a small trickle of water from some of the hydrants but many persons standing in line were unable to receive enough to quench thirst. Naples had been famous for an abundant supply of pure water. The Germans had blown up the main aqueduct in seven places and all of the reservoirs save one had been drained. By chance an Italian had saved one reservoir by cutting the fuse after it had been lighted by departing Germans. Allied Military Government took charge of the remaining reservoirs and by rationing made the supply go as far as possible. The hardship on the people of Naples, particularly those unable to go for water was great and there was much suffering, until the supply was rationed and until we established water distribution points for water distilled from the bay. The Germans were well aware that there was ample facility for our bringing in water for the troops, as was done in the desert campaign, so that this destruction of the city supply was an act of cruelty against civilians, young and old. The enemy likewise destroyed the pumping plants, thereby making it impossible to raise the water, had any been available, to the higher parts of the city. The water mains in many parts of Naples were deliberately cut.

2. Sewage System: The pumping facilities of the sewage disposal system of Naples were destroyed. Thus, even had there been enough water to enable sewers to function, they would have been unable to do so because much of the Neapolitan sewage disposal depends not on gravity but on a series of pumps. The city is built on volcanic rock so that, even had there been space available for them, it was all but impracticable to dig latrines. The danger of epidemics of intestinal diseases, such as typhoid fever and dysentery, was obviously very great particularly at this season of the year.

3. Electric Light and Power Systems: Naples was in darkness when we took over. The Germans had destroyed both the generators of the current and likewise the transformers. The Italian metropolis depends largely on hydro-electric power not only for lighting, but for the water and sewage pumps, the mills for grinding wheat, the newspaper presses, the heating of buildings, cooking, and indeed practically all power machines. This was one of the most serious conditions we had to meet. By hard work by our engineers the current is now restored, in part, though we have had to follow a certain priority in alloting it at first.

4. Transportation System: The street car system was wholly out of commission both because the electric current had been cut off (see above) and because the Germans carried away or destroyed the greater part of the rolling stock. Buses also were taken away. A large number of them were found to the north of the city where the enemy, unable to carry them further, had burned them. There are of course no taxicabs other than a few old wrecks, and only a few horse-drawn vehicles in the city. People who are not physically strong enough to walk from one locality to another are practically prisoners. This has seriously affected the earning capacity of many. The Germans carried away every automobile, both passenger and truck, that they could find. In some instances they took only the tires and destroyed or abandoned the bodies of the cars. Ambulances and fire-fighting vehicles were not spared.

5. Communication Systems: The telegraph lines were put out of commission. The main telephone exchange was blown up. Fortunately the Germans overlooked two small subsidiary exchanges. By splicing the lines we were able to give the military authorities a limited number of lines within ten days. However business firms and private families are still without telephones. The Post Office was looted and destroyed (see below).

6. Demolition of Hotels: The group of magnificent hotels along the Via Partenope, facing Vesuvius, used to be one of the outstanding groups of such institutions in the world. Such names as the Excelsior, Vesuvio, Santa Lucia, Royal, etc;, are known to travelers everywhere. These buildings, without exception, were blown up and fire set to what remained. They cannot be repaired. The only first-class hotel left was the Park Hotel (Parker's Hotel), which was mined (see below).

7. Blocking of Tunnels: There are a number of tunnels in Naples built to give ready access from one quarter to another at a saving of much hill climbing. These were blown up.

8. Bombing of Public Buildings: Besides the bombing of various public buildings for their immediate destruction, the Germans showed their usual cunning in setting time bombs so as to explode after our arrival, thereby both destroying property and causing human death and suffering. A few instances will illustrate. On October 7, at 2:30 P.M., a violent explosion, caused by a time bomb hidden in the corner of the Post Office, destroyed the end of that building and tore an enormous hole in the street. There was considerable loss of life, chiefly civilians. In all 30 people were killed, 84 were severely injured (hospitalized), and 25 were slightly injured. I was in my office across the street when the explosion occurred. I went to the scene at once and helped give first aid to the wounded. Many were women and children. In the Via Partenope a time bomb in the street exploded on October 3rd, at about dusk. Fortunately nobody was hurt though a few minutes before a group of workmen had passed over the spot. On October 11th, at 8:55 A.M., a time bomb set in the Italian Artillery Barracks, occupied by our 307th and 36th Engineers, exploded. Some 24 of our men were killed and 47 wounded. This cannot be justified as an act against our armed forces, for it was only by chance that we were using the barracks for soldiers. It had been previously used by Italian families. Every effort has been made to locate unexploded bombs and with much success. A time bomb and about 1500 pounds of TNT were removed from the basement of the Park Hotel on October 2nd, before explosion occurred. On October 16th, an unexploded time bomb and 1600 pounds of TNT were removed from the building housing a part of the 82nd Airborne Division. Ordnance officers estimated that the bomb had about 3 days and 17 hours more to run, on the timing device, before explosion.

9. Opening of Prisons: Before their departure, the Germans released all prisoners in the jails and prisons of Naples, of which there are about a dozen, one of them the largest in Italy. While we have been able to re-arrest many of the criminals, this act of the Germans has been productive of danger and loss of morale to the civil population.

10. Demolition of Flour Mills: Naples, like most Italian cities, grinds its wheat a little at a time, rather than converting a whole crop to flour at once. Thus flour mills are an essential feature of the city's economic and welfare system. All of the large mills were wrecked by the Germans.

11. Destruction of the University of Naples and of its Famous Libraries: The University of Naples is one of the oldest and most famous in existence. The library of the Royal Society of Naples, one of the great learned societies of the world, was housed therein. It was put to the torch on 12 September, a little more than a fortnight before we took the city. We are collecting affidavits of the Rector and many faculty members and students. They agree that at about 3:00 P.M., a party of some 600 Germans entered the University and announced that they were about to burn it, in retaliation for the fighting of Neapolitans, including students, against their troops. Cans of gasoline were brought in and the walls, furniture and books covered with it, and the fire was started. The firemen arrived soon thereafter but the officer in charge refused to allow them to enter. Two Carabinieri (military police) who tried to stop the destruction were taken to the front entrance and shot. Many of the nearby houses were robbed, not only those of professors but of others. Several witnesses agree that the notorious Col. Scholl, Commander of German troops garrisoned in Naples, arrived in person when the work was finished and read a proclamation in German and Italian announcing that the university had been wrecked as a punishment to Naples. When I first visited the ruined buildings the ashes of the Library of the Royal Society were still warm and the pool of blood on the front steps, where the shooting of the Carabinieri was reported to have occurred, was still evident.

12. Robbing of Hospitals: Directors of the several hospitals of Naples agree that the Germans before departure, carried off all of the hospital equipment and supplies that they could find. Some of these institutions had practically no medicines or dressings when we arrived. Even establishments of the Italian Red Cross were not spared.

OFFENSES AGAINST INDIVIDUALS

In a report of this kind, prepared on a few hours notice, it is not possible to give a detailed account of offenses against individuals. That must wait until our final report on German misdeeds in Naples is completed. The following incidents are taken at random from a mass of documentary evidence thus far gathered.

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I wish that there were time to give you more details and to complete the report of the first two weeks of the work of the Allied Military Government of this great city. I should like to give you further particulars beyond what I could tell you in a few minutes last night. I think that I may say, however, that we have achieved our dual goal. First that of keeping the burdens of governing this war torn city from the shoulders of our military Commander, whose entire attention is needed for the leading of a great army. Secondly, we have been able to keep the city running in something like a normal fashion, despite the handicaps imposed by war and by the German studied policy of destruction.

May I wish you a safe journey home and once more thank you for your interest in what we are doing.

Respectfully yours,

(S) Edgar Erskine Hume

EDGAR ERSKINE HUME,
Colonel, General Staff Corps,
United States Army,
Chief of Military Government.

20 October 1943

Hon. Henry Morgenthau,
Secretary of the Treasury,
Care of Lieut. General Mark W. Clark, U.S.A.,
Headquarters, Fifth Army,
N A P L E S.

My dear Mr. Secretary:

In compliance with your request I give you herewith a brief report of acts of German cruelty and wanton destruction committed in Naples, chiefly during the three weeks before our capture of the city. This period is called "The Reign of Terror" by Neapolitans. I am, of course, not giving any instances of damage to the city or to individuals which took place as a result of acts of war (bombings, etc.). The things that I list were unnecessary from any military point of view.

OFFENSES AGAINST THE CITY
AS A WHOLE

1. Water Supply: When the Fifth Army reached Naples we found that there was an almost total failure of the water supply. People were carrying water in pails, jugs, bottles and every type of container. There was a small trickle of water from some of the hydrants but many persons standing in line were unable to receive enough to quench thirst. Naples had been famous for an abundant supply of pure water. The Germans had blown up the main aqueduct in seven places and all of the reservoirs save one had been drained. By chance an Italian had saved one reservoir by cutting the fuse after it had been lighted by departing Germans. Allied Military Government took charge of the remaining reservoirs and by rationing made the supply go as far as possible. The hardship on the people of Naples, particularly those unable to go for water was great and there was much suffering, until the supply was rationed and until we established water distribution points for water distilled from the bay. The Germans were well aware that there was ample facility for our bringing in water for the troops, as was done in the desert campaign, so that this destruction of the city supply was an act of cruelty against civilians, young and old. The enemy likewise destroyed the pumping plants, thereby making it impossible to raise the water, had any been available, to the higher parts of the city. The water mains in many parts of Naples were deliberately cut.

2. Sewage System: The pumping facilities of the sewage disposal system of Naples were destroyed. Thus, even had there been enough water to enable sewers to function, they would have been unable to do so because much of the Neapolitan sewage disposal depends not on gravity but on a series of pumps. The city is built on volcanic rock so that, even had there been space available for them, it was all but impracticable to dig latrines. The danger of epidemics of intestinal diseases, such as typhoid fever and dysentery, was obviously very great particularly at this season of the year.

3. Electric Light and Power Systems: Naples was in darkness when we took over. The Germans had destroyed both the generators of the current and likewise the transformers. The Italian metropolis depends largely on hydro-electric power not only for lighting, but for the water and sewage pumps, the mills for grinding wheat, the newspaper presses, the heating of buildings, cooking, and indeed practically all power machines. This was one of the most serious conditions we had to meet. By hard work by our engineers the current is now restored, in part, though we have had to follow a certain priority in alloting it at first.

4. Transportation System: The street car system was wholly out of commission both because the electric current had been cut off (see above) and because the Germans carried away or destroyed the greater part of the rolling stock. Buses also were taken away. A large number of them were found to the north of the city where the enemy, unable to carry them further, had burned them. There are of course no taxicabs other than a few old wrecks, and only a few horse-drawn vehicles in the city. People who are not physically strong enough to walk from one locality to another are practically prisoners. This has seriously affected the earning capacity of many. The Germans carried away every automobile, both passenger and truck, that they could find. In some instances they took only the tires and destroyed or abandoned the bodies of the cars. Ambulances and fire-fighting vehicles were not spared.

5. Communication Systems: The telegraph lines were put out of commission. The main telephone exchange was blown up. Fortunately the Germans overlooked two small subsidiary exchanges. By splicing the lines we were able to give the military authorities a limited number of lines within ten days. However business firms and private families are still without telephones. The Post Office was looted and destroyed (see below).

6. Demolition of Hotels: The group of magnificent hotels along the Via Partenope, facing Vesuvius, used to be one of the outstanding groups of such institutions in the world. Such names as the Excelsior, Vesuvio, Santa Lucia, Royal, etc;, are known to travelers everywhere. These buildings, without exception, were blown up and fire set to what remained. They cannot be repaired. The only first-class hotel left was the Park Hotel (Parker's Hotel), which was mined (see below).

7. Blocking of Tunnels: There are a number of tunnels in Naples built to give ready access from one quarter to another at a saving of much hill climbing. These were blown up.

8. Bombing of Public Buildings: Besides the bombing of various public buildings for their immediate destruction, the Germans showed their usual cunning in setting time bombs so as to explode after our arrival, thereby both destroying property and causing human death and suffering. A few instances will illustrate. On October 7, at 2:30 P.M., a violent explosion, caused by a time bomb hidden in the corner of the Post Office, destroyed the end of that building and tore an enormous hole in the street. There was considerable loss of life, chiefly civilians. In all 30 people were killed, 84 were severely injured (hospitalized), and 25 were slightly injured. I was in my office across the street when the explosion occurred. I went to the scene at once and helped give first aid to the wounded. Many were women and children. In the Via Partenope a time bomb in the street exploded on October 3rd, at about dusk. Fortunately nobody was hurt though a few minutes before a group of workmen had passed over the spot. On October 11th, at 8:55 A.M., a time bomb set in the Italian Artillery Barracks, occupied by our 307th and 36th Engineers, exploded. Some 24 of our men were killed and 47 wounded. This cannot be justified as an act against our armed forces, for it was only by chance that we were using the barracks for soldiers. It had been previously used by Italian families. Every effort has been made to locate unexploded bombs and with much success. A time bomb and about 1500 pounds of TNT were removed from the basement of the Park Hotel on October 2nd, before explosion occurred. On October 16th, an unexploded time bomb and 1600 pounds of TNT were removed from the building housing a part of the 82nd Airborne Division. Ordnance officers estimated that the bomb had about 3 days and 17 hours more to run, on the timing device, before explosion.

9. Opening of Prisons: Before their departure, the Germans released all prisoners in the jails and prisons of Naples, of which there are about a dozen, one of them the largest in Italy. While we have been able to re-arrest many of the criminals, this act of the Germans has been productive of danger and loss of morale to the civil population.

10. Demolition of Flour Mills: Naples, like most Italian cities, grinds its wheat a little at a time, rather than converting a whole crop to flour at once. Thus flour mills are an essential feature of the city's economic and welfare system. All of the large mills were wrecked by the Germans.

11. Destruction of the University of Naples and of its Famous Libraries: The University of Naples is one of the oldest and most famous in existence. The library of the Royal Society of Naples, one of the great learned societies of the world, was housed therein. It was put to the torch on 12 September, a little more than a fortnight before we took the city. We are collecting affidavits of the Rector and many faculty members and students. They agree that at about 3:00 P.M., a party of some 600 Germans entered the University and announced that they were about to burn it, in retaliation for the fighting of Neapolitans, including students, against their troops. Cans of gasoline were brought in and the walls, furniture and books covered with it, and the fire was started. The firemen arrived soon thereafter but the officer in charge refused to allow them to enter. Two Carabinieri (military police) who tried to stop the destruction were taken to the front entrance and shot. Many of the nearby houses were robbed, not only those of professors but of others. Several witnesses agree that the notorious Col. Scholl, Commander of German troops garrisoned in Naples, arrived in person when the work was finished and read a proclamation in German and Italian announcing that the university had been wrecked as a punishment to Naples. When I first visited the ruined buildings the ashes of the Library of the Royal Society were still warm and the pool of blood on the front steps, where the shooting of the Carabinieri was reported to have occurred, was still evident.

12. Robbing of Hospitals: Directors of the several hospitals of Naples agree that the Germans before departure, carried off all of the hospital equipment and supplies that they could find. Some of these institutions had practically no medicines or dressings when we arrived. Even establishments of the Italian Red Cross were not spared.

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who have recently had the satisfaction of full employment and who will be restless if there is too much slack. We know, and the businessman knows, that his whole future ~~— and, indeed, the future of the system he represents —~~ is at stake.

But we need not end on a pessimistic note. The businessman who converted from peace to war can convert from war to peace. For a time there may be loss of momentum. But I predict that speed will return to the machine as the challenge of the undiscoverable future is accepted. And I venture the prophecy that in the end the businessman will be glad that he did the job himself, that in a crisis business enterprise did not fail to perform its historic function, and that in the process the businessman kept Government assistance at a minimum.

instability or insecurity? Change "with its long arm, its disturbing touch, its decree of events not yet manifest", has come to all the folkways of business. Invention was never so fertile. The pace of events is terrific. The tempo of the 19th Century has gone forever. The old order has perished.

At the same time the responsibilities of the businessman were never so great. Not the least of his difficulties is the coming transition period. This involves more than most of us can clearly foresee. But some outlines appear in the distance. We know that depleted world supplies and vast accumulated savings may well present a peacetime demand for goods such as the businessman has never known. We know that when peace comes, he will be dealing with employees

who have

function of the capital markets would be sharply curtailed.

The Treasury, therefore, has opposed the deduction of postwar capital outlays from wartime income, as well as other arbitrary reductions in the wartime tax base. I am sure that the major part of our business leadership does not believe that after four consecutive years of industrial prosperity Government subsidies in the guise of postwar reserves are either necessary or wise. Refinements in the income-tax base are, of course, quite another matter.

It would be a masterpiece of understatement to say that history has never recorded anything like the times in which we live, and the times in which we shall live when victory is won. Was there ever such

instability or

postwar concern. The postwar industrial competitive structure would be enormously biased in favor of the existing profitable corporation.

Another unfortunate result ~~will~~ would follow from the indiscriminate deduction of postwar capital outlays from wartime income. It is the function of our capital markets to place the liquid savings of individuals at the disposal of corporations with the highest prospective return upon investment. If corporate funds are to be provided by the remission of wartime taxes, it becomes impossible to secure this best investment of individual savings. These subsidies would be completely unrelated to need, or to the postwar prospects of the industry to which they were paid. The direction of investment customary in the capital markets would be warped, and the to assert that our wartime tax structure is perfect. But I do say that the arbitrary reduction of the wartime tax base on account of postwar expenditures not related, in an accounting sense, to wartime revenue would not improve the situation any. Such a remission of taxes, which would otherwise have been levied on wartime income, would represent Government subsidies of the most discriminatory character.

The Government would be underwriting the postwar capital expenditures of a corporation making excess profits during the war more heavily than a corporation earning only normal profits during the war period. Two types of concerns would receive little or no benefit from such a treatment of postwar expenditures -- the war casualty concern and the new potential refund resulting from the loss. A final reckoning could be made the following March 15. I believe this approach can more adequately meet the cash problem of those corporations with real need than any reserve plan which has yet come to my attention. It would immediately free the liquid assets that corporations have accumulated for payment of their tax liabilities, but does not grant them any more total refund than their legitimate claim. There would be no subsidy element in such a proposal.

Postwar Employment Stimulation

The last argument on behalf of the wholesale deduction of postwar reconversion expenses from wartime income is that employment after the war may be stimulated by such a device. I should be the last person

to assert

I have said this was not basically a tax problem, but if prompter refunds of taxes to which firms are entitled can be made, then the tax structure can make a substantial contribution in easing this transitional period. In the years in which losses are being incurred, corporations are now required to make quarterly payments on their preceding year's tax liabilities. These payments are required even when the following March 15 will find the corporation suffering losses or declines in income with a credit balance in the Treasury.

To reduce this cash drain, the Treasury suggested to the Ways and Means Committee that a postponement of prior year's taxes be granted when corporations anticipate losses. This postponement could equal the

potential refund

I grant that there is this danger for many corporations. But I say that this is not basically a <u>tax</u> problem. It is a problem on a much broader front than the tax front. Some procedure will have to be developed for meeting this situation. All the reserves in the world will not help corporations out of this difficulty. The question must be tackled in connection with the termination of war contracts, and devices will have to be employed to keep our corporations on the job of producing postwar goods and giving postwar employment. One such device which has been developed is the Government-guaranteed loan under Regulation V issued by the Board of Governors of the Federal Reserve System.

I have said

Liquidity of Business Enterprise

I now come to the second argument made by those who favor the inclusion in reconversion costs of all expenses of the immediate postwar period. Their argument is that the vast corporate accumulations of which I have spoken are not in liquid form. They are invested in plant and equipment, inventories, and accounts receivable. As such they cannot be used to pay obligations certain to mature immediately upon the cessation of hostilities. Cash available will be insufficient for the payment of dismissal compensation and immediate reconversion costs. Corporations will face serious cash shortages which may in many cases be ruinous.

I grant that

1939, and over 40 percent doubled their 1939 level of earnings after taxes. The year 1939, you will recall, was generally a better year than either 1936 or 1937.

Viewing this period of unrivalled prosperity of corporate enterprise when measured by net income after taxes, it would be an indictment of our enterprise system if tax reduction were required to create its share of postwar jobs. Corporations may well need contract cancellation relief, but the deduction from wartime income of unrelated postwar expenditures would be nothing more than a subsidy program at the very time when industrial prosperity is at its greatest in history.

Liquidity of Business Enterprise

accumulated for the years 1942, 1943 and 1944 a total of nearly $14 billion of undistributed corporate profits!

The figures I have given you are the profits of all corporations, including the deficits of those with losses. You will find from the record of the Ways and Means Committee that the figures for corporations with net income are even higher. From our analysis of a sample of 650 corporations, prepared by the Department of Commerce, we have found that increased corporate earnings have been widely distributed. It is true that some businesses are suffering as a result of the war, while others are securing a relatively large share of increased war profits. However, of this sample, three-fourths report more net income after taxes in 1942 than in

1939, and over

1943. But taxes, even of this magnitude, have not kept pace with rising earnings. Corporations, in 1942, will have left after taxes $8.1 billion, and in 1943 more than $8.5 billion, sums more than double the $3.9 billion left after taxes for the year 1937, and equal or greater than the $8.1 billion of income after taxes in 1929!

Nor have our high war taxes substantially affected dividends paid. The average of dividends paid for the years 1936 to 1940 was $4.1 billion, reaching the high figure of $4.8 in the year 1937. For the years 1941, 1942, and 1943, dividends are estimated at $4.5 billion, $4.1 billion, and $4.0 billion, respectively. Even after taxes and dividends paid, corporations will have

accumulated

unimpressive columns on these pages are little short of sensational. Net income (excluding dividends received) has reached the estimated level of $22 billion for the calendar year 1943. The estimate for 1944 is $24 billion. These figures are comparable to the figure of $5 billion for the year 1937, which was one of the most prosperous years of the Thirties.

Some of you will say that taxes have also risen and that we should regard not total net income, but net income <u>remaining after taxes</u>. I agree, taxes have risen; they have been multiplied many times. Total corporate liabilities for income and excess-profits taxes, amounting to slightly over $1-1/4 billion for 1937, have climbed to $13-1/2 billion for the year 1943. But taxes, from the deduction of all types of expenditure from wartime income will enable a higher level of employment after the war by stimulating these expenditures.

Adequacy of Net Income After Taxes

These arguments are made for the most part by interested persons and should be washed in what Holmes called the "cynical acid of distrust." Take first the argument that it has been impossilbe during the war for corporations to accumulate earnings for postwar expansion. The argument simply does not hold water. I call your attention to certain data submitted to the Ways and Means Committee on October 4, 1943, and appearing on page 103 of the unrevised report of the hearings before that Committee. The figures in the

unimpressive columns

The Broader Meaning of Reconversion

So much for the problem of reconversion costs in the narrower sense of that term -- costs which relate to war income. As I said earlier, there is a school of thought which views reconversion more broadly, and includes in the term <u>all</u> expenditures made in the immediate postwar period. In justification of this attitude it is said that wartime taxes take away such a high proportion of wartime income that taxpayers cannot accumulate in the war sufficient earnings for postwar expansion and growth. Another group, acknowledging the adequacy of corporate earnings, believe that lower wartime taxes are necessary to insure the liquidity of these accumulated earnings after the war. It is also argued that tax savings resulting

from the deduction

enter a twilight zone. Cases arise in which the context of postwar events becomes obscure. Who knows that context now? And who does not know that it will vary from firm to firm? I cannot answer these questions today. My purpose this afternoon is to state problems which you can evaluate better than I.

The Broader Meaning of Reconversion

recipients of dismissal compensation. Finally, because the problem of relocation and adjustment may be most severe for the lower paid employees, it may be necessary to impose some limitation upon the total amount which may be paid to any one employee.

You will, of course, have in mind that such restrictions would not prevent any individual firm from making larger payments to employees if it desires. The limitations apply only to any special treatment to be accorded to these types of payment.

The costs of returning plants to their pre-war condition and dismissal wages do not exhaust the possible postwar costs which might be included under the heading of reconversion. However, as we extend the list we soon

enter a twilight zone.

You will say that the administrative problems in determining dismissal compensation are relatively simple when compared with the problems involved in the re-arrangement of facilities. Dismissal wages can be easily segregated. But I remind you that the problem is more subtle than appears upon the surface.

If we would prevent abuses, it will be necessary to adopt certain restrictions and limitations. We may be obliged to place a limitation upon the number of weeks of wages or salary to be paid to any one employee. This, on the theory that only a reasonable payment to carry the dismissed employee over a period of readjustment may be recognized as a war cost. We may have to adopt some non-discriminatory provision which will prevent the selection of favorite or higher paid employees as the is a common practice to show reserves on balance sheets which are not tax deductions.

Dismissal Wages

If I could leave this subject at this point, I am sure that we could all go home with a comfortable feeling that the problem, while difficult, is not insuperable. We could feel that somehow answers would cross tables as the debate unfolded. But machines, whether over- or under-maintained, do not run themselves. In the postwar period, as now, they will have to be operated by many of the men and women who are working at them today. There will be a hiatus in which these workers will have no machines to operate. Some of them will have moved to expensive defense areas. They will be people with a thin margin of security for a period of unemployment. They will need dismissal wages.

You will say

tion by the Interstate Commerce Commission in 1942 of charges for deferred maintenance did not give rise to substantial deductions. With Interstate Commerce Commission approval, only 28 companies charged $11 million for deferred maintenance in 1942. This amount may be compared with total maintenance expenses in 1942 of Class I railways of slightly over $2 billion, or 1/2 of 1%. Although 15 companies have been authorized to charge $7 million for deferred maintenance in the first seven months of 1943, additions to deferred maintenance reserves in 1943 have been less than the charges against the 1942 reserves. In other words, the making good in 1943 of 1942 under-maintenance

deductions claimed for

is in excess of under-maintenance in 1943.

In interpreting these figures, it must be remembered that they are not accepted for tax purposes. However, it

is a common practice

formula, I should be delighted to have it.

Difficulties with the problem of deferred maintenance do not end at this point. The term over-maintenance is not frequently used, but there is such a thing. It distorts war income just as much as does under-maintenance. One may be permitted some doubt as to how serious and extensive under-maintenance may accurately be said to be. All of you have seen it in the case of specific machines and particular equipment. But it would be imprudent to generalize from specific items of under-maintenance to the broad area of the entire business of a firm or over a whole industry. Under-maintenance of certain assets may be more than balanced by over-maintenance of other assets.

Even in the case of the railroads -- the most generally cited example of significant under-maintenance -- authoriza-

tion by the

charge against such revenues in view of their true economic life. The definition of wartime income would hardly be improved if further deductions connected with these facilities were allowed.

Deferred Maintenance

There has been much fluent talk, and much ink has been spilled, in an attempt to prove that deferred maintenance should be included as a ~~under the heading of~~ reconversion cost in the general sense that I have been using ~~of wartime facilities~~. We have studied this problem carefully, but we have failed to find any method or formula which will satisfactorily recognize differences between industries and give proper effect to changes in the price level, changes in the volume of production, and changes in the relationship between maintenance outlays and production. If any of you can suggest an adequate

formula, I should

product was war induced or was the culmination of prewar plans. How can cases of this kind be satisfactorily separated?

What treatment shall be given to facilities presently owned by the Government but purchased and converted to peacetime production by private industry? Should the conversion of facilities amortized under certificates of necessity be offset against war income? Surely the conversion of such facilities represents a capital outlay to be charged against income from peacetime products and not against war revenues. Of course, the cost of dismantling and scrapping facilities amortized under certificates of necessity are war costs; but if such facilities are used in peacetime production, then complete amortization against wartime revenues has represented too large a

charge against

The next difficulty is also one of classification. Re-arrangement expenses do not necessarily constitute proper charges against war revenues. Some of them may be proper charges against peacetime revenues. How shall we tell in the case of particular items of expense whether they are properly chargeable against one type of revenue or the other? The answer to that question, as it arises in respect to specific items, is easier for the client than his adviser who probes below the surface of things. For example, suppose that a firm does not return to its identical prewar productive pattern. Or suppose that it does not go on producing the same prewar product. Are reconversion expenses in such cases necessarily chargeable against war production? Or should the answer to this question differ according to whether the shift to a new

product was

Reconversion Costs to be Charged Against War Income

Even with a decision made in favor of that technique, the road is far from clear. We immediately encounter difficulties in the specification of war costs properly related to wartime income.

Costs of Reconverting Facilities

Take first the case of cost connected with reconverting plant facilities to peacetime production. Outlays for readapting, re-arranging, dismantling, and reinstalling plant and equipment would have to be segregated from other expenditures, and further classified into capital expenditures and deductible expenses. The distinction between expense items and capital outlays is an old friend to those of you who have been concerned with tax law for the last few years.

The next

Some of these proposals lose sight of the fact that reserves are a method of refining taxable income. In fact, one plan has pushed the broadening of reserve charges to its logical extension, and required no charges against the reserve. The harmful results of such a procedure I shall discuss later.

I am trying to give you as simply as I can the reasons why we believe that further ~~the most satisfactory~~ adjustments can only ~~will~~ come by way of a further refinement in ~~of~~ the ~~present~~ carry-back technique ~~provisions~~. ~~Where they fail adequately to adjust wartime income for clearly related postwar costs, additional carry-backs for such costs are necessary.~~ Of course, any such refinements ~~adjustment~~ will have to pass the test of administrative feasibility. We make this suggestion not because we wish to deny appropriate relief, but rather because we are looking for a method which will give equitable and sufficient relief.

Reconversion costs

reserve account. Will it be easy for such a taxpayer to avoid thinking of that balance as his own? Will he readily recognize that the portion of the reserve which represents remaining taxes belongs to the Government? I think most taxpayers, even most corporate taxpayers, are more human than that. Their natural reaction will be to forget the original purpose of the reserve deduction and to attempt to broaden the charges against the reserve beyond those which we might now agree were (5) appropriate. Such an extension of deductible expenses might well be a greater step away from improvement in the wartime tax base than the original reserve deduction would have been toward such improvement.

This possibility is no straw man. I need only refer to some of the proposals to the Ways and Means Committee.

Some of

future, the amount of any reserve established today must of necessity be arbitrary. This leads to the reasonable requirement that estimates of future reconversion costs must be subject to some limitation. Limitations are crude instruments. They would create hardships for those firms with eligible postwar costs in excess of the limitation employed. They would make available excessive deductions to those firms with few or no eligible postwar costs. Under this technique no one would have security.

But it is smoothly argued that limitations will do no inequity because any unused balance in a reserve account will be returned to taxable income in later years. This leads to the third objection to the reserve approach. A taxpayer in future years has a large unused balance in his

reserve account.

appears to be a simple matter to create a reserve through deductions from current income against which specified postwar costs may be charged at a later date. It is urged that such a procedure is entirely safe because any unused balance can be returned to taxable income in later years. How can the Government be harmed under such circumstances?

The reserve technique requires in a period of intense uncertainty anticipation of the cost of reconversion at a date no one yet knows. No one can make a reasonable estimate at the present time of the magnitudes of such costs. They may be large; they may be smaller than most of us anticipate. The reserve method requires us now to make a reasonable precise guess as to the unknown future.

Since none of us can safely predict the details of the

future,

speaker is to discuss this specific adjustment, I gladly yield the field to him. In passing, however, I would like to call your attention to the implication of the present carry-back provisions when stated as reserve plans. ~~In effect they are equivalent to~~ They represent a potential ~~a~~ reserve of 100 percent ~~to~~ of two years' income.

The carry-back provision has received little attention. The reserve technique has many vocal adherents. This in spite of the fact that the carry-back procedure requires no adjustment in current income and no difficult anticipation of reconversion costs. It provides the simpler technique of charging postwar costs to wartime income at a time when the costs are known or definitely ascertainable.

The reserve approach has seductive appeal, since it

appears

Method of Charging Reconversion Costs

First, let us consider the methods of charging reconversion costs against wartime income. History may be a good teacher here. In the 1942 Act Congress enacted a two-year carryback of net operating losses and unused excess-profits credits. The purpose of this provision was to make adjustments against wartime income for postwar costs directly related to the war, as well as to average income over the war period. The extent to which this indirect allocation of postwar costs will result in tax savings equivalent to a direct allocation depends on many factors now indeterminate. In the main, the extent of the relief afforded by the provision will depend upon the pattern of income, both in the war years and the period of reconversion, as well as the tax structure over this entire period. Since another

page 4

speaker is

This makes the question of reserves for reconversion a matter of pressing concern to the Government. We might, though you would not, be cavalier about a <u>bookkeeping</u> reserve. We dare not be cavalier about a <u>deductible</u> reserve. Rigorous tests must be applied to determine whether Government interests suffer and what the effects on industry will be. We have to ask the question whether, in the largest orbit of the public interest, an arbitrary tax adjustment may not do more harm than good.

Assuming that ~~We have now assumed~~ the responsibility involved in the determination of a <u>deductible</u> reserve, is accepted, other problems remain. How shall we charge reconversion costs to the income with which they are properly to be associated? What costs shall be allowed? These questions are much more easily asked than answered, even though we use the term "reconversion" in the narrow sense of postwar costs directly related to wartime income.

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in its broadest sense, thinking of the term as including <u>all expenditures made in the immediate postwar period</u> whatever their purpose and character. This is a rough classification, but I think it may serve the purpose of clarifying what I have to say later.

To this audience I think I may dogmatically state that reconversion costs, in the sense of costs directly associated with the earning of wartime income, should be charged against that income. This is a principle to which I am sure most accountants would readily subscribe. But in accounting, as in law, general propositions do not decide concrete cases. It is a long step from the enunciation of a principle to its practical application. This is particularly true when the facts of the concrete case have

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earmarked for an expenditure which directors presently think may be necessary at sometime in the future. They may change their minds at any time, in which event the reserve account goes over to surplus.

There can be no disagreement among informed persons as to the meaning of the term "reserve". But it is appropriate to call attention to the looseness with which the word "reconversion" is frequently used. People employ the term constantly without precise thought as to its meaning. ~~You will want me to use the word more accurately.~~ There are at least two schools of thought on the subject of what constitutes reconversion ~~costs.~~ One school would limit the concept of reconversion to postwar costs <u>directly related to wartime income</u>. The other school views reconversion

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years of tax practice, but I have not had the daily contact you have had. I speak humbly, therefore, when I remind you that reserves are divisible into two types: (1) valuation reserves, including liability reserves, and (2) surplus reserves. The former type represents a cost which must be deducted before true net income can be determined. The latter type is an entirely different animal. It represents a part of surplus which is set aside as an aid in conserving the funds of an enterprise to meet some future expenditure. It need not be deducted to arrive at true net income. It is nothing more, and nothing less, than a subdivision of surplus. It is surplus

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Taken all in all, that job was done with remarkable speed and with results that are speaking for themselves on the military front. We do not know when, but we do know that a time will come when we must do this job in reverse. We shall have to reconvert a war economy to a peace basis. Not the least part of that job will be to insure conditions under which peacetime production can furnish many goods and services people have been unable to buy during the war years, and to provide employment comparable to the employment level of today.

Reconversion Reserves

What are reconversion reserves? You accountants know better than I the meaning of the term "reserves". I have had a good deal of association with the word in many

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our power to give certainty does not reach. A large degree of uncertainty is inherent in the critical period in which we live. Neither you nor I can tell what tomorrow will bring; there must be for all of us an area of uncertainty. It would be presumptuous of us to attempt exactness in a field involving such a large element of prophecy. If we tried we should get nothing more than a delusive certainty that in the end would do more harm than good.

