

Congress of the United States
House of Representatives
Washington, D. C.

June 9, 1942.

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

My dear Governor:

On yesterday I requested the Treasury officials to consider a tax proposal I have been turning over in my own mind as a means of supplementing the new revenue to be raised through the pending revenue bill. We have gone far enough in our work on that bill to convince me that we will fall short of the suggested \$8,700,000,000. by approximately \$2,000,000,000. It is true the tentative rates for personal incomes are nearly \$1,000,000,000. less than those recommended by the Treasury Department, but I personally feel that the tentative rates are as high as we should attempt to go this year, and at the moment that is the major sentiment in the committee. So, it appears to me that we will either include in the bill a sales tax or fall far short of the proposed goal.

The sales tax I have in mind would be a 10% retail sales tax, excluding Government purchases and all food items, calculated to raise something less than \$2,000,000,000.

In anticipation of committee action to provide some post war refund to corporations of the 94% excess profits tax, I suggest that whatever rate of refund that is provided to corporations be extended to those who pay sales taxes, thus definitely classifying the sales tax as a war tax. The refund would be based upon stamps furnished by the retailer to the purchaser and, of course, the purchase of those stamps by the retailer from the Government would eliminate a major portion of administrative difficulties.

I would welcome an expression from you concerning this proposal.

Cordially yours,



A. Willis Robertson.

June 15, 1942.

Honorable A. Willis Robertson,
House of Representatives,
Washington, D. C.

Dear Mr. Robertson:

In your letter of June 9 you ask for an expression from me concerning the proposal to impose a ten per cent retail sales tax with a provision making a post-war refund of the same percentage as would be rebated corporations under some of the proposals for excess profits taxes.

Permit me to repeat that I have been and continue to be opposed to the sales tax in principle. It is regressive taxation that disproportionately penalizes those least able to pay. It reaches below the subsistence level and works an unfair hardship upon the lowest income groups. The more it is extended to necessities of life, the more true this is. Unless it is comprehensive, the yield diminishes accordingly. I believe that until progressive taxation is fully utilized, it is unjustifiable to resort to sales taxation.

It is far more equitable to utilize the income tax fully before imposing a sales tax. We will not have so utilized the income tax structure until the exemptions have been lowered to the point at which all those who are not at or below a subsistence level are included. As you know, the income tax is based on the sound democratic principle of ability to pay. The sales tax is not.

If, notwithstanding these considerations of principle and equity, the Congress decides to enact a sales tax, then I agree with Mr. Henderson that a retail sales tax is preferable to other forms for the reasons he has stated, notably because under a general sales tax at the manufacturing or wholesale level, it would be impossible in many cases to administer and maintain price ceilings.

Beyond that, however, the proposal on which you ask me to comment seems to me to be objectionable from several other standpoints. First of all, the attempt to couple a post-war refund with the sales tax and thus presumably to sugar-coat it involves great administrative complications resulting from requiring all retailers to purchase in advance the stamps on which they would not collect

Honorable A. Willis Robertson - (2)

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until articles to which the tax applied were sold. Thereafter the purchaser, I presume, would be expected to accumulate these stamps with a view to a percentage redemption of the tax after the war. I would suppose that the great bulk of them would have to be in very small denominations, involving refunds of a fraction of a penny, if the refund principle is to be extended to all sales of the articles covered by the tax. Complicated as all this would be in order to make the tax more palatable, a still more serious objection to it, in my judgment, is that it amounts to trying to apply the principles of universal savings in the wrong way, at the wrong place, and by a sort of camouflage.

If we must have a sales tax, let's have it openly and frankly for what it is. If we are to apply the principles of universal savings, as other countries have, then let's do that in a more logical, rational manner by deductions at the source from salaries, wages, etc., such collections to be represented by Savings Bonds redeemable after the war. Any attempt to combine this savings principle with the sales tax where it does not belong would impair, obscure and perhaps prevent the adoption of a sound universal savings plan at such time as it may be urgently needed.

I appreciate your request for an expression of my views. I have undertaken to state them as briefly and unequivocally as I can by letter so that there may be no doubt that I am opposed to this proposal.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

ET:b

Congress of the United States
House of Representatives
Washington, D. C.

June 17, 1942

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

My dear Governor:

The frank expression of your views in your letter to me of the 15th is appreciated.

Since one of your objections to a sales tax is based upon the proposal that it is not justifiable to resort to sales taxation until exemptions have been lowered to the point at which all those who are not at or below a subsistence level are included, I naturally infer you do not feel that in proposing an exemption of \$500. for a single man and \$1200. for a married man we have gone low enough. Therefore, I am sorry you did not indicate how much lower you think we should go. Possibly you prefer the exemptions provided in the British income tax law, and, if so, I would be interested in why an income tax on persons in that low group is less regressive than a sales tax on the same group. In my opinion, such a tax would not amount to as much as an income tax while having the advantage of personal option in numerous instances, if food be exempt, of buying or not buying.

Those who now oppose the imposition of a sales tax will have that issue to face again next year and in facing it will be offering a thin alibi if their support for a sales tax in 1943 be based upon either a more urgent need for revenue or the need to further supplement inflation controls.

With respect to inflation, I fear the horse will be out of the stable by the time we complete action on another revenue bill in 1943, making the locking of the door then an empty gesture.

With respect to the need for revenue, appropriations for war purposes passed, pending and proposed, add up to approximately \$200,000,000,000 -- a situation of the character Senator Magnus Johnson evidently had in mind when he told the Senate: "The time has come to take the bull by the tail and look the situation squarely in the face."

Cordially yours,



A. Willis Robertson.