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October 3rd, 1941

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

My dear Marriner:-

I know that you are both a keen and a sound student of taxation and the price rising problem. Something occurs to me which I think should be considered and I would like to lay it before you.

Almost all of the people who are talking about taxes, particularly our friend Leon Henderson concerning whom I believe you and I think alike, are talking continuously about higher taxes.

There are in the country a vast number of people on a salary schedule like myself. I use myself only as an example in computation, not as a principle. For some years I have had no salary increase and there is little likelihood in the present situation that I can get a salary increase. If the cost of living advances 20% there is in effect a 20% tax against me created by the economic spiral. For every \$100.00 of salary \$20.00 is effectively taken away for which Preparedness gets nothing and the rest is distributed in miscellaneous increases in the cost of potatoes, shoes or what-have-you. If this 20% were taken off for Preparedness I would not have a very serious criticism, although it might be very unpleasant. I have in my office three other persons who will suffer on the same basis exactly.

There are a vast number of laborites who through their union pressure will be able to get an advance in wages, not only commiserate to but probably exceeding in the long run the increase in the cost of living - and these wages will not recede if the cost of living goes down. They did not recede after the inflation of the last war and I remember reading an article by Andrew Woll stating that since the last war labor has had a continuously increasing effective wage. I presume he spoke from his experience in the A. F. of L.

It seems to me that in the taxation schedule there should be a coefficient deduction from the earned income in some way offsetting the economic rise in the cost of living, or 2nd, there should be some kind of a tax on increased wage incomes so that the tax base is broadened as well as the tax rate raised.

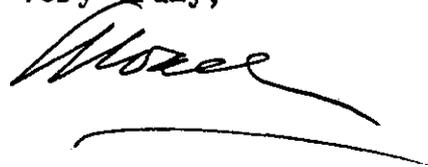
I know there are industrial workers who two or three years ago were out of work who today you cannot touch in their independence and I believe that these people now reemployed at advanced wage scales should contribute to the Defense Program more liberally from those advanced wages than the white collar man who can demonstrate under oath that his income from earnings has not increased from the last two to five years, particularly during the last year.

I wrote to Leon Henderson about this idea and he admitted to me in a letter that there might be a certain amount of justification in the theory, but he raised the question, "Ought we to penalize the industrial worker who has been the chief victim of the depression because he now increases, or just maintains, his real income?"

In connection with this question, it seems to me that if the real income of one class is cut by the necessity of Preparedness taxation than the real income of all classes should be cut down to those who are getting only enough for sustenance. It is the job of Americans to save America - not just a few at the top who might be asked of course to spend more.

I do not want to put you on the spot - I am too fond of you and your brothers, one of whom, Bill, I saw in Detroit recently. If it embarrasses you to write to me about this, simply acknowledge it. If there is an idea in it that might be of value to you, adapt it. I do not require any public admiration.

Yours very truly,



AW:HLB

October 8, 1941.

Mr. Alexander Wall,
Secretary-Treasurer,
Robert Morris Associates,
1417 Sansom Street,
Philadelphia, Pennsylvania.

Dear Alex:

This will acknowledge yours of October 3 in which you comment on the impact of inflation upon those with fixed incomes, with special reference to the salaries of the white collar class. You suggest that any such person, who could make oath that his income from earnings has not increased from the last two to five years, be subjected to a lower tax than those who have been enjoying advanced wages or salaries due to the defense effort.

Generally speaking, an idea of that kind has considerable merit, but I do not see how it could be put into practice without a tremendously complicated policing on the part of the Internal Revenue Bureau. There is also the question of continuity of employment and many workers, now enjoying higher wages, can point to the fact that during the past several years, they have been employed only at part time and on a low scale, whereas most salaried people have been steadily employed. There are many other practical difficulties that could be mentioned.

However, I am referring your letter, for their consideration, to our section which is interested in taxation.

With kind regards,

Very truly yours,

LC cm