

May I suggest the following plan:

1. For wage earners and salaried people, collect taxes on 1942 income as heretofore, except if desired, these taxes can be withheld from the wage and salary envelope. Of course, there isn't any reason why the tax can't be taken out of the envelope for these individuals for the 1942 tax as well as for any other year.

2. Serve notice that one-fifth of the 1943 tax on wage earners and salaried individuals is to be paid in 1944, plus 1944 tax earned. This makes your 1944 tax current. The balance of the 1943 tax is to be paid in the next four years, the last year being 1948. The big advantage of the plan is that the wage earner and salaried man has practically a year's notice that he has to set aside one-fifth of his 1943 income for payment in 1944.

3. Collect taxes from farmers, bankers, brokers, doctors, lawyers, and so forth, just as we have heretofore. I don't see any practical way to put this class of taxpayer on the pay as you go basis without making it more complicated and more confusing than the present system. Such people do not know what their income is until the end of the year, and to try to anticipate it will, in my opinion, only make headaches for the taxpayers as well as the treasury department.

In addition I would like to say this. I would feel very much ashamed, staying at home where I am safe and sound, and trying to have my taxes canceled for the year 1942, while thousands of good Americans are risking having their heads shot off in North Africa or the southwest Pacific. I just can't see the patriotism of advocating cancellation of taxes under these circumstances. The cancellation of taxes is one thing and the pay as you go method of tax collection is another thing. It positively is not necessary to cancel taxes in order to put the pay as you go method of tax collection into effect.

3/18/43 RAYMOND E. HERMAN.

MEMBER



RAYMOND E. HERMAN

Real Estate

10 SOUTH LA SALLE STREET

CHICAGO

TELEPHONE FRANKLIN 5063

March 12, 1943

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

Dear Sir:

I read an article this morning quoting you in a talk which you gave before the Central States group of the Investment Bankers Association of America. The press quotes you as stating that the country was asleep to inflationary danger of present war financing and that not only were present taxes inadequate, but the government's deficits were being made up by inflationary bank borrowings.

I agree 100 percent with these sentiments. This gives me an occasion to bring up something that is very much in the public press and minds at the present time and that is the so-called "Ruml Pay-As-You-Go Tax Plan".

I am very much opposed to the Ruml plan, which I think should be called "A Plan To Cancel All Income Taxes For Americans Due On Their 1942 Income, A War Year When These Americans Had The Greatest Earnings In The History Of The World." I think it is fundamental and sound economics, and especially in war time when you have high earnings, to tax heavily. If you are going to cancel taxes the time to do it is at the bottom of a depression, not in a period of large earnings.

The estimated earnings of the American people last year were very close to 120 billions of dollars, the greatest in the history of the world. It seems economic insanity to me to talk about cancelling all taxes on individual incomes due for 1942 when this was a year that the American people had their greatest earnings.

It may surprise you to know that I have talked to over a hundred people on the Ruml pay-as-you-go plan, and with one exception, every single one of this number misunderstood the plan. I have talked to all kinds of people, mailmen, elevator operators, lawyers, and so forth, and some of the lawyers are members of the largest and most responsible firms in Chicago. Every man, with the one exception, noted thought the Ruml plan was purely a pay-as-you-

earn tax collection plan. They did not know that the Rum1 plan provided for cancelling of all taxes on their 1942 income. When I explained to them that under the Rum1 plan all of their taxes due on their 1942 income would be cancelled, they were vigorously opposed to this feature even though some of them said it would be a real hardship to pay their taxes on 1942 income. Nevertheless they were against cancellation in these times; said they wanted to do their part.

I don't believe a large number of Congressmen understand this. I doubt they have talked to anywhere near the number of people I have talked to. The average person that has written in to Congress, and I suppose Congress has had a good many letters, is writing in under the same misunderstanding.

Mr. Rum1 has stated that the tax year would simply be moved ahead. This does not mean to the average person that his taxes are going to be cancelled on 1942 income. It seems to me that one of the biggest pushes on the road to inflation would be given by such a plan.

I would like to quote herewith from the United States News in a recent number:

"At home the situation is becoming chaotic, dangerous.

"On the one hand, there's the start of a mad scramble to get rich out of war, to dodge war service, to limit the war effort, to avoid any sacrifice.

"Two motives are inspiring Congress to revolt:

"1. Desire to make everybody happy. To forgive taxes, to ease up on the drafting of men, to assure everybody everything they may want, to fight a painless war. However, the first desire can't be satisfied without an inflation that could be more painful than the war controls themselves.

"Dominating motive in Congress right now is that of helping groups that want to get rich out of the war, that want to make a good thing out of the war."

When I read this I can't help but think about the boys who are fighting overseas and wondering what they would think of America if they knew this, and it were true.

