

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

APR 29 1942

Dear Mr. Eccles:

I attach for your personal information a carbon of a memorandum that J. Weldon Jones wrote on the excess profits tax situation. The President put great emphasis on the need for very heavy profits taxation by making it number one of his seven points, but apparently he did not wish to be specific and left it to the Congress to work out the method of excess profits taxation. In view of this development, I do not think that I should go into the details of the questions which you raised with me over the telephone on April 24.

Since universal saving is not included in the present program, we have enough time to study methods for possible future use. I hope we can discuss these problems in the near future.

With best wishes,

Sincerely yours,



Director

Honorable Marriner S. Eccles
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C.

Enclosure

April 23, 1942

The Director

J. Weldon Jones

Excess profits tax recommendations in the
message of the President of April 27, 1942

Number one of the seven principal points of the President's message deals with excess profits taxation. Newspapermen, various men from the Treasury (Randolph Paul, Roy Blough) and from other agencies have inquired about the interpretation of point 1 of the message. We are not able to give any "authentic" interpretation. The message says that profits are to be kept "at a reasonable rate, the word "reasonable" being defined at a low level." With respect to the determination of what "undue" or "excess" profits are the President says: "It is incumbent upon the Congress to define undue or excess profits; and anything in excess of that specific figure should go to the Government."

Newspapermen were inclined to interpret this statement as meaning that there should be a 100 percent tax on profits in excess of a specific figure, say 6 percent of invested capital. They think that the President's request implied a departure from the present method of determining excess profits. They believe that the method of determining excess profits by using average incomes of the base period does not offer any "specific figure." The story of the Chicago Sun, which predicted that the President would recommend a tax of 100 percent on all profits above 6 percent, probably contributed to this interpretation.

Randolph Paul and Roy Blough, with whom Colin and I had lunch today, told us that some members of the Ways and Means Committee suspected that the Sun prediction is the right interpretation of the message. Paul and Blough said the members of the committee were very irritated by the possibility of such an interpretation. The Treasury's own interpretation apparently is that the President clearly left the definition of excess profits to Congress. The formulation in the message is such that the use of the capital ratio method certainly is not excluded -- but any other method certainly is not excluded, either. The President does request that "anything in excess of that specific figure should go to the Government," which may mean a 100 percent tax. He says, on the other hand, that "profits must be taxed to the utmost limit consistent with continued production." This may mean either a qualification of the 100 percent tax proposal, or some such incentive provision as is offered by the Treasury's plan for a post-war refund of taxes exceeding 80 cents on any dollar of profit.

Paul and Blough mentioned that such an increase in excess profits tax rates may permit a lowering of the taxes on normal profits. The two also mentioned the desirability of a simpler tax structure. They discussed the possibility of applying normal taxes and surtaxes only to the normal profits, and applying the excess profits taxes only to the profits in excess of normal profits.

Paul and Blough felt that the Ways and Means Committee would not go along with any strengthening of the capital ratio method even if the President should make a definite recommendation. Utterances of various members of the committee to the press clearly indicate this attitude.