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June 26, 1946.

Dear Matt:

In accordance with our telephone conversation, I am enclosing a letter and a brief memorandum on a suggestion which I think the President might wish to consider in connection with any public statement he intends to make on the OPA. I hope it can be placed in his hands promptly.

Sincerely yours,

Mr. Matthew J. Connelly,
The White House.

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June 26, 1946.

My dear Mr. President:

I am venturing to pass on to you the attached brief suggestion, which I have also given to John Snyder, in connection with whatever statement you may decide to make public on the OPA.

Respectfully yours,

The President,
The White House.

Enclosure

June 26, 1946

Extra copy

The President may wish to consider including, in whatever public statement he may make on OPA, a recommendation that Congress restore an excess profits tax, possibly of 75 per cent rather than the wartime maximum of 95 per cent. When this tax was removed, it was expected or at least hoped that OPA price ceilings would continue to be effective. That hope has vanished in the delay, confusion and mutilation of the OPA extension by Congress. Some of the widespread public dismay and fear of higher prices would be offset if it were known that the Government would recapture, through this tax, excessive or exorbitant profits resulting from removal of price ceilings and that this revenue would be used to pay down the public debt.

In effect, the Government would say to the public: If the wrecking of price controls does result in unreasonably higher prices for things that people need or want, the public can take some comfort from the knowledge that the extra dollars they pay will not go to fatten profiteers but will be gathered in by the tax collector if profits are excessive, and used to reduce the debt owed by all of the public.

It is entirely possible that with price ceilings destroyed, corporate and business profits, before taxes, will by the end of the year exceed the wartime peak in many lines. If that should turn out to be the case, would not the Government be open to criticism if it failed to anticipate such a result and to guard against it be reimposing the excess profits tax? If prices and profits do not turn out to be excessive, then the tax would not apply.

An adequate excess profits tax would make it less profitable for business to increase prices and would thus exert a positive anti-inflationary pressure. To the extent that the tax resulted in revenue to the Treasury and a paying down of the public debt, the effect would also be anti-inflationary. Moreover, it would be an important deterrent upon the wage-price spiral because if excessive business profits were subject to this tax it would remove a justification that would otherwise exist for labor to demand a share in those profits.

If the President recommended and Congress refused to reenact the tax, the responsibility would in any case be clearly fixed in the event that excessive profits do result from the wreckage of price controls. Those who previously favored removal of the tax could with entire consistency support its reenactment now because of the changed situation.