We do know that heavy work lies ahead. Sometime in the future we shall have to reverse the job industry has been doing for the last two years, -- the conversion of a peacetime economy to intensive wartime production.

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Businessmen often say to me that the hardest part of their life is its uncertainty. They do not know their tax liability for past years. They do not know what the latest tax statutes mean. They do not know what policies will be announced from many quarters the next day. They find it difficult to plan intelligently. I can sympathize very genuinely with these feelings. They are vague, but they are real. To the extent that we in the Treasury can remove obstacles to business planning, it is our desire to do so. On the other hand, there is a limit beyond which

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BUSINESS RESERVES FOR RECONVERSION

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In this and other

FOR VICTORY
BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS

News Letter

TREASURY DEPARTMENT

FORM NO. WSS 331

TREASURY DEPARTMENT

Washington

(The following address by Randolph E. Paul, General Counsel for the Treasury, before the American Institute of Accountants at the Waldorf-Astoria Hotel, New York, is scheduled for delivery at 2 P.M., Thursday, October 21, 1943, and is for release at that time.)

Central War Time

39-17

This is ready to go
to MM

Speech by Randolph Paul

American Institute of Accountants, Waldorf-Astoria Hotel, New York,
October 21, 2 p. m.

Subject: ~~Business Reserves for Reconversion~~

Send 50 copies today to
Mr. Frank Gale
Press Bureau
American Institute of accountants
East Room A
Waldorf Astoria Hotel
New York City

TREASURY DEPARTMENT

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We do know that heavy work lies ahead. Sometime in the future we shall have to reverse the job industry has been doing for the last two years, -- the conversion of a peacetime economy to intensive wartime production. Taken all in all, that job was done with remarkable speed and with results that are speaking for themselves on the military front. We do not know when, but we do know that a time will come when we must do this job in reverse. We shall have to reconvert a war economy to a peace basis. Not the least part of that job will be to insure conditions under which peacetime production can furnish many goods and services people have been unable to buy during the war years, and to provide employment comparable to the employment level of today.

Reconversion Reserves

What are reconversion reserves? You accountants know better than I the meaning of the term "reserves". I have had a good deal of association with the word in many years of tax practice, but I have not had the daily contact you have had. I speak humbly, therefore, when I remind you that reserves are divisible into two types: (1) valuation reserves, including liability reserves, and (2) surplus reserves. The former type represents a cost which must be deducted before true net income can be determined. The latter type is an entirely different animal. It represents a part of surplus which is set aside as an aid in conserving the funds of an enterprise to meet some future expenditure. It need not be deducted to arrive at true net income. It is nothing more, and nothing less, than a subdivision of surplus. It is surplus earmarked for an expenditure which directors presently think may be necessary at sometime in the future. They may change their minds at any time, in which event the reserve account goes over to surplus.

There can be no disagreement among informed persons as to the meaning of the term "reserve". But it is appropriate to call attention to the looseness with which the word "reconversion" is frequently used. People employ the term constantly without precise thought as to its meaning. There are at least two schools of thought on the subject of what constitutes reconversion. One school would limit the concept of reconversion to postwar costs directly related to wartime income. The other school views reconversion in its broadest sense, thinking of the term as including all expenditures made in the immediate postwar period whatever their purpose and character. This is a rough classification, but I think it may serve the purpose of clarifying what I have to say later.

To this audience I think I may dogmatically state that reconversion costs, in the sense of costs directly associated with the earning of wartime income, should be charged against that income. This is a principle to which I am sure most accountants would readily subscribe. But in accounting, as in law, general propositions do not decide concrete cases. It is a long step from the enunciation of a principle to its practical application. This is particularly true when the facts of the concrete case have not yet made their appearance on the horizon.

The difference between the general and the specific has acute relevance when we add another consideration to the equation. It becomes a matter of intense concern to the Government when the suggestion is made that a deduction be allowed for reserves for reconversion. The question is no longer simply what informed directors report to stockholders. Not all stockholders read balance sheets too carefully. Those who read carefully know that reserves mean what the directors intend them to mean. Reserves on a balance sheet are, therefore, little more than a notice, -- a record of the directors' guess as to the shadow of coming events. The thing anticipated happens, or it does not happen, and a book entry does not change the course of events. Net income remains what the future lets it be. The stockholders' inchoate interest in the corporate profits remains what it would have been if no entry had ever been made.

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This makes the question of reserves for reconversion a matter of pressing concern to the Government. We might, though you would not, be cavalier about a bookkeeping reserve. We dare not be cavalier about a deductible reserve. Rigorous tests must be applied to determine whether Government interests suffer and what the effects on industry will be. We have to ask the question whether, in the largest orbit of the public interest, an arbitrary tax adjustment may not do more harm than good.

Assuming that the responsibility involved in the determination of a deductible reserve is accepted, other problems remain. How shall we charge reconversion costs to the income with which they are properly to be associated? What costs shall be allowed? These questions are much more easily asked than answered, even though we use the term "reconversion" in the narrow sense of postwar costs directly related to wartime income.

Method of Charging Reconversion Costs

First, let us consider the methods of charging reconversion costs against wartime income. History may be a good teacher here. In the 1942 Act Congress enacted a two-year carryback of net operating losses and unused excess-profits credits. The purpose of this provision was to make adjustments against wartime income for postwar costs directly related to the war, as well as to average income over the war period. The extent to which this indirect allocation of postwar costs will result in tax savings equivalent to a direct allocation depends on many factors now indeterminate. In the main, the extent of the relief afforded by the provision will depend upon the pattern of income, both in the war years and the period of reconversion, as well as the tax structure over this entire period. Since another speaker is to discuss this specific adjustment, I gladly yield the field to him. In passing, however, I would like to call your attention to the implication of the present carry-back provisions when stated as reserve plans. They represent a potential reserve of 100 percent of two years' income.

The carry-back provision has received little attention. The reserve technique has many vocal adherents. This in spite of the fact that the carry-back procedure requires no adjustment in current income and no difficult anticipation of reconversion costs. It provides the simpler technique of charging postwar costs to wartime income at a time when the costs are known or definitely ascertainable.

The reserve approach has seductive appeal, since it appears to be a simple matter to create a reserve through deductions from current income against which specified postwar costs may be charged at a later date. It is urged that such a procedure is entirely safe because any unused balance can be returned to taxable income in later years. How can the Government be harmed under such circumstances?

The reserve technique requires in a period of intense uncertainty anticipation of the cost of reconversion at a date no one yet knows. No one can make a reasonable estimate at the present time of the magnitudes of such costs. They may be large; they may be smaller than most of us anticipate. The reserve method requires us now to make a reasonable precise guess as to the unknown future.

Since none of us can safely predict the details of the future, the amount of any reserve established today must of necessity be arbitrary. This leads to the reasonable requirement that estimates of future reconversion costs must be subject to some limitation. Limitations are crude instruments. They would create hardships for those firms with eligible postwar costs in excess of the limitation employed. They would make available excessive deductions to those firms with few or no eligible postwar costs. Under this technique no one would have security.

But it is smoothly argued that limitations will do no inequity because any unused balance in a reserve account will be returned to taxable income in later years. This leads to the third objection to the reserve approach. A taxpayer in future years has a large unused balance in his reserve account. Will it be easy for such a taxpayer to avoid thinking of that balance as his own? Will he readily recognize that the portion of the reserve which represents remaining taxes belongs to the Government? I think most taxpayers, even most corporate taxpayers, are more human than that. Their natural reaction will be to forget the original purpose of the reserve deduction and to attempt to broaden the charges against the reserve beyond those which we might now agree were appropriate. Such an extension of deductible expenses might well be a greater step away from improvement in the wartime tax base than the original reserve deduction would have been toward such improvement.

This possibility is no straw man. I need only refer to some of the proposals to the Ways and Means Committee. Some of these proposals lose sight of the fact that reserves are a method of refining taxable income. In fact, one plan has pushed the broadening of reserve charges to its logical extension, and required no charges against the reserve. The harmful results of such a procedure I shall discuss later.

I am trying to give you as simply as I can the reasons why we believe that further adjustments can only come by way of a further refinement in the carry-back techniques. Of course, any such refinements will have to pass the test of administrative feasability. We make this suggestion not because we wish to deny appropriate relief, but rather because we are looking for a method which will give equitable and sufficient relief.

Reconversion Costs to be Charged Against War Income

Even with a decision made in favor of that technique, the road is far from clear. We immediately encounter difficulties in the specification of war costs properly related to wartime income.

Costs of Reconverting Facilities

Take first the case of cost connected with reconverting plant facilities to peacetime production. Outlays for readapting, re-arranging, dismantling, and reinstalling plant and equipment would have to be segregated from other expenditures, and further classified into capital expenditures and deductible expenses. The distinction between expense items and capital outlays is an old friend to those of you who have been concerned with tax law for the last few years.

The next difficulty is also one of classification. Re-arrangement expenses do not necessarily constitute proper charges against war revenues. Some of them may be proper charges against peacetime revenues. How shall we tell in the case of particular items of expense whether they are properly chargeable against one type of revenue or the other? The answer to that question, as it arises in respect to specific items, is easier for the client than his adviser who probes below the surface of things. For example, suppose that a firm does not return to its identical prewar productive pattern. Or suppose that it does not go on producing the same prewar product. Are reconversion expenses in such cases necessarily chargeable against war production? Or should the answer to this question differ according to whether the shift to a new product was war induced or was the culmination of prewar plans. How can cases of this kind be satisfactorily separated?

What treatment shall be given to facilities presently owned by the Government but purchased and converted to peacetime production by private industry? Should the conversion of facilities amortized under certificates of necessity be offset against war income? Surely the conversion of such facilities represents a capital outlay to be charged against income from peacetime products and not against war revenues. Of course, the cost of dismantling and scrapping facilities amortized under certificates of necessity are war costs; but if such facilities are used in peacetime production, then complete amortization against wartime revenues has represented too large a charge against such revenues in view of their true economic life. The definition of wartime income would hardly be improved if further deductions connected with these facilities were allowed.

Deferred Maintenance

There has been much fluent talk, and much ink has been spilled, in an attempt to prove that deferred maintenance should be included as a reconversion cost in the general sense that I have been using it. We have studied this problem carefully, but we have failed to find any method or formula which will satisfactorily recognize differences between industries and give proper effect to changes in the price level, changes in the volume of production, and changes in the relationship between maintenance outlays and production. If any of you can suggest an adequate formula, I should be delighted to have it.

Difficulties with the problem of deferred maintenance do not end at this point. The term over-maintenance is not frequently used, but there is such a thing. It distorts war income just as much as does under-maintenance. One may be permitted some doubt as to how serious and extensive under-maintenance may accurately be said to be. All of you have seen it in the case of specific machines and particular equipment. But it would be imprudent to generalize from specific items of under-maintenance to the broad area of the entire business of a firm or over a whole industry. Under-maintenance of certain assets may be more than balanced by over-maintenance of other assets.

Even in the case of the railroads -- the most generally cited example of significant under-maintenance -- authorization by the Interstate Commerce Commission in 1942 of charges for deferred maintenance did not give rise to substantial deductions. With Interstate Commerce Commission approval, only 28 companies charged $11 million for deferred maintenance in 1942. This amount may be compared with total maintenance expenses in 1942 of Class I railways of slightly over $2 billion or 1/2 of 1%. Although 15 companies have been authorized to charge $7 million for deferred maintenance in the first seven months of 1943, additions to deferred maintenance reserves in 1943 have been less than the charges against the 1942 reserves. In other words, the making good in 1943 of 1942 under-maintenance is in excess of deductions claimed for under-maintenance in 1943.

In interpreting these figures, it must be remembered that they are not accepted for tax purposes. However, it is a common practice to show reserves on balance sheets which are not tax deductions.

Dismissal Wages

If I could leave this subject at this point, I am sure that we could all go home with a comfortable feeling that the problem, while difficult, is not insuperable. We could feel that somehow answers would cross tables as the debate unfolded. But machines, whether over- or under-maintained, do not run themselves. In the postwar period, as now, they will have to be operated by many of the men and women who are working at them today. There will be a hiatus in which these workers will have no machines to operate. Some of them will have moved to expensive defense areas. They will be people with a thin margin of security for a period of unemployment. They will need dismissal wages.

You will say that the administrative problems in determining dismissal compensation are relatively simple when compared with the problems involved in the re-arrangement of facilities. Dismissal wages can be easily segregated. But I remind you that the problem is more subtle than appears upon the surface.

If we would prevent abuses, it will be necessary to adopt certain restrictions and limitations. We may be obliged to place a limitation upon the number of weeks of wages or salary to be paid to any one employee. This, on the theory that only a reasonable payment to carry the dismissed employee over a period of readjustment may be recognized as a war cost. We may have to adopt some non-discriminatory provision which will prevent the selection of favorite or higher paid employees as the recipients of dismissal compensation. Finally, because the problem of relocation and adjustment may be most severe for the lower paid employees, it may be necessary to impose some limitation upon the total amount which may be paid to any one employee.

You will, of course, have in mind that such restrictions would not prevent any individual firm from making larger payments to employees if it desires. The limitations apply only to any special treatment to be accorded to these types of payment.

The costs of returning plants to their pre-war condition and dismissal wages do not exhaust the possible postwar costs which might be included under the heading of reconversion. However, as we extend the list we soon enter a twilight zone. Cases arise in which the context of postwar events becomes obscure. Who knows that context now? And who does not know that it will vary from firm to firm? I cannot answer these questions today. My purpose this afternoon is to state problems which you can evaluate better than I.

The Broader Meaning of Reconversion

So much for the problem of reconversion costs in the narrower sense of that term -- costs which relate to war income. As I said earlier, there is a school of thought which views reconversion more broadly, and includes in the term all expenditures made in the immediate postwar period. In justification of this attitude it is said that wartime taxes take away such a high proportion of wartime income that taxpayers cannot accumulate in the war sufficient earnings for postwar expansion and growth. Another group, acknowledging the adequacy of corporate earnings, believe that lower wartime taxes are necessary to insure the liquidity of these accumulated earnings after the war. It is also argued that tax savings resulting from the deduction of all types of expenditure from wartime income will enable a higher level of employment after the war by stimulating these expenditures.

Adequacy of Net Income After Taxes

These arguments are made for the most part by interested persons and should be washed in what Holmes called the "cynical acid of distrust." Take first the argument that it has been impossible during the war for corporations to accumulate earnings for postwar expansion. The argument simply does not hold water. I call your attention to certain data submitted to the Ways and Means Committee on October 4, 1943, and appearing on page 103 of the unrevised report of the hearings before that Committee. The figures in the unimpressive columns on these pages are little short of sensational. Net income (excluding dividends received) has reached the estimated level of $22 billion for the calendar year 1943. The estimate for 1944 is $24 billion. These figures are comparable to the figure of $5 billion for the year 1937, which was one of the most prosperous years of the Thirties.

Some of you will say that taxes have also risen and that we should regard not total net income, but net income remaining after taxes. I agree, taxes have risen; they have been multiplied many times. Total corporate liabilities for income and excess-profits taxes, amounting to slightly over $1-1/4 billion for 1937, have climbed to $13-1/2 billion for the year 1943. But taxes, even of this magnitude, have not kept pace with rising earnings. Corporations, in 1942, will have left after taxes $8.1 billions, and in 1943 more than $8.5 billion, sums more than double the $3.9 billion left after taxes for the year 1937, and equal or greater than the $8.1 billion of income after taxes in 1929!

Nor have our high war taxes substantially affected dividends paid. The average of dividends paid for the years 1936 to 1940 was $4.1 billion, reaching the high figure of $4.8 in the year 1937. For the years 1941, 1942, and 1943, dividends are estimated at $4.5 billion, $4.1 billion, and $4.0 billion respectively. Even after taxes and dividends paid, corporations will have accumulated for the years 1942, 1943 and 1944 a total of nearly $14 billion of undistributed corporate profits!

The figures I have given you are the profits of all corporations, including the deficits of those with losses. You will find from the record of the Ways and Means Committee that the figures for corporations with net income are even higher. From our analysis of a sample of 650 corporations, prepared by the Department of Commerce, we have found that increased corporate earnings have been widely distributed. It is true that some businesses are suffering as a result of the war, while others are securing a relatively large share of increased war profits. However, of this sample, three-fourths report more net income after taxes in 1942 than in 1939, and over 40 percent doubled their 1939 level of earnings after taxes. The year 1939, you will recall, was generally a better year than either 1936 or 1937.

Viewing this period of unrivalled prosperity of corporate enterprise when measured by net income after taxes, it would be an indictment of our enterprise system if tax reduction were required to create its share of postwar jobs. Corporations may well need contract cancellation relief, but the deduction from wartime income of unrelated postwar expenditures would be nothing more than a subsidy program at the very time when industrial prosperity is at its greatest in history.

Liquidity of Business Enterprise

I now come to the second argument made by those who favor the inclusion in reconversion costs of all expenses of the immediate postwar period. Their argument is that the vast corporate accumulations of which I have spoken are not in liquid form. They are invested in plant and equipment, inventories, and accounts receivable. As such they cannot be used to pay obligations certain to mature immediately upon the cessation of hostilities. Cash available will be insufficient for the payment of dismissal compensation and immediate reconversion costs. Corporations will face serious cash shortages which may in many cases be ruinous.

I grant that there is this danger for many corporations. But I say that this is not basically a tax problem. It is a problem on a much broader front than the tax front. Some procedure will have to be developed for meeting this situation. All the reserves in the world will not help corporations out of this difficulty. The question must be tackled in connection with the termination of war contracts, and devices will have to be employed to keep our corporations on the job of producing postwar goods and giving postwar employment. One such device which has been developed is the Government-guaranteed loan under Regulation V issued by the Board of Governors of the Federal Reserve System.

I have said this was not basically a tax problem, but if prompter refunds of taxes to which firms are entitled can be made, then the tax structure can make a substantial contribution in easing this transitional period. In the years in which losses are being incurred, corporations are now required to make quarterly payments on their preceding year's tax liabilities. These payments are required even when the following March 15 will find the corporation suffering losses or declines in income with a credit balance in the Treasury.

To reduce this cash drain, the Treasury suggested to the Ways and Means Committee that a postponement of prior year's taxes be granted when corporations anticipate losses. This postponement could equal the potential refund resulting from the loss. A final reckoning could be made the following March 15. I believe this approach can more adequately meet the cash problem of those corporations with real need than any reserve plan which has yet come to my attention. It would immediately free the liquid assets that corporations have accumulated for payment of their tax liabilities, but does not grant them any more total refund than their legitimate claim. There would be no subsidy element in such a proposal.

Postwar Employment Stimulation

The last argument on behalf of the wholesale deduction of postwar reconversion expenses from wartime income is that employment after the war may be stimulated by such a device. I should be the last person to assert that our wartime tax structure is perfect. But I do say that the arbitrary reduction of the wartime tax base on account of postwar expenditures not related, in an accounting sense, to wartime revenue would not improve the situation any. Such a remission of taxes, which would otherwise have been levied on wartime income, would represent Government subsidies of the most discriminatory character.

The Government would be underwriting the postwar capital expenditures of a corporation making excess profits during the war more heavily than a corporation earning only normal profits during the war period. Two types of concerns would receive little or no benefit from such a treatment of postwar expenditures -- the war casualty concern and the new postwar concern. The postwar industrial competitive structure would be enormously biased in favor of the existing profitable corporation.

Another unfortunate result would follow from the indiscriminate deduction of postwar capital outlays from wartime income. It is the function of our capital markets to place the liquid savings of individuals at the disposal of corporations with the highest prospective return upon investment. If corporate funds are to be provided by the remission of wartime taxes, it becomes impossible to secure this best investment of individual savings. These subsidies would be completely unrelated to need, or to the postwar prospects of the industry to which they were paid. The direction of investment customary in the capital markets would be warped, and the function of the capital markets would be sharply curtailed.

The Treasury, therefore, has opposed the deduction of postwar capital outlays from wartime income, as well as other arbitrary reductions in the wartime tax base. I am sure that the major part of our business leadership does not believe that after four consecutive years of industrial prosperity Government subsidies in the guise of postwar reserves are either necessary or wise. Refinements in the income-tax base are, of course, quite another matter.

It would be a masterpiece of understatement to say that history has never recorded anything like the times in which we live, and the times in which we shall live when victory is won. Was there ever such instability or insecurity? Change "with its long arm, its disturbing touch, its decree of events not yet manifest", has come to all the folkways of business. Invention was never so fertile. The pace of events is terrific. The tempo of the 19th Century has gone forever. The old order has perished.

At the same time the responsibilities of the businessman were never so great. Not the least of his difficulties is the coming transition period. This involves more than most of us can clearly foresee. But some outlines appear in the distance. We know that depleted world supplies and vast accumulated savings may well present a peacetime demand for goods such as the businessman has never known. We know that when peace comes, he will be dealing with employees who have recently had the satisfaction of full employment and who will be restless if there is too much slack. We know, and the businessman knows, that his whole future is at stake.

But we need not end on a pessimistic note. The businessman who converted from peace to war can convert from war to peace. For a time there may be loss of momentum. But I predict that speed will return to the machine as the challenge of the undiscoverable future is accepted. And I venture the prophecy that in the end the businessman will be glad that he did the job himself, that in a crisis business enterprise did not fail to perform its historic function, and that in the process the businessman kept Government assistance at a minimum.

Miss Simpson

39-18

FOR IMMEDIATE RELEASE,
October ~~19~~, 1943.
20

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption: As of (Date)	Authorized for entry for consumption: (Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Oct. 9, 1943	41,445,465
Colombia	458,336,340	"	6,189,918
Costa Rica	29,100,720	"	1,620,388
Cuba	11,640,288	"	8,482
Dominican Republic	17,460,432	"	2,169,051
Ecuador	21,825,540	"	688,259
El Salvador	87,302,160	"	787,587
Guatemala	77,844,426	"	141,580
Haiti	40,013,490	"	-
Honduras	2,910,072	"	307,734
Mexico	69,114,210	"	578,931
Nicaragua	28,373,202	"	-
Peru	3,637,590	"	-
Venezuela	61,111,512	"	789,641
Non-signatory Countries:			
	51,653,778	"	7

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 20, 1943.

Press Service
No. 39-18

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

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Non-signatory Countries:			
	51,653,778	"	7

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on October 28, 1943 (7).

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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3.9-19

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 22, 1943.
~~(1)~~

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000 ~~(2)~~, or thereabouts, of 91 ~~(3)~~-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated October 28, 1943 ~~(4)~~, and will mature January 27, 1944 ~~(5)~~, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, October 25, 1943 ~~(6)~~. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

TREASURY DEPARTMENT
Washington, D. C.

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 22, 1943.
10-21-43

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In the delegation which delivered copies of the agreemnt and of the accompanying statement to the United States Treasury were Dr. B. Kleijn Molekamp, Minister Plenipotentiary of the Netherlands, Baron Hervé de Gruben, Counselor of the Belgian Embassy and Hugues LeGallais, Minister Plenipotentiary of Luxembourg to the United States.

Speaking for the Treasury Department, Acting Secretary Gaston said:

"I know that Secretary Morgenthau not only will appreciate being informed so promptly of this agreement but will welcome the action taken by the Governments of the Netherlands, Belgium and Luxembourg. As the agreement itself indicates, it is an application of the good neighbor policy which holds great promise for the restoration of economic as well as political order in the world after victory in the war against the aggressors is won. Agreements made in the spirit in which this understanding has been reached will contribute greatly to the stabilization of currencies and to the revival of sound international trade in a reconstructed world.

"It is a manifestation between neighbor Nations of the same spirit of cooperation in international monetary matters that Secretary Morgenthau has advocated ~~proposed to the United Nations~~ for application to a broader area. The agreement will itself facilitate the effort to attain understandings of broader scope."

#

on behalf

from Mr. Bernstein

For the press -

the ~~s~~ unsable letter

Represe[...] purg, ~~governments~~s

today handed to t[...] ~~financial~~ monetary

agreement signed [...]s.

An offi[...]rnments follows:

on behalf of their Ministers of Finance,

Representatives of the Netherlands, Belgium and Luxembourg, ~~governments~~ today handed to the Acting Secretary of the Treasury copies of a ~~financial~~ monetary agreement signed in London today by officers of these governments.

An official statement made on behalf of the three governments follows:

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"The Netherlands, Belgian and Luxembourg Governments hope that by signing this financial agreement which includes not only those countries in Europe proper, but also all territories belonging to or mandated to the Kingdom of Belgium or the Kingdom of the Netherlands, they have made a real contribution towards international cooperation and the development of a Good Neighbor Policy; other countries can become parties to the agreement on a basis of reciprocity and it is hoped that in this manner economic relations in the post-war period will be facilitated.

"During a considerable period before the war, closer financial and economic relations between Holland and the Belgo-Luxembourg Economic Union gradually furthered a mutual understanding. During the war, in which these countries faced the same enemy, cordial relations continued and created the atmosphere in which the conclusion of this far reaching agreement was made possible. On the basis of this agreement, experts of both parties will study the methods to insure friendly trade relations which they hope will ultimately lead to the elimination of trade barriers which might form an obstacle to commerce.

"Washington, D.C.,
October 21, 1943."

— end insert —

Insert

An official statement made on behalf of the three governments follows:

The Netherlands Government on the one hand and the Belgian and Luxembourg Governments on the other hand (these latter bound by a Economic Union since July 25, 1921) signed to-day a financial agreement which they believe will have a favorable influence on the development of trade in the post war period. Following the principles of free economic relations laid down in article 7 of the Lend Lease Agreements which both parties have signed, they have for some time studied the possibilities of laying the basis for closer economic cooperation after the war.

"Realizing that restrictions on the use of foreign currencies constitute one of the greatest obstacles to international trade, the two parties have agreed to put at each other's disposal the respective currencies needed for their mutual relations.

"Thus, the Governments concerned feel that the exchange of goods and services will take place unhampered by a possible insufficient supply of exchange.

"Appreciating the importance of monetary stabilization, both parties have agreed upon a stable rate of exchange between their respective currencies, which is identical to the rate prevailing before the war.

"This agreement should not be interpreted as an impediment to the adherence on the part of the Belgian and Netherlands and Luxembourg Governments to larger monetary plans but the concluding of this agreement is a first concrete step towards the realization of any international agreement aiming at currency stabilization.

44

Treasury Department
Washington

For Immediate Release
Thursday, October 21, 1943

Press Service
No. 39-20

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(Insert)

~~[Here follows statement of the three governments]~~

TREASURY DEPARTMENT

Washington

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Thursday, October 21, 1943

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The first of the new coins were struck in February, 1943, and production through September has totalled 584,000,000 pieces.

The public as a whole did not take kindly to the war-time cent, the chief complaint being that when new, the silvery appearance made for confusion with the 10-cent coin. However, it was pointed out at the Mint that its adoption resulted in a substantial saving of copper, at a critical period of the supply situation.

Record production of the bronze cent in the fiscal year 1942 of nearly a billion and a half pieces consumed ~~nearly 5,000~~ 4,600 tons of virgin copper, sufficient to meet the requirements of the metal in manufacturing one and a quarter million shells for ~~big~~ field guns.

~~The change back to a copper alloy coin is possible now partly because of an improvement in copper production, and partly because of the economic aspects of recovery of used metal from the shell cases. It is estimated that about 2,500 tons of new copper a year will be required to "sweeten up" the melt from the shells.~~

Return to the copper alloy coin will not require legislation, since the measure passed last December authorizes the Secretary of the Treasury, with approval of the War Production Board, to specify materials to be used in the cent.

-oOo-

areas for troops. These cases consist of 70 percent copper and 30 percent zinc, and if melted down with enough virgin copper to bring the copper content up to 85 or 90 percent, the alloy is adaptable to coinage.

The former bronze coin consisted of 95 percent copper and 5 percent zinc and tin. The amount of ~~new~~ copper needed will be about half that required for the all-virgin copper alloy. The Mint project will have an important place in the salvage of war-wasted materials.

When zinc coated steel was adopted for the one-cent piece it was the only metal obtainable for the purpose. Arms plants were facing shutdowns because of the metal scarcity. The War Production Board had withdrawn allotment of copper to the Mint. Coins of zinc, coins of plastics and coins of all sorts of alloys and materials were considered, and ruled out in turn as consuming critical items in the military economy. Meantime, demand for coins continued at an unprecedented rate. The penny of low carbon steel, coated with zinc to prevent rust was specified with the approval of Treasury Secretary Morgenthau and Donald M. Nelson, Chairman of the War Production Board, after the Congress had passed permissive legislation at the end of 1942.

the War Production Board have been collaborating for several weeks in working out details of the allotment of sufficient copper, including the scrap shells, to permit return to the copper-alloy coin.

Because of the ~~tremendous~~ enlarged demand for one-cent pieces, due to accelerated business, a demand which has strained the facilities of the Mint, the zinc-steel coins already produced will remain in circulation. However, the natural darkening to which the coins are subject soon will remove the chief source of complaint from the public -- the similarity of the piece to the dime.

Pointing out that the approaching Christmas buying season will intensify coin requirements at a time when the Mint is already drawing on inventories, Mrs. Ross urged the public to accept as a wartime service project the necessity for keeping outstanding coins in circulation.

"Every one-cent piece resting in a coin bank, bureau drawer or other hiding place, whether copper or steel, calls for a replacement at the expense of war necessary metals and manpower," Mrs. Ross said. "Let us keep small coins working, through our regular spending."

The Mint will use as a base for the new cents small arms cartridge cases recovered by military authorities from proving grounds, firing ranges and other training

approved for WPB
by Roth - Copper Division

39-21 OK
except
as noted
H.J.

The Bureau of the Mint announced today plans for early resumption of coinage of one-cent pieces made of a copper alloy to supersede production of the present zinc-coated steel penny.

Metallurgists of the Bureau, with the ~~encouragement~~ ~~assistance~~ Cooperation of the War Production Board, have perfected methods of combining materials salvaged from expended shell cases and a relatively small proportion of virgin copper so as to permit return to a close approximation of the pre-war bronze cent.

Production of the zinc-coated steel piece will be suspended at the year end, and Mr. Lincoln will look out on the American scene from his familiar copperish backdrop in new coinage of pennies starting January 1.

The new alloy will contain slightly less copper and slightly more zinc than the peacetime formula, but the coin will be quite similar in appearance to the traditional cent. It will work satisfactorily in vending machines, being just slightly lighter in weight than the standard bronze, and a trifle heavier than the steel substitute.

Mrs. Nellie Tayloe Ross, Director of the Mint, said that experiments recently conducted with the recovered shell cases and added virgin copper proved the alloy satisfactory for coinage. Treasury officials and officials of

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, October 22, 1943.

Press Service
No. 39-21

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to lick the enemy. The very least that we civilians can do at home is to see that we supply these fighting men with a steady flow of everything that they may need until victory is ours.

Some of ~~our~~ them worry about the amount of our war bill that will be left for them to pay when they return home. They know that with our high national income we can afford to pay more of the current war costs through taxes and bonds. Are we paying enough? One of these days, with the victory won, our men are going to come back to the United States to pick up where they left off. We owe it to them to have the kind of an economy back home which will provide opportunity for them. We cannot justly expect our soldiers to fight the war and then come home to spend the rest of their lives paying the bill. I should like to say again, as I have said before, that in my estimation we should pay fifty percent of the cost of the war currently through taxation and in addition we should continue to buy war bonds.

Like all war jobs, paying higher taxes is unpleasant, but must be done. It calls for sacrifice, but a small one compared with the sacrifices I have seen here at the front.

General Patton, General Clar, and others have told me many stories about real heroism and the complete absence of fear on the part of our men. This is what has made our troops victorious over the seasoned Nazis, trained for over a generation in the art of killing and torture. Don't let us fool ourselves for a minute in underestimating the fighting quality of our enemy, but let me assure you that the American soldier has proud that he has got what it takes to lick the enemy, man for man.

being seen; and when they are driven from one mountain they need only retreat a few hundred yards to another and it's the same thing all over again.

Winter is coming, and bad weather will further complicate the battle. That is why I am more sure than ever that the day of final victory is a long way off and fighting will be bloody.

I talked to many boys at the front who are cheerful and eager. And the first thing they always asked was, "How are things back home?" I told them what you are doing to fight the war. I told them that the Third War Loan had been oversubscribed by almost four billion dollars, and they were pleased, and I think they were reassured because it is easy to worry about the cost of war when you see destruction all around you. They wonder if you will keep supplying the money necessary to equip them properly. They know that when ample material is not at hand the generals must alter their strategy to get along on less, and the war is unnecessarily stretched out a few more days, a few more weeks, or a few more months. Our generals should never need to look over their shoulders to see if sufficient equipment is on hand. They should have more than enough of everything. They should be asked to worry about nothing except fighting the war. I assured the men and their commanding officers too that the American people would build all the material they need and will pay for it.

you are building back home are doing in the enemy country. I could see our air and ground forces working like players on the same football team.

Leaving Tunis I went to Palermo, the city in Sicily that was taken after a desparate struggle by General Patton's valiant 7th Army. With General~~s~~ Patton I stood on the balcony of the Royal Palace and looked over the long road that turned and twisted
to XXXX the mountains from the city, the road down which General Patton came fighting every inch of the way. General Patton told me about the troops who took this city. "The American fighting men are the best in the world," he told me, "some of them fought for 54 straight hours without stopping, without even a good rest.

I flew next to Naples, and here I saw miracles being performed by our allied military government and our Army engineers in getting the city back on its feet. From   Clark's headquarters near Naples I went up to the front lines over roads and through villages that had been abandoned by the Nazis only the day before. Here I saw our American troops actually in battle and I saw what they are up against. I had no idea of the terrible terrain of this area in which we must fight the Nazis. The area XX between Naples and Rome is mountainous and thick with trees and foliage. It is ideal XXXX for defense, because the Nazi forces can hide high in the mountains and fire on our forces without as one indestructible team have won the final battle and tyrany has ~~hāťá~~ been blasted from the face of the earth.

S ——— M —— ~~MR. MORGENTHAU~~: Thank you General Eisenhower. Thanks to President Roosevelt and General Marshall, and through the cooperation of General Eisenhower and all the commanding generals in this theater of operations, I have been permitted to see the war at point blank range.

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The truth is that the men in the front lines believe it to be the patriotic obligation of the people back home to support the war until it hurts. They expect you folks to do your duty. You have not let them down. I know you never will. My confidence in you is like that which I had in the victories at Gafsa and Hill 609, ~~I have of the victory of Gadsen ___ XXX 609~~. I believe in you as I do in my air men who bomb the enemy by day and by night, and as I believe in our gallant seamen who carry our troops, protect our convoys, and assist the Army in destroying the enemy in the south.

