

TO Dr. Currie

FROM Mr. Clayton

REMARKS: 5/15/39

What is the best way to offset the implication contained in Mr. Noble's letter attached hereto that the mounting Federal taxes are discouraging capital from new investment and interfering with recovery. The Chairman's letter to Senator Byrd is attached and I am wondering whether there is a better answer than is contained in the paragraph on page 2 which I have marked in red.



DEPARTMENT OF COMMERCE
WASHINGTON

May 11, 1939.

Dear Mr. Chairman:

I was a little confused in quoting my figures from memory at luncheon today. Here's my story:

In 1938 taxes absorbed 22% of the national income, the highest percentage for any year in history, and nearly double the average of 12% during the 1920's. Federal taxes have risen from 22% in 1932 to 43% in 1938.

OK. - Refers to Fed. taxes as % of total tax collections

These figures appeared in the Wall Street Journal Tuesday of this week. I believe you told me that the figure for 1935, '36 and '37 averaged 17½%. The 22% information comes from sources in New York and not from the Department of Commerce.

The above is just to keep the records straight and no acknowledgment is necessary.

With best wishes,

Very sincerely yours,

Edward J. Noble,
Executive Assistant to the Secretary.

Honorable Marriner S. Eccles,
Chairman, Board of Governors of the Federal
Reserve System,
Washington, D. C.

You appear to believe that a large part of the Government's expenditure is "waste". You are fearful about the Government's credit and alarmed about the "burden" put upon the country by the public debt. There is not space within a letter adequately to discuss these matters, but in view of your program and since you saw fit to make a personal attack upon me, I feel that it is in order to raise a number of questions with respect to each of the foregoing considerations.

As to the "burden" of debt: The pertinent facts are the volume of total debt in the country, the interest on that debt, and the income out of which interest may be paid. You failed to mention any of these pertinent facts. Are you aware of studies made by a distinguished group of scholars, under the auspices of the Twentieth Century Fund, indicating that the total of all domestic debts, both public and private, is no greater today than it was in 1929? That being so, does it not give a one-sided and alarming picture of the country's debt situation to concentrate attention solely upon the increase in the public debt without regard to the contraction of private debt, and without regard to the increase in population and in the material wealth of the country since 1929? Is it of no significance that, owing to the decline in the rate of interest, the total of interest payments today is far less than in 1929? Is it of no significance that while the burden of interest payments has been lessened, national income, out of which debts are serviced, increased since the low point of 1932 until in 1937 it was \$30,000,000,000 more than in 1932? Is it of no significance that the interest on the Federal debt amounts to only a little more than 1 per cent of our national income? Finally, is it of no significance that as a nation we owe our debts to ourselves and not to a foreign country?

As to your concern about the burden of taxation, have you not overlooked the fact that as national income increases, tax revenues increase, even without a rise in tax rates? National income increased from less than \$40 billions in 1932 to approximately \$70 billions in 1937. Tax receipts of the Federal Government increased from \$2,080,000,000 for the fiscal year ending June 30, 1933, to \$6,242,000,000 for the fiscal year ending June 30, 1938. The country paid about \$4 billions more in taxes but it had \$30 billions more of income a year out of which to make these payments. Would you have the public believe that the country was better off in 1932 with lower taxes and a lower public debt than it was in 1937 with higher taxes and a higher public debt?

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Office CorrespondenceDate May 18, 1939.To Mr. CurrieSubject: Concerning Mr. Noble's letter.From Haskell Wald

In addition to referring to the paragraph of the Chairman's letter, I think it would be worthwhile to call attention to the following points:

1. It is incorrect to say that "taxes absorbed 22 percent of the national income". Such a statement seems to imply that tax collections represent a withdrawal from national income, and does not take into account that the money is collected only to be spent and thus to add to the national income.

2. The figure of 22 percent includes the social security taxes, which were collected not to pay the costs of government but to provide old-age and unemployment insurance. If these taxes are excluded, taxes as a percent of national income in 1938 were less than 20 percent.

3. As the national income increased between 1933 and 1937, taxes as a percent of national income declined from 19 to 17 percent. (Social security taxes are excluded). The increase in the percentage figure for 1938 is thus a direct result of the fall in the national income.

4. Taxes as a percent of national income in Great Britain have been running at 20 percent or above since 1926, the first year for which we have figures. If receipts comparable to our Social Security taxes are included, the percentage for Great Britain has fluctuated between 21 and 26 percent.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 25, 1939.

To Mr. Thurston

Subject: Letter from Edward J. Noble

From Lauchlin Currie

LAC

I am attaching some comments on the Noble letter which you
may find useful.

*File
7/21/39*