

Clark - This is not a memo from the Council, but merely some informal comments of mine to you to clarify some of the absurd press stories. I prepared this in this form in order to see if

My dear Mr. President:

We have noted with concern comments in the press and elsewhere, based upon sources unknown to us, which wrongly interpret the analysis contained in our report to you dated May 5, 1949. While that report, upon rereading seems clear to us, we think it may be helpful, very briefly to add the following comments:

Taxes. The reports that our analysis indicates the undesirability of tax increases at this time are wholly incorrect. Our report to you rests firmly on the need for avoiding a deficit, and this end cannot be accomplished without tax increases. We believe that the economic situation still permits of tax increases, and that the budgetary situation makes this essential. Our report of May 5 merely raised for your consideration the question of whether it would be feasible to modify the January tax program, in view of current business conditions, so that the total amount of tax increases proposed would not be as large as the January program which contemplated about \$4 billion of tax increases, plus additional increases to be obtained through advancing the date of increases of OASI contributions to July 1949, and also levying health taxes. The only specific suggestion for modification contained in our memorandum of May 5 to you was that the proposal to advance the date of increase of OASI contributions to July 1949 be withdrawn and the effective date of health taxes be deferred until payments of health benefits begin. We left the way open for consideration of <sup>other</sup> ~~other~~ modifications in the tax program if, and only if, these could be made consistently with a balanced budget, and we recognize fully that substantial tax increases are necessary for this purpose. This, of necessity, contemplates increases in corporation or personal taxes, <sup>(even if by less than \$4 billions)</sup> and we also recommended the restoration of the levels of estate and gift taxes. We repeated, also, the recommendation

could clear it with the Council today? Will I may not be able to get them together in time; I this may give you some ground for the paper. I will refer on this special assignment. I may 5 report of our report on a paper in which



that the excise tax on transportation be eliminated, but within the framework of a total level of government revenues adequate to balance the budget. Thus the substance of our suggested modification of the January tax program was that the need was no longer so urgent to obtain a large surplus as an anti-inflationary measure, but that the need is still urgent to avoid a deficit and consideration should be given to whether this purpose can be accomplished with tax increases not quite so extensive as those proposed in January.

Expenditures. Contrary to some of the current erroneous reports, our report to you of May 5 did not recommend or contemplate that expenditures be cut in lieu of tax increases or that any modifications in your January tax program be made contingent upon corresponding reductions in your January budget or in any subsequent requests for funds that you have made to the Congress. We recognized even during the more inflationary situation prevailing some months ago that your budgetary requests were founded upon national necessity and that they represented estimates at the lowest levels consistent with the national welfare and safety. It would certainly be inconsistent to strip these requests further now that the inflationary pressures have been reduced. We have made no studies, and consequently no recommendations, pointed toward reduction of any of the requests that you have made from time to time. Our comment about expenditures in our memorandum of May 5 merely made the point that, since a deficit should be avoided, consideration of any modification of your January tax program depends upon whether substantial additions to your budget can be avoided, and upon whether the Congress indicates a clear disposition not to add large sums in any area which you have not requested. How far the <sup>press or Congressional</sup> talk about



extreme slashes in the international program <sup>departs</sup> ~~comes~~ from the purpose of our memorandum of May 5 to you is indicated by the statement in that memorandum that, "With a lessening of inflationary pressures it becomes more feasible to consider these programs in terms of general requirements of national and world policy without the competing consideration of inflationary impact."

Respectfully yours,