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my new list

THE WHITE HOUSE
WASHINGTON

January 19, 1942.

MEMORANDUM FOR

MARRINER ECCLES:

Will you be good enough
to reply to the enclosed from Mr. George
A. Kuhn?

F.D.R.

INDIANAPOLIS CHAMBER OF COMMERCE



GEORGE A. KUHN, PRESIDENT
C HARVEY BRADLEY, VICE PRESIDENT
GEORGE S. OLIVE, VICE PRESIDENT
RUSSEL S. WILLIAMS, VICE PRESIDENT
EDWARD ZINK, VICE PRESIDENT
JAMES S. ROGAN, TREASURER

January 15, 1942

Honorable Franklin D. Roosevelt,
President of the United States,
White House,
Washington, D. C.

My dear Mr. President:

Under the dateline of January 13th, Indianapolis newspapers carried a story crediting some very amazing statements to Chairman Marriner S. Eccles of the Federal Reserve Board and reported to have been made in a speech before the United States Conference of Mayors at Washington, D. C.

Mr. Eccles, the reports state, advised cities not to reduce taxes in these times, even though present levies yield more revenue than needed. A reduction of local taxes, said Mr. Eccles, would nullify the efforts of the Federal Government to forestall inflation by increased Federal taxes.

These statements, if reported correctly, are amazing because they emanate from a high governmental official and are in direct conflict with warnings issued earlier by such other equally high governmental officials as Secretary of the Treasury, Henry S. Morgenthau, Jr.; Director of the Budget, Harold D. Smith; and Maury Maverick, representing O.P.M. on State and Local Government Requirements - all of whom have stated emphatically and publicly that costs of local government must be reduced to conserve financial resources so vitally necessary to meet federal defense requirements.

It is regrettable, we believe, that Mr. Eccles should now inject confusion into public thinking that was beginning to learn that our nation must direct every resource to the winning of this war - to building more tanks, more planes, more guns, more ships. It is regrettable that Mr. Eccles now would encourage the diversion of our full war efforts from this end - that he would, in effect, under the guise of preventing inflation, encourage waste, unnecessary extravagance and efforts not directly related to the war program or essential civilian needs.

We in Indianapolis have been fully aware of the problems confronting our nation. We know definitely that "business as usual" can no longer be carried on. We believe it equally important "government as usual" must be abandoned.

We will do our part in this war. We will help every way we can to win this war. But we are discouraged and chagrined that a high governmental official, such as Mr. Eccles, should now say that efforts to keep local government economically sound, to reduce all unnecessary local taxes and expenditures, and to conserve every resource so that federal levies and needs may be met are unwise and undesirable.

Very truly yours,

George A. Kuhn
President

Shaw

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Very truly yours,

George A. Kuhn
President

December 23, 1942.

Mr. George A. Kuhn, President,
Indianapolis Chamber of Commerce,
Indianapolis, Indiana

Dear Mr. Kuhn:

Your letter of January 15 addressed to the President of the United States has been referred to me for reply. It discloses such confusion in your own mind that I can see no better way to clear up your misconceptions of my own viewpoint and proposals than to enclose a copy of the text of my recent address to the Conference of Mayors, marking those portions which should serve to clarify your thinking.

Apparently you assume that because I advocated that States and cities refrain from reducing taxes at this time that I also opposed their reducing expenditures. Nothing could be further from the truth as the text of my address will show. Thus, on page 5, I emphatically stated, not once but twice, that the inability of the Federal Government to contract its budget in wartime made it all the more imperative that all other budgets, both public and private, be reduced so far as possible as an offset to the inflationary effects of Federal expenditures. Again on page 13, as you will note, I reemphasized still further the urgent need for Federal, State and local governments to reduce or postpone all expenditures that are not essential for the war effort and maintenance of civilian morale. Again on the same page, I stressed the need for cities to "practice every economy consistent with the maintenance of essential services." However, I was at pains to point out that this did not mean that local taxation should be reduced since to do so would negate what the Federal Government is undertaking to accomplish in controlling inflation through increased Federal taxation. Instead, I urged upon the Mayors that this is the time to maintain taxes in order to reduce their debts or if they have no debts, to accumulate funds which could be invested in Government securities, thus helping to finance the war.

