

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 22, 1940

To Chairman Eccles

Subject: _____

From Henry Edmiston

Attached is a discussion on the apparent results of the March income tax collections and the Secretary's comments with regard to them.

H.E.

March 23, 1940

HE

MARCH INCOME TAX COLLECTIONS

The reports on income tax collections through March 20 indicate that receipts for the month are likely to be between \$660,000,000 and \$670,000,000, as compared with our estimate of \$650,000,000 and the Treasury estimate in the Budget Message of about \$550,000,000. The fact that the actual results appear to have exceeded even our estimate leads to the following conclusions:

1. It appears that our estimate of the Treasury balance of \$1,250,000,000 at the end of June of this year will be realized, provided, however, that the Reconstruction Finance Corporation sells about \$150,000,000 of guaranteed notes in April or May.

2. The Treasury will have to write up its estimate of income tax collections for the three remaining quarters of this year. Although I doubt that new Treasury estimates will show a balance on June 30 as high as our figure, it should be substantially above the amount which Bell has been using in the recent discussions of prospective financing.

3. Any proposal to raise cash in June through sale of direct obligations would appear to be completely unjustified. In case the Treasury continues to underestimate the cash balance, the recent experience can be cited to cast doubt on the accuracy of their estimates for the future.

The Secretary, in discussing the March income tax collections with the Press, said that they are running ahead of the budget estimate by a "comfortable margin" but he refused to give the actual Treasury estimate for March alone. He said, however, that there is not "a chance in the world" of increases in Federal revenue over estimates making up the \$460,000,000 which President Roosevelt suggested in his Budget Message that Congress should levy in new national defense taxes. The New York Times reported that Under Secretary Bell, who was present at the press conference, reiterated that there was no possibility of making up the \$460,000,000 sought in new taxes through excesses in revenue over estimates. Actually, of course, our tentative estimates of receipts for this calendar year are about \$450,000,000 above the former Treasury estimates as indicated in the budget. This increase is, of course, mainly in income taxes but it also includes about \$80,000,000 additional from customs receipts and a small amount from various other taxes.

The Secretary also said that he was keeping his "fingers crossed" until the March returns have been analyzed, because perhaps more people, particularly the State employees who are paying Federal income taxes for the first time, may be paying the full amount rather than availing themselves of the quarterly installment payment plan. This would indicate that the Treasury will probably not write up their receipts estimates for

the subsequent quarters as much as is probably justified. While it may be necessary to revise our estimates of receipts for the rest of the year when we see the analysis of the March returns, it appears unlikely that we will have to write down our estimates of income taxes for the rest of the calendar year.

The Secretary, in this same press conference, also took occasion to say that he was not "going to use any trick method" with the Stabilization Fund to keep from exceeding the debt limitation and stated that he would not worry if the limitation were raised to even \$50,000,000,000. He declared the matter was clearly the responsibility of Congress and should be dealt with in a "perfectly legal and open way". In other words, the Secretary shows Congress and the country that he is conservative and, by implication, places the onus of adopting unsound fiscal policy on the President or other members of the Administration should they decide to advocate that Congress should authorize the use of the Stabilization Fund to retire debt.