The President came out and endorsed the pay-as-you-go idea in principle. He did not advocate cancellation of taxes. It seems to me somebody has got to come out publicly and denounce this cancellation feature. I think the President could kill it in a very few words, because the fraud of the plan is obvious.

It absolutely is not necessary, in order to put the pay-as-you-go method of tax collection into effect, to cancel taxes.

The proponents of the Ruml plan have used the fear of delinquencies. A 25 percent delinquency would be high, but in order to equal 100 percent cancellation of 1942 taxes, you would have to have 100 percent delinquencies.

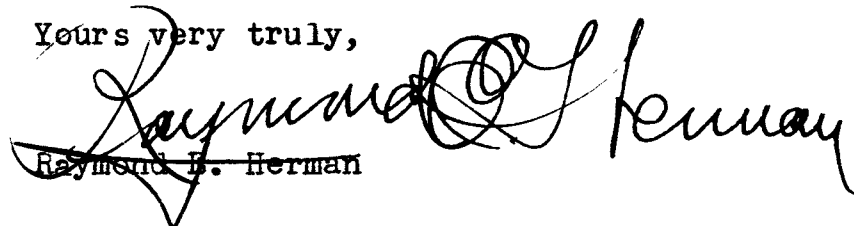
I think there are certain groups who have not profited by the war, probably people earning \$3000 and under a year. In my opinion, also, the men fighting in the active service should not be taxed. I don't think this should apply to men in uniform who are in Washington or Chicago offices, and so forth.

I might say here that I have paid income taxes every year for thirty years, with two exceptions, and I am not trying to get out of anything.

I have two boys in the service, and without the slightest bit of exaggeration I can tell you sincerely that I would be ashamed to look these boys in the face if I were trying to have my taxes cancelled on my 1942 income, or any other war year, while these boys risked having their heads shot off. It is just incomprehensible to me that any American, if he thinks at all, can be in favor of having his taxes cancelled when most of his earnings are due directly or indirectly to the war, and when the men in the service are sacrificing so much more than the taxpayer who stays safely at home.

I hope you will do what you can to see that this Ruml plan is not adopted.

Yours very truly,


Raymond E. Herman

REH:LA

1. Canada's income tax is much larger than ours
2. Canada has a very heavy sales tax
3. The earnings of the Canadian people were much less per capita than ours in 1942

March 15, 1943.

Mr. Raymond E. Herman,
10 South LaSalle Street,
Chicago, Illinois.

Dear Mr. Herman:

On behalf of Mr. Eccles, who is temporarily out of the city, I wish to thank you for your interesting letter of March 12.

It is of particular interest because of your experience in discussing the Ruml plan with numerous individuals, and what you find bears out similar sampling of public opinion elsewhere. As you have doubtless noted since writing, the President has expressed himself explicitly in opposition to the Ruml plan.

It occurred to me that you might be interested in seeing the full text of Mr. Eccles' talk in Chicago since the newspaper accounts were necessarily very brief. I am, accordingly, enclosing a copy. It seems to me that it rather closely parallels your own ideas at various points.

Sincerely yours,

Elliott Thurston,
Special Assistant to the Chairman.

Enclosure

ET:b

File

MEMBER



RAYMOND E. HERMAN

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10 SOUTH LA SALLE STREET

CHICAGO

TELEPHONE FRANKLIN 5063

March 18, 1943

Mr. Elliott Thurston
Special Assistant to the Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

My dear Mr. Thurston:

Thank you very much for your courteous letter of
March 15th in reply to mine of March 12th.

Thank you also for sending to me the complete
address of Marriner S. Eccles before the Central States Group
of the Investment Bankers Association of America, in Chicago
on March 11th. I read the address through and was impressed
by the soundness of Mr. Eccles' ideas.

Since writing you I have received the published vol-
ume of the hearings before the Committee on Ways and Means in
the House of Representatives on a proposal to place income tax
of individuals on a pay-as-you-go basis. I have read the book
through and it seems to me that the statement of Elisha M.
Friedman of New York was especially intelligent and construc-
tive. Mr. Friedman's statement begins on page 490.

I notice more and more that the proponents of the
Ruml plan who talk have one thing in common, and that is that
they are very much more interested in the cancellation of all
taxes on 1942 income than they are in the pay-as-you-go method
of tax collection. It is my opinion that if the cancellation
feature were eliminated from the Ruml plan, the active propon-
ents of this plan would have very little interest in the pay-as-
you-go part.

I would appreciate your extending to Mr. Eccles my
high opinion of his address here in Chicago.

I am a Republican in politics, but first of all I am
an American. I think the tax question is most certainly an
economic one and not a political issue and I can't see why any-
body, in these times, wants to play politics on this question.

Yours very truly,

Raymond E. Herman
Raymond E. Herman