Indeed, I repeated so frequently throughout the text of this speech the argument for making every possible economy that I wondered if the repetition were not wholly superfluous. Yet apparently you did not trouble to ascertain what I said before writing your letter to the President of the United States accusing me of advocating waste and extravagance. If you will take the time to read the President's Budget Message you will find that what I have advocated accords precisely with the purposes and policies as declared by the President, and far from making statements that are in direct conflict, as you state, with warnings by the Secretary of the Treasury and other public officials, what I have proposed coincides exactly with their policies.

I am at a loss to understand how a man occupying the responsible position of president of a metropolitan Chamber of Commerce could make such a flagrant and false accusation, apparently without having made any effort to ascertain the facts. In all fairness, you should write another letter to the President acknowledging your misunderstanding and correcting this very unjust attack arising from your own misconceptions.

Very truly yours,

(Signed) M. S. Eccles,

M. S. Eccles,
Chairman.

Enclosure

ET:b

INDIANAPOLIS CHAMBER OF COMMERCE



GEORGE A. KUHN, PRESIDENT
C. HARVEY BRADLEY, VICE PRESIDENT
GEORGE S. OLIVE, VICE PRESIDENT
RUSSEL S. WILLIAMS, VICE PRESIDENT
EDWARD ZINK, VICE PRESIDENT
JAMES S. ROGAN, TREASURER

January 30, 1942

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

Dear Mr. Eccles:

I appreciate the frank manner in which you have set forth your views relative to municipal financing and its relationship to the dangers of inflation. It is gratifying to have the complete copy of your speech to the Conference of Mayors, because it contains the statements relative to the need for reducing the expenditures of local government, which were not referred to in the newspaper stories carried in the Indianapolis newspapers. For your information, I enclose a copy of the news story which published the longest account of your speech here.

From reading it, you will no doubt at once understand that there was no confusion in my mind and, also, why the speech seemed so appalling to Indianapolis citizens.

I must say, however, that I do not agree whatsoever with your premise that while local expenditures should be reduced, there should be no corresponding reduction of local taxes, but that excess revenue above current needs should be used for paying off existing indebtedness or investments in federal government securities. As for the first suggestion, many cities are like Indianapolis in that their outstanding bonds are not callable, but are almost exclusively serial bonds, being paid off in regular installments according to a pre-arranged plan. Hence, we cannot use unspent money for retiring bonds, though we might invest such money in federal securities.

However, it is our experience - has been without deviation - that whenever a local unit of government accumulates even a small surplus, it finds some way of spending the money. For that reason we have consistently opposed the otherwise sound practice of accumulating surpluses in municipal funds.

There is another reason and one that I believe officials in Washington fail completely to understand. It is that the payment of the tremendous increase in federal taxes - only part of which has yet been felt - is a very serious problem to a great many taxpayers. To win this war, every loyal citizen will gladly make sacrifices - will be willing to see his standard of living reduced to whatever level necessary - but to expect sacrifices to be made to inflate the incomes of local government without assurance that such additional public revenues will be used wisely or for the successful prosecution of our war program, appears to us as being a sacrifice wholly unrelated to our present needs.

With a very great many citizens, there is no increase in income, but there is a serious increase in living costs, and a huge increase in federal taxes. For these people, and they are mainly the home owning group of citizens, those who really feel the effects of property taxes which local units levy - there is no hope unless

January 30, 1942

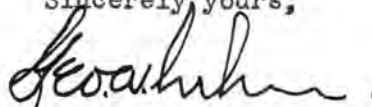
they can find some ways of reducing outgo, even to the extent made possible by reduction of local property taxes. That same situation applies to many corporations, such as those which own office buildings and pay huge amounts of property taxes.

It is a false assumption that the bulk of the American people are having large increases in income, and hence need to have that increase drained off to prevent inflation. That may be true for those engaged for the first time in defense industrial production at wages far beyond anything they have known before. It is not true of the main body of salaried middle class people, nor will it be true of a great many corporations, many of which will be out of business before many months because they cannot convert into war production, and yet have no way of escaping the taxes upon local property.