Yet, I think my men would like to have me be brutally honest with you and tell you that sometimes in the past they have wondered about how ddeply you felt about the war. They know it is your war as much as it is theirs, and they know how important it is to have you all out in producing war material for them and buying bonds for them. Let me assure ~~. It reassures~~ you that it is necessary for you to turn over to your Government these billions and tens of billions of dollars. To keep faith with the fighting men you will have to keep it up, ~~K~~keep it up until those who are fighting at the front and all of you working and striving at home shall

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Make no mistake; it will be a long, long way tp final victory and the road will continue to be rough. Our men know it. They are ready for it, but they want to be sure above all else that the home front stands firmly behind them. They want to know that the folks back home really realize that we are in this together, fighting for our rights to lead a free existence. This war will continue to take everything that each of our soldiers has, and we know - every general knows that the most important part of any soldier's equipment is his fighting spirit. In ~~our~~ the final ~~XX~~ analysis this spirit is ~~XX~~ equally as important as guns and ammunition, because no general can win a battle even with the best of equipment if his men are not responding properly, ~~and I am XXXXXX~~ They ~~must be~~ ~~Only when they feel~~ completely confident ~~they feel~~ they are being backed to the limit. ~~Only when they feel they are being backed to the limit~~ by the folks back home ~~can these men win~~. That is why overwhelming success of the Third war loan drive is vitally important to the war over here. A successful war loan drive will renew proof to the men fighting in the mud along the Volturno River, who are struggling happy to tell you that between September 8 and October 2 the American people invested 18 billion 9 hundred and 43 million dollars in war bonds. In over-subscribing the Third War Loan by nearly 4 billion dollars, the American people have backed the attack of our fighting men with the typical American spirit.

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TREASURY DEPARTMENT
Washington

(The following addresses of SECRETARY MORGENTHAU and GENERAL EISENHOWER were broadcast from Allied Headquarters in Algiers at 6 p.m., Eastern War Time, Saturday, October 23, 1943.)

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39-22

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TREASURY DEPARTMENT
Washington

(The following address[es] of SECRETARY MORGENTHAU ~~launching the Second War Loan drive is sched-~~ uled to be delivered at a rally in Carnegie Hall, ~~New York City~~, at 9 p.m., Eastern War Time, Monday, April ~~12, 1943,~~ and is for re- lease upon delivery at that time.)

and GENERAL EISENHOWER were broadcast from Allied Headquarters in Algiers at 6 p.m., Eastern War Time, Saturday, October 23, 1943

SECRETARY MORGENTHAU:

~~Tonight I'm going to talk about something you might not~~ expect the Treasury Department to discuss. I'm going to talk about the Second Front.

The Second Front is no military secret. We all know that, just over the horizon, we of the United Nations are piling up the thunder-clouds of the greatest attack in history. We are massing for that attack, now. The planning, the patient preparation, the bitter time when we had to take blows without returning them, because we weren't ready - all of that is past. Now we're ready to deal a few blows ourselves; and they'll be blows, I can promise you, that will rock Nazi Germany to its rotten, bloodstained foundations.

As the Secretary of the Treasury I've been given the job of seeing to it that money is available to pay for this great military offensive and others to follow. This is why we are launching the Second War Loan tonight -- to raise at least 13 billion dollars before the end of this month to buy materials and implements of war. We must buy shells today for big guns that will be

~~36-3~~ 39-22

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There could be no more fitting place than this to report to you people back home the final results of our highly successful Third War Loan. I am happy to tell you that between September 8 and October 2 the American people invested $18,943,000,000 in War Bonds. In over-subscribing the Third War Loan by nearly $4,000,000,000, the American people have "backed the attack" of our fighting men with typical American spirit.

I have just returned from the front in Italy, and I want to assure you that every one of your dollars - every one of the dollars that you are investing in War Bonds or paying in taxes for the war - is being well spent.

Under General Clark's superb leadership I saw as fine a group of fighting men as exist anywhere in the world today. I saw a well knit, smooth running, well oiled fighting machine at work. Your men are well clothed, well fed, and in the pink of physical condition. Each and every one of you who subscribed to the Third War Loan can have a personal feeling of satisfaction that you helped to equip and feed and train this army. Yours is a very important job in the war.

Before I made my trip to the front lines I talked to General Eisenhower about the importance of our War Loan Drive to the men in the field. What he had to say was so interesting and so important that I asked him to tell you himself what he told me. Here is General Dwight D. Eisenhower, Commander-in-Chief of the Allied Forces.

GENERAL EISENHOWER:

Thank you, Mr. Secretary. First, let me say that it would be difficult to exaggerate the influence of our successful war loan drives on the men and women under my command. This is a hard war, a bitter and bloody war. Those who are where the guns are firing and the bombs dropping face a tough and vicious and treacherous enemy.

Make no mistake; it will be a long, long way to final victory and the road will continue to be rough. Our men know it. They are ready for it, but they want to be always sure above all else that the home front stands firmly behind them. They want to know that the folks at home keenly realize that we are all in this together, fighting for our right to lead a free existence.

This war will continue to take everything that each of our soldiers has, and we know - every general knows - that the most important part of any soldier's equipment is his fighting spirit. In the final analysis this spirit is equally as important as guns and ammunition, because no general can win a battle even with the best equipment if his men are not determined and confident. They are completely confident only when they feel they are being backed to the limit by the folks back home. That is why the overwhelming success of the Third War Loan Drive is vitally important to the war over here. A successful war loan drive is renewed proof to the man fighting in the mud along the Volturno River, to the man struggling every inch of the way toward Rome, to the man who never forgets that he is living in constant danger of his life, that his fellow citizens back home have confidence in his ability to bring freedom back to the world and are doing their full part to perpetuate the kind of America that we want.

The bald truth is that the man in the front lines believes it to be the patriotic obligation of the people back home to support the war until it hurts. They expect you to do your duty. You have not let them down. I know you never will. My confidence in you is equal to that I had in the victories at Gafsa and Hill 609, at Bizerte and Messina and at Salerno and Naples. I believe in you as I do in my airmen who bomb the enemy by day and by night, and as I believe in our gallant seamen who carry our troops, protect our convoys, and assist the Army in assaulting the enemy strongholds.

Yet I think my men would like to have me be brutally honest with you and tell you that sometimes in the past they have worried about how deeply you feel about the war. They know it is your war as much as it is theirs, and they know how important it is to have you "all-out", producing war materials to the limit and buying bonds to the limit.

It reassures them that you are turning over to your Government these billions upon billions of dollars. To keep faith with the fighting men, you will keep it up, keep it up until those who are fighting at the front and all of you working and striving at home shall as one indestructible team have won the final battle, and tyranny and oppression have been blasted from the earth.

SECRETARY MORGENTHAU:

Thank you, General Eisenhower. Thanks to President Roosevelt and General Marshall, and through the cooperation of General Eisenhower and all the commanding generals in this theater of operations, I have been permitted to see the war at point-blank range.

I would like to report to you what I found. I started out from Algiers with General Everett Hughes, deputy theater commander under General Eisenhower. Our first stop was the island of Sardinia. The fighting was over in Sardinia, but I was able to see immediately why our armies are not through where the Nazis are going. Actually there are vast problems in taking over the maintaining a conquered territory.

Next we went to Tunis, where I talked with General Doolittle and Air Marshal Tedder. Together these men, an American and a Britisher, direct our bombing forces that are softening up Germany for the invasion that will come some day. From General Doolittle's war room I could see what the American bombers you are building back home are doing in the enemy's country. I could see how our air and ground forces work like players on the same football team.

Leaving Tunis, I went to Palermo, the city in Sicily that was taken after a desperate struggle by General Patton's valiant Seventh Army. With General Patton I stood on the balcony of the royal palace and looked out over the long road that turned and twisted up to the mountains beyond the city, the road down which General Patton had come fighting every inch of the way. General Patton told me about the troops who took this city. "The American fighting men are the best in the world," he told me. "Some of them fought for fifty-four hours without stopping, without even a good rest."

I flew next to Naples, and here I saw miracles being performed by our Allied Military Government and our Army engineers in getting the city back on its feet. From General Clark's headquarters near Naples I went up to the front lines over roads and through villages that had been abandoned by the Nazis only the day before. Here I saw our American troops actually in battle and I saw what they are up against. I had no idea of the terrible terrain in this area over which we must fight the Nazis. The area between Naples and Rome is mountainous and thick with trees and foliage. It is ideal for defensive action, because the Nazi forces can hide high in the mountains and fire on our forces without being seen; and when they are driven from one mountain they need only retreat a few hundred yards to another and it's the same thing all over again.

Winter is coming, and bad weather will further complicate this battle. That is why I am more sure than ever that the day of final victory is a long way off and the fighting will be tough and bloody.

I talked to many boys at the front. They are cheerful and eager. And the first thing they always asked was, "How are things back home?" I told them what you are doing to help fight the war. I told them that the Third War Loan had been oversubscribed by almost four billion dollars. They were pleased, and I think they were reassured because it is easy to worry about the cost of war when you see destruction all around you.

They wonder if you will keep supplying the money necessary to equip them properly. They know that when ample material is not at hand the generals must alter their strategy to get along on less, and the war is unnecessarily stretched out a few more days, a few more weeks, or a few more months. Our generals should never need to look over their shoulders to see if sufficient equipment is on hand. They should have more than enough of everything. They should be asked to worry about nothing except fighting the war. I assured the men and their commanding officers, too, that the American people would build all the material they need and will pay for it.

Some of our men worry about the amount of the war bill that will be left for them to pay when they return home. They know that with our high national income we can afford to pay a much greater portion of the war costs currently through taxes and bonds. Are we paying enough? One of these days, with the victory won, our men are going to come back to the United States to pick up where they left off. We owe it to them to have the kind of economy back home which will provide opportunity for them. We cannot justly expect our soldiers to fight the war and then come home to spend the rest of their lives paying the bill. I should like to say again, as I have said before, that in my estimation we should pay fifty percent of the cost of the war currently through taxation and in addition we should continue to buy War Bonds.

Like all war jobs, paying higher taxes is unpleasant, but must be done. It calls for sacrifice, but a small one compared with the sacrifices I have seen here at the front.

General Patton, General Clark, and others have told me many stories about real heroism and the complete absence of fear on the part of our men. This is what has made our troops victorious against the seasoned Nazis, trained for over a generation in the art of killing and torture. Don't let us fool ourselves for a minute by underestimating the fighting quality of the enemy, but let me assure you that the American soldier has proved that he has got what it takes, man for man, to lick the enemy. The very least that we civilians can do at home is to see that we supply these fighting men with a steady flow of everything that they may need until victory is ours.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 26, 1943.

Press Service
39-23

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated October 28, 1943, and to mature January 27, 1944, which were offered on October 22, were opened at the Federal Reserve Banks on October 25.

The details of this issue are as follows:

Total applied for - $1,286,529,000
Total accepted - 1,008,064,000 (includes $67,771,000 entered on a fixed-price basis at 99.905 and accepted in full)

Range of accepted bids:

High	- 99.915	Equivalent rate of discount approx. 0.336% per annum
Low	- 99.905	" " " " " 0.376% " "
Average price	- 99.905+	" " " " " 0.375% " "

(82 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 40,655,000	$ 34,751,000
New York	744,318,000	525,512,000
Philadelphia	53,310,000	46,856,000
Cleveland	57,708,000	55,311,000
Richmond	27,780,000	25,562,000
Atlanta	18,475,000	17,789,000
Chicago	135,612,000	115,898,000
St. Louis	48,835,000	41,742,000
Minneapolis	26,600,000	22,963,000
Kansas City	19,789,000	19,060,000
Dallas	15,077,000	14,186,000
San Francisco	98,370,000	88,434,000
TOTAL	$1,286,529,000	$1,008,064,000

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Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 26, 1943.
10-25-43

Press Service
No. 39-23

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-oOo-

8

In closing, I should like to emphasize the fact that the problem of postwar adjustments is not one which can be solved through tax measures alone. The allowance of deductible reserves is not necessary to provide adequate tax relief; moreover, it would result in gross inequities. It should also be noted that adequate relief would not be afforded by deductible reserves. They would not bear any necessary relationship to the need for cash. For many profitable corporations, reserves set up to secure tax deduction would unnecessarily increase liquid assets, while for unprofitable corporations -- which might be hardest hit in the postwar adjustment -- the deduction of reserves would bring no advantage.

To rely upon tax measures to accomplish what other governmental action can alone accomplish ~~actuib cab akibe accinplish~~ is to do gross inequity without solving any problem at all. The needs of business for cash cannot be met without the prompt liquidation of war contracts.

the postwar markets.

~~In closing, I should like to emphasize the fact that the problem of postwar adjustments is not one which can be solved through tax measures alone. Many taxpayers have urged the allowance of deductible reserves as a means of providing industry with funds for reconversion. In so doing they are proposing a tax solution to what is essentially a financial problem. The allowance of reserves cannot insure postwar liquidity. The prompt liquidation of war contracts will meet the needs of business for cash as adequately and more equitably than will reserves.~~

We must not permit delayed settlements of contracts and delayed refunds of tax overpayments to interfere with the speedy readjustment to peacetime production. We stand to lose if we strive for the last degree of perfection in the auditing of such settlements. Our main task is to accomplish the change-over to a peace economy without delay and with the maximum encouragement from the government by making available to private enterprise speedily the cash which will ultimately be due to business concerns.

We must also see to it that in the readjustment to peacetime production after the war the position of small business is not permitted to deteriorate. Small business must be able to compete with large business in recapturing

the postwar markets.

D. Conclusions

Our principal concern after the war will be to maintain a high level of national income, high levels of business activity and full employment. This is especially important in view of the present high levels of income and employment to which workers and employers alike have become accustomed.

The termination of the war will find many business concerns with cash claims against the Government. Some will have claims incident to the settlement of war contracts; others will have claims for tax refunds due to the overpayment of taxes on wartime incomes. The interests of the Nation can be served best by providing now for ways and means of expediting the release of such cash claims to private enterprise immediately after the termination of the war.

We must not permit

impact of the postwar readjustments it is important that we speed up settlements arising out of contract termination and arising also from tax refunds.

7

This general picture of the current financial position of corporate enterprise does not indicate the probability of a serious postwar cash problem. It is recognized, however, that the high degree of liquidity for corporations as a whole does not mean that all corporations will be in a satisfactory financial condition at the end of the war. There are cases where working capital is almost entirely tied up in wartime inventories and goods in process. In some cases the demands for ever expanding output have made it impossible to set aside a reserve of liquid assets out of earnings. A large number of these cases are found in ~~those~~ industries which have enjoyed a phenomenal growth since the beginning of the war, especially among the smaller corporations. To protect such firms from the

impact

in the Survey of Current Business 1/ it is estimated that all corporations increased their holdings of currency, bank deposits and United States Government securities by $19 billion during the two years, 1941 and 1942. If these holdings of liquid assets are increased as much in 1943 as they were in 1942 corporations will for the years 1941, 1942 and 1943 have increased their liquid assets by $33 billion.

1/ E. T. Weiler "Wartime Savings and Postwar Inflation." Survey of Current Business, July 1943.

$15.5 billion, or two and a half times the amounts retained during the ~~postwar~~ prewar years 1936-1939. (See Exhibit B).

Additions to surplus do not, of course, automatically insure liquidity. Liquidity depends on the kinds of assets held by a corporation and not upon the amount of its surplus. To the extent that retained earnings are tied up in fixed plant, inventories, or receivables, they will not be available for meeting the expenses of transition to peacetime operation. Neither will they provide working capital needed to carry on peacetime employment and production.

However, recent studies of the holdings of liquid assets by individuals and corporations suggest that for corporations as a whole these holdings have risen even faster than retained earnings. In ~~a recent study~~ an article appearing

in the

The longer the war lasts, and the more gradual its termination, the easier it will be for war contractors to finance their reconversion. This is true irrespective of the speed with which contracts are settled and compensation for losses is paid. However, it may well be that we should provide additional safeguards to business in case an abrupt termination of a relatively short war places a high premium on cash during the transition period.

~~It appears that~~ If the war should end at the close of this year, American corporations as a group would be in an ~~almost unprecedentedly good~~ enviable position as to profits and surplus. Treasury estimates submitted to the Ways and Means Committee indicate that the net income retained by profit corporations after taxes and after net dividends paid will aggregate for the years 1941, 1942, and 1943

$15.5 billion,

6 C. <u>The need for prompt payment in connection with the termination of war contracts.</u>

The speeding up of tax refunds under the carry-back provisions of the tax law should meet ~~a large part of~~ one phase of the postwar cash problem~~, created by the adoption of the method suggested by the Treasury for adjusting tax liabilities on overstated wartime profits~~. There is, however, another problem -- the cash problem arising if working capital is even temporarily frozen in wartime inventories.

The magnitude of this problem is not easy to assess at the present time. We do not know how many firms will find themselves in a highly illiquid condition after the war, because we do not know how long the war will last, -- nor do we know whether it will terminate gradually or abruptly.

The longer

balance of refunds due would be accelerated.

The procedure for acceleration would, it is believed, involve the making by the Commissioner of a tentative determination of the amount due. This would be credited or refunded within the shortest possible time, probably in from sixty to ninety days. Thereafter, the final determination of [redacted] claims for refund would proceed in ordinary course; on ultimate readjustment the taxpayer would repay any erroneous refunds or the government would pay any balance of refunds remaining unpaid.

End of 5

terminations and similar items would be pertinent in this connection.

4. Partial protection should be given to the revenue by permitting acceleration of the collection of deferred payments, or other protective measures, where subsequent circumstances indicate the ultimate collection of tax to be in jeopardy.

5. When the taxable year from which a carry-back is anticipated is completed, the usual return will be filed and a precise computation of the refunds to be claimed can then be made. The amount of the deferred payments would first be offset against the claimed amount of refunds. Any excess of deferred payments would be collected with interest. On the other hand, it is proposed that payment of any

balance

or unused credits and of the resulting refunds would be required to be filed with the Collector of Internal Revenue, together with supporting data sufficient to satisfy him of the reasonableness of the taxpayer's claim. Generally speaking, such data would include a statement of profit and loss for at least the preceding quarter and the business circumstances tending to support a projection of the loss results, or of earnings below the credit level, for all or the remainder of the taxable year. The latter information would be of particular importance in instances where the estimated loss or credit claimed is greater than a proportionate projection of the quarterly results would indicate. Evidence of falling earnings or of anticipated reconversion costs, inventory losses, dismissal wage payments, contract

terminations

worked out, it would embody the following principal features:

5

1. If, for any taxable year beginning prior to the expiration of some reasonable postwar period, a corporate taxpayer anticipates the realization of a net operating loss or the existence of an unused excess profits credit which could ultimately be used as a carry-back against the taxable income of the two prior years, it may apply for complete or partial deferment of the quarterly tax payments due in that year with respect to the preceding year's taxable income and also of any payments of deficiencies in tax which are due.

2. The extent of the postponement of these payments would be limited to the amount of the refunds of taxes that would result from the anticipated carry-backs.

3. A statement of the estimated amount of these losses

or unused

Under present law refunds resulting from these carrybacks must be claimed in the usual manner and subject to the customary administrative procedure necessary to determine the merits of the claim and the exact amount due. While the necessity for careful administration cannot be escaped, it must be recognized that the present method involves a considerable delay in making funds available to the taxpayer.

2. The Treasury's proposals

The Treasury has been considering means of accelerating refunds under the carrybacks. We have submitted to the Ways and Means Committee a proposal intended to facilitate a quick improvement in the cash position of taxpayers whose situation in this respect has suffered by reason of postwar adjustments.

As Tentatively worked out

Page 4

average profits earned in the pre-war base period years. Up to October 19, 1943, the Bureau of Internal Revenue received 30,150 applications involving $2.3 billion of claims against excess profits tax liabilities of $4.6 billion. These claims amount to nearly half of the total liabilities of the filing corporations.

~~In view of~~ The Treasury believes that the ~~the~~ large effective reserves which will emerge from operation of the present carryback and relief provisions~~, the Treasury believes that they~~ go a long way to protect business from wartime taxation on illusory profits. At the same time, it is realized that unless the resulting refunds or credits can be made more speedily available to the taxpayers than is likely to be possible under the present law, the ~~effectiveness as stabilizers will be largely lost.~~ stabilizing effect of the refunds will be substantially reduced

Under present law

plight in regard to available assets. In addition to accumulated surplus, the details of which I shall develop in a few moments, we must take into account the relief provisions in the present law. The potential importance of the carrybacks may be gauged by reference to the profits of corporations for the years 1942 and 1943. The net income before taxes in 1942 and 1943 of $44.3 billion would be chargeable with losses incurred in 1944 if the war ended in that year. Even if the losses were not incurred until 1945, 1943 income alone could absorb losses of $23 billion.

In addition it should be noted that many corporations will obtain relief from excess profits taxes under the general relief provision (Section 722) which permits numerous adjustments for constructing a normal earnings credit higher than the

average profits

in the following year.

Should any taxable excess profits remain in the two preceding years after this loss carryback adjustment, the unused excess-profits credit may be carried back against taxable excess profits in the earliest year and then against such profits in the later year. Any part of a net operating loss or unused excess-profits credit not utilized as a carryback may be carried forward for two years; taken together, the carrybacks and the carry-forwards may accomplish a five-year averaging of income.

4

These carrybacks, we are convinced, will provide a fully adequate response to all reasonable needs for reserves not otherwise provided. While business will not be free of problems, it would be easy to exaggerate its prospective postwar

plight in

passed, as part of the Revenue Act of 1942, a two-year carryback of losses and unused excess-profits credits. These carrybacks constituted an addition to the then existing two-year carry-over of such losses and credits.

The broad outlines of the carryback provisions may be briefly summarized. If a net operating loss occurs in any taxable year, it may be carried back and offset against income earned in the two previous years. Losses must be carried back first to the second preceding year and then to the immediately preceding year. In each year losses must be offset first against taxable excess profits and then against normal profits. The entire income of the earliest year must be exhausted before the unused loss balance may be carried forward against income earned

in the following year.

first place, high taxes, possibly imposed on overstated profits, may create a difficult postwar financial problem for many firms. In the second place, the demand for high levels of wartime production has, in many instances, tied up working capital in inventories and work in-process. Unless the provisions permitting the carry-back of losses and unused excess-profits credit, and the refund of wartime taxes, can be made to operate speedily, and unless the working capital tied up in Government contracts can be liquidated promptly, the ability of many firms to survive the transition period may be impaired.

B. The need for speeding up repayment of taxes under the carrybacks.

1. The present situation.

In preference to several alternative adjustments, Congress

passed, as part of

operate to the disadvantage of small and medium-size concerns, it would encourage the growth of monopolies.

(3) Most business firms will be more than willing -- they will be anxious -- to make the expenditures necessary for the reconversion of plant and equipment and the production of peacetime products. Their ability to do so depends, however, upon the availability of liquid funds with which to pay labor and purchase raw materials. This in turn depends in part upon the manner in which the problem of contract termination is handled, particularly the speed with which the Government is prepared to meet its obligations to contractors and subcontractors.

It is generally accepted that two factors in the wartime situation will accentuate the postwar cash problem. In the

first place,

A third situation may materialize which would have serious consequences on the postwar competitive structure of business enterprise. ~~As we have seen,~~ ~~over~~ heavily 50 percent of American industry is currently engaged in the production of war goods. The extent to which most of these producers can successfully reestablish themselves in the postwar markets for peacetime products depends, in large part, upon the speed with which they can reconvert their plants and get them into peacetime production. Delay in reconversion may mean the loss of markets which will be either difficult or impossible to recapture. Thus, ~~if a substantial number~~ the competitive position of corporations which are, ~~are~~ for any reason, prevented from reconverting promptly, ~~their competitive position~~ will be ~~seriously~~ impaired. If, as may well be, such a development would

operate to the

development unlikely during the period immediately following the close of the war (See Exhibit A).

A second possible danger of the transition period is the possibility that the flow of consumer~~s~~ goods will not respond promptly enough to match the release of long pent-up purchasing power. War savings, a substantial amount of which have been accumulated in the form of currency, checking accounts, and cashable securities, may pour into the consumers goods market faster than industry can turn out its normal complement of peacetime goods. Thus, delay in reconversion may lay the basis ~~may be laid~~ for substantial price increases and possibly for severe inflation. The extent of this danger depends, of course, on the degree to which we continue rationing, priorities, and price ceilings.

A third situation

satisfactorily effected. In the first place, the inevitable decline in the level of income payments following the termination of hostilities may become cumulative and result in severe deflation and a low level of employment. If the workers dismissed from their jobs in war industries are not given new work in the production of civilian goods within a relatively short space of time, there is the danger that this initial reduction in purchasing power will be followed by a further reduction through the curtailment of employment in the civilian goods sector of the economy. Although the possibility of sharp deflation following the termination of war orders can not be overlooked, the tremendous backlog of $55 billion of purchasing power now held in the form of war savings, coupled with an unprecedented volume of unsatisfied consumer wants, make such a

development

at $151.8 billion. Even assuming the most careful planning of government cancellations, the termination of hostilities is likely to be attended by a severe reduction in the flow of government funds. Such a reduction will in turn be reflected in lower income payments to individuals. It is possible and important to plan now for the maintenance of a high national income after the war. ~~It is~~ I recognize~~d~~ that ~~the~~ wartime levels of income and employment ~~will~~ may not be maintained under peacetime conditions. However, if income and employment are to be maintained at high peacetime levels, private investment and spending will need to be stepped up to replace government investment and spending.

Three general situations must be forestalled if the transition from a wartime to a peacetime economy is to be satisfactorily effected.

of course, in the interest of all of us to keep unemployment at a low level. We are all desirous of holding postwar business losses to the lowest possible figure. In addition, the Treasury is especially interested in minimizing unemployment and postwar losses since both will have a significant effect upon its fiscal operations. Protracted unemployment during the postwar years will draw heavily on accumulated unemployment insurance reserves. Business losses will, on the other hand, require substantial refunds of wartime taxes.

During the fiscal year 1944, war expenditures ~~the nation's gross~~ will be about one-half of the gross ~~national product is estimated to reach $195.3 billion~~, national product ~~of which nearly 49 percent is war expenditure.~~ Income payments to individuals for the same period are estimated at $151.8 billion.

39-24

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During the fiscal year 1944, the ~~[illegible]~~ gross national product is estimated to reach $195.3 billion, of which nearly 49 percent is war expenditure. Income payments to individuals for the same period are estimated at $151.8 billion.

39-24

A. <u>The problem of postwar transition</u>

I am very glad to appear before this Subcommittee of the Senate Committee on Military Affairs ~~and~~ in order to present the views of the Treasury on certain aspects of contract termination. This problem, in its broader aspects, is one of national concern, since it relates to the speed and smoothness with which the nation's transition from a wartime to a peacetime economy can be effected.

In a highly integrated economy, such as ours, the speedy reconversion of more than half of our men and machines from wartime to peacetime production can not be accomplished without some dislocation. The period of transition is likely to be one in which many workers will find themselves without jobs and many employers will suffer losses. It is,

of course,

Statement of Randolph E. Paul, General Counsel
of the Treasury, before the Subcommittee on War Contract
Termination of the Senate Committee on Military Affairs
on Termination of War Contracts

October 27, 1943

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In a highly integrated economy, such as ours, the speedy reconversion of more than half of our men and machines from wartime to peacetime production can not be accomplished without some dislocation. The period of transition is likely to be one in which many workers will find themselves without jobs and many employers will suffer losses. It is, of course, in the interest of all of us to keep unemployment at a low level. We are all desirous of holding postwar business losses to the lowest possible figure. In addition, the Treasury is especially interested in minimizing unemployment and postwar losses since both will have a significant effect upon its fiscal operations. Apart from the obvious effect of a low level of employment on Federal revenues, protracted unemployment during the postwar years will draw heavily on accumulated unemployment insurance reserves. In addition, business losses will require substantial refunds of wartime taxes.

During the fiscal year 1944, war expenditures will be about one-half of the gross national product. Income payments to individuals for the same period are estimated at $151.8 billion. Even assuming the most careful planning of government cancellations, the termination of hostilities is likely to be attended by a severe reduction in the flow of government funds. Such a reduction will in turn be reflected in lower income payments to individuals. It is possible and important to plan now for the maintenance of a high national income after the war. I recognize that wartime levels of income and employment may not be maintained under peacetime conditions. However, if income and employment are to be maintained at high peacetime levels, private investment and spending will need to be stepped up to replace government investment and spending.

39-24

Three general situations must be forestalled if the transition from a wartime to a peacetime economy is to be satisfactorily effected. In the first place, the inevitable decline in the level of income payments following the termination of hostilities may become cumulative and result in severe deflation and a low level of employment. If the workers dismissed from their jobs in war industries are not given new work in the production of civilian goods within a relatively short space of time, there is the danger that this initial reduction in purchasing power will be followed by a further reduction through the curtailment of employment in the civilian goods sector of the economy. Although the possibility of sharp deflation following the termination of war orders can not be overlooked, the tremendous backlog of $55 billion of purchasing power now held in the form of war savings, coupled with an unprecedented volume of unsatisfied consumer wants, make such a development unlikely during the period immediately following the close of the war (See Exhibit A).

A second possible danger of the transition period is the possibility that the flow of consumers goods will not respond promptly enough to match the release of long pent-up purchasing power. War savings, a substantial amount of which have been accumulated in the form of currency, checking accounts, and cashable securities, may pour into the consumers goods market faster than industry can turn out its normal complement of peacetime goods. Thus, delay in reconversion may lay the basis for substantial price increases and possibly for severe inflation. The extent of this danger depends, of course, on the degree to which we continue rationing, priorities, and price ceilings.

A third situation may materialize which would have serious consequences on the postwar competitive structure of business enterprise. Nearly 50 percent of American industry is currently engaged in the production of war goods. The extent to which most of these producers can successfully reestablish themselves in the postwar markets for peacetime products depends, in large part, upon the speed with which they can reconvert their plants and get them into peacetime production. Delay in reconversion may mean the loss of markets which will be either difficult or impossible to recapture. Thus, the competitive position of corporations which are, for any reason, prevented from reconverting promptly, will be impaired. If, as may well be, such a development would operate to the disadvantage of small and medium-size concerns, it would encourage the growth of monopolies.

Most business firms will be more than willing -- they will be anxious -- to make the expenditures necessary for the reconversion of plant and equipment and the production of peacetime products. Their ability to do so depends, however, upon the availability of liquid funds with which to pay labor and purchase raw materials. This in turn depends in part upon the manner in which the problem of contract termination is handled, particularly the speed with which the Government is prepared to meet its obligations to contractors and subcontractors.

It is generally accepted that two factors in the wartime situations will accentuate the postwar cash problem. In the first place, high taxes, possibly imposed on overstated profits, may create a difficult postwar financial problem for many firms. In the second place, the demand for high levels of wartime production has, in many instances, tied up working capital in inventories and work in process. Unless the provisions permitting the carry-back of losses and unused excess-profits credit, and the refund of wartime taxes, can be made to operate speedily, and unless the working capital tied up in Government contracts can be liquidated promptly, the ability of many firms to survive the transition period may be impaired.

B. <u>The need for speeding up repayment of taxes under the carrybacks.</u>

1. <u>The present situation.</u>

In preference to several alternative adjustments, Congress passed, as part of the Revenue Act of 1942, a two-year carryback of losses and unused excess-profits credits. These carrybacks constituted an addition to the then existing two-year carryover of such losses and credits.

The broad outlines of the carryback provisions may be briefly summarized. If a net operating loss occurs in any taxable year, it may be carried back and offset against income earned in the two previous years. Losses must be carried back first to the second preceding year and then to the immediately preceding year. In each year losses must be offset first against taxable excess profits and then against normal profits. The entire income of the earliest year must be exhausted before the unused loss balance may be carried forward against income earned in the following year.

Should any taxable excess profits remain in the two preceding years after this loss carryback adjustment, the unused excess-profits credit may be carried back against taxable excess profits in the earliest year and then against such profits in the later year. Any part of a net operating loss or unused excess-profits credit not utilized as a carryback may be carried forward for two years; taken together, the carrybacks and the carry-forwards may accomplish a five-year averaging of income.

These carrybacks, we are convinced, will provide a fully adequate response to all reasonable needs for reserves not otherwise provided. While business will not be free of problems, it would be easy to exaggerate its prospective postwar plight in regard to available assets. In addition to accumulated surplus, the details of which I shall develop in a few moments, we must take into account the relief provisions in the present law. The potential importance of the carrybacks may be gauged by reference to the profits of corporations for the years 1942 and 1943. The net income before taxes in 1942 and 1943 of $44.3 billion would be chargeable with losses incurred in 1944 if the war ended in that year. Even if the losses were not incurred until 1945, 1943 income alone could absorb losses of $23 billion.

In addition it should be noted that many corporations will obtain relief from excess profits taxes under the general relief provision (Section 722) which permits numerous adjustments for constructing a normal earnings credit higher than the average profits earned in the pre-war base period years. Up to October 19, 1943, the Bureau of Internal Revenue received 30,150 applications involving $2.3 billion of claims against excess profits tax liabilities of $4.6 billion. These claims amount to nearly half of the total liabilities of the filing corporations.

The Treasury believes that the large effective reserves which will emerge from operation of the present carryback and relief provisions go a long way to protect business from wartime taxation on illusory profits. At the same time, it is realized that unless the resulting refunds or credits can be made more speedily available to the taxpayers than is likely to be possible under the present law, the stabilizing effects of the refunds will be substantially reduced.

Under present law refunds resulting from these carrybacks must be claimed in the usual manner and subject to the customary administrative procedure necessary to determine the merits of the claim and the exact amount due. While the necessity for careful administration cannot be escaped, it must be recognized that the present method involves a considerable delay in making funds available to the taxpayer.

2. <u>The Treasury's proposals</u>

The Treasury has been considering means of accelerating refunds under the carrybacks. We have submitted to the Ways and Means Committee a proposal intended to facilitate a quick improvement in the cash position of taxpayers whose situation in this respect has suffered by reason of postwar adjustments. As tentatively worked out, it would embody the following principal features:

1. If, for any taxable year beginning prior to the expiration of some reasonable postwar period, a corporate taxpayer anticipates the realization of a net operating loss or the existence of an unused excess profits credit which could ultimately be used as a carry-back against the taxable income of the two prior years, it may apply for complete or partial deferment of the quarterly tax payments due in that year with respect to the preceding year's taxable income and also of any paymentsof deficiencies in tax which are due.

2. The extent of the postponement of these payments would be limited to the amount of the refunds of taxes that would result from the anticipated carry-backs.

3. A statement of the estimated amount of these losses or unused credits and of the resulting refunds would be required to be filed with the Collector of Internal Revenue, together with supporting data sufficient to satisfy him of the reasonableness of the taxpayer's claim. Generally speaking, such data would include a statement of profit and loss for at least the preceding quarter and the business circumstances tending to support a projection of the loss results, or of earnings below the credit level, for all or the remainder of the taxable year. The latter information would be of particular importance in instances where the estimated loss or credit claimed is greater than a proportionate projection of the quarterly results would indicate. Evidence of falling earnings or of anticipated reconversion costs, inventory losses, dismissal wage payments, contract terminations and similar items would be pertinent in this connection.

4. Partial protection should be given to the revenue by permitting acceleration of the collection of deferred payments, or other protective measures, where subsequent circumstances indicate the ultimate collection of tax to be in jeopardy.

5. When the taxable year from which a carry-back is anticipated is completed, the usual return will be filed and a precise computation of the refunds to be claimed can then be made. The amount of the deferred payments would first be offset against the claimed amount of refunds. Any excess of deferred payments would be collected with interest. On the other hand, it is proposed that payment of any balance of refunds due would be accelerated.

The procedure for acceleration would, it is believed, involve the making by the Commissioner of a tentative determination of the amount due. This would be credited or refunded within the shortest possible time, probably in from sixty to ninety days. Thereafter, the final determination of claims for refund would proceed in ordinary course; on ultimate readjustment the taxpayer would repay any erroneous refunds or the government would pay any balance of refunds remaining unpaid.

