

8/13/40  
White House  
(Memo left with Pin)  
August 12, 1940

1. It is a good omen for the future of democracy that this Administration recognizes the decisive importance of strengthening popular morale during the present period of emergency. Unless public policy is directed with continuing vigor towards this objective, an intensive armament program tends, after the initial burst of enthusiasm has subsided, to accentuate the forces of national disunity--by providing large profits to a few and calling for heavy sacrifices from the many. The present tragic situation of Europe is due largely to the fact that the leaders of the democratic countries dealt with this problem too late, or not at all.

2. Fortunately we are able to avert this danger. On the one hand, we can, by appropriate fiscal policies designed to put our vast unused productive power to work, both expand our military and naval establishment, and, at the same time, greatly improve the material well-being of our people. The point is far distant at which consumption would have to be curtailed to make room for an enlarged defense program; meanwhile, our objective must be to expand, not contract, consumer buying power. On the other hand, we can, through enactment of an excess profits tax and a closing of the loopholes which impair the effectiveness of our existing tax structure, prevent the development of a new crop of war millionaires.

3. These considerations have an important bearing on the two chief items of legislation now before Congress--excess profits taxation and conscription. The excess profits tax proposal contained in the report, dated August 8, of the Subcommittee on Taxation of the House Ways and Means Committee, is weak and inadequate on two principal counts. First, the "ceiling" for normal profits of ten per cent of invested capital, included in the Treasury's recommendation, is abandoned by the Subcommittee; profits of 20 per cent, 30 per cent and higher may be exempted from excess profits taxation if the corporations concerned have been accustomed to these rates of return in the past few years. Second, the rates of tax on excess profits are graduated from 25 to only 40 per cent, thus allowing corporations to retain by far the major share of even the profits which are regarded as excess by the Subcommittee. If tax legislation follows the lines laid down in the Subcommittee's report, our excess profits tax will be only a feeble and ineffectual gesture. A reminder from you of the need for effective taxation of excess profits now seems essential. At the same time, I strongly recommend that you urge Congress to deal comprehensively with the many loopholes which weaken our present tax system.

4. Because the adaptation of industry to large-scale armament production is necessarily time consuming, it is doubtless desirable to build up through conscription a large body of at least partially trained soldiers before anything like the full complement

of materiel for these forces becomes available. The material sacrifices imposed on these men should, however, be kept to a minimum. There is no economic reason why the basic pay of conscripts should be held down to \$21 or even \$30 a month. (The original Burke-Wadsworth bill provided for a wage of \$5 a month.) The sacrifices which conscripts will be called upon to make through interruption of careers are sufficiently great without the added burden of needlessly low wages. I therefore recommend that you propose a monthly wage for conscripts of \$50 a month and a corresponding readjustment of basic pay for the present enlisted personnel. If it becomes necessary to draft men with dependents, these basic rates of pay should be supplemented by an adequate system of family allowances.

In this connection, it is significant that enlistments during the current recruiting campaign have been heaviest in the poorest sections of the country, where even a \$21 monthly wage, with little prospect of advancement, seems attractive. Volunteers in the Fourth Corps Area (Southern States) have averaged 1,500 a week as compared with 200 or 300 for the First and Second Corps Areas (New England and New York). While business is insisting upon, and is being granted, an assured generous profit as the price of its cooperation in providing materiel, it is not only unfair but also highly dangerous to conscript manpower at wages which seem adequate only to those who are already in poverty.