Hence, it seems to me you have not stated a fair conclusion, and yours should not be regarded as the voice of authority on the question of municipal expenditures. You may be too far away from the usual local property taxpayer's situation to realize fully what it is.

I regret you have been offended by my letter to the President. From what appeared in the local newspapers it was fully justified. From your more complete statement which I have now had the privilege of reading, of course some of the conclusions were not justified, but equally sure am I that your main premise is still wrong, and ought not to have been uttered, for it will be seized upon by many a local official to justify a continuance of extravagant local taxation at a time when we must be practicing real economy. I shall be happy to forward a copy of this correspondence to the President if you so desire.

Sincerely yours,



George A. Kuhn
President

GAK:js

February 4, 1942.

Mr. George A. Kuhn, President,
Indianapolis Chamber of Commerce,
Indianapolis, Indiana.

Dear Mr. Kuhn:

While it is futile to prolong our discussion of fiscal policy by letter, your reply of January 30 compels me to say that I despair of preserving our democracy and our economic system unless men in places of leadership at the head of business organizations such as the Chamber of Commerce are willing to take a more realistic and, I believe, enlightened view of public affairs than your communication reflects.

Whether you and I agree is of no importance. It is important, however, that the public should not be confused and misled by wrong principles and policies.

One of us is most certainly wrong. I recognize that you are speaking in entire good faith and with a desire to be fair. I think you will concede the same to me.

You propose, in substance, that local governments should reduce taxes (as well as expenditures) and your reasons, as given in your letter of January 30, are:

1. Because your city has non-callable serial bonds outstanding and you "cannot use unspent money for retiring bonds though we might invest such money in Federal securities."

This is precisely what I advocated, namely, that you either pay off debt or invest in Governments, or do some of both. In your case there is no reason why you cannot and every reason why you should accumulate funds which can be loaned to the Government to help finance the war and will become available in the post-war period to meet local needs that may be extremely acute. The fact that outstanding bonds are noncallable seems to me to have no merit whatever as an argument against what I advocate.

2. Because local government cannot be trusted to accumulate funds but will find "some way of spending the money."

This is, first of all, an indictment against your city government. If it is true that your municipal authorities are irresponsible and inferentially corrupt, then it behooves civic leaders, particularly men of your position and standing in the community, to fight the irresponsibility and corruption. It is certainly no reason for abandoning intelligent fiscal policy. It amounts to saying, "Our local government cannot be trusted, but we are not able to do anything about that so we will keep it from wasting money by advocating wrong public policies so it won't have the money to waste."

3. "There is another reason," you state, "and one I believe that officials in Washington fail completely to understand." Then you speak of the

Mr. George A. Kuhn - (2)

February 4, 1942

"tremendous increase in Federal taxes" and of the difficulty of paying them. You speak of willingness to make sacrifices. And then what do you propose? You propose, in effect, that the "sacrifice" involved in paying heavy Federal taxes shall be no sacrifice at all!

You would have local taxes reduced so that you would have the money to pay the Federal taxes. Not only is there no sacrifice in this, but as I said in my speech, to the extent that you follow this line you negate the anti-inflationary effects of Federal taxation and go exactly contrary to the appeal of the President of the United States for public support of measures, including principally taxation, to combat inflation.

You add that "it is a false assumption that the bulk of the American people are having large increases in income, and hence need to have that increase drained off to prevent inflation." Leaving aside the fixed income groups whose sacrifices are admittedly disproportionately great, as are those made by our armed forces, let me ask you whether you have really given serious thought to the subject before concluding that the Government is wrong in the assumption which you assail as false.

The indisputable fact is that the national income is rapidly expanding under the stimulus of the unprecedented war expenditures and is rapidly reaching levels between \$100 to \$110 billions a year. This is from \$20 to \$30 billions greater than ever before in our history. The Federal Government is proposing to recapture through taxation in the fiscal year 1943 approximately \$28 billions. This includes \$2 billions to be collected for social security and \$7 billions in new taxes. Assuming that Congress authorizes the additional levies and that \$28 billions is thus taken out of a national income of \$110 billions, it will still leave the nation as a whole with a national income greater than ever before—greater even than in 1929—and this would be after paying the increased taxes. In other words, even if Congress authorizes the increased tax rates and even after paying them, the American public will still have left over and available to spend a greater national income than they had in the banner year of 1929 before paying taxes. How, then can you say that it is a false assumption that the bulk of the American people are having large increases in income and hence need to have that increase drained off to prevent inflation? Mr. Kuhn, it frankly will not bear analysis.

