

Greendale, Wis.
Jan. 20, 1942.

Marriner S. Eccles
Chair. Federal Reserve Board
Washington, D. C.

Dear Mr Eccles:

I have just read a report of your address to the N. Y. Bankers Association.

I am pleased to find you opposed to a general sales tax since it is based on no principle of equity. A withholding tax is reasonable for the reasons you mentioned. But why must the bracket be lowered or the taxes increased on those in the lower brackets?

My teacher's salary of \$1400 annually does not permit my family to live according to accepted American standards now. I will fare still worse under proposed new tax bases.

I am willing to sacrifice in war time but again on a basis of equity. Why should I be called upon to sacrifice an already inadequate living standard while incomes and profits in the hundred-thousands and millions of dollars will be accruing to many families even after proposed taxes are paid.

Marriner S Eccles:

Greendale Wis.

Is this the democracy and freedom we are fighting for? Why cannot a \$25,000 top income be established, at least during wartime, and all above that taxed 100%. This would raise rather than lower living standards as should be the case, and provide real money to finance the war.

The effect of such a truly equitable tax program would be miraculous to national morale and unity. Too many of us read daily of profiting and selfishness among large businesses to take this war seriously. We won't "believe" until we see some real economic democracy, which could be much abetted by the tax system I suggest.

Sincerely,

Thomas F. Wight

January 26, 1942.

Mr. Thomas J. Miglantsch,
Greendale, Wisconsin.

My dear Mr. Miglantsch:

This is to acknowledge your letter of January 20 in which you inquire why the income tax base should be broadened by lowering exemptions. I know of no more equitable way to apply taxation than through the income tax for it is based on ability to pay.

Under the present law, I assume that you, as head of a family, would be entitled to \$1,500 exemption so that you pay no tax on your teacher's salary of \$1,400. My suggestion was that this exemption be lowered to \$1,200 and if you have dependent children you would still pay no taxes. Assuming, however, that there are no such dependents, you would pay a tax on \$200 after taking the \$1,200 exemption. At the current tax rate of 10 per cent, your tax would be \$20. I understand that in Great Britain and other countries this is still a very small amount compared to what people in those countries are assessed on income tax.

One alternative that has been strongly advocated by business groups is the imposition of a general sales tax. I take it from your letter that you are obliged to spend virtually all of your salary. To the extent that a sales tax was applied to your expenditures, it would be much more onerous than what I propose. For example, assuming that a sales tax of 10 per cent applied to expenditures of \$1,000, you would then pay \$100 in such taxes. To my mind, this would be wholly inequitable and unfair.

I am entirely sympathetic with your feeling about incomes and profits in the upper brackets, and I have consistently advocated that the tax rates, individual and corporate, be applied on a progressively steeper scale all the way up the line and that all loopholes be immediately closed in these income taxes as well as in gift, estate and inheritance taxes. I have argued that it is essential not only to do this but to effect vigorous inflation controls before tapping incomes in the lower brackets.

I think you will see on a little reflection that putting a ceiling on incomes -- and you suggest a high ceiling of \$25,000 -- would not be appropriate. Leaving aside the question of the capitalistic system and the fact that many of large means have commitments

Mr. Thomas J. Miglantsch - (2)

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and obligations which could not be met if such ceilings were imposed, the fact is that the additional revenue that such ceilings would yield, as compared to the revenue that will result from steeply progressive income taxes, would not be of real significance. More important, however, is the fact that a major purpose of taxation at this time is to put a damper on excess purchasing power. The bulk of that purchasing power is in income groups under \$5,000 a year. Unless the income tax base is broadened to include these groups down to those who are virtually at a subsistence level and who should not be asked to make any additional sacrifices, the anti-inflationary effect of taxation would be lost. You will agree, I think, that as a nation we face the choice either of subjecting ourselves to the taxes and the other measures which will mitigate inflation or paying in increased prices infinitely more, as inflation gets out of hand, than we pay in taxes. Needless to add, I agree with what you have to say about the necessity for preserving morale by vigorously preventing profiteering.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

 ET:b