C. The need for prompt payment in connection with the termination of war contracts.

The speeding up of tax refunds under the carryback provisions of the tax law should meet one phase of the postwar cash problem. There is, however, another problem -- the cash problem arising if working capital is even temporarily frozen in wartime inventories.

The magnitude of this problem is not easy to assess at the present time. We do not know how many firms will find themselves in a highly illiquid condition after the war, because we do not know how long the war will last, -- nor do we know whether it will terminate gradually or abruptly. The longer the war lasts, and the more gradual its termination, the easier it will be for war contractors to finance their reconversion. This is true irrespective of the speed with which contracts are settled and compensation for losses is paid. However, it may well be that we should provide additional safeguards to business in case an abrupt termination of a relatively short war places a high premium on cash during the transition period.

If the war should end at the close of this year, American corporations as a group would be in an enviable position as to profits and surplus. Treasury estimates submitted to the Ways and Means Committee indicate that the net income retained by profit corporations after taxes and after net dividends paid will aggregate for the years 1941, 1942, and 1943 $15.5 billion, or two and a half times the amounts retained during the prewar years 1936-1939. (See Exhibit B).

Additions to surplus do not, of course, automatically insure liquidity. Liquidity depends on the kinds of assets held by a corporation and not upon the amount of its surplus. To the extent that retained earnings are tied up in fixed plant, inventories, or receivables, they will not be available for meeting the expenses of transition to peacetime operation. Neither will they provide working capital needed to carry on peacetime employment and production.

However, recent studies of the holdings of liquid assets by individuals and corporations suggest that for corporations as a whole these holdings have risen even faster than retained earnings. In an article appearing in the Survey of Current Business 1/ it is estimated that all corporations increased their holdings of currency, bank deposits and United States Government securities by $19 billion during the two years, 1941 and 1942. If these holdings of liquid assets are increased as much in 1943 as they were in 1942 corporations will for the years 1941, 1942 and 1943 have increased their liquid assets by $33 billion.

1/ E. T. Weiler "Wartime Savings and Postwar Inflation." Survey of Current Business, July 1943.

This general picture of the current financial position of corporate enterprise does not indicate the probability of a serious postwar cash problem. It is recognized, however, that the high degree of liquidity for corporations as a whole does not mean that all corporations will be in a satisfactory financial condition at the end of the war. There are cases where working capital is almost entirely tied up in wartime inventories and goods in process. In some cases the demands for ever expanding output have made it impossible to set aside a reserve of liquid assets out of earnings. A large number of these cases are found in industries which have enjoyed a phenomenal growth since the beginning of the war, especially among the smaller corporations. To protect such firms from the impact of the postwar readjustments it is important that we speed up settlements arising out of contract termination and arising also from tax refunds.

D. Conclusions

Our principal concern after the war will be to maintain a high level of national income, high levels of business activity and full employment. This is especially important in view of the present high levels of income and employment to which workers and employers alike have become accustomed.

The termination of the war will find many business concerns with cash claims against the Government. Some will have claims incident to the settlement of war contracts; others will have claims for tax refunds due to the overpayment of taxes on wartime incomes. The interests of the Nation can be served best by providing now for ways and means of expediting the release of such cash claims to private enterprise immediately after the termination of the war.

We must not permit delayed settlements of contracts and delayed refunds of tax overpayments to interfere with the speedy readjustment to peacetime production. We stand to lose if we strive for the last degree of perfection in the auditing of such settlements. Our main task is to accomplish the change-over to a peace economy without delay and with the maximum encouragement from the government by making available to private enterprise speedily the cash which will ultimately be due to business concerns.

We must also see to it that in the readjustment to peacetime production after the war the position of small business is not permitted to deteriorate. Small business must be able to compete with large business in recapturing the postwar markets.

In closing, I should like to emphasize the fact that the problem of postwar adjustments is not one which can be solved through tax measures alone. The allowance of deductible reserves is not necessary to provide adequate tax relief; moreover, it would result in gross inequities. It should also be noted that adequate relief would not be afforded by deductible reserves. They would not bear any necessary relationship to the need for cash. For many profitable corporations, reserves set up to secure tax deduction would unnecessarily increase liquid assets, while for unprofitable corporations -- which might be hardest hit in the postwar adjustment -- the deduction of reserves would bring no advantage.

To rely upon tax measures to accomplish what other governmental action can alone accomplish is to do gross inequity without solving any problem at all. The needs of business for cash cannot be met without the prompt liquidation of war contracts.

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EXHIBIT A

Liquid Savings of Individuals, Classified by Type of Savings
January 1940 - June 1943

(In billions of dollars)

	Net increase during period				
	Calendar years			Jan.-June	Total
	1940	1941	1942	1943	Jan. 1940-June 1943
Life insurance 1/	1.7	2.1	2.4	1.6	7.8
Savings accounts 2/	1.0	.4	1.0	1.9	4.3
Currency and checking accounts	2.3	5.3	11.0	5.3	23.9
Securities:					
U. S. Government	.7	3.2	10.2	6.8	20.9
Other	-.6	-.7	.2	-	-1.1
Debt repayment 3/	-2.0	-1.7	2.5	1.0	-.2
Total	3.1	8.5	27.2	16.5	55.3

Office of the Secretary of the Treasury, Division of Research and Statistics. October 19, 1943.

Source: Securities and Exchange Commission, Comptroller of the Currency, and Treasury Department.

Note: Figures are rounded to nearest tenth of a billion, and will not necessarily add to totals.

1/ Excludes social insurance accumulations in Governmental accounts.
2/ Includes time deposits of commercial banks, mutual savings bank accounts and savings and loan association shares; assumes that none of the increases in time deposits of individuals (including partnerships) and corporations are attributable to corporations.
3/ Reduction in consumer debt and in residential mortgage debt owed to incorporated business.

EXHIBIT B

Net income, income taxes and dividends of corporation returns, 1936-44
(Money amounts in millions of dollars)
RETURNS WITH NET INCOME

	Actual						Estimated		
	1936	1937	1938	1939	1940	[1] 1941	1942	1943	1944
1. Net income (including dividends received and tax-exempt interest)	9,726	9,848	6,725	9,028	11,283	17,986	22,200	24,700	26,900
2. Dividends received 2............	2,504	2,515	1,625	1,779	1,852	2,092	1,350	1,300	1,400
3. Tax-exempt interest 3......... ..	488	419	420	464	485	502	600	600	500
4. Net income (excluding dividends received and tax-exempt interest: line 1 minus line 2 minus line 3)..	6,734	6,915	4,680	6,785	8,946	15,391	20,250	22,800	25,000
5. Net income (excluding dividends received: line 1 minus line 2)...	7,222	7,334	5,100	7,248	9,431	15,894	20,850	23,400	25,500
Income and excess profits taxes:									
6. Income tax....................	1,025	1,057	854	1,216	2,144	3,745	4,300	4,500	4,700
7. Undistributed profits tax.......	145	176							
8. Excess profits tax (after deduction of entire post-war credit).....................					374	3,357	7,350	8,850	9,800
9. Declared value excess profits tax.	22	43	6	16	31	64	100	100	100
10. Total income and excess profits taxes...............	1,191	1,276	860	1,232	2,549	[4] 7,166	[4] 11,750	[4] 13,450	[4] 14,600
11. Net income (excluding dividends received) after taxes (line 5 minus line 10)..................	6,031	6,058	4,240	6,016	6,882	8,728	9,100	9,950	10,900
12. Net dividends paid 5..............	4,675	4,794	3,155	3,783	4,036	4,426	4,000	3,900	4,000
13. Net income retained after taxes and after net dividends paid (line 11 minus line 12)..........	1,356	1,264	1,085	2,233	2,846	4,302	5,100	6,050	6,900
14. Ratio of taxes to net income (excluding dividends received: line 10 divided by line 5) (percent).....	16.5	17.4	16.9	17.0	27.0	45.1	56.4	57.5	57.3
15. Ratio of net dividends paid to net income after taxes (line 12 divided by line 11) (percent)....	77.5	79.1	74.4	62.9	58.6	50.7	44.0	39.2	36.7

See footnotes on Page 2.

1. Preliminary figures.
2 Dividends from domestic corporations, subject to income taxation under the Federal tax law, which is the amount used for computation of dividends received credit.
3 Includes both partially and wholly tax-exempt interest.
4 Excludes the effect of the carryback of net operating losses and the carryback of unused excess profits credit.
5 Dividends paid to stockholders other than domestic corporations; includes cash and assets other than companies' own stock.

Treasury Department, Division of Research and Statistics, Sept. 10, 1943.

NOTE:--Figures are rounded and will not necessarily add to totals.

Source for years 1936-41: Statistics of Income. Net income including dividends received and tax-exempt interest equals compiled net profit for the years 1936-39; for 1940 and subsequently it equals compiled net profit with net operating loss deduction.

39-25

FOR IMMEDIATE RELEASE,
October 26, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption	
		As of (Date)	(Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Oct. 16, 1943	59,705,327
Colombia	458,336,340	"	16,939,180
Costa Rica	29,100,720	"	1,620,388
Cuba	11,640,288	"	111,528
Dominican Republic	17,460,432	"	2,250,684
Ecuador	21,825,540	"	3,286,723
El Salvador	87,302,160	"	787,587
Guatemala	77,844,426	"	180,199
Haiti	40,013,490	"	-
Honduras	2,910,072	"	307,734
Mexico	69,114,210	"	753,368
Nicaragua	28,373,202	"	-
Peru	3,637,590	"	59,580
Venezuela	61,111,512	"	789,641
Non-signatory Countries:	51,653,778	"	24

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, October 27, 1943.

Press Service
No. 39-25

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

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TREASURY DEPARTMENT

WASHINGTON

FOR IMMEDIATE RELEASE

Press Service
No. 39-26

The Foreign Funds Control of the Treasury Department today announced the issuance of orders blocking the following concerns and certain of the officers and directors of such concerns:

General Farming Company, Guadalupe, California

California Lettuce Growers, Inc., Santa Barbara and Guadalupe, California

Guadalupe Ranch Company, Santa Barbara and Guadalupe, California

Osa Flaca Farms, Santa Barbara and Guadalupe, California

California Vegetable Growers, Inc., Santa Barbara, California

Lompoc Ranch Company, Santa Barbara and Lompoc, California

Palo Verde Ranch Company of Santa Barbara and Blythe, California.

TREASURY DEPARTMENT
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39-27

FOR IMMEDIATE RELEASE,
October 27, 1943.

The Bureau of Customs announced today that the quota of 100,000 silver or black foxes valued at less than $250 each and whole silver or black fox furs and skins (with or without paws, tails, or heads) and the quota of 500 pounds of paws, heads, or other separated parts of silver or black fox furs and skins (other than tails) provided for in the New Supplementary Trade Agreement with Canada, signed December 18, 1940, which may be entered, or withdrawn from warehouse, for consumption during the quota year ending November 30, 1943, have been exhausted.

Preliminary reports in the Bureau indicate that 4,537 tails of silver or black foxes, 550 pounds of piece plates made of pieces of silver or black fox furs and skins, and 410 articles, other than piece plates, made wholly or in chief value of one or more silver or black fox furs or skins or parts of such furs or skins, may be entered for consumption during the remainder of the quota year ending November 30, 1943.

TREASURY DEPARTMENT
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Wednesday, October 27, 1943.

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for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on November 4, 1943.
(7)

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 29, 1943 ~~(1)~~.

The Secretary of the Treasury, by this public notice, invites tenders for $ 1,000,000,000 ~~(2)~~, or thereabouts, of 91 ~~(3)~~ -day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated November 4, 1943 ~~(4)~~, and will mature February 3, 1944 ~~(5)~~, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, November 1, 1943 ~~(6)~~. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, October 29, 1943.
10-28-43

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated November 4, 1943, and will mature February 3, 1944, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final.

Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on November 4, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Assets and liabilities of all active banks in the United States and possessions, by classes, June 30, 1943 - Contd.

(In thousands of dollars)

	Total all banks	National banks	All banks other than national	Banks other than national: State (commercial)	Banks other than national: Mutual savings	Banks other than national: Private
LIABILITIES						
Deposits of individuals, partnerships, and corporations:						
Demand	$54,286,973	$30,518,146	$23,768,827	$23,638,829	$5,285	$124,713
Time	28,417,460	8,971,178	19,446,282	8,319,149	11,112,658	14,475
U. S. Government and postal savings deposits	8,163,576	4,589,354	3,574,222	3,572,835	810	577
Deposits of States and political subdivisions	4,855,015	2,900,361	1,954,654	1,949,941	1,479	3,234
Deposits of banks 1/	10,904,248	7,156,360	3,747,888	3,713,884	388	33,616
Other deposits (certified and cashiers' checks, etc.)	1,156,827	633,962	522,865	519,933	1,139	1,793
Total deposits 1/	107,784,099	54,769,361	53,014,738	41,714,571	11,121,759	178,408
Bills payable, rediscounts, and other liabilities for borrowed money	31,657	4,231	27,426	24,009	--	3,417
Acceptances executed by or for account of reporting banks	69,075	34,390	34,685	26,957	--	7,728
Other liabilities	576,880	338,965	237,915	196,430	40,997	488
Total liabilities 1/	108,461,711	55,146,947	53,314,764	41,961,967	11,162,756	190,041
CAPITAL ACCOUNTS						
Capital notes and debentures	94,691	--	94,691	89,048	5,643	--
Preferred stock	270,175	137,076	133,099	133,099	--	--
Common stock	2,614,581	1,360,932	1,253,649	1,247,179	--	6,470
Surplus	3,871,503	1,474,673	2,396,830	1,511,517	873,081	12,232
Undivided profits	1,406,340	584,169	822,171	493,469	328,432	270
Reserves and retirement account for preferred stock and capital notes and debentures	533,405	268,555	264,850	225,611	37,288	1,951
Total capital accounts	8,790,695	3,825,405	4,965,290	3,699,923	1,244,444	20,923
Total liabilities and capital accounts 1/	117,252,406	58,972,352	58,280,054	45,661,890	12,407,200	210,964

1/ Excludes reciprocal interbank demand balances with banks in the United States.

Assets and liabilities of all active banks in the United States and possessions, by classes, June 30, 1943 *

(In thousands of dollars)

	Total all banks	National banks	All banks other than national	Banks other than national		
				State (commercial)**	Mutual savings	Private
Number of banks	14,661	5,066	9,595	9,008	537	50
ASSETS						
Loans on real estate	$9,155,381	$2,136,260	$7,019,121	$2,498,979	$4,517,923	$2,219
Other loans, including rediscounts and overdrafts	13,168,672	7,053,883	6,114,789	6,007,493	57,469	49,827
Total loans	22,324,053	9,190,143	13,133,910	8,506,472	4,575,392	52,046
U. S. Government securities:						
Direct obligations	55,176,155	28,514,634	26,661,521	21,377,622	5,207,247	76,652
Guaranteed obligations	2,786,903	1,675,768	1,111,135	1,035,499	75,173	463
Obligations of States and political subdivisions	3,775,406	2,026,333	1,749,073	1,489,033	249,228	10,812
Other bonds, notes and debentures	3,554,741	1,340,099	2,214,642	1,240,102	962,455	12,085
Corporate stocks, including stocks of Federal Reserve banks	591,727	171,744	419,983	255,498	158,495	5,990
Total investments	65,884,932	33,728,578	32,156,354	25,397,754	6,652,598	106,002
Currency and coin	1,606,564	806,546	800,018	719,050	78,479	2,489
Balances with other banks, including reserve balances 1/	25,210,347	14,420,845	10,789,502	10,106,468	641,725	41,309
Bank premises owned, furniture and fixtures	1,162,458	566,697	595,761	483,204	111,946	611
Real estate owned other than bank premises	443,677	47,530	396,147	130,175	265,320	652
Investments and other assets indirectly representing bank premises or other real estate	111,317	49,285	62,032	46,296	15,709	27
Customers' liability on acceptances	61,279	30,509	30,770	23,783	--	6,987
Other assets	447,779	132,219	315,560	248,688	66,031	841
Total assets 1/	117,252,406	58,972,352	58,280,054	45,661,890	12,407,200	210,964

* Excludes figures for Guam and The Philippines on account of the war.

** Includes trust companies and stock savings banks.

Comparison of assets and liabilities of all banks - Continued. (In thousands of dollars) Page 2

	June 30, 1943	Dec. 31, 1942	June 30, 1942
LIABILITIES			
Deposits of individuals, partnerships, and corporations:			
Demand	$54,286,973	$47,968,820	$39,983,386
Time	28,417,460	26,703,762	25,613,382
U. S. Government and postal savings deposits	8,163,576	8,506,607	1,902,191
Deposits of States and political subdivisions	4,855,015	4,523,373	4,454,371
Deposits of banks 1/	10,904,248	11,323,537	10,295,050
Other deposits (certified and cashiers' checks, etc.)	1,156,827	1,239,539	781,195
Total deposits 1/	107,784,099	100,265,638	83,029,575
Bills payable, rediscounts, and other liabilities for borrowed money	31,657	18,638	20,736
Acceptances executed by or for account of reporting banks	69,075	52,462	78,641
Interest, discount, rent, and other income collected but not earned	)	(58,320)	
Interest, taxes, and other expenses accrued and unpaid	) 576,880	(137,846)	608,821
Other liabilities	)	(404,645)	
Total liabilities 1/	108,461,711	100,937,549	83,737,773
CAPITAL ACCOUNTS			
Capital notes and debentures	94,691	99,202	104,171
Preferred stock	270,175	280,654	290,914
Common stock	2,614,581	2,605,535	2,603,601
Surplus	3,871,503	3,769,806	3,746,111
Undivided profits	1,406,340	1,322,567	1,270,261
Reserves and retirement account for preferred stock and capital notes and debentures	533,405	527,264	507,160
Total capital accounts	8,790,695	8,605,028	8,522,218
Total liabilities and capital accounts 1/	117,252,406	109,542,577	92,259,991

1/ Excludes reciprocal interbank demand balances with banks in the United States.

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

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FOR RELEASE, MORNING NEWSPAPERS
Saturday, October 30, 1943

Press Service
No 39-79

The Comptroller of the Currency today released the following preliminary figures, showing the assets and liabilities of all active banks in the United States and possessions on June 30, 1943, and comparisons of such figures with the assets and liabilities of all active banks on December 31, 1942 and June 30, 1942.

(In thousands of dollars)

	June 30, 1943	Dec. 31, 1942	June 30, 1942
Number of banks	14,661*	14,722*	14,815*
ASSETS			
Loans on real estate	$9,155,381	$9,373,003	$9,617,560
Other loans, including overdrafts	13,168,672	14,628,143	15,560,745
Total loans	22,324,053	24,001,146	25,178,305
U. S. Government securities:			
Direct obligations	55,176,155	43,184,881	27,287,165
Guaranteed obligations	2,786,903	2,874,230	3,075,858
Obligations of States and political subdivisions	3,775,406	3,926,485	3,974,821
Other bonds, notes, and debentures	3,554,741	3,755,131	4,027,470
Corporate stocks, including stocks of Federal Reserve banks	591,727	630,633	650,798
Total investments	65,884,932	54,371,360	39,016,112
Currency and coin	1,606,564	1,463,836	1,446,780
Balances with other banks, including reserve balances 1/	25,210,347	27,371,581	24,236,259
Bank premises owned, furniture and fixtures	1,162,458	1,189,800	1,204,320
Real estate owned other than bank premises	443,677	530,109	614,523
Investments and other assets indirectly representing bank premises or other real estate	111,317	122,402	127,781
Customers' liability on acceptances outstanding	61,279	46,132	67,961
Interest, commissions, rent, and other income earned or accrued but not collected	447,779	172,961	367,950
Other assets		273,250	
Total assets 1/	117,252,406	109,542,577	92,259,991

*Excludes banks in Guam and The Philippines on account of the war.

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

FOR RELEASE, MORNING NEWSPAPERS
Saturday, October 30, 1943

Press Service
No. 39-29

The Comptroller of the Currency today released the following preliminary figures, showing the assets and liabilities of all active banks in the United States and possessions on June 30, 1943, and comparisons of such figures with the assets and liabilities of all active banks on December 31, 1942 and June 30, 1942.

(In thousands of dollars)

	June 30, 1943	Dec. 31, 1942	June 30, 1942
Number of banks	14,661*	14,722*	14,815*
ASSETS			
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Interest, commissions, rent, and other income earned or accrued but not collected)	447,779	(172,961)	367,950
Other assets)		(273,250)	
Total assets 1/	117,252,406	109,542,577	92,259,991

*Excludes banks in Guam and The Philippines on account of the war.

Comparison of assets and liabilities of all banks - Continued. (In thousands of dollars) Page 2

	June 30, 1943	Dec. 31, 1942	June 30, 1942
LIABILITIES			
Deposits of individuals, partnerships, and corporations:			
Demand	$54,286,973	$47,968,820	$39,983,386
Time	28,417,460	26,703,762	25,613,382
U. S. Government and postal savings deposits	8,163,576	8,506,607	1,902,191
Deposits of States and political subdivisions	4,855,015	4,523,373	4,454,371
Deposits of banks 1/	10,904,248	11,323,537	10,295,050
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Other liabilities	)	(404,645)	
Total liabilities 1/	108,461,711	100,937,549	83,737,773
CAPITAL ACCOUNTS			
Capital notes and debentures	94,691	99,202	104,171
Preferred stock	270,175	280,654	290,914
Common stock	2,614,581	2,605,535	2,603,601
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Undivided profits	1,406,340	1,322,567	1,270,261
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Total capital accounts	8,790,695	8,605,028	8,522,218
Total liabilities and capital accounts 1/	117,252,406	109,542,577	92,259,991

1/ Excludes reciprocal interbank demand balances with banks in the United States.

Assets and liabilities of all active banks in the United States and possessions, by classes, June 30, 1943 *

(In thousands of dollars)

	Total all banks	National banks	All banks other than national	Banks other than national		
				State (commercial)**	Mutual savings	Private
Number of banks	14,661	5,066	9,595	9,008	537	50
ASSETS						
Loans on real estate	$9,155,381	$2,136,260	$7,019,121	$2,498,979	$4,517,923	$2,219
Other loans, including rediscounts and overdrafts	13,168,672	7,053,883	6,114,789	6,007,493	57,469	49,827
Total loans	22,324,053	9,190,143	13,133,910	8,506,472	4,575,392	52,046
U. S. Government securities:						
Direct obligations	55,176,155	28,514,634	26,661,521	21,377,622	5,207,247	76,652
Guaranteed obligations	2,786,903	1,675,768	1,111,135	1,035,499	75,173	463
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Other bonds, notes and debentures	3,554,741	1,340,099	2,214,642	1,240,102	962,455	12,085
Corporate stocks, including stocks of Federal Reserve banks	591,727	171,744	419,983	255,498	158,495	5,990
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Balances with other banks, including reserve balances 1/	25,210,347	14,420,845	10,789,502	10,106,468	641,725	41,309
Bank premises owned, furniture and fixtures	1,162,458	566,697	595,761	483,204	111,946	611
Real estate owned other than bank premises	443,677	47,530	396,147	130,175	265,320	652
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Customers' liability on acceptances	61,279	30,509	30,770	23,783	—	6,987
Other assets	447,779	132,219	315,560	248,688	66,031	841
Total assets 1/	117,252,406	58,972,352	58,280,054	45,661,890	12,407,200	210,964

* Excludes figures for Guam and The Philippines on account of the war.

** Includes trust companies and stock savings banks.

Assets and liabilities of all active banks in the United States and possessions, by classes, June 30, 1943 - Contd.

(In thousands of dollars)

	Total all banks	National banks	All banks other than national	Banks other than national: State (commercial)	Banks other than national: Mutual savings	Banks other than national: Private
LIABILITIES						
Deposits of individuals, partnerships, and corporations:						
Demand	$54,286,973	$30,518,146	$23,768,827	$23,638,829	$ 5,285	$124,713
Time	28,417,460	8,971,178	19,446,282	8,319,149	11,112,658	14,475
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Total liabilities 1/	108,461,711	55,146,947	53,314,764	41,961,967	11,162,756	190,041
CAPITAL ACCOUNTS						
Capital notes and debentures	94,691	—	94,691	89,048	5,643	—
Preferred stock	270,175	137,076	133,099	133,099	—	—
Common stock	2,614,581	1,360,932	1,253,649	1,247,179	—	6,470
Surplus	3,871,503	1,474,673	2,396,830	1,511,517	873,081	12,232
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1/ Excludes reciprocal interbank demand balances with banks in the United States.

Mr. Schwarz
Mr. Shaeffer

Attached release on commissions is approved by everyone including Mr. Sullivan & Mr. Hannegan.

Please give it widest circulation, and call it to attention of as many specials as possible. The Oct. 7 release along this line was missed by most of them, causing a lot of embarassment. Thanx

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PARTMENT
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Press Service
No. 39-30

e Robert E. Hannegan announced today
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The approval which Commissioner Hannegan extended does not apply to over-riding commissions such as commissions to an employee which are based on the sales of other employees. This type of commission also may be paid without approval if authorized by regulations issued September 4, 1943.

~~The future policy regarding the stabilization of commission compensation is being considered and a further statement will be made to the public as soon as practicable.~~

Please supply Miss Ulasich, Room 2509, Int. Rev. Bldg., 25 copies immediately and 2,500 copies as soon as practical

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PARTMENT
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Press Service
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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, October 30, 1943.

Press Service
No. 39-30

Commissioner of Internal Revenue Robert E. Hannegan announced today that employers may pay to employees any commissions earned on their own individual sales during the calendar year 1943, provided the rate of commission and the amount of any other compensation has not been increased since October 2, 1942.

In making this statement, the Commissioner extended for the rest of this year a statement of approval for similar commissions earned during September and October which was issued on October 7th by former Commissioner Guy T. Helvering. The extension includes payments which, in the normal course of business, may be made subsequent to December 31, 1943 on account of commissions earned during 1943.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 2, 1943.

Press Service
39-31

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated November 4, 1943, and to mature February 3, 1944, which were offered on October 29, were opened at the Federal Reserve Banks on November 1.

The details of this issue are as follows:

Total applied for - $1,142,651,000
Total accepted - 1,002,628,000 (includes $67,409,000 entered on a fixed-price basis at 99.905 and accepted in full)

Range of accepted bids:

High	- 99.915	Equivalent rate of discount approx. 0.336% per annum
Low	- 99.905	" " " " " 0.376% " "
Average price	- 99.905+	" " " " " 0.375% " "

(98 percent of the amount bid for at the low price was accepted)

Federal Reserve District		Total Applied for	Total Accepted
Boston		$ 20,520,000	$ 20,268,000
New York		668,390,000	534,536,000
Philadelphia		39,535,000	38,787,000
Cleveland		49,502,000	49,168,000
Richmond		25,859,000	25,564,000
Atlanta		7,345,000	7,067,000
Chicago		161,577,000	158,931,000
St. Louis		14,760,000	14,636,000
Minneapolis		49,525,000	49,120,000
Kansas City		23,368,000	23,303,000
Dallas		7,485,000	7,467,000
San Francisco		74,785,000	73,781,000
	TOTAL	$1,142,651,000	$1,002,628,000

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TREASURY DEPARTMENT
Washington

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Range of accepted bids:

High - 99.915 Equivalent rate of discount approx. 0.336% per annum
Low - 99.905 " " " " approx. 0.376% per annum
Average price - 99.905 / " " " " approx. 0.375% per annum

(98 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 20,520,000	$ 20,268,000
New York	668,390,000	534,536,000
Philadelphia	39,535,000	38,787,000
Cleveland	49,502,000	49,168,000
Richmond	25,859,000	25,564,000
Atlanta	7,345,000	7,067,000
Chicago	161,577,000	158,931,000
St. Louis	14,760,000	14,636,000
Minneapolis	49,525,000	49,120,000
Kansas City	23,368,000	23,303,000
Dallas	7,485,000	7,467,000
San Francisco	74,785,000	73,781,000
TOTAL	$1,142,651,000	$1,002,628,000

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39-32

FOR IMMEDIATE RELEASE,
November 2, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption As of (Date)	Authorized for entry for consumption (Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Oct. 23, 1943	89,714,605
Colombia	458,336,340	"	54,551,696
Costa Rica	29,100,720	"	1,620,388
Cuba	11,640,288	"	1,009,390
Dominican Republic	17,460,432	"	2,269,105
Ecuador	21,825,540	"	4,566,954
El Salvador	87,302,160	"	787,587
Guatemala	77,844,426	"	180,199
Haiti	40,013,490	"	1,379,311
Honduras	2,910,072	"	420,386
Mexico	69,114,210	"	753,368
Nicaragua	28,373,202	"	-
Peru	3,637,590	"	59,580
Venezuela	61,111,512	"	2,204,532
Non-signatory Countries:	51,653,778	"	1,992,928

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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39-32

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, November 3, 1943.

Press Service
No. 39-32

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-oOo-

November 3, 1943

According to the Daily Statement of October 30, 1943, we have collected, under the Current Tax Payment Act of 1943, $1,798,000,000. Under procedures previously followed of permitting employers to pay quarterly ~~withheld~~ taxes with their quarterly returns filed within one month after the end of the quarter, this sum of money would not have come into the Treasury until the first part of November. Under the new procedure of requiring employers to pay ~~such~~ withheld taxes by the tenth of the month following the month in which they accrue, we have collected this amount of money in advance. This means that we have had the use of $1,798,000,000 on an average of about forty-five days in advance of the time we would have received it under the old procedure.

These withheld taxes are paid by the withholding employer by the tenth of the month following the month in which they have accrued into a designated Government depositary, which gives the employer a receipt for such taxes to be attached to his quarterly return filed with the Collector. When the funds so paid into any depositary amount to $5,000 they are then paid in to the Federal Reserve Banks immediately, but all funds are paid in not later than the end of the month in which they are deposited, regardless of amount.

TREASURY DEPARTMENT
Washington

Steuart

FOR IMMEDIATE RELEASE
Wednesday, November 3, 1943

Press Service
No. 39-33

will result in

Current payment of individual income taxes under the withholding system yielded the Federal Government $1,798,000,000 for the first three months of the new "pay as you go" plan's operation, according to Treasury Department records.

Due to an improved method of handling employers' remittances of the tax funds, the Treasury has had the use of the $1,798,000,000 much earlier, on an average, than would have been the case under the withholding arrangement previously in effect for Victory tax collections. ~~Projection of~~ The accelerated collections over a full year ~~indicates the equivalent of~~ a substantial saving to the Government in interest .

The Victory tax withholding law called for collections to be remitted to the Government by employers on or before the last day of the month following the close of each quarter of the calendar year. When the new withholding plan, covering both income and Victory taxes, went into effect last July 1, the Treasury issued regulations directing employers to place the withheld tax funds in authorized depositaries within ten days after the close of each calendar month, provided collections during the month exceeded $100.

The depositaries in turn transmit the tax funds to Federal Reserve Banks whenever the deposits reach $5000, and transmit them in any case, regardless of amount, not later than the end of each month.

The new depositary arrangement results in each dollar of withheld tax money being turned over to the Government an average of forty-five days earlier than was the case with Victory tax collections during the first half of the year. ~~If a year's withholdings total $7,192,000,000, as indicated by the experience so far, the forty-five-day speedup in turning over of the funds would amount to an indicated saving of nearly $18,000,000 -- the interest on a similar amount for forty-five days at 2 percent.~~

As of November 1, a total of 8,519 banks, not counting branches, had qualified to act as depositaries for the withheld tax moneys. This is well over half of the commercial banks in the country. When an employer makes a deposit of withheld tax funds he is given a receipt by the depositary, and the employer forwards copies of these receipts to his Collector of Internal Revenue. Reports of employers to the Collectors on withholdings are made only once every three months, as previously, but in the meantime the actual tax dollars have been hastened along to the Government, through the banks, and are at work winning the war.

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TO: Mr. Shaeffer

I don't want to get into this interest saving too much. If we should use any rate it should be 3/8 %, rate for Treasury bills. We used this rate before Appr. Com. to get funds to pay for Withholding Tax expenses.

Office of the Under Secretary

Sullivan says O.K. with it out — DWB

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE
Wednesday, November 3, 1943

Press Service
No. 39-33

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oOo

securities, including quite a bit of new financing, mostly for refunding purposes, by municipalities and private enterprises. You are all pleasantly familiar with the particulars. It is significant evidence of our nation's financial strength that through all the upheavals of a global war now four years old, our stock exchanges and other securities markets have been open every business day. And from the standpoint of the general interest, it is well that investment banking and brokerage organizations are being maintained in healthy condition because they will be needed in the postwar period.

15 years, bearing interest at a rate between 2 and $2\frac{1}{2}$ percent, and, like the $2\frac{1}{2}$'s, made ineligible for commercial banks for a period of years. Proponents of this idea believe that offerings of certificates of indebtedness could be made successfully without quotas and that certificates might be offered to miscellaneous corporations and to commercial banks at the same time. Obviously any new approach adopted would require sensible consideration in fixing quotas.

We want the best advice we can get on these problems and shall welcome suggestions.

Finally, going back to the beginning of my talk and the review of financial events since your last meeting, no such review would be complete without reference to the fact that the Treasury's huge program of war financing, at the rate of a 230 million dollar offering every day, has been carried forward, not only without disturbance in the money market, but without interfering with an open and fairly active market in other

Therefore, it is argued, the drive ought to be a consolidated one. A compromise suggestion is that we have a drive for individuals only for three weeks or so and then immediately on its conclusion announce supplementary quotas for sales of the same securities to nonbanking institutions.

Another criticism commonly made of former drives is that in some cases it seemed too easy to make quotas with large sales to corporations, with resulting relaxation of the effort required to do a job with individuals. Also it is mainly in connection with such sales that certain national corporations, for obvious reasons, have wanted to allocate credit to a great many different counties and communities. Such allocations have taken time and attention which might better be devoted to selling bonds to individuals. Accordingly, it has been suggested that offerings in the next drive might well be restricted to savings bonds and Treasury bonds and that the Treasury bonds might consist of a long-term 2½ percent issue and a medium-term bond, 12 to

The State Chairmen of War Finance Committees are meeting at Washington next week to compare notes and discuss plans.

I want to mention some of the problems that are being considered and discussed in connection with plans for the Fourth War Loan in the hope of obtaining some good suggestions from this group. Workers tell us that a separate drive for individual subscriptions would be highly desirable, because it is believed from experience in previous drives that reports of hugh sub- high or large scriptions from insurance companies and other institutional buyers tend to make the ordinary citizen doubt that his $18.75 is really needed. This same influence is felt by canvassers for individual subscriptions. They wonder if it is worthwhile to make a second or third call in the hope of a small order.

¶ 6 The other side of this problem is that the publicity and excitement of the campaign, plus the pressure of local quotas, are necessary to obtain good results in the sale of bonds to nonbanking companies, associations, and funds of various kinds.

