

May 27, 1941

Mr Marriner S Eccles
Chairman of Board of Governors
Federal Reserve System
Federal Building
Washington, D C

Dear Mr Eccles:

I have noticed your proposal regarding the placing of a high excise tax on new and used automobiles, with the view that such a high tax would not only raise revenue for the defense program, but would also tend to restrict sales and conserve materials. I very much disagree with you on the point of raising the revenue; the amount raised by this additional tax on a basis of reduced sales would be far offset by the decreased income taxes received from automobile dealers and their employees. In considering this type of legislation, one must consider the number of people effected. At the present time there are about 50,000 automobile and truck dealers and they will average a minimum of 20 employees or 1,000,000 people; and the average employee has a family of 4, so this effects 4,000,000 people. As an example I cite our own company: we have 60 people employed and Lewiston is a town of less than 11,000 people. All the other dealers in town each employ from 15 to 45 people. This proposed tax would, no doubt, break every dealer dealer or force him from the business.

It is interesting to note that the automobile business along with the gasoline companies have been singled out to absorb the heavy load of the defense taxation program. I am in favor of an excise tax that is equitable to all types of merchandise, for I believe it is the easiest tax to collect and the expense of collecting is low. Automobiles should not be asked to finance the program any more than textiles, hardware, lumber, food or any other commodity.

If it is necessary to cut production to conserve on materials, then this should be accomplished through the direct limitation of new car and truck production by the office of production management and not through class legislation by lowering the boom on one particular industry.



McDONALD CHEVROLET CO.
119 NEW SIXTH STREET PHONE 1891
LEWISTON, IDAHO

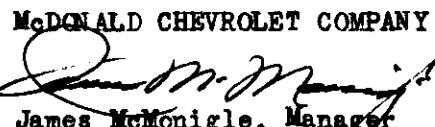
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Mr Marriner S Eccles, Washington, D C

This matter deserves your considered thinking and I trust you will review all of the effects this bill will have on the retail end of the automobile business before making your final recommendation to the tax commission.

Sincerely yours,

McDONALD CHEVROLET COMPANY


James McMonigle, Manager

JMcM:bmh

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

To Mr. ClaytonFrom Martin Krost

MK

Date June 10, 1941Subject: Letter Originally Referredto Dr. Parry

Dr. Parry suggested that we might want to prepare a reply to the enclosed letter which you had referred to him in the first instance. Since it came to us after the Chairman's return it has been drafted for his signature but we should be glad to adapt the draft for your signature if you think it appropriate. We are therefore sending the reply to you in draft instead of in completed form.

June 6, 1941

DRAFT

Mr. James McMonigle, Manager,
McDonald Chevrolet Company,
119 New Sixth Street,
Lewiston, Idaho.

Dear Mr. McMonigle:

Thank you for your letter of May 27.

My purpose in suggesting additional excise taxes on automobile sales was not at all to impose a disproportionate burden upon this particular industry. The production of automobiles does, however, absorb materials, equipment, and skilled labor that are urgently needed for national defense. This fact has been recognized by leaders of the industry, who have already agreed to a twenty per cent reduction in output for the next model-year.

Production of certain other durable goods also competes directly with defense. I believe that excise taxes should be imposed on these products as well as on automobiles. However, general sales taxes such as you suggest seem to me quite unjustified. For, as I said in my testimony before the Ways and Means Committee, "they would tend to throw out of work in various localities men who could not be absorbed into defense industries, or to make idle facilities that are not needed for defense".

I find it difficult to agree with you that a twenty per cent tax on automobiles "would, no doubt, break every dealer or force him from the business." Consumer purchasing power has been rising rapidly and will continue to rise. If automobile production is to be reduced the curtailed supply of new cars must somehow be allocated among an increasing number of potential buyers. An excise tax is to my mind the simplest and most equitable method of accomplishing this.

Sincerely yours,