

Emington, Illinois
January 20, 1942

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

Dear Sir:

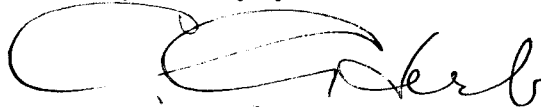
I should like to know why along with your proposal to lower income tax exemptions you do not propose a ceiling on incomes, placing it at \$5000. In other words, levy a 100% income tax on on any individual income in excess of \$5000.

Certainly it would cause no more disorgnization of society than does the proposal to lower present exemptions. What attitude can you expect a man in the lower income brackets paying a tax that reduces his net income to less than \$1500 when persons with incomes of \$5000 to \$10000 pay income taxes which leave them much more after payment of their taxes than is left the individual first cited.

Perhaps the explanation is that the individuals who frame tax legislation have incomes in excess of \$5000 and the individual with a smaller income is regarded by them in a very detached way, perhaps as a guinea pig.

Your views will be appreciated.

Very truly yours

A handwritten signature in dark ink, appearing to be "E. E. Kelly", written in a cursive style.

January 22, 1942.

Mr. C. C. Herb,
Emington, Illinois.

Dear Mr. Herb:

This is to acknowledge your letter of January 20 asking me why I do not propose a ceiling of \$5,000 on all incomes by a one hundred per cent income tax on any individual income in excess of that amount.

Spreading the income tax base by lowering the exemptions, as I have advocated, would still exclude lower income groups that are reached by income tax in Great Britain and other nations. Not only is the income tax the most equitable form of taxation since it is based on ability to pay, but it is the most effective way of reducing purchasing power and thus avoiding inflation in this period. The alternative would be a general sales tax, which is wholly inequitable, not based on capacity to pay, and bears heaviest on those least able to pay. For example, I advocated reducing the individual exemption for a single person to \$600. On a thousand-dollar income this would leave \$400 subject to tax, and the tax at present rates would amount to \$40. A 10 per cent sales tax, such as has been advocated by various business groups, would amount to \$100 on that same income.

Even if all income above \$5,000 were to be taken in taxation, it would not put a sufficient damper on buying power because the mass of buying power is concentrated in the groups with incomes below the \$5,000 level. Thus, as an anti-inflationary measure, your proposal would miss the mark. Moreover, any such leveling scheme would put an end to the capitalistic system under which we live. Excepting for Russia, no such drastic leveling has been attempted in any nation in the world. To attempt to put into effect such a sweeping provision would result in incalculable economic disruption. People with incomes larger than \$5,000 have commitments and obligations based on a larger income and, manifestly, such a proposal would make it impossible to maintain these commitments. After all, the income tax increases progressively so that the very large incomes are already heavily taxed.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b