



TREASURY DEPARTMENT

WASHINGTON

January 16, 1940

Dear Mr. Eccles:

May I acknowledge receipt of the original and six copies of the memorandum prepared by the Federal Reserve covering the income certificate plan, together with a letter of transmittal from you to the President.

Attached you will find a copy of the memorandum prepared for the President by the Treasury Department on the same subject.

The originals of these memoranda and your letter of transmittal were forwarded to Dr. Currie on January 13th.

Sincerely yours,

Philip Young

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

JAN 11 1940

MEMORANDUM FOR THE PRESIDENT:

The Treasury Department has analyzed the proposed Certificate Plan for providing parity payments to wheat, cotton and rice growers, financed outside the Budget by processing taxes without the necessity of periodic Congressional review.

The Department concludes that the plan is an undesirable method of financing agricultural benefits, principally for the following fiscal reasons:

(1) The cost of the Plan would fall on the consumers of basic necessities, burdening those with small incomes more than those with large incomes. The taxes imposed would be even more regressive than any of the present Federal sales and excise taxes. They would be imposed on the weight of the basic commodity regardless of the price of the final product to the consumer. In some cases the proposed tax rates would be higher than those of the former processing taxes. The payments under the Plan would be made to about three million wheat, cotton and rice producers, some of which now receive substantial incomes, at the

expense of another group comprising four million other farm families, more than twenty-two million non-farm families and several million single individuals, and including the unemployed, the relief recipients and many others with very low incomes.

(2) The exclusion of such important tax and expenditure items from the Budget would limit the effective use of fiscal policy as an instrument of economic control. Furthermore, it would impair the effectiveness of the Budget in fiscal planning and management since the lack of periodic Congressional review and public scrutiny would further handicap Government in the proper allocation of its expenditures among the many needs.

(3) The adoption of the Plan cannot be counted on to reduce appropriations within the Budget even though it would add large expenditures outside the Budget. The Department of Agriculture has itself expressed the expectation that reductions in parity payments within the Budget would be offset by increased appropriations for the disposal of surplus. The heavy processing taxes might well reduce substantially the consumption of the taxed commodities, aggravating the agricultural surplus problem.

Moreover, producers of commodities not covered by the Plan would doubtless insist not only on their present payments but also on additional payments to place them on an equal basis with wheat, cotton and rice producers.

An analysis of these and other aspects of the Certificate Plan is contained in the attached memorandum.

(Signed) H. Morgenthau, Jr.

Attachment