With these lessons in mind, the War Finance Division is engaged in preparation for the Fourth War Loan. It is planned for early 1944, probably in January. Budget estimates indicate that the amount of new borrowing required during the remainder of this fiscal year, namely until the end of June, will be about $40 billion. In accordance with policy, it will be sought to obtain as much as possible from sources outside the banking system. So you may expect a drive with greater emphasis than ever on individual sales, and no less emphasis than before on sales to insurance companies and all kinds of institutional investors other than commercial banks.

of the majority of the American people. I am not saying, mind you, that a majority of the American people bought no bonds in September. I am saying that a majority of the American people bought no <u>extra</u> bonds in September. And that, after all, was the purpose of the drive as it applied to the average individual. Incidentally, it appears that about 15 percent of the adult population did not know there was a War Loan campaign going on.

Finally, there is the lesson as to where to place the emphasis in promotion - on the national, State, or local level. And here again the results of the Third War Loan merely confirm what was learned during the Second War Loan. The evidence is convincing that people's strongest ties, emotional and otherwise, are with the community of which they are a part, not with the nation or even large geographic regions. They like personal solicitation as against exhortations from afar, respond to local quotas rather than national quotas, prefer locally inspired radio programs, speeches, and entertainment by neighbors and friends rather than "canned" and other material emanating from distant places.

reached many more people than before - approximately twice the number of people in September as compared with April - the <u>effectiveness</u> of solicitation remained undiminished. We have by no means reached the point of diminishing returns as far as it is concerned. This, I repeat, is the single most important promotional lesson of the drive. Anot

5 Another important lesson of the drive was the impact of the drive itself. The Third War Loan drive sold bonds to many more people than did the Second. Among the nonfarm population, 35 percent of the gainfully employed increased their bond purchases in September, compared to 20 percent in April; and in rural areas, 40 percent of the farm families increased their bond purchases, compared to 18 percent in April. Roughly speaking, however, approximately 60 percent - three fifths - of income receivers, farm and nonfarm together, bought <u>no</u> extra bonds in September. This means that the September drive, tremendous as it was, had absolutely no effect on the bond buying

we can form some idea as to how we should proceed in the Fourth War Loan drive. Fortunately the data for such an evaluation are at hand. Let me tell you briefly the results of the Third War Loan from the promotional point of view.

The most important lesson of the drive, as I have indicated, is the importance of personal solicitation, the importance of person-to-person canvassing. Of the individuals in cities and towns who were personally asked to buy extra bonds in September, approximately 52 percent did so. And of the individuals in farm areas who were personally asked to buy extra bonds, 61 percent did so. This is a startling tribute to the effectiveness of personal solicitation, for where individuals were not asked to buy extra bonds, only 20 percent in cities and towns got around to doing so and in farm areas only 12 percent. This confirms what we learned in April. In both drives more than two and one half times as many of those solicited bought bonds as those who were not solicited. Even though the solicitation campaign hard work tabulating local subscriptions in order to keep solicitors informed of the progress from day to day.

There were a number of things that occurred as a result of the enthusiasm of local committees and their anxiety to meet quotas that must be placed on the negative side. Noted especially was a considerable volume of "bad selling." This included a lot of sales that were the result of switches from other Government issues; also a lot of sales financed by direct borrowing from banks. These bank-credit-financed purchases cannot all be placed in the category of bad selling, but most of them can.

So much for the lessons of the Third War Loan drive from the point of view of <u>financial</u> performance. Now I would like to say a few words of the lessons to be learned from the drive from the point of <u>promotional</u> performance. It is only by thoughtful evaluation of our promotional effort - its high spots and low spots, its successes and its weaknesses - that and this feature cannot fail to become widely understood and appreciated.

Now I want to mention some of the lessons taught by the Third War Loan experience.

4

First, it demonstrated that large numbers of persons can be sold Government securities if the contact is on a person-to-person basis. Over 52½ million pieces of E bonds were sold, as compared to 33 million in the Second War Loan drive. In dollars, nearly 2½ billions of E bonds were sold, as compared to 1½ billions during the Second drive.

Second, some new sales ideas that were introduced during the drive were successful. Among these were the plant quota and the campaign to sell an extra $100 in ~~E~~ War bonds.

Then there was the marvelous cooperation of the huge volunteer sales army and of the people who had to handle the less glorious parts of the operation - the employees of issuing agents who had to get the bonds inscribed and the employees of banks and other business organizations who contributed much to spend the proceeds at a more rapid rate than goods can be produced, and thus invite a postwar inflation. But it should be kept in mind that this danger would be equally great in the case of negotiable securities, which are, from the point of view of the holder, as liquid as those which may be redeemed at the Treasury. The only difference is the uncertainty with respect to price in the case of a market issue.

Finally, the graduated scale of redemption values on Series E bonds has these two advantages: First, it greatly reduces interest cost to the Government on money which proves to have been borrowed for short periods only; and, secondly, provides an incentive for continued holding of bonds in the form of a high interest rate for the remaining period. A Series E bond of $100 maturity value costs $75. In five years it can be redeemed at $82. Only $7 has been added. But in the second five-year period it will further increase in value by $18. After holding one of these bonds a few years the owner has title to an unusually profitable investment for the remaining period, in its purpose and effect to that of the Federal Deposit Insurance Corporation.

Also the redeemable bond has the virtue of permitting greater flexibility in interest rate policy in the postwar period, by reducing pressure on the Government to "stabilize" the market for Government securities and thereby giving the Government greater freedom of action. If negotiable bonds were sold to small investors in large amounts, the Government might be under pressure to maintain the entire market for high-grade securities (including those issued by private borrowers) in order to assure small investors against loss. But if small investors have been separately provided for by means of redeemable securities, the decisions with respect to the appropriate rate of interest on general market securities in the postwar period may be made irrespective of the special problem of small investors.

Another feature of savings bonds that has caused concern is the possibility that holders might cash them and endeavor

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Of these amounts, individuals alone took Treasury and savings bonds:

First War Loan	$1,300,000,000,
Second War Loan	2,900,000,000, and
Third War Loan	4,800,000,000.

These figures show rapid progress in the public distribution of Government bonds.

3

For a long time now the financial community has discussed the advisability of the Government's issuing securities redeemable on demand - the Series E bond in particular. As you know, the Treasury has given more encouragement to the sale of this issue than to that of any other security. And I have no doubt it will continue to do so in the future, in its efforts to distribute bonds widely among small investors.

Savings bonds amount to about ~~16~~ 15 percent of the interest-bearing debt, and it is believed that to have that portion of the debt which is widely held by the people written in terms that guarantee owners against loss is an influence for financial calmness, confidence and peace of mind - an influence similar in bank holdings accounts for about 31 billion, including an increase of about 5 billion in the holdings of the Federal Reserve Banks.

Since your last meeting all three of the War Loan drives of this war have been successfully conducted, accomplishing sales of Government securities to buyers other than commercial banks in an aggregate amount of more than 40 billion dollars. We wish these sales had been a larger share of total borrowings. This type of borrowing will have to be stepped up. And we can take encouragement from the steady progress recorded. Omitting the very short-time issues and including only Treasury bonds and savings bonds, individuals, mutual savings banks, savings and loan associations, insurance companies, and other nonbanking investors bought bonds in the three campaigns as follows:

First War Loan	$4,600,000,000,
Second War Loan	8,300,000,000, and
Third War Loan	11,600,000,000.

interest of bank liquidity and that with the current and prospective increases in bank deposits the two percent rate should be reasonably profitable.

The predictions involved in this program laid down a year ago have been borne out and I think you will agree that we can all find satisfaction in the success of these policies. No reason to change them is in sight.

In the intervening year, from October 15, 1942, to October 15, 1943, the interest-bearing public debt including guaranteed obligations has increased 74 billion dollars, from 93 billion dollars to 167 billion dollars. Of this increase in the public debt about 70 billion dollars is represented by a net increase in securities outstanding in the hands of the banks and the public. Perhaps the best way to bring home to this audience what it means to do 70 billion dollars of new financing in twelve months is to point out that it is the equivalent of offering a 230 million dollar deal every business day, including Saturdays. Of this 70 billion increase, the growth

A year ago, Under Secretary of the Treasury Daniel W. Bell made an address at your annual meeting. Much water has gone over the dam since October, 1942. He outlined in his speech "a clear and well considered pattern" for borrowing by the Treasury. This borrowing, he pointed out, while only part of the economic program that includes taxation and rationing, would necessarily be in unprecedented magnitudes. His statement included these policies:

2

First, to borrow from commercial banks only after every effort has been made to finance the deficit from other sources. Then the restriction of offerings to banks, not only to the smallest amount possible, but to securities with a term of ten years or less. That meant a maximum two percent interest rate on bank securities and the issuance of longer bonds at higher rates only in forms ineligible for commercial bank investment. He explained that limiting bank purchases to ten-year bonds and shorter maturities seemed desirable in the help give direction and guidance to the great volunteer army that takes part. Our best estimate is that five million men and women served as volunteer workers in the Third War Loan drive. Obviously no single segment of the population should ask credit for more than a small part of the accomplishment, which was just short of 19 billion dollars. But bankers and investment dealers play a part that is out of all proportion to their numbers - an indispensable part that deserves and receives the deep appreciation of the Secretary of the Treasury and of all concerned with the financing of the war.

The importance of your skilled help increases as it becomes more and more apparent that while day-to-day purchases of war bonds through payroll savings and otherwise are vital to the success of our program, it is the War Loan drives that provide the bulk of the money necessary to be borrowed from nonbanking investors.

Corrected copy

~~Speech to be delivered by Edward B. Hall, November 4, 1943, before Investment Bankers Association, Waldorf-Astoria Hotel, New York City.~~

OUR BIGGEST JOB ON THE HOME FRONT

I have attended many meetings of this Association and in quite a few different capacities, but it is a new experience to be here as a guest and I am honored to be speaking to this audience as a member of the national Treasury's bond-selling organization at a time when the distribution of bonds is a larger, more urgent and more important task than it ever was in the nation's history.

This audience is made up of bond men — underwriters and distributors, bond specialists from banks and from stock exchange firms. Such has been your professional interest as well as your patriotic interest in the Treasury's war loan campaigns that I said to Ted Gamble, who is here today and who is National Director of the War Finance Division, that talking to you is just like addressing a gathering of War Finance Committees.

You are all in this job with the Treasury Department, not merely as volunteer workers, but as professional leaders who

39-34

A. Rising Costs.

In dealing with the problem of wartime inflation, it is customary to concentrate on the enormous excess of consumer spending power over the available supply of goods and services. And this, to be sure, is the central issue. But it is not the only issue, and we are likely to make mistakes both in our appraisal of inflation, and in our choice of tax measures to combat it, unless we recognize that economic forces other than excess spending power cause price increases. It is not merely that dangerous dollars are exerting a strong upward pull on prices. Costs are pushing hard from below. In choosing tax measures to reduce the pull from above it is important to avoid increasing the push from below.

As output in the factory and on the farm rises, costs are affected by conflicting forces -- some operating to raise costs and some to lower them. But as production is pushed toward the limits of capacity, as at present, conditions working toward higher costs are very likely to predominate. This tendency is especially noticeable in agriculture, where record crops are achieved by more intensive -- and often more expensive -- cultivation of land already in use and by resort to inferior land normally held out of use. Costs of industrial production are increased by the necessity of using less efficient labor and substitute materials. Where necessary to secure essential production these costs must be covered. This is entirely consistent with a realistic anti-inflationary program and with a tax policy that is part of that program.

Apart from the consequences of having to use less efficient labor, land, and materials, costs tend to rise because prices paid by producers are prone to rise. The intensified demand for labor, for example, places workers in a better position to bargain for higher wage rates, and in addition requires overtime work commanding higher pay. Competition for scarce raw materials and machinery also tends to raise prices, thus again increasing costs of production. These are some of the forces that are constantly straining to break through wage and price controls -- forces that must be denied in all but the most exceptional cases where it is clearly necessary to accept higher costs to get indispensable output not otherwise obtainable.

The role of tax policy with respect to the leverage of increased costs on prices is negative rather than positive. It should carefully avoid interference with the cost-price and parity relationships which underlie present price ceilings. Taxes which add to producers' money costs, or to the prices of goods entering into the farmer's parity base, may breach rather than bulwark the line we are trying to hold against inflation.

TREASURY DEPARTMENT
Washington

Edward B. Hall, Assistant to the Secretary

Waldorf-Astoria Hotel, New York City,

(The following address by ~~Randolph E. Paul, General Counsel~~ of the Treasury, before the ~~Agricultural Outlook Conference, of the Bureau of Agricultural Economics,~~ in the ~~Auditorium of the Department of Agriculture, Washington, D. C.,~~ is scheduled for delivery at ~~10 a. m.~~ Eastern War Time, ~~Monday, October 18,~~ 1943, and is for release at that time.)

thirty-second annual meeting of The Investment Bankers Associat[ion]

November 4, 2:30 p.m., Thursday,

~~WILL WE "HOLD THE LINE?"~~

It is a privilege to raise the curtain at the 21st Annual Agricultural Outlook Conference. I suspect that I have been placed in the position of prologue rather than epilogue, because there is a psychological, if not a therapeutic, value to be derived from administering the bitterest pill first. Taxes are a bitter pill. No layers of sugar coating, no admonitions that they are good for what ails the country, can disguise that fact. Because of my close association with taxes, I have become a kind of symbol of something that's hard to take. If I had not known this before, I should know it now. I wish I could repeat to you some of the names I have been called. By way of mild example, I was once advised to "close my bureaucratic trap." My friendly critic did not explain what he meant by the term "bureaucrat". I wish I knew, so that I could appraise his indictment. Sometimes I wonder whether a bureaucrat is not just a person who doesn't believe the same things everybody else in his set thinks are vital to the American way of life.

In relating tax policy to inflation, I shall start with the premise that inflation is bad -- a premise that all of us, as consumers, are willing to grant, but one that some of us, as producers, are reluctant to accept. I propose to show two things: first, that a forceful tax policy is a prerequisite to effective wage, price and rationing controls; and second, that the answer to the question, "will we hold the line?" depends, insofar as taxes are a critical factor, both upon the amount and upon the kind of taxes we have the courage to levy.

I. The anatomy of inflation

If we are to understand the role of tax policy in holding the line, we must know something about the anatomy of inflation. What causes price increases and on which causes can taxes operate? Close inspection will reveal whether the taxes we have, and are likely to get, will merely snap at the heels of inflation or whether they will strike at its very vitals.

~~39-13~~

TREASURY DEPARTMENT
Washington

(The following address by Edward B. Hall, Assistant to the Secretary of the Treasury, before the thirty-second annual meeting of the Investment Bankers Association, in the Waldorf-Astoria Hotel, New York City, is scheduled for delivery at 2:30 p.m., Eastern War Time, Thursday, November 4, 1943, and is for release at that time.)

OUR BIGGEST JOB ON THE HOME FRONT

I have attended many meetings of this Association and in quite a few different capacities, but it is a new experience to be here as a guest and I am honored to be speaking to this audience as a member of the national Treasury's bond-selling organization at a time when the distribution of bonds is a larger, more urgent and more important task than it ever was in the nation's history.

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You are all in this job with the Treasury Department, not merely as volunteer workers, but as professional leaders who help give direction and guidance to the great volunteer army that takes part. Our best estimate is that five million men and women served as volunteer workers in the Third War Loan drive. Obviously no single segment of the population should ask credit for more than a small part of the accomplishment, which was just short of 19 billion dollars. But bankers and investment dealers play a part that is out of all proportion to their numbers — an indispensable part that deserves and receives the deep appreciation of the Secretary of the Treasury and of all concerned with the financing of the war.

The importance of your skilled help increases as it becomes more and more apparent that while day-to-day purchases of war bonds through payroll savings and otherwise are vital to the success of our program, it is the War Loan drives that provide the bulk of the money necessary to be borrowed from nonbanking investors.

A year ago, Under Secretary of the Treasury Daniel W. Bell made an address at your annual meeting. Much water has gone over the dam since October, 1942. He outlined in his speech "a clear and well considered pattern" for borrowing by the Treasury. This borrowing, he pointed out, while only part of the economic program that includes taxation and rationing, would necessarily be in unprecedented magnitudes. His statement included these policies:

First, to borrow from commercial banks only after every effort has been made to finance the deficit from other sources. Then the restriction of offerings to banks, not only to the smallest amount possible, but to securities with a term of ten years or less. That meant a maximum two percent interest rate on bank securities and the issuance of longer bonds at higher rates only in forms ineligible for commercial bank investment. He explained that limiting bank purchases to ten-year bonds and shorter maturities seemed desirable in the interest of bank liquidity and that with the current and prospective increases in bank deposits the two percent rate should be reasonably profitable.

The predictions involved in this program laid down a year ago have been borne out and I think you will agree that we can all find satisfaction in the success of these policies. No reason to change them is in sight.

In the intervening year, from October 15, 1942, to October 15, 1943, the interest-bearing public debt including guaranteed obligations has increased 74 billion dollars, from 93 billion dollars to 167 billion dollars. Of this increase in the public debt about 70 billion dollars is represented by a net increase in securities outstanding in the hands of the banks and the public. Perhaps the best way to bring home to this audience what it means to do 70 billion dollars of new financing in twelve months is to point out that it is the equivalent of offering a 230 million dollar deal every business day, including Saturdays. Of this 70 billion increase, the growth in bank holdings accounts for about 31 billion, including an increase of about 5 billion in the holdings of the Federal Reserve Banks.

Since your last meeting all three of the War Loan drives of this war have been successfully conducted, accomplishing sales of Government securities to buyers other than commercial banks in an aggregate amount of more than 40 billion dollars. We wish these sales had been a larger share of total borrowings. This type of borrowing will have to be stepped up. And we can take encouragement from the steady progress recorded. Omitting the very short-time issues and including only Treasury bonds and savings bonds, individuals, mutual savings banks, savings and loan associations, insurance companies, and other nonbanking investors bought bonds in the three campaigns as follows:

First War Loan	$4,600,000,000,
Second War Loan	8,300,000,000, and
Third War Loan	11,600,000,000.

Of these amounts, individuals alone took Treasury and savings bonds:

First War Loan	$ 1,300,000,000,
Second War Loan	2,900,000,000, and
Third War Loan	4,800,000,000.

These figures show rapid progress in the public distribution of Government bonds.

For a long time now the financial community has discussed the advisability of the Government's issuing securities redeemable on demand - the Series E bond in particular. As you know, the Treasury has given more encouragement to the sale of this issue than to that of any other security. And I have no doubt it will continue to do so in the future, in its efforts to distribute bonds widely among small investors.

Savings bonds amount to about 15 percent of the interest-bearing debt, and it is believed that to have that portion of the debt which is widely held by the people written in terms that guarantee owners against loss is an influence for financial calmness, confidence and peace of mind - an influence similar in its purpose and effect to that of the Federal Deposit Insurance Corporation.

Also the redeemable bond has the virtue of permitting greater flexibility in interest rate policy in the postwar period, by reducing pressure on the Government to "stabilize" the market for Government securities and thereby giving the Government greater freedom of action. If negotiable bonds were sold to small investors in large amounts, the Government might be under pressure to maintain the entire market for high-grade securities (including those issued by private borrowers) in order to assure small investors against loss. But if small investors have been separately provided for by means of redeemable securities, the decisions with respect to the appropriate rate of interest on general market securities in the postwar period may be made irrespective of the special problem of small investors.

Another feature of savings bonds that has caused concern is the possibility that holders might cash them and endeavor to spend the proceeds at a more rapid rate than goods can be produced, and thus invite a postwar inflation. But it should be kept in mind that this danger would be equally great in the case of negotiable securities, which are, from the point of view of the holder, as liquid as those which may be redeemed at the Treasury. The only difference is the uncertainty with respect to price in the case of a market issue.

Finally, the graduated scale of redemption values on Series E bonds has these two advantages: First, it greatly reduces interest cost to the Government on money which proves to have been borrowed for short periods only; and, secondly, provides an incentive for continued holding of bonds in the form of a high interest rate for the remaining period. A Series E bond of $100 maturity value costs $75. In five years it can be redeemed at $82. Only $7 has been added. But in the second five-year period it will further increase in value by $18. After holding one of these bonds a few years the owner has title to an unusually profitable investment for the remaining period, and this feature cannot fail to become widely understood and appreciated.

Now I want to mention some of the lessons taught by the Third War Loan experience.

First, it demonstrated that large numbers of persons can be sold Government securities if the contact is on a person-to-person basis. Over $52\frac{1}{2}$ million pieces of E bonds were sold, as compared to 33 million in the Second War Loan drive. In dollars, nearly $2\frac{1}{2}$ billions of E bonds were sold, as compared to $1\frac{1}{2}$ billions during the Second drive.

Second, some new sales ideas that were introduced during the drive were successful. Among these were the plant quota and the campaign to sell an extra $100 in war bonds.

Then there was the marvelous cooperation of the huge volunteer sales army and of the people who had to handle the less glorious parts of the operation - the employees of issuing agents who had to get the bonds inscribed and the employees of banks and other business organizations who contributed much hard work tabulating local subscriptions in order to keep solicitors informed of the progress from day to day.

There were a number of things that occurred as a result of the enthusiasm of local committees and their anxiety to meet quotas that must be placed on the negative side. Noted especially was a considerable volume of "bad selling." This included a lot of sales that were the result of switches from other Government issues; also a lot of sales financed by direct borrowing from banks. These bank-credit-financed purchases cannot all be placed in the category of bad selling, but most of them can.

So much for the lessons of the Third War Loan drive from the point of view of financial performance. Now I would like to say a few words of the lessons to be learned from the drive from the point of promotional performance. It is only by thoughtful evaluation of our promotional effort - its high spots and low spots, its successes and its weaknesses - that we can form some idea as to how we should proceed in the Fourth War Loan drive. Fortunately the data for such an evaluation are at hand. Let me tell you briefly the results of the Third War Loan from the promotional point of view.

The most important lesson of the drive, as I have indicated, is the importance of personal solicitation, the importance of person-to-person canvassing. Of the individuals in cities and towns who were personally asked to buy extra bonds in September, approximately 52 percent did so. And of the individuals in farm areas who were personally asked to buy extra bonds, 61 percent did so. This is a startling tribute to the effectiveness of personal solicitation, for where individuals were not asked to buy extra bonds, only 20 percent in cities and towns got around to doing so and in farm areas only 12 percent. This confirms what we learned in April. In both drives more than two and one half times as many of those solicited bought bonds as those who were not solicited. Even though the solicitation campaign reached many more people than before - approximately twice the number of people in September as compared with April - the effectiveness of solicitation remained undiminished. We have by no means reached the point of diminishing returns as far as it is concerned. This, I repeat, is the single most important promotional lesson of the drive.

Another important lesson of the drive was the impact of the drive itself. The Third War Loan drive sold bonds to many more people than did the Second. Among the nonfarm population, 35 percent of the gainfully employed increased their bond purchases in September, compared to 20 percent in April; and in rural areas, 40 percent of the farm families increased their bond purchases, compared to 18 percent in April. Roughly speaking, however, approximately 60 percent - three-fifths - of income receivers, farm and nonfarm together, bought no extra bonds in September. This means that the September drive, tremendous as it was, had absolutely no effect on the bond buying of the majority of the American people. I am not saying, mind you, that a majority of the American people bought no bonds in September. I am saying that a majority of the American people bought no extra bonds in September. And that, after all, was the purpose of the drive as it applied to the average individual. Incidentally, it appears that about 15 percent of the adult population did not know there was a War Loan campaign going on.

Finally, there is the lesson as to where to place the emphasis in promotion - on the national, State, or local level. And here again the results of the Third War Loan merely confirm what was learned during the Second War Loan. The evidence is convincing that people's strongest ties, emotional and otherwise, are with the community of which they are a part, not with the nation or even large geographic regions. They like personal solicitation as against exhortations from afar, respond to local quotas rather than national quotas, prefer locally inspired radio programs, speeches, and entertainment by neighbors and friends rather than "canned" and other material emanating from distant places.

With these lessons in mind, the War Finance Division is engaged in preparation for the Fourth War Loan. It is planned for early 1944, probably in January. Budget estimates indicate that the amount of new borrowing required during the remainder of this fiscal year, namely until the end of June, will be about $40 billion. In accordance with policy, it will be sought to obtain as much as possible from sources outside the banking system. So you may expect a drive with greater emphasis than ever on individual sales, and no less emphasis than before on sales to insurance companies and all kinds of institutional investors other than commercial banks.

The State Chairmen of War Finance Committees are meeting at Washington next week to compare notes and discuss plans.

I want to mention some of the problems that are being considered and discussed in connection with plans for the Fourth War Loan in the hope of obtaining some good suggestions from this group. Workers tell us that a separate drive for individual subscriptions would be highly desirable, because it is believed from experience in previous drives that reports of huge subscriptions from insurance companies and other institutional buyers tend to make the ordinary citizen doubt that his $18.75 is really needed. This same influence is felt by canvassers for individual subscriptions. They wonder if it is worthwhile to make a second or third call in the hope of a small order.

The other side of this problem is that the publicity and excitement of the campaign, plus the pressure of local quotas, are necessary to obtain good results in the sale of bonds to nonbanking companies, associations, and funds of various kinds. Therefore, it is argued, the drive ought to be a consolidated one. A compromise suggestion is that we have a drive for individuals only for three weeks or so and then immediately on its conclusion announce supplementary quotas for sales of the same securities to nonbanking institutions.

Another criticism commonly made of former drives is that in some cases it seemed too easy to make quotas with large sales to corporations, with resulting relaxation of the effort required to do a job with individuals. Also it is mainly in connection with such sales that certain national corporations, for obvious reasons, have wanted to allocate credit to a great many different counties and communities. Such allocations have taken time and attention which might better be devoted to selling bonds to individuals. Accordingly, it has been suggested that offerings in the next drive might well be restricted to savings bonds and Treasury bonds and that the Treasury bonds might consist of a long-term $2\frac{1}{2}$ percent issue and a medium-term bond, 12 to 15 years, bearing interest at a rate between 2 and $2\frac{1}{2}$ percent, and, like the $2\frac{1}{2}$'s, made ineligible for commercial banks for a period of years. Proponents of this idea believe that offerings of certificates of indebtedness could be made successfully without quotas and that certificates might be offered to miscellaneous corporations and to commercial banks at the same time. Obviously any new approach adopted would require sensible consideration in fixing quotas.

We want the best advice we can get on these problems and shall welcome suggestions.

Finally, going back to the beginning of my talk and the review of financial events since your last meeting, no such review would be complete without reference to the fact that the Treasury's huge program of war financing, at the rate of a 230 million dollar offering every day, has been carried forward, not only without disturbance in the money market, but without interfering with an open and fairly active market in other securities, including quite a bit of new financing, mostly for refunding purposes, by municipalities and private enterprises. You are all pleasantly familiar with the particulars. It is significant evidence of our nation's financial strength that through all the upheavals of a global war now four years old, our stock exchanges and other securities markets have been open every business day. And from the standpoint of the general interest, it is well that investment banking and brokerage organizations are being maintained in healthy condition because they will be needed in the postwar period.

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for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on November 12, 1943 .
(7)

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, November 5, 1943 .
(1)

The Secretary of the Treasury, by this public notice, invites tenders for $ 1,000,000,000 (2), or thereabouts, of 90 (3) -day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated November 12, 1943 (4), and will mature February 10, 1944 (5), when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, November 8, 1943 (6). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, November 5, 1943.
11-4-43

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 90-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated November 12, 1943, and will mature February 10, 1944, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, November 8, 1943. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from

any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on November 12, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended, by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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November 3, 1943

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39-36

STATUTORY DEBT LIMITATION
AS OF OCTOBER 31, 1943

Section 21 of the Second Liberty Bond Act, as amended, provided that the face amount of obligations issued under authority of that Act, "shall not exceed in the aggregate $210,000,000,000 outstanding at any one time."

The following table shows the face amount of obligations outstanding and the face amount which can still be issued under this limitation:

Total face amount that may be outstanding at any one time			$210,000,000,000
Outstanding as of October 31, 1943:			
Interest-bearing:			
Bonds -			
Treasury	$67,888,658,750		
Savings (Maturity value)*	32,218,138,500		
Depositary	391,554,250		
Adjusted Service	719,951,607	$101,218,303,107	
Treasury notes	27,396,846,050		
Certificates of Indebtedness	27,875,241,000		
Treasury Bills (Maturity value)	13,064,430,000	68,336,517,050	
		$169,554,820,157	
Matured obligations, on which interest has ceased		282,931,625	
Bearing no interest (U.S. Savings stamps)		197,942,206	170,035,693,988
Face amount of obligations issuable under above authority			$ 39,964,306,012

Reconcilement with Daily Statement of the United States Treasury
October 31, 1943

Total face amount of outstanding public debt obligations issued under authority of the Second Liberty Bond Act.		$170,035,693,988
Deduct, unearned discount on Savings bonds (difference between current redemption value and maturity value)		6,162,169,123
		163,873,524,865
Add other public debt obligations outstanding but not subject to the statutory limitation:		
Interest-bearing (Pre-War, etc.)	$195,942,720	
Matured obligations on which interest has ceased	7,953,575	
Bearing no interest	969,208,498	1,173,104,793
Total gross debt outstanding as of October 31, 1943		$165,046,629,658

*Approximate maturity value. Principal amount (current redemption value) according to preliminary public debt statement $26,055,969,377

November 5, 1943

STATUTORY DEBT LIMITATION
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39-36

equity on the other, so as to keep the tax system relatively in balance. Vague talk about simplifying our tax laws is an inexpensive commodity and gets us nowhere. We must first decide what we want and then make what we want as simple as possible. Otherwise we shall be enslaved in our own contrivances. As William James ~~says~~ said, "Whatever works in the world of experience is good." Pragmatism isn't a bad tax philosophy.

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the fundamental principle upon which our tax structure is based. We have had enough experience with the special provisions which I have discussed to make it apparent that we need not let this concept rule as a despot. As you well know, every law and usage is man's general expedient to meet particular cases. The sum of many expedients has given us both greater equity and greater complexity. Justification for complexity must be found in the inequities which we thereby seek to cure. Complexity carried beyond proper bounds may become an inequity in itself. On the other hand, simplicity may destroy more than it fulfills.

To borrow from the world of physics, our problem is to fix the position of the fulcrum, the concept of the taxable year, at the proper distance from these two divergent forces, complexity on the one hand, and greater

equity on the

not a tax problem. The tax statute cannot do everything. It cannot even by a reduction of tax rates -- which in some instances is the concealed purpose underlying the desire for deductible reserves -- put corporations in a strong cash position after the war.

Conclusion

So much for the narrow subject of "The Annual Concept of Tax Accounting." One wants broader concepts for a conclusion. I must take the train now for Washington, and I should like to leave with you more than a slim technical message.

I have attempted to point out for you this evening some of the piers upon which our long bridge of tax law was built. It is obvious that in almost all problems related to taxation consideration must be given to the operation of the taxable year as a unit of time; it is

the fundamental

payments would first be offset against the claimed amount of refunds. Any excess of deferred payments would be collected with interest. On the other hand, it is proposed that payment of any balance of refunds due would be accelerated.

The Commissioner would be obliged to make a tentative determination of the amount of refund due. This would be credited or refunded within the shortest possible time, possibly in from sixty to ninety days. Thereafter, the final determination of claims for refund would proceed in ordinary course; on ultimate readjustment the taxpayer would repay any erroneous refunds, or the government would pay any balance of refunds remaining unpaid.

Beyond this, the problem of liquidity is to a large degree one of war contract termination technique. That is

2. The extent of the postponement of these payments would be limited to the amount of the refunds of taxes that would result from the anticipated carry-backs.

3. A statement of the estimated amount of these losses or unused credits and of the resulting refunds would be required so that the reasonableness of the taxpayer's claim could be checked.

4. Where subsequent circumstances indicate that the ultimate collection of tax may be in jeopardy, the collection of deferred payments should be accelerated, or other measures should be taken to protect the revenue.

5. When the taxable year from which a carry-back is anticipated is completed, the usual return would be filed and a precise computation of the refunds to be claimed could then be made. The amount of the deferred

payments would

However, the Treasury is anxious to insure the liquidity of business after the war so that there may be a rapid conversion of our economy to a peace basis. We want high peacetime production and a high level of employment. To that end we suggested recently that----

1. If, for any taxable year beginning prior to the expiration of some reasonable postwar period, a corporate taxpayer anticipates the realization of a net operating loss or the existence of an unused excess profits credit which could ultimately be used as a carry-back against the taxable income of the two prior years, it may apply for complete or partial deferment of the quarterly tax payments due in that year with respect to the preceding year's taxable income and also of any payments of deficiencies in tax which are due.

2. The extent of

for conversion to peacetime operations, and to provide working capital needed to carry on peacetime employment and production, they reflect a generally liquid condition.

Before this audience I hesitate to go through the motions of replying to the second argument --that reserves will solve the liquidity problem. You know that all the reserves in the world will not make a corporation liquid. Liquidity depends not on the <u>liability</u> side of the balance sheet where reserves are entered but on the <u>asset</u> side. The crux of the problem is: In what are the assets invested? If they are invested in brick and mortar, there will not be liquidity no matter how many reserves appear on the liability side. If they are invested in cash, the corporation is liquid with or without reserves on the liability side.

However, the

1942 according to an estimate ~~appearing in the Survey of~~ prepared by The Securities and Exchange Commission. ~~Current Business. 1/~~ If ~~this~~ the accumulation of liquid assets ~~should continue in~~ in the first half of 1943 ~~as in 1942,~~ should continue through the year, the total increase would be ~~[illegible]~~ $25 billion for the three years 1941, 1942 and 1943. A study just released by the Federal Reserve Board indicates that business deposits, ~~mostly~~ both corporate and non-corporate, totalled ~~$[illegible] million~~ $30 billion on July 31, 1943. 1/ ~~2/~~ While all of these deposits would not be fully available

for conversion

~~1/ E. T. Weiler "Wartime Savings and Postwar Inflation." Survey of Current Business, July 1943.~~

1/ ~~2/~~ "Statistics of Deposit Ownership." Federal Reserve Bulletin, October 1943.

have been earned and retained, such additions do not, of course, guarantee that the corporation will be in a liquid position. The earnings may have been reinvested in fixed plants, inventories, or receivables. Such assets cannot be used for meeting the expenses of transition to peacetime operation. Liquid assets are necessary for this purpose.

It appears, however, that the liquid asset position of corporations as a whole has improved in recent years and that liquid assets have risen even faster than retained earnings. ~~All~~ Non-financial corporations increased their holdings of currency, bank deposits, and United States Government securities by ~~$13~~ $12 billion during the two years 1941 and

1942 according

that difficulty. The available facts suggest that corporations in general will be in very good financial position after the war. An important measure of financial condition is the ability to increase surplus from profits. Estimates indicate that after paying increased taxes and substantial dividends the profit-making corporations of America will retain an aggregate net income for the years 1941, 1942, and 1943 of $15.5 billion, or 2½ times the amounts retained during the prewar years 1936-1939. To this amount we may add $6.9 billion for the year 1944. This is a phenomenal record.

While additions to surplus indicate that profits

have been earned

the bush in the form of a promise from his Government to return the money at a later date when it can be known how much should be returned.

The Problem of Liquidity

Still another argument is made for reserves. They are urged as an expedient making for liquidity after the war. Some pessimists say that business will not be in a cash position after the war to make the expenditures necessary to keep employment at a high level and to convert the economy from a war to a peace basis. They urge that the allowance of reserves now will put cash into the corporate tills later.

