

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

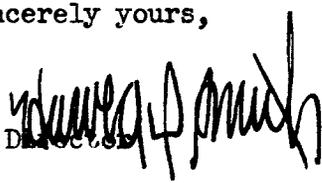
OFFICE OF
THE DIRECTOR

February 11, 1942

Dear Marriner:

You may be interested in the attached letter to Mr. George A. Kuhn, President of the Indianapolis Chamber of Commerce, which is a copy of my response to a critical letter from him concerning your speech before the Conference of Mayors.

Sincerely yours,


Director

Hon. Marriner S. Eccles
Chairman
Federal Reserve System
Washington, D. C.

Enclosure.

February 18, 1942.

Dear Harold:

Your note of February 11 enclosing the reply to George A. Kuhn, President of the Indianapolis Chamber of Commerce interested me very much indeed, not only because of the effectiveness of your answer, which backs up the position I have taken, but also because of the citations from the statement prepared by the Tax Committee of the Council of State Governments. This I had not previously seen and I am particularly glad to have it.

The speech to which Kuhn took exception repeated in substance what I had previously said about the importance of State and local governments maintaining taxes and reducing their debts in this period. I am venturing to enclose a marked copy of the talk I gave last October 14 before the National Tax Association meeting at the University of Minnesota. I undertook to stress then the fallacy in the idea of reducing local taxation in order to make it easier to pay Federal taxes and to emphasize the vital importance, both now and in the future, of close coordination of Federal and local fiscal policies if we are to achieve reasonable economic stability. Hence, I am on record somewhat in advance of the statement from the Council of State Governments.

Kuhn sent me a copy of his letter and the White House also referred the original to me. I have written two letters to Kuhn, though I do not imagine from his reply to my first one that there is much use in discussing the subject with him. Your letter, I think, is particularly effective and I need not add that I greatly appreciate it.

Sincerely yours,

(Signed) M. S. Eccles

Honorable Harold D. Smith, Director,
Bureau of the Budget,
Executive Office of the President,
Washington, D. C.

Enclosure

ET:b

January 28, 1942

Mr. George A. Kuhn,
President,
Indianapolis Chamber of Commerce,
Indianapolis, Indiana.

Dear Mr. Kuhn:

Your letter of January 15, addressed to the President, discusses issues in which I am particularly interested and upon which some clarifying comment seems warranted.

In his address before the Conference of Mayors which was the occasion for your letter, Mr. Eccles did recommend, as you reported, that local governments should maintain tax rates, but the record shows that he did not say, as your letter implies he did, that expenditures of local government should be maintained at present levels. Indeed, he was emphatic in urging expenditure reductions.

Your letter seems to treat state and local taxes as synonymous with state and local expenditures. The whole point of Mr. Eccles' remarks, as I read the record, was that state and local governments should, as an anti-inflationary measure, increase the margin between revenues and expenditures by reducing expenditures and maintaining tax rates, thus accumulating cash or credit to offset growing inflationary pressure now and to counter a possible postwar depression. Since newspaper reports may have confused the point, I enclose a quotation of the pertinent paragraphs from the speech. (Enclosure No. 1.)

Without detracting in any way from the appreciation due Mr. Eccles, I think I may point out that these suggestions for state and local fiscal policy are by no means his exclusive contribution. As a matter of fact, several leading state and local officials have expounded the same ideas over an extended period. The board of managers of the Council of State Governments and the executive committee of the Governors' Conference on December 13 adopted a statement recommending to all state and local governments the identical policies suggested to the Mayors a month later by Mr. Eccles. The governors' memorandum was published in full in Municipal Finance News (Municipal Finance Officers' Association, Chicago), issue of January 1, 1942, but it may not be readily available to you. Therefore I quote from it on an enclosure some text paragraphs and its six specific recommendations (enclosure No. 2).

Governor Stassen of Minnesota is chairman of the Governors' Conference executive committee. He announced recently that his state, conforming to the committee recommendation, has set aside \$4 million in a fund for postwar public works and expects to raise the total to at least \$15 million by June 30, 1943. The states of California and Virginia are among others accumulating reserves or accelerating debt repayment so as to counter inflationary pressure now and deflationary pressure later. Scattered cities are doing the same thing. California, Washington, Oregon, and New York have state laws permitting cities to accumulate reserves for future capital improvements. Some states apparently do not need statutory provision, depending only on local action.

I think the suggestions in the Governors' Conference committee memorandum and in Mr. Eccles' speech are sound. It is precisely because we must direct every resource to the winning of the war that we must avoid a disorganizing and possibly disastrous rise of prices. Rising prices mean increased expenditures, not only for personal necessities, but also for the tanks, the planes, the guns, the ships that are essential for victory. That is why I, as Director of the Budget, feel impelled to urge that every available counter-inflationary measure shall be employed by all types of government, by private enterprise, and by individuals. Sales of defense bonds, formal price control, rationing and related measures will not suffice to control prices. They must be reenforced, and the state and local governments, as a very substantial segment of our economy, can play a vital part.

Action along the foregoing lines will help greatly in winning this war. Therefore I hope that your organization will lend its influence and support to the adoption of these forward-looking policies by all state and local governments. On the financial front, as on the production and military fronts, victory requires a complete and united effort.

Very truly yours,

(Signed) HAROLD D. SMITH

Director.

Enclosures.