

Statement of Secretary Morgenthau
before the Senate Finance Committee,
Thursday, September 3, 1942.

W. H. L.

I have come before you today with a program to raise substantial additional sums to finance the war effort. I intend to leave the details of the presentation to Mr. Paul and his associates and to limit myself to emphasizing the gravity of the situation as I see it and the imperative need for legislation along the lines we are suggesting.

Up to this point our huge war expenditures have been financed in an orderly way and with a minimum of inflationary effects. But the more successful the war production program becomes, the greater are the dimensions of the fiscal problem we have to face. We have to plan for expenditures of \$80 billion in the present fiscal year, while the revenue in sight on the basis of the tax bill now before you is only approximately 24 billions.

The Treasury has diligently sought and will continue to seek funds from those sources where borrowing will have the least inflationary effect,

and we have done so with what I believe to be most gratifying results. We can foresee with confidence provision for the Government's fiscal needs for the remainder of this calendar year.

But I am here today to tell you frankly that I need your help in the form of legislation which will enable me to meet, with the same degree of confidence, the much greater problem of raising the necessary funds for next year.

The legislation which we are proposing has a double purpose. The first purpose is to draw into the Treasury substantial additional funds out of the earnings and savings of the people. The second purpose is even more important. It is to reduce consumer spending directly by withdrawing funds otherwise available for expenditure, and to reduce it also indirectly by creating a strong tax incentive to saving.

The measures we propose are two: first, a tax on consumer spending which will reach into the lowest income groups above the level of bare subsistence

income and will provide high penalty rates for luxury spending; second, a further lowering of the exemptions from the income tax applying to family income.

The two proposals will reach into incomes aggregating some 65 billions of dollars and will draw into the Treasury an estimated six and a half billion dollars otherwise available for consumer spending. But of this total some four and a half billions, although raised as a tax, will be treated not as revenue but as a debt to the individuals from whom it was collected, to be repaid after the war.

Revenue is not the sole purpose, nor even the primary purpose, of either of these proposals. Their main purpose is to restrict consumer spending so that, as far as possible through fiscal means, we may avoid the perils of inflation in the huge financing program that we have ahead of us.

It can be expected that the new spending tax will reduce in many individual cases the amounts which workers can afford to set aside for War Bonds under voluntary payroll deduction plans. In the face of

present conditions we can no longer afford to rely entirely upon voluntary lending. The new proposals are intended, therefore, to supplement the voluntary bond purchase program.

It is my belief that the voluntary War Bond program has produced and will continue to produce a great contribution to the nation's war effort. This is due to the unselfish service that hundreds of thousands of men and women throughout the country have given to it. They deserve the thanks of the nation for the magnificent work they have done, are doing, and will, I hope, go on doing, in encouraging the American people to put their dollars to work for their country. The voluntary War Bond program will, of course, be continued.

Our present and urgent problem is to borrow the great amounts that will be needed to finance the war effort in ways that will not contribute to inflation. Inflationary pressure is created by consumer demand exceeding the supply of goods available. The Treasury is seeking in these proposals to attack the problem at its roots and to attack it drastically.

The control of prices is of course not exclusively a fiscal problem. But with full allowance for all that can be done through price regulation, rationing and other devices to control supply, I think that we, who are jointly responsible for tax policy and legislation, shall be doing very much less than our full duty if we do not deal with the problem as effectively as possible in the fiscal field. What I have presented is a method -- and the best method the Treasury has been able to devise -- for accomplishing this result.

If the proposals we make seem drastic, I should like to say with all possible emphasis that I believe nothing less drastic will accomplish the results we must have. This is no time for half-way measures.

With the fullest respect for the Committee on Finance, but with a strong sense of our joint responsibility in these critical times, I do not merely recommend bold action along these lines; I request it and I urge it most seriously, and with the profound conviction that it must be done.