This argument rests on two assumptions: first, that corporations will be in a strained cash position after the war, and second, that the use of reserves will cure

that difficulty.

return, but it circumvents a great deal of reopening that would occur under the reserve plan where business firms honestly anticipated during the war that they were going to have postwar expenses attributable to war income, but later did not experience them.

Basically then, the Treasury and the advocates of the reserve technique differ primarily on the simple question ~~of~~ whether it is better to allow the deduction of postwar expenses on an estimated basis as we go along through the war, or to defer the deduction of the expenses until anticipation becomes reality. The effect of the reserve technique is to keep estimated expense money in the pocket of the taxpayer. He has a bird in the hand. He may prefer a bird in the hand to perhaps two birds in

the bush

The Treasury has the further objection that once an advance estimate has been made there will be a natural inclination to try to make postwar experience justify prophecy, and to stretch the classification of postwar outlays to make them fit the category of expenses attributable to the war. We are apprehensive that no stone would be left unturned to prove that the early estimate was not an overestimate.

In effect the Treasury has taken the position of wait and see, of waiting until the postwar year when the now unknown expense is actually incurred. Then if the expense is really due to the war, returns can be reopened and the expense can be put into the war period. Of course, this means reopening the earlier

return, but it

They do not know now how many workers will have to be discharged when the war ends, nor how much dismissal compensation it will be wise to pay. Any reserve now put upon the books will, therefore, inevitably shoot wide of the mark. It would be a miracle if some adjustment were not required.

How can that adjustment in reserves be made? Two methods are available. One method would be to correct the 1943 return after the event. This method is open to the objection that it would impede the final determination of tax liabilities. The other method is to treat unused reserves as income in 1945. This method is open to the objection from the Government viewpoint that it transfers income from a year of high rates to a year of low rates.

The Treasury

Postwar Reserves

The solution commonly suggested in business circles is the postwar reserve. Under this plan the corporation, making out its 1943 return in 1944, will estimate the amount of dismissal compensation to be paid in 1945. That estimated amount will be deducted as a reserve. The return for 1943 will show figures something like this:

Income from sales	$1,000,000
Ordinary expenses	800,000
Reserve for postwar dismissal compensation	100,000
Net profit for 1943	100,000

It is inconceivable that directors may guess in 1944 the amount of dismissal compensation and other postwar expense which will have to be paid under the conditions obtainable in 1945, or perhaps later.

be deducted. The question is: in what year should the expense be deducted? Upon the answer to this question depends the amount of relief that should be obtained.

If we assume that this expense should be applied as a deduction against 1943 income, the question becomes one of technique. How may 1945 expense be applied against 1943 income? It has not yet been incurred; its amount is not known. It is even conceivable that the officers of the corporation have been chasing rainbows. They may ultimately prefer to have the deduction in 1945.

This expense will not actually occur until the war is over, let us say, in 1945. If the tax laws are left as they now are, leaving carrybacks out of the equation for the moment, this dismissal compensation will be deductible expense in 1945. It will reduce income subject to tax in 1945 under the rates applicable for that year. The business man's concern is that since tax rates in 1945 may well be much lower than those in force in 1943, the relief he will obtain from the deduction of this dismissal compensation in 1945 will be less than would result from a 1943 deduction. It may well be in the business man's interest to have the dismissal compensation expense moved back and made deductible in 1943 when rates were higher. The issue is not <u>whether</u> the expense should

be deducted.

this suggestion has been so widely discussed, it may be helpful to reduce it to very simple terms. Suppose a corporation with large war contracts was receiving a gross income of $1,000,000 in 1943. Its ordinary expenses for 1943 amount to $800,000. This leaves an apparent profit of $200,000. I use the word "apparent" because the profit may in part be illusory. Taking dismissal compensation merely as an example of postwar expenditures, suppose the management of a corporation believes that at the end of the war the corporation will have to discharge a considerable number of workers. It may be obliged, or it may desire, to pay these workers dismissal wages, -- such as a lump sum of $100 to each employe who has been employed for a certain length of time, or perhaps 1 percent of the wages paid to each employe during the war.

Problems of The Postwar Period

In 1942 victory was a distant hope, but now the question of victory has changed from <u>if</u> to <u>when</u>. The post war world is moving toward us. It is, therefore, natural that business should focus its attention more sharply upon the postwar period. What will be done about the expenses of reconversion of plants? What will be done about dismissal compensation? What will be done about inventory declines? What will be done about postponed maintenance expense? Suppose these expenses should fall into a year of low profits or a year of losses. These questions have led some people to believe that we need to go further than ever before in the direction of obliterating the distinction between taxable years.

One remedy for dealing with this postwar tax problem is the allowance of a reserve deduction. Since

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with the whole or any part of the excess profits credit which has not been utilized in the current year.

These two provisions -- the loss carryback and the unused excess profits credit provisions -- in net effect accomplish a five-year averaging of income.

The statute looks both backwards and forwards, a process which gives liberal recognition to most business cycles of normal length. Furthermore, the carryback provisions will facilitate the adjustment to the peacetime level of corporations with losses or drastically diminished profits. Taxes of such corporations for the two prior years may be reduced by the net operating loss carryback as well as the carryback of the unused current excess profits credit.

loss to be carried back and offset against the income of two previous years. ~~They~~ It must be carried back first to the second preceding year, and then to the immediately preceding year. ~~They~~ The loss must be used first as an offset against taxable excess profits, and second against normal profits. The entire income of the earliest of the three years involved in the equation must be exhausted before the unused loss balance may be carried forward against the income of the middle year.

In addition, Congress in the 1942 Act applied the principle of the carryback to the unused excess profits credit. Under this provision corporations in periods of declining profits are granted the opportunity of offsetting the excess profits net income of the two preceding years

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to a crash. Shortages became acute. Materials could not be purchased. Railroads said that they could not maintain their equipment unless critical materials could be allotted to them. Other concerns looked forward to a period of low incomes and high expenses in contrast to the existing period of high income and low expenses.

In 1942 business men dumped their woes in the laps of the Senate Finance Committee. That Committee soon realized that the problems put forward were more easily stated than solved. Taking maintenance as an example, no one could find any magic formula under which reserves for deferred maintenance could be calculated. After long debate it was decided to adopt a loss carryback provision.

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to taxpayers who render personal services over a period of years and receive payment in one year; this provision, as amended in the 1942 Act, is a boon to authors, attorneys, and artists. The statute also has special provisions for reporting income from long-term contracts and installment sales. This by no means exhausts the list of departures from conventional accounting methods.

The Carryback Provisions

I may now pass to more recent events -- events with which I have been closely associated. In 1942 it became apparent that the work of more than two decades had not sufficiently refined our statutory concept of the taxable year as a unit for the measurement of income. We were in the midst of war. Incomes were in violent fluctuation. At the moment they were high, but many people looked forward

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losses of one year to be applied in computing the net income of another year. The 1921 Act followed with a two-year carry-over of losses, and a similar provision remained in the revenue system for many years. The 1932 Act reduced the period of carry-over from two years to one year, and the National Industrial Recovery Act of 1933 eliminated the entire carry-forward provision. It was restored to the statute in 1939.

Since those halcyon days we have taken many steps in the direction of complexity in order to associate expenses with the income with which they are connected. We have also attempted in various ways to deal with the problem of bunched income. We have given special treatment for capital gains and losses. In 1939 we gave special treatment

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beyond what it would have been if base stock had been replaceable during the year. The 1942 Act therefore included a somewhat lengthy and involved amendment to cure this deficiency. The amendment in substance allows taxpayers using the last-in first-out method to replace liquidated stock in future years at the original inventory values, and to reopen the years of liquidation for the purpose of decreasing the net income by the difference between the inventory value and the replacement cost.

The Carry-Forward Provision

Another early recognition of the necessity of erasing dividing lines between statutory taxable years is found in the carry-forward provision. The 1918 Act, passed in a chaotic period of high tax rates, first allowed the net

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method was recognized specifically in the law, and even then its use was limited to taxpayers in certain trades. The 1939 Act made this method available to all taxpayers on appropriate types of inventories.

This flexibility, which our tax structure derives from the permission extended to the taxpayer to use any one of the various inventory methods, begets more refinements. In normal times the last-in first-out method works very well, but in 1942 many taxpayers found that in wartime this method had very serious defects. The stoppage of imports and the drastic priorities on domestic goods, all necessitated by a war-time economy, forced many taxpayers, who use this inventory method, to dip into their base stock. This would almost never happen in normal times. The liquidation of this base stock resulted in a bloated net income greatly

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Some of you may perhaps remember the introduction into the statute of the inventory method, the object of which is to distribute profits and losses accurately over the years. Early regulations issued on March 1, 1910, made provision for the use of inventory in connection with manufacturing and mercantile businesses. But after the 1913 Act was passed, there was considerable doubt as to whether inventories could be permitted on any basis other than cost. On December 19, 1917, the Treasury Department for the first time authorized the taking of inventory at cost or "cost or market, whichever is lower." Finally, in the 1918 Act, explicit authority was given to the Commissioner to permit the use of the inventory method. It was not until the Revenue Act of 1938 that the last-in first-out inventory

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a taxpayer who spends most of a year performing a contract at great expense, but who does not receive payment until the following year. Under the cash method he would be taxed in full upon the price received in the later year and his expenses of the earlier year might be useless to him as a deduction. This is basically the type of distortion of income which would be the common event if we did not have the accrual method. The purpose of that method, so far as taxes are concerned, is to eliminate the distortion of income resulting from a chance accumulation of receipts in a particular year. It permits the application of expenses, costs, and charges against the gross income attributable to them.

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The Accrual Method

It is hard to realize that for a time business lived, breathed, and even prospered, without the accrual method in our tax system. Yet for a period the cash method was revered as a sacred cow. It took three years to discover that it was virtually impossible for a business of any complexity to operate under the strict receipts and disbursements method of accounting; the accrual method was, therefore, born of necessity. Ordinary necessity in 1916 has become imperious necessity today. Take the case of

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or from both combined, provided it be understood to include profit gained through sale or conversion of capital assets." You may take your choice of these two definitions, but you have no choice but to include the time element. As you know, an income statement inherently involves a period of time. It is unlike a balance sheet, which represents financial position at a single point of time. A balance sheet is static. An income statement is dynamic. It portrays motion -- the flow of income.

The 1913 Act adopted the calendar year as the period by which to measure the flow of income. No one then suggested a different period, such as the fiscal year. No one suggested the many refinements that were to follow as the need of

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was not passed until October. It was a simple Act despite the fact that the seven pages of the 1909 Act had expanded into eighteen pages. In it the taxable year concept was applied with puritanical ardor. The tax was computed for each calendar year upon the basis of events occurring within the year and without reference to the experience of other years. No variation was permitted under any circumstances.

Concept of the Taxable Year

It was natural that in the 1913 Act Congress should adopt the concept of the taxable year as a unit of time. Income has been defined from the economic standpoint as the "value of the net accretion to economic power between two points of time". From the legal standpoint it has been defined as being "the gain derived from capital, from labor,

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were only at the morning star. A few years previously the Supreme Court had declared a two-percent income tax unconstitutional. Before the Supreme Court an eminent member of the Bar called the principles upon which the Act was defended "communistic, socialistic and populistic". He argued that it was confiscatory. It seems incredible in these days that anyone could call a two-percent rate confiscatory. It is not so hard to imagine that today's 90-percent rate could be confiscatory if we were not extremely careful in our definition of taxable income.

Apparently even in the calm pre-World War I atmosphere income tax statutes were not built in a day. Although the 16th Amendment took effect early in the year 1913, the acceptance of its benefits was not immediate; the 1913 Act

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Origin of First Income Tax Law

Suppose for a moment that we turn the clock back. Most of you will not remember the humble origin of our first [redacted] income tax law. The rates were low and the sections [redacted] few. In retrospect it looks as simple as A B C. I often wonder whether the 16th Amendment would have been ratified in the period ending with the fateful date of February 23, 1913, if the public had known what the future held in store. Then we thought we were at the meridian, but now we know that we

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know that the public is surfeited with complexities. But being in favor of simplification is like being against sin. Like many other terms in the law, "simplification" has little meaning. It has little meaning because it has too much meaning. As Judge Frank has said: "Words are invaluable implements. But they are merely perfected pointers, substitutes for the index finger. If you point a finger or a word at nothing, your pointing will not convert the nothing into something; talking of an eight-legged monkey with scales and fins will not bring such a quaint creature into existence; and if an object which you name is existent but vague, its vagueness will not vanish under the spell of the name no matter how precise". We need then to pin down the idea

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accounting has a great deal to do with simplification. That is because it is a factor which leads to complexity. Now there is nothing more simple than the cash receipts and disbursements method. But when we progress to the refinements with which I shall attempt to deal this evening, we are moving away from simplicity in the direction of complexity. These days it is important to keep moving, but it is even more important to keep moving in the right direction. I do not say that in moving away from simplicity we are moving in the wrong direction. The Treasury and business are sometimes agreed that a certain degree of complexity is legitimate, that it is even desirable when the outcome is a compensating equity.

Everyone is talking about tax simplification these days. Some of the discussion has more heat than light. We all

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The Annual Concept of Tax Accounting

My subject this evening is "The Annual Concept of Tax Accounting". If I had an audience that knew less about that subject, I should apologize for its lack of glamor. However, since you are wise in the ways of tax accounting, my apology will be directed to the inadequacy of what I can say to you. I am neither an economist nor an accountant. Perhaps that is why I have the temerity to venture where better men than I might fear to tread.

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I should like to steal up on my subject by first saying a few words about tax simplification. You may ask what tax simplification has to do with the annual concept of tax accounting. My answer is that the annual concept of tax

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Taxpayers have never fully appreciated the generosity of the carryback provisions. They permit a net operating loss to be carried back and offset against the income of two previous years. It must be carried back first to the second preceding year, and then to the immediately preceding year. The loss must be used first as an offset against taxable excess profits, and second against normal profits. The entire income of the earliest of the three years involved in the equation must be exhausted before the unused loss balance may be carried forward against the income of the middle year.

In addition, Congress in the 1942 Act applied the principle of the carry-back to the unused excess profits credit. Under this provision corporations in periods of declining profits are granted the opportunity of offsetting the excess profits net income of the two preceding years with the whole or any part of the excess profits credit which has not been utilized in the current year.

These two provisions -- the loss carryback and the unused excess profits credit provisions -- in net effect accomplish a five-year averaging of income.

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One remedy for dealing with this postwar tax problem is the allowance of a reserve deduction. Since this suggestion has been so widely discussed, it may be helpful to reduce it to very simple terms. Suppose a corporation with large war contracts was receiving a gross income of $1,000,000 in 1943. Its ordinary expenses for 1943 amount to $800,000. This leaves an apparent profit of $200,000. I use the word "apparent" because the profit may in part be illusory. Taking dismissal compensation merely as an example of postwar expenditures, suppose the management of a corporation believes that at the end of the war the corporation will have to discharge a considerable number of workers. It may be obliged, or it may desire, to pay these workers dismissal wages, -- such as a lump sum of $100 to each employe who has been employed for a certain length of time, or perhaps 1 percent of the wages paid to each employe during the war.

This expense will not actually occur until the war is over, let us say, in 1945. If the tax laws are left as they now are, leaving carrybacks out of the equation for the moment, this dismissal compensation will be deductible expense in 1945. It will reduce income subject to tax in 1945 under the rates applicable for that year. The business man's concern is that since tax rates in 1945 may well be much lower than those in force in 1943, the relief he will obtain from the deduction of this dismissal compensation in 1945 will be less than would result from a 1943 deduction. It may well be in the business man's interest to have the dismissal compensation expense moved back and made deductible in 1943 when rates were higher. The issue is not whether the expense should be deducted. The question is: in what year should the expense be deducted? Upon the answer to this question depends the amount of relief that should be obtained.

If we assume that this expense should be applied as a deduction against 1943 income, the question becomes one of technique. How may 1945 expense be applied against 1943 income? It has not yet been incurred; its amount is not known. It is even conceivable that the officers of the corporation have been chasing rainbows. They may ultimately prefer to have the deduction in 1945.

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The solution commonly suggested in business circles is the postwar reserve. Under this plan the corporation, making out its 1943 return in 1944, will estimate the amount of dismissal compensation to be paid in 1945. That estimated amount will be deducted as a reserve. The return for 1943 will show figures something like this:

Income from sales	$1,000,000
Ordinary expenses	800,000
Reserve for postwar dismissal compensation	100,000
Net profit for 1943	100,000

It is inconceivable that directors may guess in 1944 the amount of dismissal compensation and other postwar expense which will have to be paid under the conditions obtainable in 1945, or perhaps later. They do not know now how many workers will have to be discharged when the war ends, nor how much dismissal compensation it will be wise to pay. Any reserve now put upon the books will, therefore, inevitably shoot wide of the mark. It would be a miracle if some adjustment were not required.

How can that adjustment in reserves be made? Two methods are available. One method would be to correct the 1943 return after the event. This method is open to the objection that it would impede the final determination of tax liabilities. The other method is to treat unused reserves as income in 1945. This method is open to the objection from the Government viewpoint that it transfers income from a year of high rates to a year of low rates. The Treasury has the futher objection that once an advance estimate has been made there will be a natural inclination to try to make postwar experience justify prophecy, and to stretch the classification of postwar outlays to make them fit the category of expenses attributable to the war. We are apprehensive that no stone would be left unturned to prove that the early estimate was not an overestimate.

In effect the Treasury has taken the position of wait and see, of waiting until the postwar year when the now unknown expense is actually incurred. Then if the expense is really due to the war, returns can be reopened and the expense can be put into the war period. Of course, this means reopening the earlier return, but it circumvents a great deal of reopening that would occur under the reserve plan where business firms honestly anticipated during the war that they were going to have postwar expenses attributable to war income, but later did not experience them.

Basically then, the Treasury and the advocates of the reserve technique differ primarily on the simple question whether it is better to allow the deduction of postwar expenses on an estimated basis as we go along through the war, or to defer the deduction of the expenses until anticipation becomes reality. The effect of the reserve technique is to keep estimated expense money in the pocket of the taxpayer. He has a bird in the hand. He may prefer a bird in the hand to perhaps two birds in the bush in the form of a promise from his Government to return the money at a later date when it can be known how much should be returned.

The Problem of Liquidity

Still another argument is made for reserves. They are urged as an expedient making for liquidity after the war. Some pessimists say that business will not be in a cash position after the war to make the expenditures necessary to keep employment at a high level and to convert the economy from a war to a peace basis. They urge that the allowance of reserves now will put cash into the corporate tills later.

This argument rests on two assumptions: first, that corporations will be in a strained cash position after the war, and second, that the use of reserves will cure that difficulty. The available facts suggest that corporations in general will be in very good financial position after the war. An important measure of financial condition is the ability to increase surplus from profits. Estimates indicate that after paying increased taxes and substantial dividends the profit-making corporations of America will retain an aggregate net income for the years 1941, 1942, and 1943 of $15.5 billion, or $2\frac{1}{2}$ times the amounts retained during the prewar years 1936-1939. To this amount we may add $6.9 billion for the year 1944. This is a phenomenal record.

While additions to surplus indicate that profits have been earned and retained, such additions do not, of course, guarantee that the corporation will be in a liquid position. The earnings may have been reinvested in fixed plants, inventories, or receivables. Such assets cannot be used for meeting the expenses of transition to peacetime operation. Liquid assets are necessary for this purpose.

It appears, however, that the liquid asset position of corporations as a whole has improved in recent years and that liquid assets have risen even faster than retained earnings. Non-financial corporations increased their holdings of currency, bank deposits, and United States Government securities by $12 billion during the two years 1941 and 1942 according to an estimate prepared by the Securities and Exchange Commission. If the accumulation of liquid assets in the first half of 1943 should continue through the year, the total increase would be $25 billion for the three years 1941, 1942 and 1943. A study just released by the Federal Reserve Board indicates that business deposits, both corporate and non-corporate, totalled $30 billion on July 31, 1943. 1/ While all of these deposits would not be fully available for conversion to peacetime operations, and to provide working capital needed to carry on peacetime employment and production, they reflect a generally liquid condition.

Before this audience I hesitate to go through the motions of replying to the second argument -- that reserves will solve the liquidity problem. You know that all the reserves in the world will not make a corporation liquid. Liquidity depends not on the liability side of the balance sheet where reserves are entered but on the asset side. The crux of the problem is: In what are the assets invested? If they are invested in brick and mortar, there will not be liquidity no matter how many reserves appear on the liability side. If they are invested in cash, the corporation is liquid with or without reserves on the liability side.

However, the Treasury is anxious to insure the liquidity of business after the war so that there may be a rapid conversion of our economy to a peace basis. We want high peacetime production and a high level of employment. To that end we suggested recently that----

1. If, for any taxable year beginning prior to the expiration of some reasonable postwar period, a corporate taxpayer anticipates the realization of a net operating loss or the existence of an unused excess profits credit which could ultimately be used as a carryback against the taxable income of the two prior years, it may apply for complete or partial deferment of the quarterly tax payments due in that year with respect to the preceding year's taxable income and also of any payments of deficiencies in tax which are due.

2. The extent of the postponement of these payments would be limited to the amount of the refunds of taxes that would result from the anticipated carrybacks.

3. A statement of the estimated amount of these losses or unused credits and of the resulting refunds would be required so that the reasonableness of the taxpayer's claim could be checked.

4. Where subsequent circumstances indicate that the ultimate collection of tax may be in jeopardy, the collection of deferred payments should be accelerated, or other measures should be taken to protect the revenue.

5. When the taxable year from which a carryback is anticipated is completed, the usual return would be filed and a precise computation of the refunds to be claimed could then be made. The amount of the deferred

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1/ "Statistics of Deposit Ownership." Federal Reserve Bulletin, October 1943.

payments would first be offset against the claimed amount of refunds. Any excess of deferred payments would be collected with interest. On the other hand, it is proposed that payment of any balance of refunds due would be accelerated.

The Commissioner would be obliged to make a tentative determination of the amount of refund due. This would be credited or refunded within the shortest possible time, possibly in from sixty to ninety days. Thereafter, the final determination of claims for refund would proceed in ordinary course; on ultimate readjustment the taxpayer would repay any erroneous refunds, or the Government would pay any balance of refunds remaining unpaid.

Beyond this, the problem of liquidity is to a large degree one of war contract termination technique. That is not a tax problem. The tax statute cannot do everything. It cannot even by a reduction of tax rates -- which in some instances is the concealed purpose underlying the desire for deductible reserves -- put corporations in a strong cash position after the war.

Conclusion

So much for the narrow subject of "The Annual Concept of Tax Accounting." One wants broader concepts for a conclusion. I must take the train now for Washington, and I should like to leave with you more than a slim technical message.

I have attempted to point out for you this evening some of the piers upon which our long bridge of tax law was built. It is obvious that in almost all problems related to taxation consideration must be given to the operation of the taxable year as a unit of time; it is the fundamental principle upon which our tax structure is based. We have had enough experience with the special provisions which I have discussed to make it apparent that we need not let this concept rule as a despot. As you well know, every law and usage is man's general expedient to meet particular cases. The sum of many expedients has given us both greater equity and greater complexity. Justification for complexity must be found in the inequities which we thereby seek to cure. Complexity carried beyond proper bounds may become an inequity in itself. On the other hand, simplicity may destroy more than it fulfills.

To borrow from the world of physics, our problem is to fix the position of the fulcrum, the concept of the taxable year, at the proper distance from these two divergent forces, complexity on the one hand, and greater equity on the other, so as to keep the tax system relatively in balance. Vague talk about simplifying our tax laws is an inexpensive commodity and gets us nowhere. We must first decide what we want and then make what we want as simple as possible. Otherwise we shall be enslaved in our own contrivances. As William James said, "Whatever works in the world of experience is good." Pragmatism isn't a bad tax philosophy.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 9, 1943.

Press Service
39-38

The Secretary of the Treasury announced last evening that the tenders for $1,000,000,000, or thereabouts, of 90-day Treasury bills to be dated November 12, 1943, and to mature February 10, 1944, which were offered on November 5, were opened at the Federal Reserve Banks on November 8.

The details of this issue are as follows:

Total applied for - $1,247,105,000
Total accepted - 1,004,665,000 (includes $75,587,000 entered on a fixed-price basis at 99.905 and accepted in full)

Range of accepted bids:

High	- 99.915	Equivalent rate of discount approx.	0.340% per annum
Low ~~(competitive basis)~~	- 99.906	" " " " "	0.376% " "
Average price	- 99.906+	" " " " "	0.3757% " "

(90 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 21,990,000	$ 16,220,000
New York	787,491,000	641,612,000
Philadelphia	37,225,000	15,945,000
Cleveland	43,493,000	35,290,000
Richmond	31,015,000	22,960,000
Atlanta	11,185,000	8,190,000
Chicago	150,909,000	129,459,000
St. Louis	27,440,000	17,460,000
Minneapolis	25,145,000	21,005,000
Kansas City	17,605,000	15,269,000
Dallas	10,412,000	7,500,000
San Francisco	83,195,000	73,755,000
TOTAL	$1,247,105,000	$1,004,665,000

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 9, 1943.
11-8-43

Press Service
No. 39-38

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Dallas	10,412,000	7,500,000
San Francisco	83,195,000	73,755,000
TOTAL	$1,247,105,000	$1,004,665,000

The Secretary indicated his belief that the next Loan should place even greater emphasis upon subscriptions from individuals. He pointed out that despite the heavy oversubscription of the Third Loan, that only half of the people were reached directly.

"Of course that fact also has its bright side", he added. "We have those potential customers to work on next time."

Daniel W. Bell, Undersecretary of the Treasury, followed Mr. Morgenthau with a discussion of the general fiscal situation. He indicated that the meetings under way with Loan Committee executives might permit an announcement late this month of the date, amount, and securities "basket" for the Fourth Loan.

Ted R. Gamble, National Director of the War Finance Division of the Treasury, is presiding at the discussions, and introduced Secretary Morgenthau.

The Treasury Secretary told the meeting that on his recent tour of the Mediterranean front he found a keen interest on the part of the military forces, from the generals on down to the men, in the success of the home front financing program. He said that arrangements would be made to keep the fighting men informed currently on the progress of the next Loan. Mr. Morgenthau said the military authorities felt that these Loans brought the war home to the American people in a way constituting an important contribution to the War, in addition to meeting the financial needs of the Government.

The Secretary revealed that he had evidence that the Germans still are discounting the United States war effort. He said uncensored mail taken from German prisoners in Italy showed that the German people at home were worried about two things -- the Russian victories and the bombing of their cities from the west.

"They don't take us seriously, yet."

He said the enemy apparently recently had lifted censorship on mail from Germany to the fighting front, but he was unable to explain why.

Mr. Morgenthau praised the state committee representatives for what he termed the marvelous accomplishments of the Third War Loan. He said the organization of the selling effort along state lines had paid big dividends, and that the successful campaign had convinced most of the skeptics of the soundness of the voluntary plan of enlisting savings.

Secretary Morgenthau today told War Finance Committee Chairmen assembled here from throughout the United States that he heard no peace talk from the fighting men facing the stubborn German foe in the mountains of Central Italy.

Mr. Morgenthau told the committeemen frankly that he returned from the battle front pessimistic in regard to the duration of the conflict, only to find in this country a wave of optimistic predictions of an early peace.

He said he recognized that this optimism might constitute a problem in the prosecution of the Fourth War Loan, tentatively scheduled for January, but that he was not sure whether the effect would be harmful or helpful. He said that the surrender of Italy during the Third War Loan in September had caused some temporary confusion in the selling effort.

"We have to get so much money. We can't be watching every peace move as long as the war is as bloody as it is. We must prepare for the Fourth War Loan by tending to our business of raising this money, and let others worry about peace moves," Mr. Morgenthau told the State representatives.

"I am not worried about the result."

The fifty-one chairmen of various State War Finance Committees are meeting here with Treasury officials to make plans for the Fourth War Loan. The sessions at the Statler Hotel will continue through Wednesday.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, November 9, 1943

Press Service
No. 39-39

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Press Service
39-40

FOR IMMEDIATE RELEASE,
Wednesday, November ~~9~~ 10 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

Country of Production	Quota Quantity (Pounds) 1/	Authorized for entry for consumption As of (Date)	Authorized for entry for consumption (Pounds)
Signatory Countries:			
Brazil	1,353,183,480	Oct. 30, 1943	110,139,548
Colombia	458,336,340	"	54,897,597
Costa Rica	29,100,720	"	1,620,560
Cuba	11,640,288	"	1,109,396
Dominican Republic	17,460,432	"	2,285,796
Ecuador	21,825,540	"	4,806,467
El Salvador	87,302,160	"	787,587
Guatemala	77,844,426	"	412,724
Haiti	40,013,490	"	1,379,312
Honduras	2,910,072	"	420,402
Mexico	69,114,210	"	1,554,404
Nicaragua	28,373,202	"	-
Peru	3,637,590	"	59,587
Venezuela	61,111,512	"	2,204,542
Non-signatory Countries:	51,653,778	"	1,992,989

1/ Quotas as established by action of the Inter-American Coffee Board on March 11, 1943.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, November 10, 1943.

Press Service
No. 39-40

The Bureau of Customs announced today preliminary figures showing the quantities of coffee authorized for entry for consumption under the quotas for the 12 months commencing October 1, 1943, provided for in the Inter-American Coffee Agreement, proclaimed by the President on April 15, 1941, as follows:

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COTTON CARD STRIPS,[2] COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE. Annual quotas commencing September 20, by Countries of Origin:

Total quota, provided, however, that not more than 33-1/3 percent[2] of the quotas shall be filled by cotton wastes other than card strips[2] and comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany and Italy:

(In Pounds)

Country of Origin	Established TOTAL QUOTA	TOTAL IMPORTS Sept. 20, 1943 Oct. 30, 1943	ESTABLISHED 33-1/3% of Total Quota	Imports Sept. 20, 1943, to Oct. 30, 1943 1/
United Kingdom........	4,323,457	-	1,441,152	-
Canada..............	239,690	-	-	-
France..............	227,420	-	75,807	-
British India.......	69,627	-	-	-
Netherlands.........	68,240	-	22,747	-
Switzerland.........	44,388	-	14,796	-
Belgium.............	38,559	-	12,853	-
Japan...............	341,535	-	-	-
China...............	17,322	-	-	-
Egypt...............	8,135	-	-	-
Cuba................	6,544	-	-	-
Germany.............	76,329	-	25,443	-
Italy...............	21,263	-	7,088	-
TOTALS	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

2/ The President's proclamation, signed March 31, 1942, exempts from import quota restrictions card strips made from cottons having a staple 1-3/16 inches or more in length.

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FOR IMMEDIATE RELEASE,
November 9, 1943.

39-41

The Bureau of Customs announced today that preliminary reports from the collectors of customs show imports of cotton and cotton waste chargeable to the import quotas established by the President's proclamations of September 5, 1939, and December 19, 1940, as follows, during the period September 20, 1943, to October 30, 1943:

COTTON HAVING A STAPLE OF LESS THAN 1-11/16 INCHES (OTHER THAN HARSH OR ROUGH COTTON OF LESS THAN 3/4 INCH IN STAPLE LENGTH AND CHIEFLY USED IN THE MANUFACTURE OF BLANKETS AND BLANKETING, AND OTHER THAN LINTERS). Annual quotas commencing September 20, by Countries of Origin:

(In Pounds)

Country of Origin	Staple length less than 1-1/8": Established Quota	Staple length less than 1-1/8": Imports Sept. 20, 1943, to Oct. 30, 1943	Staple length 1-1/8" or more but less than 1-11/16": Established Quota 45,656,420	Staple length 1-1/8" or more but less than 1-11/16": Imports Sept. 20, 1943, to Oct. 30, 1943
Egypt and the Anglo-Egyptian Sudan........	783,816	-		7,752,393
Peru......................	247,952	73,576		248,653
British India..........	2,003,483	-		-
China..................	1,370,791	-		-
Mexico................	8,883,259	8,883,259		-
Brazil.................	618,723	410,330		-
Union of Soviet Socialist Republics...	475,124	-		-
Argentina.............	5,203	-		-
Haiti..................	237	-		-
Ecuador...............	9,333	-		-
Honduras..............	752	-		-
Paraguay..............	871	-		-
Colombia..............	124	-		-
Iraq..................	195	-		-
British East Africa.....	2,240	-		-
Netherlands East Indies.	71,388	-		-
Barbados..............	-	-		-
Other British West Indies 1/...........	21,321	-		-
Nigeria...............	5,377	-		-
Other British West Africa 2/...........	16,004	-		-
Other French Africa 3/.	689	-		-
Algeria and Tunisia.....	-	-		-
	14,516,882	9,367,165	45,656,420	8,001,046

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

TREASURY DEPARTMENT
Washington

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Barbados	-	-		-
Other British West Indies 1/	21,321	-		-
Nigeria	5,377	-		-
Other British West Africa 2/	16,004	-		-
Other French Africa 3/..	689	-		-
Algeria and Tunisia	-	-		-
	14,516,882	9,367,165	45,656,420	8,001,046

1/ Other than Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Other than Gold Coast and Nigeria.
3/ Other than Algeria, Tunisia, and Madagascar.

(Over)

COTTON CARD STRIPS, 2/ COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE. Annual quotas commencing September 20, by Countries of Origin:

Total quota, provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes other than card strips 2/ and comber wastes made from cottons of 1-3/16 inches or more in staple length in the case of the following countries: United Kingdom, France, Netherlands, Switzerland, Belgium, Germany and Italy:

(In Pounds)

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Netherlands	68,240	-	22,747	-
Switzerland	44,388	-	14,796	-
Belgium	38,559	-	12,853	-
Japan	341,535	-	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	-	25,443	-
Italy	21,263	-	7,088	-
TOTALS	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

2/ The President's proclamation, signed March 31, 1942, exempts from import quota restrictions card strips made from cottons having a staple 1-3/16 inches or more in length.

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Press Service 39-42

Wednesday FOR IMMEDIATE RELEASE,
November ~~9~~ 10, 1943.

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and wheat flour entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamations of April 13, 1942, and April 29, 1943, for the 12 months commencing May 29, 1943, as follows:

Country of Origin	WHEAT		Wheat flour, semolina, crushed or cracked wheat, and similar wheat products	
	Established Quota (Bushels)	Imports May 29, 1943, to Oct. 30, 1943 (Bushels)	Established Quota (Pounds)	Imports May 29, 1943 to Oct. 30, 1943 (Pounds)
Canada	795,000	795,000	3,815,000	180,230
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	180,230

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, November 10, 1943.

Press Service
No. 39-42

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	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	795,000	3,815,000	180,230
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
	800,000	795,000	4,000,000	180,230

-oOo-

Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Oct. 30, 1943
Silver or black foxes, furs, and articles: Foxes valued under $250 each and whole furs and skins	Period - May - Nov. 1943 All countries	33,229	Number	(Quota filled)
Tails	12 months from Dec. 1, 1942	5,000	Piece	463
Paws, heads, or other separated parts	"	500	Pounds	(Quota filled)
Piece plates	"	550	Pounds	-
Articles, other than piece plates	"	500	Unit	90

-oOo-

39-43

FOR IMMEDIATE RELEASE,
November 9, 1943

The Bureau of Customs announced today preliminary figures for imports of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to October 30, 1943, inclusive, as follows:

Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Oct. 30, 1943
Whole milk, fresh or sour	Calendar year	3,000,000	Gallon	5,985
Cream, fresh or sour	Calendar year	1,500,000	Gallon	782
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk and rosefish	Calendar year	17,804,128	Pound	14,138,811
White or Irish potatoes:	12 months from Sept. 15, 1943			
certified seed		90,000,000	Pound	4,547,600
Other		60,000,000	Pound	2,350,650
Red cedar shingles	Calendar year	2,506,072	Square	1,227,991
Cuban filler tobacco, unstemmed or stemmed (other than cigarette leaf tobacco), and scrap tobacco	Calendar year	22,000,000	Pound (unstemmed equivalent)	(Quota filled)
Molasses and sugar sirups containing soluble nonsugar solids equal to more than 6% of total soluble solids	Calendar year	1,500,000	Gallon	310,055

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, November 10, 1943.

