BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 24, 1944

To Mr. Thurston

Subject: Speech by Mr. Flanders

From Richard A. Musgrave RAM

On the whole, Mr. Flanders' discussion follows pretty closely Groves' Production, Jobs and Taxes, a summary of which I will send you in a day or two. It also agrees with the forthcoming official CED proposals for tax revision.

I think that on the whole the Chairman would agree with Mr. Flanders' main ideas, such as: that taxes are a matter of economic policy and yields depend in the last resort on the level of income; that we should reduce excises and place more emphasis on income taxes; that the double taxation of dividends should be remedied; that tax consideration need be given particularly to small and new enterprise; that interest on new State and Local issues should be taxable.

While the Chairman would agree with the main outline of Mr. Flanders' program, he might disagree on some more specific points, in particular:

(1) Mr. Flanders' statement that "the retention of the excess profits tax after the war, even after reduced rates, would have disastrous effects on national production and employment", might be too strong. The supporting arguments (page 4) that the excess profits tax would leave "no incentive for business above the 1939 level" completely overlooks the various provisions under the excess profits tax law which permit for an expansion of the capital base and hence of the excess profits credit. Also the Chairman might want to point out that while it would be desirable to repeal the excess profits tax eventually (in fact I am not quite sure whether he would agree even with this), we should be careful not to repeal it prematurely and only in conjunction with the reduction in other corporate taxes.

(2) The Chairman might disagree with the suggestion that the excess profits carry-back provision should be continued for three years after the war and after the repeal of the tax itself. A year or two might be sufficient in most cases to allow for the incidence of "delayed" costs of war production (such as dismissal wages and certain parts of reconversion costs).

(3) There is some doubt in my mind whether lowering the corporate rate to 18 per cent in addition to exempting dividends from the normal rate under the personal income tax would not go too far in giving relief to income from equity capital. If the double taxation of dividends is taken care of, a further reduction in personal income tax rates might be preferable to a further cut in the corporate rate.

(4) The Chairman might want to indicate that he is somewhat skeptical about all the emphasis on tax "incentives" to investment and that he considers the reduction of tax pressure upon consumption of primary importance.

There are a number of other minor points which need hardly be referred to.