

MATTERS TO BE TAKEN UP WITH PRESIDENT

1. Class "C" Director of New York Federal Reserve Bank:

Clarence Dillon

Randolph Paul

2. Do not fill vacancies on Federal Reserve Board at this time:

Reasons -- (a) Five Members now more than adequate to do present work of Board;

(b) Vacancies to be filled when consolidation of banking functions are brought about either through reorganization or new legislation.

3. If new banking legislation be desired, suggest Committee composed of:

Lauchlin Currie

Harry White

M. S. Eccles

4. Appointment of Advisory Monetary & Fiscal Committee should be made immediately in order to deal with eminent inflationary developments.
5. Installment credit control.
6. Shall we go ahead with Annex?

April 9, 1941.

In re CLARENCE DILLON

Class "C" directors of Federal Reserve Banks have been selected by the Board of Governors as representatives of the public interest, and have been drawn from the ranks of commerce, industry, agriculture and education rather than from banking or finance, since the latter are represented by Class "A" and "B" directors elected by the member banks.

Clarence Dillon's selection to represent the public interest would be a departure since his career has been entirely in investment banking in Wall Street. It would be singularly inappropriate for another reason. Rightly or wrongly, he has been heralded to the country in a most unflattering light. Thus, when Ferdinand Pecora finished questioning him during the investigation into Wall Street practices and brought out how Dillon, Read and Company set up two huge investment trusts with "other people's money", the late Senator Couzens, as the printed hearings record, denounced these operations as "rotten ethics" and "reprehensible". And when Dillon contended that his firm might have mulcted the public for even more, Senator Adams commented, "Do you remember what Lord Clive said, 'When I consider my opportunities I marvel at my moderation.'?"

In his book, "Wall Street Under Oath", Pecora introduces the account of Dillon, Read operations by saying, "In this chapter, we shall tell the story of three of the most outstanding and spectacular examples of this process (selling non-voting stocks to the public, keeping voting stocks and control for the promoters) encountered during the Senate investigation: the investment trusts of Dillon, Read and Company, the railroad empire of the Brothers Van Sweringen, and the ill-fated pyramid of Mr. Samuel Insull."

Dillon, who used to be on the board of Chase, also Central Hanover, held a majority of the stock in Dillon, Read. James V. Forestal was among the vice presidents. Besides the investment trusts, the firm bought Dodge Motors and were in the thick of the bankers' fight over Fox films.

"To Mr. Clarence Dillon," Pecora says in his book, "this and all the rest of the story seemed perfectly proper, even in retrospect," in sharp contrast with what members of the investigating committee, such as Senator Couzens, thought about it.

In the light of this record, it would seem highly inappropriate to pass by available, untainted men from entirely legitimate fields and put Dillon in ostensibly as a representative of the public interest.

Private

THE WHITE HOUSE
WASHINGTON

Mr. Hoover

Why not put in Clarence
Dillon as new partner class
C member of Fed Res Bank
in N.Y.

He is out of Dillon Deal
except as stockholder.

I want a new Morgan
man

Will you talk
with me about it?

J. Edgar Hoover

APR 4 1941
RECEIVED
FEDERAL RESERVE BANK OF ST. LOUIS

April 9, 1941

ED

8
Discussed but not left with President

A substantial revision of the tax structure is now essential, in view of present and prospective Government outlays. As a minimum objective, \$3 billion of revenue should be sought from increased taxation of 1941 incomes. Increased taxes are required not merely to meet the Treasury's need for revenue, but, more important, for broad economic, political and social reasons.

Our national income in money terms is growing rapidly under the impetus of defense. It will reach \$85 or \$90 billion this year and will probably approach \$100 billion in 1942. Production of civilian goods cannot keep pace with this expansion of money incomes. Over a widening area civilian output will be hemmed in by requirements of defense. Thus, purchasing power is bound to become redundant in relation to the available supplies of civilian goods. In a few critical fields this situation can be dealt with by rationing and priorities only, but in other areas sharp price increases are inevitable unless vigorous steps are taken to tax away redundant purchasing power. If this burden is not equitably distributed through "ability to pay" taxes it will be inequitably distributed through price inflation.

Increased revenues should be sought exclusively from the "ability to pay" taxes, i.e., individual and corporate income and excess profit taxes, and estate and gift taxes; additional regressive taxes at this stage would introduce inequities as great as those which they would seek to prevent.

A strengthening of our inadequate excess profits tax should be the center of this year's tax program. Vigorous reconstruction of this tax is important not only because of its own large revenue potentialities, but also because of its political and social implications. Individuals and corporations without abnormal profits will accept their tax increases more readily if they know that corporations with defense orders are not being permitted to pile up huge earnings. Organized workers will have less strong grounds for demanding wage increases if excess profits are heavily taxed. The temptation to profiteer should be weaker if only a small part of the abnormal profits can be retained.

