

Matthew F. Frick  
Empire Hotel  
Birmingham, Ala.

3..22..42.

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

Dear Sir:--

According to TIME, you advocate a 30% withholding tax.

The Government's need of war monies is manifest. According to the president's stated policy, one half thereof should come forth in the form of unrefunded taxes. This half is quite a large proportion, and quite unprecedented in America's wars. The First World War was planned one-third, but actually paid for, one-fourth in taxes; the remainder by loan flotations.

From this viewpoint, the president's desire to finance one-half by unrefunded taxes is quite a startling program.

I, personally, for many reasons as listed below, consider it more expedient to adhere to our former proportionalities. And to raise the necessary totals by means of enforced savings, as advocated by many leading lights.

CONSIDER:

1) 25,000,000 citizens have, and will have, no increased income due to the war. Maybe, 35,000,000.

2) Labor, when it has 30% taken out of its pay check, will feel poorer by exactly that 30%. And by poorer, I mean feel somewhat underpaid. There will arise, then, some demand for an upward revision of wages. If labor already is advocating (and demanding) more money to meet increased living costs, they, most naturally, will lump this 30% as part of their living expenses. At least, they will feel the pinch, grumble, and work toward some compromise.

Whatever the processes followed, labor will suffer some diminution of incentive.

I quote from a speech by Randolph E. Paul, Genl. Counsel of the Treasury, before the American Academy of Political & Social Science, Philadelphia, Nov. 30, 1942.

\*The advantages ... claimed for compulsory ... saving is that, compared with taxation, they preserve the incentive to work. Workers will be more willing to work harder and longer if they feel that they are only temporarily deprived of the fruits of their labor, and that they may enjoy these fruits after the war when goods are once more abundant. Sim-

ilarly, the promise of future rewards inherent in compulsory saving justifies a greater restriction ~~on~~ on consumption among the lower income groups than would be justified under outright taxation. A third advantage follows from the first two, namely, that LARGER TOTAL LEVIES on all income groups become more acceptable when a promissory note is substituted for a tax receipt. Finally, the compulsory saving scheme would create a reserve of individual purchasing power for the post-war period.\*\*\*

In summary, permit me to express my viewpoint, to which I have found many, many persons fully agreed:--

If a taxpayer, having 20, 25, 30% deducted from his pay in outright taxes, will grumble, say, 100%; he will grumble only 25 or 33% if half that deduction is receipted for in bonds. And he will almost have no grumble at all, if 3/4 is credited with bonds, even if the total deduction should climb higher than 30%.

\* \* \* \* \*

It seems to me that, laterally, we are concentrating too much about the Ruml and other plans, which have nothing to do with total government receipts, but only with the time and manner of collection. Some newspaper writers have even gone so far as to "slogan" the Ruml plan as a "painless method"; whereas, of a verity, taxes are taxes, collect them as you will. The Ruml or other plan will, of course, collect promptly monies that otherwise would give the deputy collectors quite a run.

\* \* \* \* \*

The complications of the enforced savings method are not very difficult to solve.

Let a tax payer buy TAX-DEDUCTION BONDS to-day or during the affected period. TAX-DEDUCTION BONDS bearing no interest; non-transferrable except for emergency reasons; redeemable only gradually after the war. Then, at time of tax report and payment, let him deduct, from his tax obligation, the permitted proportion as governed by his having purchased the proper amount of TAX-DEDUCTION BONDS.

Or, if deducted from earnings, let Government issue immediately the proper proportion of said bonds.

\* \* \* \* \*

I consider it most expedient that the war-time strictures be made as easily borne as possible. America has not been invaded (except in a remote portion of its possessions, portions that are not yet sunk into our thoughts as being really part of us). The American people have not wholeheartedly absorbed their obligation to fight all over the world

They may do so in time. I do not know. But why experiment with a host of authoritarian decrees to sound out how much they are in full sympathy with all the complications of global strategy? Why sow the seeds for a future (possible, even probable) swing of the pendulum to our old-fashioned reactionarism? I hear much talk that makes me think that this swing of the pendulum is on the way; and if it swings, it will swing with true American excessiveness; that is, to extremes.

Per sonally, I believe, much of all these doubts can be minimized, by the adoption of compulsory savings, which will accord quite well with the old-fashioned American frugality that built this land.

Yours very truly,

*Matthew J. Frisby*

March 23, 1943.

Mr. Matthew F. Frick,  
Empire Hotel,  
Birmingham, Alabama.

Dear Mr. Frick:

As Mr. Eccles is on a trip in the West, I wish to acknowledge your letter of March 22 in regard to his recent speech, a copy of which I enclose because the newspaper accounts were necessarily very fragmentary and did not give a correct impression of his proposal for a 30 per cent withholding tax.

What he suggested was that the withholding tax be made 25 per cent if the Victory tax of 5 per cent is retained, but he expressed a preference for repealing the Victory tax and introducing a flat 30 per cent withholding tax. The important point, however, is that this would be deducted after the income tax exemptions, and in most cases it would mean that no more, or very little more, would be taken out of the pay envelope than is now required to meet the taxpayer's tax bill. Since it would come out of current income, however, it would be necessary to couple it with something like the Ruml plan so that taxpayers who had not saved enough out of last year's income to meet their taxes - and, of course, most of us did not - will not be paying two years' taxes in one year.

Mr. Eccles suggested that of the 30 per cent, possibly 5 per cent be refundable as a post-war credit. He suggested the 30 per cent because, as you know, the normal tax is 6 per cent, the first surtax bracket is 13 per cent, the amount now taken by the Victory tax is 5 per cent, making a total of 24 per cent, and he felt it would be wise to add another 6 per cent, most of which would be a post-war credit, making the total 30 per cent. That would cover the great bulk of income taxpayers, including those who otherwise might not save the money to pay the tax. In addition, of course, the withholding diverts the money from the spending stream before it can have inflationary effects.

You are entirely right that millions of citizens have had no increase in income, and they are in effect casualties of the war. Various tax authorities here have given a great deal of thought to trying to devise some way of making special allowance for these groups, but no practical device has yet been developed.

I shall show Mr. Eccles your interesting letter on his return, and in the meantime permit me to thank you on his behalf.

Sincerely yours,

Elliott Thurston,  
Special Assistant  
to the Chairman.