June
Fourteenth
1947

Dear Marriner:

Many thanks for your letter enclosing copy of your communication in reference to the tax bill. We are in full accord on this piece of legislation.

Kindest regards,

Sincerely,
(Signed) John W. Snyder

Honorable Marriner S. Eccles
Federal Reserve System
Washington, D. C.

jws:bp

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

June 13, 1947.

Dear John:

You are, I know, under heavy pressures and probably have seen the letter which the Board sent to the President in support of the stand you have so forcefully taken on the tax reduction bill. But then it occurred to me that possibly it might be overlooked.

While I do not wish to add to the burden of all the reading you have to do, you might want to take note of the contents of this letter upholding your own hands.

With best regards,

Sincerely yours,

Marriner

The Honorable John W. Snyder,
Secretary of the Treasury,
Washington, D. C.

Enclosure

C
O
P
Y

June 6, 1947.

The President,
The White House.

My dear Mr. President:

In view of its interest in maintaining credit conditions conducive to economic stability, the Board of Governors of the Federal Reserve System wishes to express to you its opinion that enactment of the tax reduction bill, H.R. 1, would be inadvisable from an economic standpoint at this time. It is our view that a premature reduction in tax rates would tend to postpone necessary price readjustments which must take place sooner or later. The longer inflationary pressures are sustained and readjustment deferred, the more serious the inevitable reaction will be.

Tax reduction now would be inflationary to the extent that it would increase purchasing power and reduce the Government's surplus which could be used to pay off public debt. Moreover, this measure does not distribute tax relief in a way that will contribute most effectively to the maintenance of high national income and employment. If essential readjustments within the price structure are thus deferred, we are likely to have not a readjustment but a recession, the magnitude of which will depend largely upon how long inflationary forces are sustained.

With the present huge public debt, it is of first importance that, in periods of high income accompanied by inflationary pressures, every effort be made to reduce the debt as much as possible. Continuing public confidence in Government finances depends upon such a policy. It is not sufficient under existing conditions merely to have a token surplus for debt retirement. All savings in Government expenditures should be applied to debt reduction. If the tax bill becomes law, the amount available for debt retirement will be entirely inadequate for a period of unparalleled high levels of peacetime income and employment.

The time for tax reduction will be when general inflation pressures have disappeared, the structure of prices has shaken down to a more stable basis than now prevails, the volume of investment is declining, and consumer demand is insufficient to take off the market what the economy can produce at high employment. How long it will take for this point to be reached is impossible to predict. Clearly it has not been reached as yet and is not likely to be reached during the current calendar year. Tax reduction now would add to already excessive consumer buying. It would also add to funds available for investment which are more than adequate. It would add to rather than correct maladjustments in the economic structure. Tax reduction should be used as a stimulus to consumer buying in case of declining employment and income and not to augment buying pressures when prices are still at inflated levels.

When the time for tax reduction arrives, the primary need will be to sustain consumer purchasing power. Since the kind of tax reduction proposed in H.R. 1 will not effectively accomplish this purpose, it is not only objectionable as to time but is so designed that it would not serve the purpose when tax reduction is desirable. Under H.R. 1 tax savings to the average family with an income of $2,500 are less than $30, while taxes on an income of $50,000 are reduced by nearly $5,000 and on an income of $500,000 by nearly $60,000.

Such a distribution of tax relief would add to the supply of investment funds, which will continue to be ample, rather than to the volume of consumer expenditures, which later on will be inadequate in relation to supply. In order to add to consumer buying, the reduction in tax liabilities should be concentrated in the lower-income groups. This can best be accomplished by increasing the amount of tax exemptions.

Respectfully yours,

(Signed) M. S. Eccles.

M. S. Eccles,
Chairman.