

The General Counsel of the Treasury
Washington

August 14, 1943

Dear Mr. Eccles:

In connection with the series of conferences which the Secretary initiated on August 10, I am forwarding for your examination a list of general questions on which the Secretary will need information in formulating his statement to the Congress on the tax program. Whatever information you may supply on the topics covered by these questions will be very helpful.

The enclosed questions will be the subject of informal discussion at the meeting next Thursday. They are being sent to you now in order to give you an advance opportunity to consider them.

In addition to the comments which you may make at the conference, it would be helpful to have memoranda covering such phases of the issues raised in the enclosed questions as fall peculiarly in the jurisdiction of your agency.

It is, of course, important that the enclosed material be treated as highly confidential.

Sincerely yours,

(Signed) Randolph Paul.

General Counsel.

Honorable Marriner S. Eccles
Governor, Federal Reserve Board
Washington, D. C.

Enclosure

S T R I C T L Y C O N F I D E N T I A L

GENERAL QUESTIONS ON THE SECRETARY'S
TAX STATEMENT TO THE CONGRESS

A. Inflation

1. Would it make an important difference in the effectiveness of price control if the forthcoming revenue measure were to supply only a few billion (perhaps \$4 billion or \$5 billion) instead of \$12 billion, or substantially more than \$12 billion, in added taxes? Would the difference involve the abandonment of general maximum price regulation? What would supplant general maximum price regulation, and how effective would it be?
2. Is there likely to be so heavy a volume of consumer buying that wholesale and retail inventories will be depleted below the minimum safe point within the next year if the forthcoming revenue measure supplies
 - (a) only a few billion (perhaps \$4 billion or \$5 billion) in added taxes?
 - (b) \$12 billion in added taxes?
 - (c) substantially more than \$12 billion in added taxes?
3. Are black markets in the necessities of life (assuming that these necessities must be kept subject to price control in any event) likely to develop to very serious proportions within the next year if
 - (a) there is no additional revenue?
 - (b) the forthcoming revenue measure supplies only a few billion (perhaps \$4 billion or \$5 billion) in added taxes?
 - (c) it supplies \$12 billion in added taxes?
 - (d) it supplies substantially more than \$12 billion in added taxes?
4. In general, will it be necessary to have an additional revenue program substantially greater than the announced \$12 billion tax goal to keep the general price level from advancing sharply over the next year? If the answer is yes, approximately how much revenue should be asked for in order to prevent such a rise?
5. What tax program, if any, would cause a serious wave of consumer purchases in anticipation of the taxation?

6. Is it desirable to grant some relief from increased taxation to individuals who increase their rate of saving, in whatever form, to a level decidedly above normal?
7. Is there substantial danger that a general retail sales tax would result in effective demands for higher wage rates? Does the same danger exist to a greater or lesser degree with any further increase in individual income tax rates? Any other taxes you would care to mention?

B. Effect on Production

8. Is there evidence that the present tax system is
 - (a) discouraging over-time work?
 - (b) increasing absenteeism or otherwise decreasing the volume of work by those who already have jobs?
 - (c) discouraging potential workers from taking jobs, especially women?
9.
 - (a) Can you suggest how much farther it will be possible to go in taxation without incurring substantial dangers of the type listed in No. 8 above (as an illustration, would an initial income tax rate of 30 percent create such dangers)?
 - (b) Are there relief provisions which could be used to overcome these dangers?
10.
 - (a) Is the present tax system bearing so harshly on the low income groups that they are unable to maintain the standard of consumption necessary for efficient working capacity?
 - (b) If the answer to question 10 (a) is no, do we still have substantial leeway for added taxes on these groups before that danger becomes important? (By low income groups is meant those families with annual gross incomes of approximately \$2,000 or less.)
11. Does the present system induce an appreciable degree of waste of manpower and materials by business management owing to the height of
 - (a) the normal and surtax rates?
 - (b) the excess profits tax rate?
12. Is it very important, either for purposes of general morale or simply from considerations of equity, to grant some relief from increased taxation to persons who have
 - (a) entered into contractual commitments for savings (mortgaged homes, insurance policies, etc.) that would be disrupted by heavier taxes?

C. Equity

12. Is it very important, either for purposes of general morale or simply from considerations of equity, to grant some relief from increased taxation to persons who have
 - (a) entered into contractual commitments for savings (mortgaged homes, insurance policies, etc.) that would be disrupted by heavier taxes?

(b) incurred expenses that may denote special burdens or hardship, like the cost of moving to war jobs, increased living costs in crowded war production centers, cost of special equipment for work, burial expenses, and so on?

13. Should the increase in taxation be kept deliberately at a fairly small amount on the grounds that final settlement of how the cost of the war is to be distributed among individuals at various income levels, etc., should be to a considerable degree postponed until after the war? To put the matter another way, is there danger of loading too much of the burden of the war on the low-income groups if a drastic tax program is undertaken now (and a correspondingly lighter tax program is to be made possible after the war), instead of having the wartime increase somewhat less and consequently the level of post-war taxation somewhat higher than it otherwise would be?
14. Should another attempt be made to hold the net income available after income tax to an approximate maximum of, say, \$25,000 (or some other figure)?
15. (a) Is it important to place special taxes on increases in individual incomes (i) on only a few types of increase and larger incomes, or (ii) on almost all types of increase, exempting, however, increases in the very low income groups?
- (b) Would it be desirable to have merely a relief provision for those who have had no increase in incomes?
- (i) If so should the relief be merely in the form of immediate availability of a postwar credit (restricted to the low-income groups)?

D. Post-War Considerations

16. In deciding how much additional tax revenue to raise, to what extent are post-war considerations important? Specifically --
- (a) Should we be concerned over the difference in the size of the post-war interest burden that is implied by the difference between
- (i) no additional revenue
 - (ii) additional revenue of \$4 billion or \$5 billion
 - (iii) additional revenue of \$12 billion
 - (iv) additional revenue of substantially more than \$12 billion?
- (b) Is keeping down the growth in the volume of bank deposits and currency an important reason for imposing further taxes?
- (c) In general is it an important consideration in framing our present tax program to be sure to have greatly lower tax rates after the war?