

Copy of Kupre's memo June 1, 1940.
furnished to Mr. Ogg, Farm Bureau Fed.

THE PENDING TAX BILL

The tax bill now before the Ways and Means Committee contains provision for a 10 per cent increase in income and estate taxes, a similar increase in manufacturer's excise taxes, and much sharper increases in other indirect taxes levied by the Federal Government. The tax on gasoline is increased by 50 per cent, on liquor 33 per cent, on beer 50 per cent, and on cigarettes 17 per cent. In judging the economic effects of the tax increases the following considerations are of importance:

(1) It is estimated that the proposed tax increases would provide \$656,000,000 of revenue in a full year, of which about \$250,000,000 would be obtained from increased income and estate taxes, and the remainder, roughly \$400,000,000, from indirect taxes bearing heavily on consumption.

(2) The increase in income and estate taxes would not begin to provide additional revenue until March 15, 1941, while the remaining tax increases would go into effect almost at once. Thus the portion of the tax increases which weighs heavily on consumption would become almost immediately effective, while the portion raised from the unspent incomes of the well-to-do will not be collected for some time.

(3) Viewing the proposed tax increases as a whole, it is estimated that about half of the additional revenue would produce a direct or indirect drain on the income of families and other consuming units having incomes below \$3,000 a year, and that only one-third of the increased tax revenue would fall on those with incomes of \$10,000 a year or above.

(4) The increase in the cost to consumers of tobacco, gasoline, beer, liquor, and articles on which manufacturers' excise taxes are levied will not only impair their ability to consume these specific articles, but will also tend to reduce the purchasing power available for expenditure on food, textiles, and other essentials.

(5) The notion that the expansion of our national defense program requires large sacrifices at once from the mass of consumers is based on a complete failure to take into account our

total economic situation, which is chiefly characterized by a huge volume of unused productive power. In these circumstances what we need is not increased armament production and curtailment elsewhere, but increased armament production and expansion elsewhere. We won't get the expansion if we finance the defense program in ways which drain away the buying power of consumers. We will get, instead, needless and wasteful stagnation outside war industries.

(6) In the light of the President's promise that there shall be no war millionaires, it is essential that much more than one-third of the revenues derived from increased taxation should fall on those with incomes ^{over} ~~at~~ \$10,000 a year. Taxation of the well-to-do is also compatible with the requirements of general economic expansion, while taxation which bears on the mass of consumers produces stagnation in our peace-time industries.