

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 1, 1937.

To Chairman Eccles

Subject: Foreign capital tax program

From Lauchlin Currie
LC

I think considerable progress is being made on the tax program. The discussion yesterday morning was confined to the merits and demerits of a gross proceeds tax as contrasted with a capital gains or "speculative profits" tax. Fairly general agreement was reached that the latter was preferable. I think now we can get this, provided we consent to a low initial rate. The figure most frequently mentioned was five percent. Although I agree thoroughly with you that this is too low to be a deterrent in any substantial way, I think there may be something to be said for accepting it for the time being, with the understanding that it will be raised if it proves ineffective.

1. It is important that the right principle be incorporated in the law.
2. When foreign capital again goes into stocks in substantial amounts it should not prove difficult to secure a boost in the rate.
3. A good argument can be made out for the desirability of having a low rate while the administrative and enforcement machinery is being set up.
4. A five percent rate on gains, with no deduction for losses, may amount to a substantial percentage of the profits of foreign traders, as distinguished from long-term investors. This would also apply to Americans trading through London.
5. Long-term investors will consider the possibility of the rate being raised in comparing the attractiveness of our market with other markets.
6. It will be more difficult for the State Department to object to a low rate. Livesey said yesterday that he personally had no objection to a five percent speculative profits tax.
7. A higher rate is objected to on the grounds that it would depress stock prices, which would be deflationary in the present hesitant state of business. At a later date, when stock prices are going up, the imposition of a higher rate would act as a desirable restraint.
8. If we accept a low speculative profits rate we will be in a better position to press for a more effective withholding tax on current incomes than is being proposed by the Treasury.