

April 18, 1947.

Honorable John W. Snyder,
Secretary of the Treasury,
Washington, D. C.

Dear John:

I understand that the Senate Finance Committee hearings on tax legislation are scheduled to begin next week and I assume that you will testify. In my analysis of the economic situation I have given some thought to the problem and have some ideas about a tax program, which you might wish to consider.

It is hardly necessary for me to say that I am wholeheartedly behind your view that there should be no tax reduction now. As I tried to indicate at last week's Cabinet meeting, I believe that nothing should be done which would prolong the boom and that we must accept the necessity for some downward adjustment in prices and incomes. However, I consider it quite likely that this necessary readjustment will occur before the end of the fiscal year. If this should be the case, it may well become desirable to have a change in tax policy provided for in this session of Congress.

In view of the difficulty of obtaining prompt tax action when needed, it might be well to aim at some tax reduction to become effective on January 1, 1948 rather than to reject all consideration of tax legislation at this time. It would be preferable to obtain legislation now to become effective at some date to be specified at the appropriate time by executive action or joint resolution. But this may not be feasible.

After the inflationary trend has been reversed, inadequate buying power of consumers will be the weakest element in the economic situation and tax reduction should aim at releasing consumer purchasing power. A tax stimulus for increased investment would be unnecessary; an abundance of

investment funds will continue to exist and the best incentive for investment is a sustained demand for the products of industry. The kind of tax reduction proposed in the House Bill is entirely unacceptable for the purpose I have in mind. What will be needed are reductions in the tax liabilities of the lower income groups. This, I believe, can be achieved best by raising exemptions. An increase in the personal credit from \$500 to \$750 or \$1,000 to be effective on January 1, 1948, would seem to offer the simplest and most desirable means of tax revision within the limits that may be advisable and for the purposes that will best meet the probably needs of economy at that time.

With kind personal regards, I am

Sincerely yours,

M. S. Eccles, Chairman,
Federal Open Market Committee.