Use of the Production Index in the Economic Security Act.

The Economic Security Act provides that the payroll tax shall be one per cent in 1936, if the Board's production index does not average more than 84, and 2 per cent if it averages between 84 and 95, and the same provision is in effect about 1937. In 1938 and thereafter the tax is to be 3 per cent.

<u>It is my recommendation that the tax be made 1 per cent in 1936, 2 per cent in 1937, and 3 per cent in 1938, regardless of the behavior of the production index.</u>

This index is an estimate subject to revision and occasionally to considerable fluctuations of a more or less accidental nature. If $100,000,000 of taxes, more or less, were to depend on whether the index happens to fall below or above 85, there would be pressure on the Board to make its estimates as low as possible. The index would also be subjected to close scrutiny by interested parties, with possibilities of serious argument about the validity of this or that portion of the estimate. An index which is only a rough tool and, though it is based currently on the best available information, nevertheless includes a good deal of estimating and judgment, is not a safe measure for a statutory requirement that it be used as a basis for taxation. Since the tax is to be 3 per cent in 1938 in any case, it would seem best to simply step it up 1 per cent each year until then, rather than to have its level depend on a partially estimated index and subject the Board to the possible consequences of controversy over the validity of this index.

Unemployment Trust Fund

I have been over the draft of Section 4a of the Economic Security Bill and Mr. Currie has also looked it over. We have no important suggestions to make. Minor changes that might clarify it are suggested as follows:

On page 1, in the sixth line from the bottom, insert the words "interest bearing" before the words "public debt." There is some non-interest-bearing public debt now and if the amount should increase it would not be desirable to include it in the computation of the average rate.

On page 3, in paragraph d, in line 4, it is suggested that the words "the fund or any part thereof" be omitted and the following substituted: "Such portions of the fund as are not invested in accordance with the requirements of Section 4a." This suggestion is for the purpose of making it clear that 4d does not in any way modify the requirement in 4a that the Secretary of the Treasury should keep the entire fund invested except such amount as may be necessary for current withdrawals. If the law should not require the Secretary to keep it all invested, increases and decreases in the amount that he might hold on deposit with the Federal Reserve banks would have the same effect as open-market operations by the Federal Reserve banks and might interfere with the System's open-market policy.