

November 19, 1941.

Dear Leon:

The Chairman just called me from St. Louis about the attached confidential tax memorandum which he wants to present to the Treasury if, in his absence, the Secretary should bring this subject up. The Chairman expects to be back here early next week, but in the meantime wanted me to see that you had this and to get any criticisms, suggestions, etc., from you because he hopes you still see eye to eye on this general subject.

If you have any comments would you be good enough to let me know? I will not send this to the Treasury unless something develops between now and the first part of the week.

Sincerely yours,

(Signed) Elliott Thurston

Elliott Thurston,
Special Assistant
to the Chairman.

Honorable Leon Henderson,
2121 Bancroft Place,
Washington, D. C.

enclosure

ET:b

November 19, 1941.

I am in full accord with the view that further, vigorous steps need to be taken to combat price inflation and that additional tax legislation is essential. It is true that governments usually have done too little too late. Nevertheless, it is of paramount importance in these critical days to preserve public morale and so to design and time the tax program that it will have public and political support and at the same time be effective. It would be a mistake to attempt to rush through a withholding tax ahead of other tax changes and other steps that will assure the public of the Government's purpose to be equitable and protect the taxpayer as far as possible on all fronts against rising costs of living.

A withholding tax, or even a well-rounded tax program, cannot by itself provide such assurance. The enactment of price control legislation is vitally important. Likewise, further assurances need to be given to the public, particularly to the fixed income groups, that business, labor and agriculture are not going to be permitted to offset taxes by getting higher and higher wages and prices. Even if it were possible (which I doubt) to induce Congress to rush through a withholding tax, the public attitude would almost certainly be resentful, and justifiably so unless some curbs are to be applied to labor and farm demands, and unless the tax pattern itself is so equitably drawn as to tap corporate and wealthy individual incomes more fully by higher rates and by closing numerous glaring loopholes in the corporation, individual income, inheritance and gift tax structure.

Moreover, the general public has not yet waked up either to the spread or weight of the tax load involved in the income taxes taking effect March 15. Few have prepared themselves to pay the increased amounts. The vast majority, having failed to save out of 1941 income, will be paying these taxes out of their wages and salaries in 1942. To pile a 15 per cent withholding tax on top of this, unless other essential protective measures against increased living costs are adopted at the same time, would be to risk a serious public revulsion. As yet, the general public is not fully aware of the gravity of the international situation. Our people are neither unitedly behind the defense and lend-lease programs nor adequately aware of the sacrifices entailed. The shock at this stage of a heavy withholding tax, superimposed on the increased income taxes, might have a gravely adverse effect upon the achievement of a united front. From the standpoint of defense financing, moreover, it would prove illusory to the extent that what was taken in added taxes would be offset by reduced subscription to savings bonds.

I think it of prime importance, therefore, that precedence be given to taxing the long purses first, to closing loopholes, to wage and farm price curbs, and to rent controls. Once the Government has done all it can on these fronts, there is justification for asking the mass of taxpayers who would be affected by the withholding tax to make further sacrifices.

So far as the proposed tax program is concerned, it should be one that the Administration can present and defend as a whole. But if any part of the tentative program is to have precedence, then increased

taxation on corporations and individuals of higher incomes and the closing of loopholes should come first. Full consideration should be given to the question of whether to rely heavily on a withholding tax alone or to couple it with some form of compulsory savings, which would be much more acceptable to the lower income groups. The program presented to Congress should be one that can be fully defended on grounds of fairness and equity -- one that errs on the side of being too strong rather than too weak, frankly recognizing that concessions to political pressures may have to be made in any case to secure enactment.

December 4, 1941.

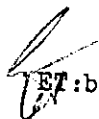
Dear John:

In accordance with our telephone conversation, I am enclosing a copy of the memorandum which I prepared a few days after the conference which Leon Henderson and I attended at the Treasury. As I was going to be out of town, I had the memorandum prepared to be presented as an expression of my general views on taxation in case a meeting was held during my absence.

Sincerely yours,

Honorable John L. Sullivan,
Assistant Secretary of the Treasury,
Washington, D. C.

enclosure

 ET:b