Have you given thought to the post-war period? What is going to happen when the billions now being spent for armaments are discontinued? What is going to happen when millions of men engaged in armament production and in the army and navy are thrown back on a peacetime economy? What position will your State and city be in to deal with unemployment?

Here today is your golden opportunity to accumulate a reserve and to be in a position to meet that problem locally. But, no, you are not going to do that. Your letter to the President excoriated me for making such a proposal. When the war ends, when your city is face to face with another unemployment problem such as confronted it in the depths of the depression, you are going to come begging again to the Federal Government for help and doubtless at the same time you will be denouncing the Government for its extravagance, and for an unbalanced budget, and for encroachment on State rights.

You very kindly offer to send a copy of your revised letter to the President. But, Mr. Kuhn, I would not wish you to take the trouble to do so. If he read it, I am confident that it would only trouble him, as it troubles me, and would trouble any thoughtful man who looks to the future and wonders whether we have the intelligence to preserve the institutions for which our young men are sacrificing not their dollars, but their lives.

Very truly yours,

M. S. Eccles,
Chairman

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JAMES S. ROGAN, TREASURER

February 13, 1942

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

Dear Mr. Eccles:

I should feel inclined to accept your letter of February 4 as a termination of our correspondence on the subject of local governmental taxes but for the fact that I appear not to have made my points sufficiently clear to you.

Let me state my position as succinctly as possible, as follows:

1. I willingly support the steps taken to prevent inflation, except that I believe that, for political reasons, the government has not gone far enough in undertaking to prevent price increase without controlling all the factors that make up price increases.

2. I support also the proposals further greatly to increase federal taxation, not alone just to prevent inflation, but because I believe sincerely we must pay as large a portion of the current expenditures of government as possible. Indeed, we must make great sacrifices, now, to do so.

3. The federal government should take all that the traffic will bear and more. When it does, there will be no margin left which local governments may tap.

I appreciate and accept without reservation the mutual acceptance of the sincerity of our respective positions on the main subject. There are some statements in your letter, however, which I simply cannot rest unchallenged.

Our municipal governmental units, because their bonds are almost entirely serial, levy a fixed amount each year for that year's actual requirements, and it is an almost level amount. Obviously there is no surplus in these special tax levies, nor is there the prospect of any appreciable tax reduction for us here in the next several years on that score. I cannot for the life of me understand the financial logic of proposing that local units raise more than they need and lend it to the federal government, so that money will be available to the local governments for post-war needs. That is simply beating the devil about the bush. Under your proposal the money is to be raised in local taxes, then lent to the federal government to be spent by it; then borrowed or raised again in taxes by the federal government and returned to the local units when they need it. Why not adopt the simple method of raising the money, in the first place, in federal taxes, then there are no loans and no interest, and it has become a discharged obligation of the taxpayers? It is just what I have argued for, that local taxes be reduced in these times so that we actually can pay more federal taxes, and pay for more of the war expense now instead of saddling it on future generations.

I have not accused our local government of being corrupt even "inferentially." I have stated a fact, even though unpalatable. The very political system which is used by the politicians to elect a mayor or a president has made that situation what it is. I don't like it. Local governments in this are no different from the federal government. It is history that governmental bodies almost universally spend more, rather than less. Functions adopted for a special need are carried on far beyond the period of their need, simply because government doesn't steel itself to discharge employees and give up a program once started.

You suggest we take this golden opportunity to accumulate a reserve. If I felt reasonably certain such funds would be held sacred for this purpose, I should say amen. More than likely they would be used to adopt some new, not very necessary program, and to pay a lot of unneeded employees, who then can't be discharged, because to do so would endanger the reelection of the mayor or the Governor, or even the President.

