

To the Editor of the Rocky Mountain News:

The article appearing in your issue of January 16 by Lee Casey so grossly misrepresents views expressed by Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, that I feel in all fairness you should print a correction.

The writer characterizes as "idiotic" Mr. Eccles' advice to the Conference of Mayors in Washington that this is the time for all local and private debts to be reduced as an offset to the inevitable expansion of the Federal debt for war purposes. Apparently the writer completely missed the point of such advice, for it should be obvious that by maintaining taxation in this period local governments can thus reduce their debts or if they have no debts, utilize funds for purchasing Government securities, thus helping to finance the war. To the extent that local taxation is reduced, it offsets the anti-inflationary effects of Federal taxation. To put it another way, to the extent that local taxation is reduced, the necessity increases for the Federal Government to increase Federal collections as a damper on consumer purchasing power.

The writer of your article makes the surprising statement, "Is the prevention of inflation actually the purpose of increasing Federal taxes, as Mr. Eccles says? If so, I have been badly misinformed." Apparently the writer is not only misinformed but uninformed, because the most responsible authorities in Washington, from the President on down the line, have repeatedly emphasized the necessity for increasing taxation as the most effective means of reducing purchasing power and thus offsetting inflationary dangers.

Thus, the President in his current Budget Message under the heading, "Anti-Inflationary Taxes", first recalled that in his Budget Message of a year ago he had foreseen the necessity for drastic tax measures to "aid in avoiding inflationary price rises which may occur when full capacity is approached." His 1942 Budget Message continued, "The time for such measures has come. A well balanced tax program must include measures which combat inflation. Such measures should absorb some of the additional purchasing power of consumers and some of the additional funds which accrue to business from increased consumer spending. A number of tax measures have been suggested for that purpose, such as income taxes collected at the source, payroll taxes, and excise taxes. I urge the Congress to give all these proposals careful consideration. Any tax is better than an uncontrolled price rise."

However, Mr. Lee Casey, the writer of your article, stated, "As I see it, we're not being taxed to prevent inflation, but for the defense of the nation and the principles the nation represents. And I have not heard of anybody save Mr. Eccles who thinks otherwise."

Mr. Casey's article would not call for correction except for the fact that it is highly misleading to the public and calculated to make much more difficult the vitally important national purpose to win this war without the devastating consequences of ruinous inflation. Indeed, the Nazi propagandists have been broadcasting by short-wave statements to the effect that the President's armament program cannot be achieved by the American people, but even if it could be, it would bring about a destructive inflation that would wreck the country.

It is quite evident that the writer of your article assumed that the maintenance of tax rates means continued municipal expenditure, for he wholly misrepresents Chairman Eccles as opposing economy. The truth of the matter is that in his address to the Mayors, Mr. Eccles, not once but over and over again, emphasized the urgent necessity for the practice of every possible economy and the postponement of all non-essential public expenditures at all levels of government until after the war. This, he pointed out, was essential not only to prevent competition with defense production and the avoidance of inflation in the war period, but in order to build up a backlog of public activities that could be so timed in the post-defense period as to help maintain production and employment.

In the early part of his address to the Mayors, Mr. Eccles said: "Unfortunately, under boom conditions brought about by war expenditures, the Federal Government cannot contract, but must continue to expand its budget -- and this makes all the more imperative the need for contracting so far as possible all other budgets, both public and private." Again he repeated, "In war times, as we have seen, the Federal budget cannot be balanced, which makes it all the more necessary that all other public budgets be balanced as one offset against the inflationary effects of Federal expenditures."

He stated further: "As you all know, the enormous military demands for materials and man power have made it necessary for the President to call upon the public to reduce its expenditures and thus to release resources urgently needed for war purposes. The same considerations should lead government at every level, Federal, State and local, to reduce or postpone all expenditures that are not essential for the war effort and maintenance of civilian morale. Public works, all plans for capital improvements, should be deferred so far as possible until after the war, when such expenditures can be timed to stimulate production and maintain employment."

After remarking that those cities experiencing a wartime rapid expansion of population were an exception to the rule, he added: "Otherwise, it is urgently necessary that you practice every economy consistent with the maintenance of essential services. This does not mean that you should reduce local taxation, however plausible that may seem at first. For to the extent that you reduce local taxation, you negate what the Federal Government is seeking to accomplish in controlling inflation through increasing Federal taxation. The taxpayer's contribution to the war effort is made by reducing his personal expenditures for goods and services, thus aiding in the shift of economic resources to military purposes. To the extent that the Federal tax pressure upon the taxpayer is offset by reduction of State and local taxes, the economic purpose of the Federal tax program is defeated. Accordingly, instead of reducing local taxes, you should maintain them, thereby enabling you to pay off your public debts. If you have no such obligations, then invest the funds in Government securities, thus helping to finance the war. This is the time to pay off or reduce local public debts as well as private debts, thereby helping to offset the inflationary factors arising from expansion of the Federal debt, while at the same time building up a credit reserve for use in the post-war era. Repayment of your securities would make available to those who hold them funds which they could invest in Government securities. Indeed, you have a rare opportunity for a major achievement in financial statesmanship. I hope that opportunity will be grasped."

This advice, which the writer of your article calls "plainly idiotic", coincides with that of all other responsible fiscal authorities.

I feel you should and you are at liberty to print this letter.

Very truly yours,



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