Press Service
No. 39-43

The Bureau of Customs announced today preliminary figures for imports of commodities within quota limitations provided for under trade agreements, from the beginning of the quota periods to October 30, 1943, inclusive, as follows:

Commodity	Established Quota		Unit of Quantity	Imports as of Oct. 30, 1943
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(Over)

Commodity	Established Quota: Period and Country	Established Quota: Quantity	Unit of Quantity	Imports as of Oct. 30, 1943
Silver or black foxes, furs, and articles:				
Foxes valued under $250 each and whole furs and skins	Period - May - Nov. 1943 All countries	33,229	Number	(Quota filled)
Tails	12 months from Dec. 1, 1942	5,000	Piece	463
Paws, heads, or other separated parts	"	500	Pounds	(Quota filled)
Piece plates	"	550	Pounds	-
Articles, other than piece plates	"	500	Unit	90

-oOo-

work with our Allies to build a world of international peace, cooperation, and progress that will endure. This war must end in a just and lasting peace. Here in the presence of veterans of two world wars let us dedicate ourselves to that high purpose. Do we persevere, then we can truly say of those who fell in '17 and '18, of those who fell at Guadalcanal, Kasserine Pass, Salerno, and Naples -- they have not died in vain.

General Thomas, in behalf of the Secretary of the Treasury, Henry Morgenthau, Jr., through you I present the Treasury Award to the civilian employees of the Warner Rob~~b~~ins Air ~~Service Command.~~ Depot. I congratulate you and them upon an outstanding accomplishment and I extend to you all the heartfelt thanks of your Nation. I am confident that as each month rolls by you will break again and again the fine record you have thus far achieved.

****

Here at the Warner Robins Air ~~Service Command~~ Depot you exemplify the spirit of America. You have given your sons. At this largest Air Depot in the world where 10,000 service men and 17,000 civilians train, assemble, and overhaul our fighting aircraft, you are giving your toil. And here 92 per cent of the civilian employees have assigned to their Government through payroll allotment more than 10 per cent of their pay. You are doing a grand job -- but even a bigger job must be done.

You are America -- and the hope of the world. Toward you turn the pleading eyes of all civilization. Pray God we will be firm -- that we will see this job through. Let neither ~~the~~ fear of terrible sacrifices ~~yet to be made~~ nor the danger of too-sudden hope sway us from our course. And as our fighting men get the Japs and the Nazis on the run do not relax. That is the time to work harder, to save more, to lend your Government more, to hit the enemy with everything you've got.

And when that other long awaited Armistice arrives, I implore you to keep high your present resolve, that this Nation will continue to us could afford to lose, and you put everything you had into winning the fight.

You sent forth your sons. And on three continents, on the seven seas, and in the air all over the world the sons of Georgia have fought the fight for freedom with a gallantry worthy of the sons of Georgia.

You left your peace-time jobs to help manufacture the guns, the tanks, the ships, and the planes our fighting forces needed.

You knew that this was to be the costliest war in history, and promptly you proceeded to provide the financial sinews to wage war. Twenty-seven million working men and women have put an average of ten percent of their pay checks 52 weeks in the year at the disposal of their Government through the purchases of War Bonds. Literally thousands are alloting 15 and 20 percent. And 23 million other Americans -- not on payroll allotment -- are regularly buying Bonds too. And today the American people are more completely in partnership with their Government in financing this war than ever before. The American people are doing a grand job -- and doing it the democratic way.

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We began to raise and equip armies to meet the Nazis and the Japs. Well, we've met them, and we'll continue to meet them and beat them -- in Asia, in Africa, in Europe, or wherever we have to chase them. And sooner or later we'll catch them and crush them so completely that never again will tyranny dare to raise its hand or its voice against the free American people.

And today, less than two years since Pearl Harbor, Hitler and Hirohito quake in their boots, for they know the United Nations are on a march that will not stop short of victory parades in the streets of Berlin and Tokio. Today, the spokesmen of barbarism and oppression know that free men can never be conquered.

In less than two years you have raised this world from the depths of dispair to the threshold of victory. You, the American people, have done this. You knew that this was your war, too, and that nobody else was going to win it for you. You knew you had to win it yourselves, against a cruel, merciless enemy. You knew this was a fight none of

Poland, Norway, Denmark, Holland, Belgium, France and the Balkans, we were filled with disillusionment and the fear that perhaps we might be called upon once again to do thoroughly that which we had once done incompletely.

Two years ago today in this country we were of two minds. We heard the call, but we cringed from the consequences. Then came Pearl Harbor, and the events of that day of immortal infamy brought home to us all the depths to which civilization had fallen, and the danger in which everything we held dear had been placed. We were dazed, and staggered. We were not fully prepared, and we were scared.

But on the morning of December 8, 1941, 130 million people arose united in their determination that we must not only protect our own shores but that we must stamp out forever the forces of evil and corruption that, for the second time in a generation, had plunged this world into war.

We set forth to build the world's greatest Navy. We've built it.

We started to build and man an air force that would sweep the world's and hundreds of thousands of their comrades marched east passing the French poilus whose haggard eyes scanned the Western horizon of that Paris to which they were retiring. Chateau Thierry -- through the wheat and up the hill -- Toul, St.Mihiel, Soissons, Meuse-Argonne -- and, while star shells burst overhead and shrapnel shrieked its cry of death through the black night, these men crawled through the muck and mud to thrust cold steel into hostile flesh that liberty and justice might not perish from this earth. A final terrific onslaught and then, at the eleventh hour of the eleventh month twenty-five years ago today, a sudden deafening silence. And in that silence we knew America had succeeded -- that America had saved the world. But what we hailed in 1918 as a new era of peace we reluctantly came to recognize as a tragic interlude.

Twenty-years after the end of the war we hoped would save Democracy and end all wars we witnessed the fall of Austria. And as the forces of might and oppression gathered momentum and rolled over Czechoslovakia, I want you all to know how very happy I am to have this opportunity to meet here with you folks today. I am happy to meet the neighbors of a man who has distinguished himself in the National House of Representatives -- Congressman Stephen Pace. I am glad to enjoy the privilege of meeting you in the company of an old acquaintance who is adding lustre and stature to Georgia's representation at the Nation's Capitol -- Senator Dick Russell. And I'm grateful for this opportunity to express to you men and women of Georgia the high regard and deep affection in which the people of the other 47 States and the leaders of the Nation hold one of your native sons, -- a man whose statesmanship will endure forever, a man I am very proud to be able to call my friend -- Georgia's own Walter George.

We meet here today on a solemn anniversary. Twenty-five years ago this morning a world, tortured upon the rack of war, awoke to the vision of a new life. This vision came upon us suddenly and was created by Americans. Remember July 1918 and the panic as the Germans broke through almost to Paris? That was when these veterans who we see here today

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Monday, April 26, 1943.

Press Service
No. 36-84

awarding a Treasury War Bond "T" flag to the civilian personnel of the ~~Workers~~ Robins Field Air ~~Depot~~ Warner Robins, ~~Fla~~ Ga

(The following address by Assistant Secretary of the Treasury John L. Sullivan, ~~at the Second War Loan Rally, Holman Stadium, Nashua, New Hampshire,~~ is scheduled for delivery at ~~8~~ 4 p.m., Eastern War Time, ~~Sunday,~~ Thursday, ~~April 25,~~ November 11, 1943.)

~~You must all appreciate how really happy I am to be here today,~~

because you know how very much it means to a native son to come back to this New Hampshire of ours, to be again with New Hampshire people.

Our State has a glorious history to live up to, a great wartime tradition to uphold. We were one of the original 13 Colonies. It was a band of New Hampshire men who took the first firm step toward American freedom when they attacked Fort William and Mary in Portsmouth Harbor, and captured there the gunpowder that later, at Lexington, fired the first shot for American independence, "the shot heard 'round the world."

Here in our State, on the 15th of June 1776, the men and women of New Hampshire declared their independence of Britain, leading the way for the other States to follow nineteen days later when, on July 4th, 1776, they signed the Declaration of Independence.

Here, too, New Hampshire adopted the first constitutional form of civil government, again serving as a model for the other Colonies and for this new nation.

New Hampshire has been in every war this nation has fought -- and has been in them all the way.

So today we of New Hampshire are faithfully living up to our patriotic, war-like heritage as we meet here to take our part in this new great offensive. For this Second War Loan is nothing less than that -- a gigantic financial offensive -- a smashing attack against the enemy.

You know, and I know, that it will take more than mere dollars to win the war. It takes men -- men armed with courage and determination. But also it takes men armed with the guns and tanks, the planes and ships of modern warfare. And those things do take dollars -- billions of dollars.

That is where we come in. We cannot all fight in our nation's war. But our money can -- yours, mine, every American's.

37-44

TREASURY DEPARTMENT
Washington

(The following address by Assistant Secretary of the Treasury John L. Sullivan, awarding a Treasury War Bond "T" flag to the civilian personnel of the Robins Field Air Depot, [illegible], Warner Robins, Ga., is scheduled for delivery at 4 p.m., Eastern War Time, Thursday, November 11, 1943.)

I want you all to know how very happy I am to have this opportunity to meet here with you folks today. I am happy to meet the neighbors of a man who has distinguished himself in the National House of Representatives -- Congressman Stephen Pace. I am glad to enjoy the privilege of meeting you in the company of an old acquaintance who is adding lustre and stature to Georgia's representation at the Nation's Capitol -- Senator Dick Russell. And I'm grateful for this opportunity to express to you men and women of Georgia the high regard and deep affection in which the people of the other 47 States and the leaders of the Nation hold one of your native sons, -- a man whose statesmanship will endure forever, a man I am very proud to be able to call my friend -- Georgia's own Walter George.

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Two years ago today in this country we were of two minds. We heard the call, but we cringed from the consequences. Then came Pearl Harbor, and the events of that day of immortal infamy brought home to us all the depths to which civilization had fallen, and the danger in which everything we held dear had been placed. We were dazed, and staggered. We were not fully prepared, and we were scared.

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And when that other long awaited Armistice arrives, I implore you to keep high your present resolve, that this Nation will continue to work with our Allies to build a world of international peace, cooperation, and progress that will endure. This war must end in a just and lasting peace. Here in the presence of veterans of two world wars let us dedicate ourselves to that high purpose. Do we persevere, then we can truly say of those who fell in '17 and '18, of those who fell at Guadalcanal, Kasserine Pass, Salerno, and Naples -- they have not died in vain.

General Thomas, in behalf of the Secretary of the Treasury, Henry Morgenthau, Jr., through you I present the Treasury Award to the civilian employees of the Warner Robins Air Depot. I congratulate you and them upon an outstanding accomplishment and I extend to you all the heartfelt thanks of your Nation. I am confident that as each month rolls by you will break again and again the fine record you have thus far achieved.

oOo

Mrs. Ross suggested that where such coins have been acquired as savings that larger denominations or War Stamps or Bonds be substituted.

Mrs. Ross pointed out that the Mints have produced nearly three billion pennies during the past three years, into which went 10,000 tons of strategic metals. Some eleven billion one-cent coins have been produced, through the years, and only a relatively few have been returned to the Mints as unfit for further circulation.

Yet, despite the huge potential supply outstanding, demands for one-cent coins to meet business needs, as reflected in requisitions on the Treasury from the banks, has been in excess of production.

~~The Mint hopes to achieve a permanently increased turnover of outstanding coins, thus reducing consumption of metals needed for war.~~ It was the metals shortage that forced the Mint to turn to the unpopular zinc-coated steel penny. Recently, it was announced that production of the steel coin will terminate December 31. Arrangements have been made under a War Production Board allotment to utilize old cartridge cases and some new copper in a return to a copper alloy cent-piece.

-oOo-

TO:

Mr. Bell

Proposed Press Release.

Any suggestions, please?

We should like to handle it today, since New York papers today gave big play to shortage of pennies there.

This has been to Mrs. Ross.

Coffelt.

Mr. Schwarz

OK
DWB

Question last paragraph.
We don't see results unless
They are sent in
DWB

The Mint to[...]l coins, especially pennie[...]ts as a means of reduci[...] increase supplies of "chan[...]

School child[...]ntry are being called upon[...] work.

Letters have[...]ls and to college and uni[...] penny roundup. A simila[...] the schools released m[...]ollections at a time when sea[...]rtage. More coins than ev[...]hortages already are coming[...]

It is hoped that banks, newspapers and other business enterprises will aid in the drive.

Mrs. Nellie Tayloe Ross, Director of the Mint, revealed that twenty-five tons of essential metals are being consumed each day to meet calls for one-cent pieces alone. She asked the American people to accept as a wartime patriotic project the necessity for keeping small coins in circulation rather than permitting them to accumulate.

Mrs. Ross urged that one cent pieces particularly be used as they are received, in regular purchases at the stores, just as larger denominations of money are used. Coins should not be sent to the United States Mint, but should be put to work in one's own community.

39-45

The Mint today embarked on a nationwide drive to draw small coins, especially pennies, out of hiding and into the hands of merchants as a means of reducing metal-consuming demands for coinage and to increase supplies of "change" to meet the Christmas buying rush.

School children and youth organizations throughout the country are being called upon to lead in the efforts to put hoarded coins to work.

Letters have been sent out from the Mint to school principals and to college and university authorities asking cooperation in the penny roundup. A similar program last year conducted largely through the schools released millions of coins from home banks and similar collections at a time when seasonal business expansion threatened a coin shortage. More coins than ever are needed this year, and reports of penny shortages already are coming from some sections.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, November 11, 1943.

Press Service
No. 39-45

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[redacted]

for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on November 18, 1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, November 12, 1943 .

double

The Secretary of the Treasury, by this public notice, invites tenders for $**1,000,000,000**, or thereabouts, of **91** -day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated **November 18, 1943** , and will mature **February 17, 1944** , when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, **Monday, November 15, 1943** . Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal

(over)

39-46

TREASURY DEPARTMENT
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Friday, November 12, 1943.

The Secretary of the Treasury, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive and fixed-price bidding as hereinafter provided. The bills of this series will be dated November 18, 1943, and will mature February 17, 1944, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern War time, Monday, November 15, 1943. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, tenders for $100,000 or less from

any one bidder at 99.905 entered on a fixed-price basis will be accepted in full. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on November 18,1943.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Friday am's

39-47

Forty-three thousand posters, ~~14 x 20 inches in size,~~ notifying Americans who own foreign property that they are required to file reports describing their holdings before December 1~~st~~, were mailed by the Treasury today for display in the lobbies of every postoffice in the United States.

The poster, prepared in cooperation with the Office of War Information, states the government needs this information for immediate use by our occupational and military authorities and by the agencies which are waging economic warfare.

Those who own foreign bonds payable in American dollars, regardless of value, or any other kind of foreign property with a value of $10,000 or more, are advised they can procure the necessary TFR-500 report forms from their bankers, their nearest Federal Reserve Bank, or from Foreign Funds Control, Treasury Department, Washington, D. C. Willful failure to file is subject to criminal penalties, it is pointed out.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, November 12, 1943.

Press Service
No. 39-47

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$2,400 but not over $4,000, (c) 5 percent if the total compensation for the year 1941 was over $4,000 but not over $7,500.

Base salary for purposes of this statement means salary exclusive of bonuses and other forms of additional compensation.

#

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that no application for approval is necessary to pay bonuses for the bonus year 1943 or subsequent years if such bonuses meet any one of the following conditions:

1. If the employee's base salary has not been increased since October 3, 1942 (in the case of salaries of more than $5,000 per annum) or October 27, 1942 (in the case of salaries of $5,000 or less per annum), as the case may be, he may be paid a bonus which does not exceed the higher of the following amounts:

(a) The dollar amount paid for the employer's last accounting year ended prior to October 3, 1942, or (b) the dollar amount of a bonus authorized under the Salary Stabilization regulations for the employer's first accounting year ending after October 3, 1942, provided the bonus does not exceed 50 percent of the base salary.

2. If the employee's base salary has been increased since October 3, 1942, he may be paid a bonus not to exceed the same dollar amount of bonus paid him for the employer's first accounting year ending after October 3, 1942, provided the bonus does not exceed 20 percent of his present base salary.

3. If the employee has been paid regularly, in accordance with an established policy of the employer, a bonus based on a percentage of base salary, such bonus payment may be made, regardless of dollar amount, provided the percentage has not been changed since October 3, 1942 or October 27, 1942, as the case may be.

4. An employee may also be paid a bonus which, together with all other compensation for personal services, does not increase his total compensation for the current year over the total earned in the calendar year 1941 by more than (a) 15 percent if the total compensation for the year 1941 was $2,400 or less, (b) 10 percent if the total compensation for the year 1941 was over

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TREASURY DEPARTMENT
Washington

~~ADVANCE~~ RELEASE FOR Morning Newspapers
Sunday, November 14, 1943.

Press Service
No. 39-48

Robert E. Hannegan, Commissioner of Internal Revenue, ~~issued~~ today issued more comprehensive rules to guide employers in determining what bonus payments may be made to employees under his jurisdiction without formal application for approval under the Salary Stabilization Program.

~~Commissioner Hannegan explained that certain types of bonus payments may be made without the formality of filing applications for approval, while other types of bonus payments may be made only after obtaining the Commissioner's approval. The purpose of today's statement is to clarify the types of bonus payments which may be made by employers without prior approval.~~

Subject to certain limitations, the general effect of today's statement is to enable employers to pay bonuses without obtaining prior approval if the bonuses do not exceed amounts paid in the 1941-1942 period.

The bonus statement includes payments based on percentages of profits, percentages of salaries, percentages of sales by other employees (commonly called over-riding commissions) and similar percentage payments, but does not include ordinary commission payments to salesmen based on their own individual sales. In the case of commission payments to salesmen based on their own individual sales, Commissioner Hannegan has previously granted approval for the payment of any commissions earned through December 31, 1943, provided that the rate of commission and the amount of any other compensation has not been increased since October 2, 1942.

While today's statement outlined the conditions under which bonus payments may be made without prior approval, Commissioner Hannegan explained that other types of bonuses may also be paid if submitted to him for approval and receive his approval. The purpose of the statement is to advise employers

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, November 14, 1943.
11-12-43

Press Service
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While today's statement outlined the conditions under which bonus payments may be made without prior approval, Commissioner Hannegan explained that other types of bonuses may also be paid if submitted to him for approval and receive his approval. The purpose of the statement is to advise employers that no application for approval is necessary to pay bonuses for the bonus year 1943 or subsequent years if such bonuses meet any one of the following conditions:

1. If the employee's base salary has not been increased since October 3, 1942 (in the case of salaries of more than $5,000 per annum) or October 27, 1942 (in the case of salaries of $5,000 or less per annum), as the case may be, he may be paid a bonus which does not exceed the higher of the following amounts:

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4. An employee may also be paid a bonus which, together with all other compensation for personal services, does not increase his total compensation for the current year over the total earned in the calendar year 1941 by more than (a) 15 percent if the total compensation for the year 1941 was $2,400 or less, (b) 10 percent if the total compensation for the year 1941 was over $2,400 but not over $4,000, (c) 5 percent if the total compensation for the year 1941 was over $4,000 but not over $7,500.

Base salary for purposes of this statement means salary exclusive of bonuses and other forms of additional compensation.

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have <u>no</u> taxes, or <u>some</u> taxes, or <u>more</u> taxes than that. The question is whether we shall do everything possible to avoid inflation. I recognize that taxes cannot do the whole job. We need wage stabilization, rationing, price control, and other things. The fight on inflation is indivisible. I do not say that we can prevent runaway inflation. ~~It may be too late~~. But at this eleventh hour we still have a chance. I hope we will take that chance -- that we will grasp the nettle before it is too late.

released by the Federal Reserve Board indicates that business deposits, both corporate and non-corporate, totalled $30 billion on July 31, 1943. 1/ While all of these deposits would not be fully available for conversion to peacetime operations, and to provide working capital needed to maintain a high level of peacetime employment and production, it is hardly stretching a point to say that they reflect a generally liquid condition.

Conclusion

I hope the facts I have placed before you this evening make clear an issue which has become blurred in much discussion. Seldom are the outlines of an economic problem so black and white. The question is not whether we shall

have *no* taxes

1/ "Statistics of Deposit Ownership." *Federal Reserve Bulletin*, October 1943.

Corporate Cash Position

I have heard the argument that these high undistributed profits are invested in brick and mortar, and that they are not available as liquid funds to be used in post-war activity. However, recent studies show that liquid assets of corporations have risen even faster than retained earnings.

Non-financial corporations increased their holdings of currency, bank deposits, and United States Government securities by $12 billion during the two years 1941 and 1942 according to an estimate prepared by the Securities and Exchange Commission. If the accumulation of liquid assets in the first half of 1943 should continue at the present rate through the year, the total increase would be $25 billion for the three years 1941, 1942 and 1943. A study just

released by

for the year 1943. But taxes, even of this magnitude, have failed to keep up with the mad pace of increased earnings. For the year 1942 corporations will have left <u>after taxes</u> nearly $8.5 billion; and in 1943, nearly $9.2 billion. In 1937 they had left less than $4 billion.

Nor have our high war taxes substantially affected dividends paid. The average of dividends paid for the years 1936 to 1940 was $4.1 billion; the highest figure was $4.8 billion in the year 1937. For the years 1941, 1942, and 1943, dividends are estimated at $4.5 billion, $4.1 billion, and $4.0 billion respectively. Even after taxes and dividends are paid, the corporations of the country, including loss corporations, will have accumulated for the years 1942, 1943, and 1944 over $15 billion of undistributed corporate profits!

<u>Corporate Cash Position</u>

I have heard

<u>Corporate War Earnings</u>

The argument has been made that these increases drain life blood of corporations. This emotional argument ignores some startling figures which have been submitted to the Ways and Means Committee. Corporate profits (excluding dividends received) will reach the estimated level of $22.6 billion for the calendar year 1943. The estimate for 1944 is $24.5 billion. These profits are more than four times corporate profits for the year 1937, which was one of the most prosperous years of the Thirties.

Taxes have also risen, it is true; they have been multiplied many times. Total corporate liabilities for income and excess-profits taxes, amounted to slightly over $1-1/4 billion for 1937. They have climbed to $13-1/2 billion

for the

Increased Corporate Taxes

The Secretary's recommendations to the Ways and Means Committee included additional corporate taxes of $1.1 billion. The proposal was that the surtax rate of small corporations be increased 4% and those of large corporations 10%, making for the large corporations a combined normal and surtax rate of 50%. No additional excess profits taxes were suggested. To promote post-war liquidity the Treasury also suggested a procedure for accelerating the payment of refunds attributable to the loss carryback provision. This last item would have been particularly helpful to small business, which is more apt to have post-war cash problems.

Corporate War Earnings
The argument has

Those who received a cancellation of three-quarters of of 1942 tax liability are in no position to argue that taxes take more than 100% of income. The payment due March 15, 1944, of part of 1942 uncancelled tax liability cannot fairly be used to prove confiscation of 1944 incomes. This is a tax on 1942 income. If the taxes on the income of two or more years are added together and compared with one year's income, it is of course possible to reach a tax of more than 100% of one year's net income. But if we take two years of taxes into the comparison we should also take two years of net income. As a matter of fact, the cancellation of 3/4 of the tax on 1942 incomes was a windfall, making it easier, not harder, to pay tax on 1944 income.

Increased Corporate Taxes
The Secretary's recommendations

11 The argument against additional income taxes is dramatized in statements to the effect that our existing tax rates are confiscatory when we combine their load with a required payment next March of uncancelled 1942 liabilities and state income taxes. It is said that some of our most fortunate citizens would have to pay a tax amounting to more than their year's income and that at the end of the year they would owe money for the privilege of living.

The most charitable word for such statements is that they are misleading. The ignored fact is that the Federal income tax allows for the deduction of state income taxes in computing net income. No matter how high the Federal and State rate schedules may be, the combination of the two can never result in a tax on one year's income in excess of 100% of net income.

Those who received

In an attempt to prove that American taxes are too high it is argued that taxes in the United States are higher in terms of dollars per capita than in the United Kingdom and Canada. This argument is, of course, wholly fallacious. Per capita taxes are not an indication of real burden. The proper test is the relation of taxes to the incomes of taxpayers. The burden of American taxes is lighter than the British and Canadian loads in terms of what counts - income remaining after taxes. 1/

The argument against

1/ A mimeographed study, "Comparison of Taxes in the United States, United Kingdom and Canada," may be obtained from the Division of Public Relations, Treasury Department, Washington, D. C.

Capacity to Pay

Finally, it is contended that the American people do not have additional capacity to pay more taxes. But here are facts. Comparing the fiscal year 1944 with 1940, income payments to individuals show an increase of about $75 billion; in the same period individual income taxes have increased only about $18 billion a year. In other words, the present tax system is absorbing only about 1/4 of the increase in annual income payments generated by defense and war activities. The question is not whether the American people can afford to pay higher taxes, but whether they can afford not to pay them.

In an attempt

against waste is like being against sin. Non-war expenditures, exclusive of interest, are at the low level of $4 billion. Curtailments of magnitude are possible only in connection with war expenditures. Here possible reductions -- by "possible" I mean curtailments which will not impair the war effort -- do not loom very large.

From the standpoint of inflation, spendable income would still remain far in excess of available goods. Even a reduction in expenditures of $10 billion would do no more than give a $10.5 billion program a better chance to hold inflationary spending power and government debt within manageable limits. It would give us a greater margin of safety in war finance, but it would not detract from the pressing need for additional taxes sufficiently to justify a lower program.

Capacity to Pay

Finally, it is

individuals in these low income brackets bear a disproportionate share of the existing tax load, both Federal and state.

10

Economy as a Substitute for Taxes

Others who oppose the Treasury's tax program assert that additional taxes are not necessary if we would curtail government expenditures. They offer economy as a substitute for increased taxes. They urge that a reduction in government expenditures would completely obviate the need for additional taxes.

It should not be necessary for me to say that the Treasury is in sympathy with the objective of curtailing all expenditures which may safely be deferred until after the war. The Secretary has been in the forefront working for economy. From time to time he has made recommendations for cutting governmental expenditures, many of which have been put into effect. But being

against waste

individual cases. When we do so we find that the margin of disposable income over and above wartime needs is a narrow one for many families. Out of 67.3 million income recipients 58.2 million receive incomes of less than $3,000. In the aggregate these persons receive $96.2 billion before personal taxes. This appears to be a fruitful source of additional taxes until we compute the number of dollars per income recipient. That figure is about $1,650 per recipient before taxes, or about $1,500 after taxes. It does not leave much opportunity for inflationary spending.

To impose additional taxes so heavy that they would cut into this margin would be false economy. It would deprive workers of basic necessities and thus undermine their productive efficiency and morale. Moreover, we should not forget that

individuals in these

net income; $3.5 billion, or more than half of the total, would have been paid by income groups under $5,000 of net income. Taking additional corporate taxes, excise taxes, and estate and gift taxes into the equation, $5.4 billion, or about one-half of the total additional taxes proposed by the Treasury, would have been paid by the income groups under $5,000.

It is, of course, true that much of our increased national income has gone to persons with low or modest incomes. But it is also true that the incomes of millions of families still fall far short of adequate living standards. The fact that a large proportion of the $157 billion of income payments estimated for the calendar year 1944 will go to persons with incomes of $3,000 and less does not mean that the taxpaying ability of these millions of persons is substantial. We must look behind aggregates to

individual cases.

a net loss of about 9 million taxpayers. They would have paid a Victory tax of only about $300,000,000. This is a very small part of the total of $24 billion of individual income taxes that would have been payable under the Treasury program. The elimination of the Victory tax was recommended as a simplification measure as well as on grounds of equity. It is literally impossible to make the income tax sufficiently simple for the average taxpayer without eliminating the Victory tax with its disparate income tax base and exemptions. This makes it unnecessary to discuss the inequities of an increase in tax upon a married man with an income of less than $1200 a year.

Of the increased income taxes proposed by the Treasury -- $6.63 billion in total including refundable taxes -- $1.6 billion would have been paid by the income groups under $3,000 of

net income;

$5,000 a year. It does not, of course, demand higher taxes from <u>everyone</u> receiving less than $5,000. Some of these people have incomes barely above subsistence levels. Just because the Treasury program did not call for heavily increased taxes on <u>everyone</u> below $5,000, some critics have charged that it was inconsistent with the Secretary's statement. The sophistry of this charge must be self-evident. One might as well say that because people over 18 are eligible to apply for drivers' licenses, everyone over 18 should be permitted to drive a car.

9 We should be careful to understand precisely which individuals are treated lightly by the Treasury program. It is true that the elimination of the Victory tax relieves 11 million taxpayers from the burden of that tax. But the lowering of the personal exemption brought back into the fold about 2 million taxpayers, leaving

a net loss

Arguments Against the Treasury Program

Three principal arguments have been made against the Treasury's affirmative program. I should like now to repeat these arguments for you and let you decide how well they meet the issue.

The Program ~~Does Not~~ Reaches Inflationary Dollars

The first argument is that the Treasury program in its attempt to help control inflation does not dip into the income brackets where inflationary dollars are most menacing. In his statement before the Ways and Means Committee the Secretary said: "Four-fifths of all the income of the Nation is going to people earning less than $5,000 a year." Consistent with this principle the Treasury program does call for substantially increased taxation of a large number of taxpayers with less than $5,000 a year.

Finally, there is a compelling wartime objection to a tax on increases of income. Increases of income have been received in large part by persons who are working overtime and women who have gone into industry to help the war effort and the family income. Where a son or husband has entered the armed services, the family income is likely to be reduced, even though the wife or another member of the family receives a larger income now than in the base period. Many recipients of increases in income have moved to high-cost defense areas. If we imposed a substantial tax on these increases, we would be impairing the incentive of many workers to continue in vital war production. 1/

Arguments Against the Treasury Program

Three principal arguments

1/ Further information on Taxation ~~on~~ of Increases ~~of~~ in Individual Income may be obtained by writing to the House Ways and Means Committee for Part I of the Unrevised Hearings on Revenue Revision of 1943.

8

A tax on increases of income is objectionable on even more practical grounds. One has to find some normal standard against which increases may be measured, say, income for the year 1939. Most of our millions of taxpayers do not know their income for previous years. The Bureau has received no returns for earlier years from most of these taxpayers. Even if the amount of income for the base year were determinable, it would still be necessary to differentiate between normal and war increases. The modest increase in the salary of a postman, fireman, or a college professor, in accordance with an established promotion schedule, is an example of a normal increase. Equitable differentiation between normal increases in income and increases directly connected with war profits would entail more relief provisions than are contained in the corporate excess profits tax.

Finally, there is a

account both direct price increases and indirect tax-induced increases in food prices, it is estimated that the cost-of-living index would rise about 10 per cent. 1/

Tax on Increases in Income

A tax on increases in income is no happier solution of our difficulty. The philosophy of such a tax would, of course, be extremely difficult to defend. We would be saying that two individuals with the same income should be paying a different tax. Moreover, we would be saying that the higher tax was payable by the person who had received less income in previous years. He might very properly reply that his ability to pay was less than that of the person who had received the greater income in previous years.

A tax on increases

1/ Further information on the sales tax may be obtained by writing to the House Ways and Means Committee for Part II of the Unrevised Hearings on Revenue Revision of 1943.

they respond to the parity index. A ten percent sales tax on a reasonable broad basis would increase that index by 6 or 7 percent. The operation of the parity formula would immediately raise parity prices for agricultural commodities by 6 or 7 percent. Ceiling and support prices of various products would probably have to be adjusted to take the change in parity into account.

Thus, if a 10 percent sales tax had become effective on July 1, 1943, estimates indicate that there would have been an average increase of 6 percent in retail food prices during 1944, exclusive of the tax. When the 10 percent tax is included, this increase would raise food costs by approximately 16 percent. Moving over from food prices to the overall cost of living index, which includes many items not subject to tax, and taking into

account both

intolerable. Here again, valuable manpower would not be employed in its most productive capacity. It might be worth while to undertake this new administrative task if the sales tax were well adapted to our present economic situation. But it is not. While it is true that sales tax dollars would absorb some disposable income, it is also true that the imposition of ~~such~~ a sales tax upon all articles would immediately cause an increase in the cost of living index. The control of wages is geared to this index, and it would be almost impossible to resist demands for increased wages based upon an increased cost of living.

Directly or indirectly, the ceiling and support prices of most farm products are linked to farm parity prices. This link means that these prices are relative rather than fixed, and that

they respond to

would have to be policed. Trained personnel, automobiles, tires, gasoline and accounting machines would be required. It is at least doubtful whether an adequate force and sufficient facilities could be obtained. But assuming that they could, adequate enforcement of the tax would divert valuable manpower and equipment, which might better be employed in more fruitful endeavors.

7

Collecting the tax is not only a problem for the Bureau. Merchants would be required to keep adequate records which would generally involve entries not needed for ordinary accounting or income tax purposes. This burden, superimposed upon rationing and price control duties, would be almost

intolerable. Here again,

a disproportionate tax load upon the low income groups. This objection is even more cogent in wartime, since a tax which infringes on an adequate standard of living cannot fail to impair workers' morale and hurt production.

In this particular war there are additional practical objections. A Federal retail sales tax would be a new tax. It would impose upon the Bureau of Internal Revenue an added administrative burden out of all proportion to the burden of collecting an equal amount of additional revenue from existing taxes. A 10 ~~%~~ percent tax with no exemptions whatever would produce about $6 billion ~~dollars~~ of revenue annually. It would have to be collected by more than 2 1/2 million business establishments scattered throughout the United States. The 10% rate would stimulate evasion. All business establishments

would have to be

Putting things a little less poetically, the dog's tail is being cut off just behind the ears. The latest returns from the Ways and Means Committee showed a total of a little more than $2 billion.

As I have said, part of the Secretary's program was negative. Before I pass on to a discussion of the proposed increases in taxes I would like to give you the reasons for the Treasury's opposition to a Federal retail sales tax and a tax on increases in individual income.

<u>The Sales Tax</u>

Since I am discussing <u>wartime</u> taxes this evening, I shall not stress the inequity of a Federal sales tax. The standard peacetime objection to such a tax is that it imposes

a disproportionate tax

The Treasury Program

On October 4, 1943, the Secretary of the Treasury presented to the Ways and Means Committee the recommendations of the Treasury and of the President for new 1943 revenue legislation. The total additional taxes recommended came to $10.5 billion for a full year of operation. Of this total $6.5 billion consisted of additional individual income taxes, some part of which might be made refundable after the war; $2.5 billion of excise taxes; $1.1 billion of corporate taxes; and $.4 billion of estate and gift taxes. In addition, the Secretary recommended _against_ a general retail sales tax, and _against_ a tax on increased earnings of individuals.