Let me set you straight upon one point. The great procession of cities "come begging" to Washington for federal handouts, is no creature of local government. It is an Old-Man-of-the-Sea of the federal government's creation. The social reformers of our time have seized upon this vicious circle as a most effective means of promoting their programs. The cycle has been to appropriate a lot of money for WPA or some other handout, and then put local governments in the unenviable position of having to say, well, since we have to pay for it, we might as well get our share. For a long time there has been a growing realization among taxpayers of how utterly ruinous is this doctrine. They would, in the main, like to see it destroyed, and at once.

The fact that WPA continues, when there is absolutely no need whatsoever for the federal government now "aiding" local governments in this manner is due not to insistence of local governments or taxpayers, but to the WPA, itself. Who has generated the sometimes phony opposition before Congress to any restriction of WPA spending? I know, and all who care to look only slightly beneath the surface of events know it has been done through orders from the WPA to the state administrators to drum up a howl from local governmental officials and the beneficiaries of WPA.

There apparently is not complete accord with your position on this issue of local finance even in the legislative halls at Washington or among financial circles at New York City. For example, an AP release of January 16th, from Washington says: "Chairman Doughton of the Ways and Means Committee asked States and municipalities today to consider reducing their taxes so individuals could better bear the burden of new Federal levies to help finance the war."

Also, you might be interested in reading, if you have not already done so, an editorial in the Wall Street Journal of January 15th which terms your proposal made before the Conference of Mayors as "unsound". This may be more indication to you that we have not the intelligence in this nation to preserve the institutions for which we are now at war.

I cannot, as a still free American, but deny the implication of your letter that we who do not agree with doctrines prevalent in Washington, which you describe as the policy of the government, do not have "the intelligence to preserve the institutions for which our young men are sacrificing, not their dollars, but their lives."

Such a statement is typical of a great deal that is coming out of Washington these days. Apparently a lot of officials have the idea that all the patriotism and all the intelligence are centered in Washington. I cannot accept such a doctrine of defeatism and totalitarianism.

Very sincerely yours,



George A. Kuhn
President

GAK:js

February 18, 1942.

Mr. George A. Kuhn, President,
Indianapolis Chamber of Commerce,
Indianapolis, Indiana.

Dear Mr. Kuhn:

It is very difficult to terminate an interesting discussion such as you and I have had, but both of us recognize the futility of carrying on by letter. I am sure you are utterly sincere in your viewpoint, as I think you will concede I am in mine. I have never been in or concerned with politics and my interest is purely that of an erstwhile business man and banker who would like to preserve our free institutions and economic system in this chaotic world. Inevitably one approaches various major economic problems from a different viewpoint if he is out in the country or in Washington, and I think I comprehend and sympathize with your approach even when I disagree with it. We could, if we met and talked these things over, come closer to understanding, if not agreeing with each other.

In fact that Mr. Doughton favors reduction of local taxes in order to make it easier to pay Federal taxes fails to impress me, for I think it is on its face a confession of his failure to appreciate the necessity for using taxation as a major means of dampening inflation. Nor have I ever regarded the Wall Street Journal as an exponent of enlightened fiscal, monetary and economic measures. On the contrary, on the few occasions when they have editorially agreed with me and endorsed my proposals, I have felt decidedly uncomfortable and disposed to reexamine my position to see if I had made a mistake.

I was not addressing to you individually my comments on the narrow-visioned leadership that prevails too often both in and out of government, but commenting on an all too evident fact.

There are, of course, innumerable patterns of taxation that might be developed. I undertook, in speaking at the Town Hall Meeting of the Air last Thursday evening, to state briefly my general position on financing the war and I am venturing to enclose a copy of that brief text.

Mr. George A. Kuhn -

February 18, 1942.

while I am tempted to debate further with you point by point the matters raised in your letter of February 13, I shall resist the temptation. As I said in my first letter to you, I felt you had misunderstood and misrepresented my views and I think subsequent correspondence has clearly demonstrated that much. It was not my hope or intent to convert you to my way of thinking, but only to correct your misconceptions. If our correspondence has achieved this much, it has not been altogether in vain.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b