The following program is designed to accomplish the objectives indicated above:

1. Vigorous reconstruction of the excess profits tax. Subject to administrative discretion in special cases, establish normal profits ceiling of 10 per cent on invested capital. Establish floor at 6 per cent. Exclude borrowed money from the invested capital base. Raise excess profits tax rate to 75 per cent on excess profits in excess of \$50,000 instead of present maximum of 50 per cent on excess profits in excess of \$500,000.

2. Increase present maximum rate of normal corporation income to 30 per cent from the present 24 per cent level.

3. Consolidate present separate structures of estate and gift taxes, allowing only a single exemption of \$10,000 against combined total of gifts plus estate. Present excessively generous exemptions are \$40,000 under the gift tax, and \$40,000 general and \$40,000 insurance under the estate tax -- a total of \$120,000. Apply single schedule of tax rates to cumulative total of gifts plus estate. This would stop transfers to avoid high-bracket estate tax rates by paying low-bracket gift tax rates. Revise rates to produce taxes on a given estate substantially similar to the comparable British death duties.

4. Raise individual normal tax rate to 8 per cent, with appropriate adjustments in surtax rates, and lower exemptions to \$750 for single persons and \$1,500 for married persons. Abolish privilege of filing separate returns for husbands and wives. Abolish allowance of personal exemptions and credits for dependents as a deduction from income subject to surtax.

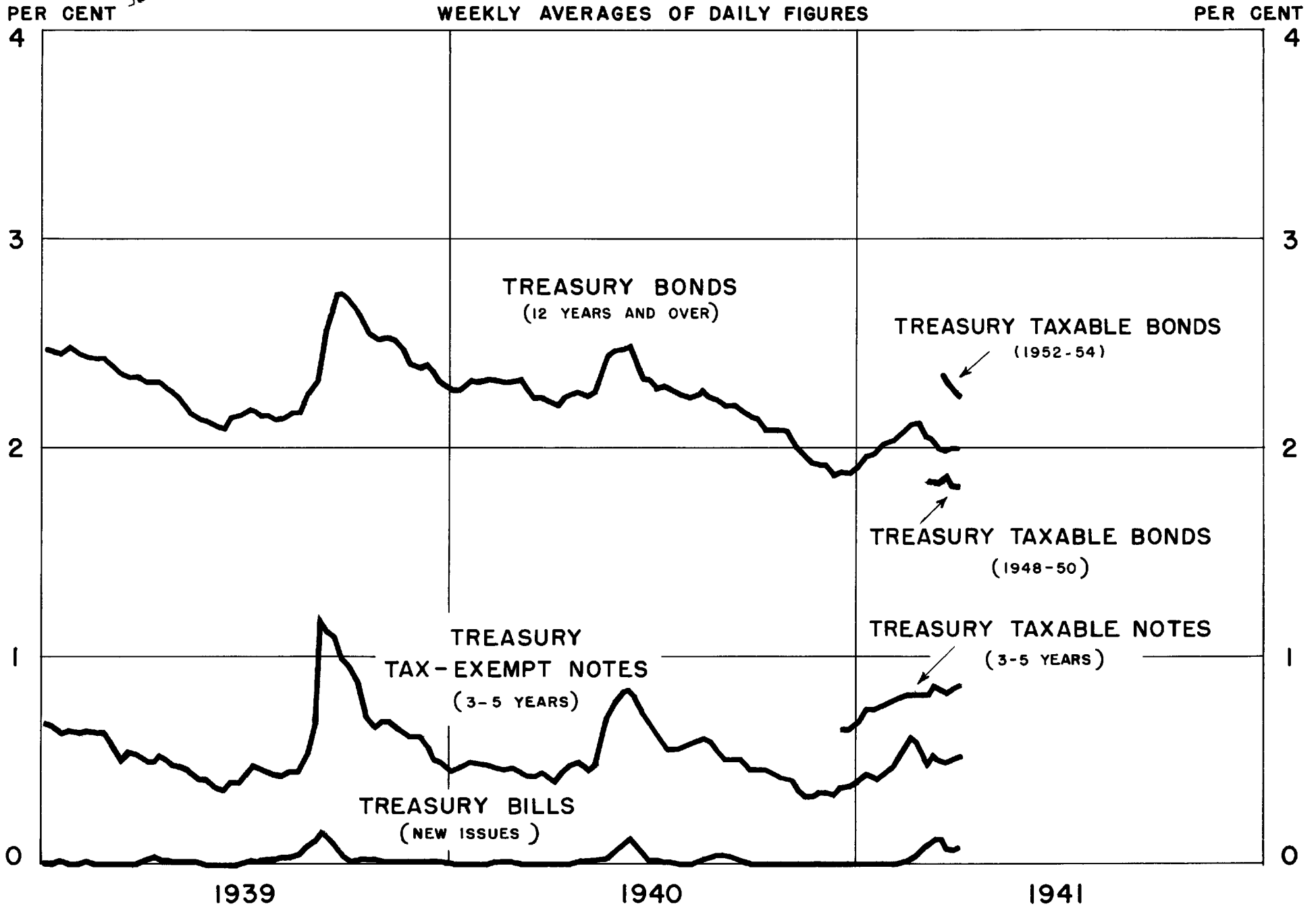
During calendar year 1942, total revenues of the Federal Government under existing law will amount to about \$11 billion. The foregoing proposals would add about \$3 billion in additional revenue, distributed as follows:

	<u>(Millions of dollars)</u>
Revision of excess profits tax	1,000
Increase in normal corporation tax	600
Increase in individual normal tax, and lowering of exemptions	500
Taxing income of husband and wife as single income	200
Elimination of personal exemption and credit for dependents as surtax credit	200
Increase in surtaxes	<u>500</u>
TOTAL	3,000

The suggested change in estate and gift taxes will yield about \$500 million a year but, because of the 15-month period allowed for payment of estate taxes, substantial increased revenue will only begin to be realized in calendar year 1943.

Overlooked showing rise.

YIELDS ON U. S. GOVERNMENT SECURITIES



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**Office Correspondence**Date April 8, 1941To Chairman EcclesSubject: Basic Commodity PricesFrom Frank Garfield

At Mr. Goldenweiser's request, I am attaching a copy of the chart on basic commodity prices, brought up to date through April 7, and a list of the commodities included in the various groups shown in the chart.



Attachment

BASIC COMMODITIES

Foodstuffs

Cocoa	I
Coffee	I
Sugar	I
Barley	
Corn	
Wheat	
Butter	
Cottonseed oil	
Lard	
Tallow	
Hogs	
Steers	

Industrial materials

Hides	I
Rubber	I
Flaxseed	I
Rosin	
Shellac	I
Burlap	I
Cotton	
Print cloth	
Silk	I
Wool tops	I
Copper	
Lead	
Steel scrap (2 markets)	
Tin	I
Zinc	

I - Import commodities

WHOLESALE PRICES OF BASIC COMMODITIES



CONFIDENTIAL

January 30, 1941

To: Chairman Eccles

From: Mr. Dreibelbis



I have rewritten the excerpts from Mr. Currie's memorandum apparently directed to the President. In going over the Executive Order I observed that while they changed the name of the Committee at the beginning of the Order (Lock mentioned this to me over the telephone) the change was not made in the body of the Order. Accordingly, I have rewritten it making the change in the second and third lines of paragraph numbered 1.

Attachments

With reference to the more specific questions in regard to the composition and functioning of the Committee, it was thought that the list included the proper persons. In seeking to reconcile the President's desire to have Mr. Delano added, with the general principle which was thought good of not embarrassing the freedom of action of any of his office through having to report to him through another person, it was thought that the following suggestion would fill the bill:

Constitute the Committee, as proposed, and then add that the Chairman of the National Resources Planning Board shall sit with the Committee, participate in its deliberations, and join in such recommendations as he may wish. Under these conditions he then need feel no hesitation in discussing with the President privately and personally any problem that may be or will be under the consideration of the Committee without feeling that he is going behind his own Committee.

EXECUTIVE ORDER

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ESTABLISHING THE ADVISORY MONETARY AND FISCAL COMMITTEE

By virtue of the authority vested in me by the Constitution and the Statutes, and in order to define further the functions and duties of the Office for Emergency Management with respect to the national emergency as declared by the President to exist on September 8, 1939, it is hereby ordered:

1. There shall be in the Office for Emergency Management of the Executive Office of the President an office to be known as the Advisory Monetary and Fiscal Committee which shall consist of (1) the Vice President, who will be the Chairman of the Committee, (2) the Secretary of the Treasury, (3) the Federal Loan Administrator, (4) the Chairman of the Board of Governors of the Federal Reserve System, and (5) the Advisor on Price Stabilization of the Advisory Commission to the Council for National Defense. The Chairman of the National Resources Planning Board may sit with the Committee, may participate in its deliberations and may join in any or all of its recommendations. An Administrative Assistant to the President, named by the President, shall be Secretary to the Committee.

2. It shall be the duty of the Committee generally to coordinate the monetary, credit, and fiscal policies of the Government and to formulate and recommend to the President consistent and comprehensive monetary, credit, and fiscal programs integrated with the program of national defense, the full and continuous use of national resources, and the avoidance of price distortions and inflation from monetary and fiscal causes.

This Order shall take effect on February , 1941

The White House

February , 1941