In parenthesis, I might say that the Treasury's affirmative recommendations are displaying definite intimations of mortality.

Putting things

no closed rule, and amendments may be made on the floor in the course of debate. Finally, a bill is passed by the Senate. It may be a totally different bill from the House bill. The two bills are sent to the Conference committee for reconciliation.

The Conference committee consists of the ranking members of the Ways and Means Committee and the Finance Committee. Its job is to compromise the differing House and Senate bills into one bill. New matter is not "in conference". The sessions of the Conference committee are all secret. Every difference between the two bills must be discussed in detail. Either the House or the Senate, acting through its group, must recede from the position of its principal. When all conflicts are resolved, a new bill is written, which must again be passed by both the House and the Senate. Customarily each of these bodies approves the action of its conferees.

6

<u>The Treasury Program</u>

On October 4, 1943,

and all other recommendations, are discussed at length. Facts and arguments are presented by members of the Treasury staff and the experts of the Joint Staff of the Committee. Votes are taken on specific motions and at long last a bill emerges from a thicket of obscurity. This bill is drafted, not by the Treasury, but by the legislative staff of Congress. The bill is then sent to the House floor, usually with a rule limiting amendments from the floor. A vote is finally taken, and a bill is passed by the House. This bill is sent to the Senate.

History repeats itself before the Senate Finance Committee. Again the Secretary and his staff appear personally. Again public witnesses testify in open session. Again there is a secret Executive session. At length, a bill is sent by the Finance Committee to the Senate floor. In the Senate there can be

no closed rule,

A revenue bill usually starts with the submission of recommendations to the Ways and Means Committee by the Secretary of the Treasury. The Secretary appears before the Committee, and he and his staff are questioned by most of the 25 members. This process may occupy one or two days. Public hearings follow. At these hearings, we have what Justice Holmes once called "free trade in ideas." Witness after witness, some appearing individually and others speaking on behalf of chambers of commerce, business organizations, labor unions, and other groups, espouse and press their interests, sometimes, I am bound to say, their very selfish interests.

After two or three weeks of testimony the Ways and Means Committee shuts the door, and goes into Executive, or secret, session. In this session the recommendations of the Secretary,

and all other

5

The Tax Legislative Process

If this be true, one might well say: "Let's have some taxes in a hurry." Inflation waits for no body of men - not even the Congress of the United States. But tax bills take time. They aren't built in a day. The Constitution places the power to levy taxes in the Congress. All the Treasury can do in a time of crisis--or, for that matter, at any other time--is to place its recommendations before the Congress. Its first point of contact is with the Ways and Means Committee of the House of Representatives, which is the legislative body in which revenue bills must originate. I do not know how many of you--outside of Mr. Forand and Mr. Picchione--have ever seen with your own eyes the grinding of the legislative tax mill. I have had the privilege--and the pain--of close contact with it, and I should like to give you, by way of background, a picture of a revenue act as it goes through the mill.

A revenue bill

The Function of Taxes

I have said that I would discuss the "specific" crisis confronting the country at this particular stage of the war. "Crisis" is a poor word for what we face. Our problem is second in importance only to results on the military front. And the answers we make to today's economic questions cannot fail to influence the shape of events on the military front.

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What is the mission of taxes in this crisis? How can they help win the fight against inflation? The answer is simple. Taxes impound spending power. By taking away spendable income they reduce the strain on the defense line of rationing and price control, just as wage stabilization eases that strain. No one knows the ultimate breaking point of these direct control devices. But we do know that they are now endangered ~~weakening~~, and we also know that well-chosen additional taxes may very well be the saving factor.

If this be true,

Inflation is the mortal foe of every bank deposit, every insurance policy, and every war bond. It would increase the cost of the war and the service charge on our postwar debt. Even more important from the immediate standpoint, would be the resulting inequitable distribution of our scarce goods. The orders of the day would go to black and grey markets. Those with the most money and the least scruples would get the lion's share of the goods. People with low incomes would come out on the short end. People who work overtime would have the least opportunity to buy. The real cost of the war -- not the money cost, but the cost in terms of the things we must do without -- would be badly distributed over our population. I need not describe the effect such a maldistribution would have upon home front morale. It is obvious that the war effort would be the first to suffer from inflation.

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that new funds are created. In payment for Government bonds the banks customarily set up "war loan accounts" payable to the United States Treasury. As the Treasury draws on these accounts to finance war expenditures, the new funds flow into the pocketbooks and bank accounts of individual citizens and business firms.

During the fiscal year 1943 banks thus increased their holdings of Federal securities by about $30 billion. This was the main factor in expanding by about 36 percent the total of coin, paper money, and checking deposits held by the public. These holdings are liquid fuel which is ready and waiting to feed the fires of inflation.

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The psychology of inflation is hopeful; its symptoms are exhilarating; but its hideous effects beggar description.

Inflation is the

be able to keep the postwar money floodgates closed. If we delay, if we disregard the inflationary thunderheads gathering in the form of liquid savings, there can be nothing but bitter economic weather ahead.

(4)

Commercial Bank Borrowing

Cold figures make it clear that hot dollars are also being created by commercial bank borrowing. War financing through banks is generally conceded to be dangerous. Bank purchases of government securities lead directly to an increase in cash assets held by the public. To the extent that bank depositors lend their deposits to the Government by buying bonds, no new funds are created; funds are merely transferred from private to Treasury accounts. But when banks buy Government securities for themselves, they have no right to make charges against their depositors' accounts; the result is

that new funds

Savings

Even these staggering figures do not give the whole picture. From the beginning of 1940 to June 30, 1943 -- in three and one-half years -- the American people saved $55 billion. Of this total $24 billion are in the form of currency and checking accounts; $21 billion are in the form of redeemable or marketable bonds. It is a masterpiece of understatement to call these savings volatile; from the standpoint of postwar inflation they are liquid dynamite. Assume a slackening of governmental spending at the end of the war in Europe, followed by a short lull in civilian spending, and try then to imagine what will happen when millions of people, impatient with wartime direct controls, try to spend these savings to replace worn-out clothes, household equipment, automobiles, -- all the things they have been longing to buy for several years. If we have the courage to impose additional taxes in time, we may

be able to

at current prices.

About one-half of our productive capacity is marching off to war. The half that stays at home is producing no more than $89 billion of civilian goods. Disposable current income is more than $40 billion in excess of goods to be bought. We have developed an economy in which only $10.00 of goods are available for each $15.00 of disposable income. Yet the American people are spending an increased amount to eat, drink and be merry. Comparing this year with the average of the typical pre-war years, 1936 to 1939, expenditures in eating and drinking places have increased 143%. Expenditures in clothing stores have increased 102%, and in jewelry stores 218%.

Is there any answer but inflation? That is America's $150 billion question.

Even these staggering

and an almost certain heavy borrowing from the commercial banks. Huge war expenditures had resulted in an increased national income. The latest estimates put national income for the fiscal year 1944 at $152 billion, -- even more than that for the calendar year 1944. Direct personal taxes would reduce spendable income <u>after</u> taxes by only $21 billion, leaving $131 billion of disposable income, -- a figure about $50 billion higher than national income <u>before</u> taxes in the halcyon year 1929. The war ~~had~~ proved a bonanza.

<u>The Paradox of Financial Prosperity and Scarce Goods</u>

Our war production has given us an economic shot in the arm and put a new flush of prosperity on the ~~N~~ation's face. The paradox of the situation is that the cause which produces this unparalleled prosperity removes the possibility of satisfying with consumer goods the desire to spend created by expanded income.

About one-half of our

prices were above legal ceilings. Illicit trafficking in ration coupons, and the tendency of meat, poultry, and gasoline to leak out of regular channels and into black markets, threatened price stability. We have been learning the hard way that inflationary money is not easily discouraged.

We Have Inflation

In the summer of 1943 we had inflation. True, it was only a moderate inflation. Some argue, and many more feel, that a "little inflation" would be a good thing. Let me reply ~~in the words of the~~ as the President did: A "little inflation" is "like opium; soon you want more; and then you have the habit."

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The 1944 Budget and National Income

A heavy strain on prices was inevitable. With taxes at a level of $40 billion for the fiscal year 1944, we were faced with a deficit of $66 billion ~~dollars~~ for the fiscal year 1944

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December 7, 1941, our national debt stood at about $55 billion. By June 30, 1943, it had risen to $136.7 billion. It is estimated that it will be about $206 billion at the end of this fiscal year, June 30, 1944. War expenditures, estimated at $100 billion for the fiscal year ending June 30, 1944, had reached the monthly level of more than $7 billion in August, 1943, the second month of this fiscal year. Every month since last February we ha~~ve~~d spent more money on war activities than we spent in the entire fiscal year 1941.

Price Rises

Prices had also risen. The amount of inflation registered by the cost of living index since it started to rise early in 1941 is now well toward 25%. Price increases have been heaviest for food and some of the basic necessities of life. A recent sampling of prices by BLS OPA indicated that in many instances actual retail food

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military tide was beginning to turn -- our way. In 1942 Congress had enacted the longest and toughest revenue act in our history. By the middle of 1943 we had put our individual tax system substantially on a pay-as-you-go basis. This new method of payment enabled us to collect more promptly taxes due upon the higher incomes rapidly being produced by the war. We had reached the point -- somewhat late -- where the Congress was free to turn its attention to a rate bill.

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In 1942 only a few, chief among them the President, were bold enough to dream that we would attain a record level of war production as early as 1943. Our success on the production front was recorded in a sensational rise in expenditures, which was reflected in turn in a corresponding rise in the public debt. On

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at an unprecedented rate, $2.5 billion a month in December, 1941. This Governmental spending was creating a purchasing power which made direct controls necessary. Formal price control, which began in the spring of 1941, was greatly extended during the first half of 1942. A program of consumer rationing was instituted late in December, 1941. At first it covered only rubber tires. Automobile rationing went into effect at the beginning of 1942. The rationing of sugar began in May, coffee late in November, shoes and processed foods early in 1943. In October, 1942, the President, through the War Labor Board and the Treasury, attempted the stabilization of wages.

The Economic Situation in the Summer of 1943

Suppose we pass on to the situation on our economic front last summer. We had been through nearly a year and a half of war. The

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In selecting the subject of the evening I shall assume that you had in mind something more ~~particular~~ definite than the general subject of taxes in war time, and that your title refers to the specific crisis confronting this country at this particular stage of World War II. Since our time is necessarily limited, I shall not burden you with details which are not essential. I shall try to give you a picture of the forest. One misses the forest if he tries to see every tree. In taxation the whole is not always the same as the sum of the separate parts. A difference in degree merges into a difference in kind. What we need more than anything else today is a balanced vision of the whole.

The Necessity for Increased Taxes

Early in the war the necessity of increased taxes was clear enough. Even at the end of 1941 the Government was spending money

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WARTIME TAXES

It was very kind of you to invite me to talk to you this evening about "Wartime Taxes". And I was very glad to accept an invitation to speak in the home town of one of the House Ways and Means Committee's ablest members and hardest workers. This, I assure you, is not faint praise, for that Committee is indefatigable. It has had me at the ropes many times; and while I may be expendable, I am not quickly exhaustible. It is a great pleasure to thank Mr. Forand for his never-failing courtesy in debate and for his patient understanding -- even when he doesn't agree -- of the Treasury's sincere desire to be of assistance to his important Committee.

There is still another reason that I am glad to be here tonight. This is a pleasant reversal of usual procedure. I am accustomed to speaking before Mr. Forand at sessions of the Ways

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TREASURY DEPARTMENT
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(The following address by Randolph E. Paul, General Counsel of the Treasury, before the Providence Chapter, National Association of Cost Accountants, at the Narragansett Hotel, Providence, Rhode Island, is scheduled for delivery at 8 p.m., Eastern War Time, Monday, November 15, 1943, and is for release at that time.)

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A revenue bill usually starts with the submission of recommendations to the Ways and Means Committee by the Secretary of the Treasury. The Secretary appears before the Committee, and he and his staff are questioned by most of the 25 members. This process may occupy one or two days. Public hearings follow. At these hearings, we have what Justice Holmes once called "free trade in ideas." Witness after witness, some appearing individually and others speaking on behalf of chambers of commerce, business organizations, labor unions, and other groups, espouse and press their interests,--sometimes, I am bound to say, their very selfish interests.

After two or three weeks of testimony the Ways and Means Committee shuts the door, and goes into Executive, or secret, session. In this session the recommendations of the Secretary, and all other recommendations, are discussed at length. Facts and arguments are presented by members of the Treasury staff and the experts of the Joint Staff of the Committee. Votes are taken on specific motions and at long last a bill emerges from a thicket of obscurity. This bill is drafted, not by the Treasury, but by the legislative staff of Congress. The bill is then sent to the House floor, usually with a rule limiting amendments from the floor. A vote is finally taken, and a bill is passed by the House. This bill is sent to the Senate.

History repeats itself before the Senate Finance Committee. Again the Secretary and his staff appear personally. Again public witnesses testify in open session. Again there is a secret Executive session. At length, a bill is sent by the Finance Committee to the Senate floor. In the Senate there can be no closed rule, and amendments may be made on the floor in the course of debate. Finally, a bill is passed by the Senate. It may be a totally different bill from the House bill. The two bills are sent to the Conference committee for reconciliation.

The Conference committee consists of the ranking members of the Ways and Means Committee and the Finance Committee. Its job is to compromise the differing House and Senate bills into one bill. New matter is not "in conference". The sessions of the Conference committee are all secret. Every difference between the two bills must be discussed in detail. Either the House or the Senate, acting through its group, must recede from the position of its principal. When all conflicts are resolved, a new bill is written, which must again be passed by both the House and the Senate. Customarily each of these bodies approves the action of its conferees.

The Treasury Program

On October 4, 1943, the Secretary of the Treasury presented to the Ways and Means Committee the recommendations of the Treasury and of the President for new 1943 revenue legislation. The total additional taxes recommended came to $10.5 billion for a full year of operation. Of this total $6.5 billion consisted of additional individual income taxes, some part of which might be made refundable after the war; $2.5 billion of excise taxes; $1.1 billion of corporate taxes; and $.4 billion of estate and gift taxes. In addition, the Secretary recommended against a general retail sales tax, and against a tax on increased earnings of individuals.

In parenthesis, I might say that the Treasury's affirmative recommendations are displaying definite intimations of mortality. Putting things a little less poetically, the dog's tail is being cut off just behind the ears. The latest returns from the Ways and Means Committee showed a total of a little more than $2 billion.

As I have said, part of the Secretary's program was negative. Before I pass on to a discussion of the proposed increases in taxes I would like to give you the reasons for the Treasury's opposition to a Federal retail sales tax and a tax on increases in individual income.

The Sales Tax

Since I am discussing wartime taxes this evening, I shall not stress the inequity of a Federal sales tax. The standard peacetime objection to such a tax is that it imposes a disproportionate tax load upon the low income groups. This objection is even more cogent in wartime, since a tax which infringes on an adequate standard of living cannot fail to impair workers' morale and hurt production.

In this particular war there are additional practical objections. A Federal retail sales tax would be a new tax. It would impose upon the Bureau of Internal Revenue an added administrative burden out of all proportion to the burden of collecting an equal amount of additional revenue from existing taxes. A 10 percent tax with no exemptions whatever would produce about $6 billion of revenue annually. It would have to be collected by more than 2 1/2 million business establishments scattered throughout the United States. The 10% rate would stimulate evasion. All business establishments would have to be policed. Trained personnel, automobiles, tires, gasoline and accounting machines would be required. It is at least doubtful whether an adequate force and sufficient facilities could be obtained. But assuming that they could, adequate enforcement of the tax would divert valuable manpower and equipment, which might better be employed in more fruitful endeavors.

Collecting the tax is not only a problem for the Bureau. Merchants would be required to keep adequate records which would generally involve entries not needed for ordinary accounting or income tax purposes. This burden, superimposed upon rationing and price control duties, would be almost intolerable. Here again, valuable manpower would not be employed in its most productive capacity. It might be worth while to undertake this new administrative task if the sales tax were well adapted to our present economic situation. But it is not. While it is true that sales tax dollars would absorb some disposable income, it is also true that the imposition of a sales tax upon all articles would immediately cause an increase in the cost of living index. The control of wages is geared to this index, and it would be almost impossible to resist demands for increased wages based upon an increased cost of living.

Directly or indirectly, the ceiling and support prices of most farm products are linked to farm parity prices. This link means that these prices are relative rather than fixed, and that they respond to the parity index. A ten percent sales tax on a reasonably broad basis would increase that index by 6 or 7 percent. The operation of the parity formula would immediately raise parity prices for agricultural commodities by 6 or 7 percent. Ceiling and support prices of various products would probably have to be adjusted to take the change in parity into account.

Thus, if a 10 percent sales tax had become effective on July 1, 1943, estimates indicate that there would have been an average increase of 6 percent in retail food prices during 1944, exclusive of the tax. When the 10 percent tax is included, this increase would raise food costs by approximately 16 percent. Moving over from food prices to the overall cost of living index, which includes many items not subject to tax, and taking into account both direct price increases and indirect tax-induced increases in food prices, it is estimated that the cost-of-living index would rise about 10 per cent. 1/

Tax on Increases in Income

A tax on increases in income is no happier solution of our difficulty. The philosophy of such a tax would, of course, be extremely difficult to defend. We would be saying that two individuals with the same income should be paying a different tax. Moreover, we would be saying that the higher tax was payable by the person who had received less income in previous years. He might very properly reply that his ability to pay was less than that of the person who had received the greater income in previous years.

1/ Further information on the sales tax may be obtained by writing to the House Ways and Means Committee for Part 11 of the Unrevised Hearings on Revenue Revision of 1943.

A tax on increases of income is objectionable on even more practical grounds. One has to find some normal standard against which increases may be measured, say, income for the year 1939. Most of our millions of taxpayers do not know their income for previous years. The Bureau has received no returns for earlier years from most of these taxpayers. Even if the amount of income for the base year were determinable, it would still be necessary to differentiate between normal and war increases. The modest increase in the salary of a postman, fireman, or a college professor, in accordance with an established promotion schedule, is an example of a normal increase. Equitable differentiation between normal increases in income and increases directly connected with war profits would entail more relief provisions than are contained in the corporate excess profits tax.

Finally, there is a compelling wartime objection to a tax on increases of income. Increases of income have been received in large part by persons who are working overtime and women who have gone into industry to help the war effort and the family income. Where a son or husband has entered the armed services, the family income is likely to be reduced, even though the wife or another member of the family receives a larger income now than in the base period. Many recipients of increases in income have moved to high-cost defense areas. If we imposed a substantial tax on these increases, we would be impairing the incentive of many workers to continue in vital war production. 1/

Arguments Against the Treasury Program

Three principal arguments have been made against the Treasury's affirmative program. I should like now to repeat these arguments for you and let you decide how well they meet the issue.

The Program Reaches Inflationary Dollars

The first argument is that the Treasury program in its attempt to help control inflation does not dip into the income brackets where inflationary dollars are most menacing. In his statement before the Ways and Means Committee the Secretary said: "Four-fifths of all the income of the Nation is going to people earning less than $5,000 a year." Consistent with this principle the Treasury program does call for substantially increased taxation of a large number of taxpayers with less than $5,000 a year. It does not, of course, demand higher taxes from everyone receiving less than $5,000. Some of these people have incomes barely above subsistence levels. Just because the Treasury program did not call for heavily increased taxes on everyone below $5,000, some critics have charged that it was inconsistent with the Secretary's statement. The sophistry of this charge must be self-evident. One might as well say that because people over 18 are eligible to apply for drivers' licenses, everyone over 18 should be permitted to drive a car.

1/ Further information on Taxation of Increases in Individual Income may be obtained by writing to the House Ways and Means Committee for Part I of the Unrevised Hearings and Revenue Revision of 1943.

We should be careful to understand precisely which individuals are treated lightly by the Treasury program. It is true that the elimination of the Victory tax relieves 11 million taxpayers from the burden of that tax. But the lowering of the personal exemption brought back into the fold about 2 million taxpayers, leaving a net loss of about 9 million taxpayers. They would have paid a Victory tax of only about $300,000,000. This is a very small part of the total of $24 billion of individual income taxes that would have been payable under the Treasury program. The elimination of the Victory tax was recommended as a simplification measure as well as on grounds of equity. It is literally impossible to make the income tax sufficiently simple for the average taxpayer without eliminating the Victory tax with its disparate income tax base and exemptions. This makes it unnecessary to discuss the inequities of an increase in tax upon a married man with an income of less than $1200 a year.

Of the increased income taxes proposed by the Treasury -- $6.63 billion in total including refundable taxes -- $1.6 billion would have been paid by the income groups under $3,000 of net income; $3.5 billion, or more than half of the total, would have been paid by income groups under $5,000 of net income. Taking additional corporate taxes, excise taxes, and estate and gift taxes into the equation, $5.4 billion, or about one-half of the total additional taxes proposed by the Treasury, would have been paid by the income groups under $5,000.

It is, of course, true that much of our increased national income has gone to persons with low or modest incomes. But it is also true that the incomes of millions of families still fall far short of adequate living standards. The fact that a large proportion of the $157 billion of income payments estimated for the calendar year 1944 will go to persons with incomes of $3,000 and less does not mean that the taxpaying ability of these millions of persons is substantial. We must look behind aggregates to individual cases. When we do so we find that the margin of disposable income over and above wartime needs is a narrow one for many families. Out of 67.3 million income recipients 58.2 million receive incomes of less than $3,000. In the aggregate these persons receive $96.2 billion before personal taxes. This appears to be a fruitful source of additional taxes until we compute the number of dollars per income recipient. That figure is about $1,650 per recipient before taxes, or about $1,500 after taxes. It does not leave much opportunity for inflationary spending.

To impose additional taxes so heavy that they would cut into this margin would be false economy. It would deprive workers of basic necessities and thus undermine their productive efficiency and morale. Moreover, we should not forget that individuals in these low income brackets bear a disproportionate share of the existing tax load, both Federal and state.

Economy as a Substitute for Taxes

Others who oppose the Treasury's tax program assert that additional taxes are not necessary if we would curtail government expenditures. They offer economy as a substitute for increased taxes. They urge that a reduction in government expenditures would completely obviate the need for additional taxes.

It should not be necessary for me to say that the Treasury is in sympathy with the objective of curtailing all expenditures which may safely be deferred until after the war. The Secretary has been in the forefront working for economy. From time to time he has made recommendations for cutting governmental expenditures, many of which have been put into effect. But being against waste is like being against sin. Non-war expenditures, exclusive of interest, are at the low level of $4 billion. Curtailments of magnitude are possible only in connection with war expenditures. Here possible reductions -- by "possible" I mean curtailments which will not impair the war effort -- do not loom very large.

From the standpoint of inflation spendable income would still remain far in excess of available goods. Even a reduction in expenditures of $10 billion would do no more than give a $10.5 billion program a better chance to hold inflationary spending power and government debt within manageable limits. It would give us a greater margin of safety in war finance, but it would not detract from the pressing need for additional taxes sufficiently to justify a lower program.

Capacity to Pay

Finally, it is contended that the American people do not have additional capacity to pay more taxes. But here are facts. Comparing the fiscal year 1944 with 1940, income payments to individuals show an increase of about $75 billion; in the same period individual income taxes have increased only about $18 billion a year. In other words, the present tax system is absorbing only about 1/4 of the increase in annual income payments generated by defense and war activities. The question is not whether the American people can afford to pay higher taxes, but whether they can afford not to pay them.

In an attempt to prove that American taxes are too high it is argued that taxes in the United States are higher in terms of dollars per capita than in the United Kingdom and Canada. This argument is, of course, wholly fallacious. Per capita taxes are not an indication of real burden. The proper test is the relation of taxes to the incomes of taxpayers. The burden of American taxes is lighter than the British and Canadian loads in terms of what counts - income remaining after taxes. 1/

1/ A mimeographed study, "Comparison of Taxes in the United States, United Kingdom and Canada," may be obtained from the Division of Public Relations, Treasury Department, Washington, D. C.

The argument against additional income taxes is dramatized in statements to the effect that our existing tax rates are confiscatory when we combine their load with a required payment next March of uncancelled 1942 liabilities and state income taxes. It is said that some of our most fortunate citizens would have to pay a tax amounting to more than their year's income and that at the end of the year they would owe money for the privilege of living.

The most charitable word for such statements is that they are misleading. The ignored fact is that the Federal income tax allows for the deduction of state income taxes in computing net income. No matter how high the Federal and State rate schedules may be, the combination of the two can never result in a tax on one year's income in excess of 100% of net income.

Those who received a cancellation of three-quarters of 1942 tax liability are in no position to argue that taxes take more than 100% of income. The payment due March 15, 1944, of part of 1942 uncancelled tax liability cannot fairly be used to prove confiscation of 1944 incomes. This is a tax on 1942 income. If the taxes on the income of two or more years are added together and compared with one year's income, it is of course possible to reach a tax of more than 100% of one year's net income. But if we take two years of taxes into the comparison we should also take two years of net income. As a matter of fact, the cancellation of 3/4 of the tax on 1942 incomes was a windfall, making it easier, not harder, to pay tax on 1944 income.

Increased Corporate Taxes

The Secretary's recommendations to the Ways and Means Committee included additional corporate taxes of $1.1 billion. The proposal was that the surtax rate of small corporations be increased 4% and those of large corporations 10%, making for the large corporations a combined normal and surtax rate of 50%. No additional excess profits taxes were suggested. To promote postwar liquidity the Treasury also suggested a procedure for accelerating the payment of refunds attributable to the loss carryback provision. This last item would have been particularly helpful to small business, which is more apt to have postwar cash problems.

Corporate War Earnings

The argument has been made that these increases drain life blood of corporations. This emotional argument ignores some startling figures which have been submitted to the Ways and Means Committee. Corporate profits (excluding dividends received) will reach the estimated level of $22.6 billion for the calendar year 1943. The estimate for 1944 is $24.5 billion. These profits are more than four times corporate profits for the year 1937, which was one of the most prosperous years of the Thirties.

Taxes have also risen, it is true; they have been multiplied many times. Total corporate liabilities for income and excess-profits taxes, amounted to slightly over $1-1/4 billion for 1937. They have climbed to

$13-1/2 billion for the year 1943. But taxes, even of this magnitude, have failed to keep up with the mad pace of increased earnings. For the year 1942 corporations will have left after taxes nearly $8.5 billion; and in 1943, nearly $9.2 billion. In 1937 they had left less than $4 billion.

Nor have our high war taxes substantially affected dividends paid. The average of dividends paid for the years 1936 to 1940 was $4.1 billion; the highest figure was $4.8 billion in the year 1937. For the years 1941, 1942, and 1943, dividends are estimated at $4.5 billion, $4.1 billion, and $4.0 billion respectively. Even after taxes and dividends are paid, the corporations of the country, including loss corporations, will have accumulated for the years 1942, 1943, and 1944 over $15 billion of undistributed corporate profits!

Corporate Cash Position

I have heard the argument that these high undistributed profits are invested in brick and mortar, and that they are not available as liquid funds to be used in postwar activity. However, recent studies show that liquid assets of corporations have risen even faster than retained earnings.

Non-financial corporations increased their holdings of currency, bank deposits, and United States Government securities by $12 billion during the two years 1941 and 1942 according to an estimate prepared by the Securities and Exchange Commission. If the accumulation of liquid assets in the first half of 1943 should continue at the present rate through the year, the total increase would be $25 billion for the three years 1941, 1942 and 1943. A study just released by the Federal Reserve Board indicates that business deposits, both corporate and non-corporate, totalled $30 billion on July 31, 1943. 1/ While all of these deposits would not be fully available for conversion to peacetime operations, and to provide working capital needed to maintain a high level of peacetime employment and production, it is hardly stretching a point to say that they reflect a generally liquid condition.

Conclusion

I hope the facts I have placed before you this evening make clear an issue which has become blurred in much discussion. Seldom are the outlines of an economic problem so black and white. The question is not whether we shall have no taxes, or some taxes, or more taxes than that. The question is whether we shall do everything possible to avoid inflation. I recognize that taxes cannot do the whole job. We need wage stabilization, rationing, price control, and other things. The fight on inflation is indivisible. I do not say that we can prevent runaway inflation. But at this eleventh hour we still have a chance. I hope we will take that chance -- that we will grasp the nettle before it is too late.

1/ "Statistics of Deposit Ownership." Federal Reserve Bulletin, October 1943.

numbered 1040ES, is the only form actually to be filed with the Collector. In addition, the taxpayer has the choice of two worksheets, from which he can calculate the figures to be copied on the declaration form. One worksheet is a simplified version that may be used by anyone who wishes to approximate the tax on any income up to $10,000. The other worksheet is longer and may be used by anyone who desires to make a more exact estimate of his tax. Persons using this "long form" should deduct all of the "post-war credit" for Victory tax, in accordance with a recent act of Congress putting the credit on a current rather than post-war basis. On the simplified form, no change is necessary because the form already assumed the taxpayer was eligible for current credit. Farmers may find it convenient to supplement these worksheets ~~described~~ by the use of Form 1040F, Schedule of Farm Income ~~a special worksheet~~ and Expenses, to aid them in arriving at a close estimate of their income, ~~but~~ although use of this form is not mandatory. Form 1040F can be obtained from any Collector or Deputy Collector of Internal Revenue.

One other group of taxpayers may file amended declarations at this time if they desire. These are persons who may have over-estimated their tax by a substantial amount in September. However, since no refunds can be made until after the annual return is filed next year, these taxpayers will find no advantage in an amended filing unless they have a payment coming due December 15 which could be reduced by the filing.

Mr. Hannegan also promised that the offices of the Collectors of Internal Revenue throughout the country will again provide taxpayers with as much assistance as possible in filing the declarations.

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The filing will be new to farmers who waited until now to file and also to those taxpayers who failed to file in September because their anticipated income was below the filing requirements but who now expect higher incomes that do require filing.

"I want to say a special word, "Mr. Hannegan emphasized, "to those who filed in September. Any taxpayer who filed in September and believes that his estimated tax is not substantially underestimated need not file any new or amended declaration at this time* ~~on or before December 15.~~ The correct tax ~~figure~~ will, of course, be determined on the annual tax return which will be filed, as usual, on or before March 15, 1944.

"However, an appeal is made to those who filed in September to understand that the law requires that a penalty be charged to any taxpayer whose estimated tax is substantially underestimated unless amended declarations are filed on or before December 15 which bring the estimate within the permissible margin of error. In other words, if a taxpayer has reason to believe that he underestimated his tax payments in September by a wide enough margin to cause a penalty, he should come in and file an amended declaration with more accurate estimates so that he will not be liable for a penalty. I have no desire to levy unnecessary penalties, and therefore I want taxpayers to understand clearly how to prevent them.

"Amended declarations [redacted] are made on the same type of form as the original declarations, and are distinguished only by writing the word "amended" at the top of the ~~front page~~ form. Therefore, anyone who must file an amended declaration will find the procedure exactly as it was in September."

Persons having forms left over from September may use the forms they already have. Persons needing new copies will be supplied promptly upon application to any Collector of Internal Revenue. The declaration form itself,

b. Any single person expecting wages of more than $2,700 during the year.

c. Any married person or any married couple expecting individually or together more than $3,500 from wages during the year.

d. Any person who was required to file an income tax return for 1942 and who expects his wages in 1943 to be less than in 1942.

"The December 15 filing," Mr. Hannegan said, "is in reality a follow-up to the September 15 filing. Both filings were steps in the transition to the pay-as-you-go system of tax collection, in accordance with the Current Tax Payment Act of 1943.

"The purposes of the two filings are similar, the forms to be used are identical, and to some extent even the same taxpayers are affected. To understand the purpose of this type of filing, it is necessary to recall that the income and Victory tax which is withheld from the wages of millions of taxpayers is not sufficient in many cases to pay the whole tax bill of the individual. This is true in cases in which taxpayers receive income from rents, dividends, business profits and other sources where no tax is withheld. Tax is withheld only from wages. The withholding also is insufficient when a person's income is high enough to be affected by the graduated surtax rates beyond the first tax bracket. In other words, the withholding system keeps the average taxpayer paid up only to the extent of an approximate minimum tax.

"For these reasons, Congress enacted provisions by which taxpayers who are not kept paid up to date by the withholding system would be brought closer to the ideal of pay-as-you-go. In September, all taxpayers in this class except farmers were required to estimate their tax for the year and, after taking credit for taxes already paid and withheld and to be withheld, to pay at least one-half of the balance. Those who must file in December will make their estimates on the same basis and pay the entire balance.

TREASURY DEPARTMENT
Bureau of Internal Revenue
Washington

FOR RELEASE, AFTERNOON NEWSPAPERS
Monday, November 15, 1943
11/13/43

Press Service
No. 39-50

advance for release in afternoon papers of Monday, Nov. 15.

~~Proposed Press Release revised in accordance with the recommendations of the Income Tax Unit. (Definitions of penalties omitted pending more precise determination)~~

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In general, the filing of a declaration on or before December 15, will be required of the following:

1. Farmers who have sufficient 1943 income to require filing and have postponed filing a declaration under the special provisions of law which permit farmers to wait as late as December 15.

2. Persons who did file in September but under-estimated their tax by more than 20 per cent and who should, therefore, file "amended declarations" to avoid penalties.

3. Persons who did not file in September because their estimated income at that time was insufficient to require filing, but now come within any one of the following classes:

a. Anyone who expects to have during the calendar year 1943 more than $100 gross income from a source outside of wages [redacted] subject to withholding and who also expects sufficient gross income to require filing an income tax return ($500 for a single person, $1,200 for a married couple, or $624 for an individual married person).

Mr. Schwarz:
Mr. Shaeffer.

Cancelled
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This release on Dec. 15 filing has been approved by everyone in the bureau including the Commissioner.

Please expedite further clearance and distribution. This release is a key to considerable other work and has been revised umpteen times to meet special desire of the bureau.

Please distribute as promptly as possible to your regular lists and especially to your farm list.

Please let me have 100 copies.
Rm. 6403

Thanx

O.K'd by
mr. Sullivan
[illegible]

DP

25 Hawkins
100 [illegible]

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"However, I would like to emphasize to the persons who filed declarations in September, that they should clearly understand the law imposes a penalty against any taxpayer whose estimated tax is below the allowable 20 per cent margin of error, unless an amended declaration is ~~are~~ filed on or before December 15, which brings the estimate within the permissible margin of error. In other words, if a taxpayer has reason to believe that he underestimated his tax payments in September by a wide enough margin to cause a penalty, he should file an amended declaration which will be a more accurate estimate so that he will not be liable for a penalty. I have no desire to levy unnecessary penalties,

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There may be some taxpayers who filed declarations in September and paid one-half of the remaining tax estimated to be due, but who now believe that the amount for which the Collector will bill them in December is more than they should pay. These taxpayers may also file amended declarations correcting their previous estimates and recompute the amount of their installments to be paid in December. In such cases the amended declaration should be accompanied by the bill received from the Collector, together with the remittance for any revised amount due on December 15th.

"The December 15 filing," Mr. Hannegan said, "is in reality a follow-up to the September 15 filing. Both filings were steps in the transition to the pay-as-you-go system of tax collection, in accordance with the Current Tax Payment Act of 1943.

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ADVANCE FOR PUBLICATION ~~WEDNESDAY P.M., NOV. 17~~ Friday P.M., Nov. 19

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