

Mr. Eccles I asked Woody to give me a memo  
on Hanes' speech - off the record speech -  
at the Press Club this noon & this is it.

November 21, 1939

Mr. Thurston:

Mr. Hanes made no specific reference to the  
Chairman but you will recognize in my memorandum two state-  
ments which I believe were generally interpreted as referring  
to some of the Chairman's views.

12/11/39  
Copy given to  
Mr. Currie

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**Office Correspondence**Date November 21, 1939To Mr. ThurstonSubject: Mr. Hanes' speechFrom Woodlief Thomas

Under Secretary Hanes in an off-the-record address at the Press Club today presented a clear and simple statement of what he called his "philosophy of taxation." He said at the beginning that he thought the basic problem before the country was the problem of economic recovery, and that all of his moves had been designed to aid business to that end. A balanced budget could be best attained through business recovery. In general he felt that the task of the Secretary of the Treasury was to find revenue to meet expenses of the Government without giving special favors to any group and without a mission to use taxation for the attainment of social aims.

Mr. Hanes confined his discussion to the sources of revenue of the Government, deliberately omitting consideration of expenditures. It is clear from his comments that he feels that taxes should not be a burden on savings and investment. He expressed disagreement with what he called "the illusion" that when savings exceed investment the taxing system should be used to reduce the volume of savings. Taxes which reduce the incentive to save have the effect of decreasing future income. The proceeds of the inheritance tax, because it is a tax on capital, should be used for capital purposes, specifically a reduction in the public debt. He recognized, of course, that that is not possible when the budget is out of balance.

Normal personal income taxes, in Mr. Hanes opinion, should be higher and exemptions lower. The surtax rates on large incomes should be lower. It is clear that the rich alone cannot finance the Government, and from the standpoint of the business situation it is important to recognize that ~~the~~ venture capital comes out of large incomes. People with small incomes should not be expected to provide ~~the~~ venture capital. It is necessary for economic progress, therefore, that the rich should have savings available for risky investment.

The tax rate on corporations is now as high as it should go and under normal times should be no greater than the normal income tax. An important weakness in the present corporate tax structure is that interest on debt may be deducted but not dividends on preferred stock. This encourages the building up of bonded indebtedness rather than of equity capital, a point that Mr. Jerome Frank has discussed. Mr. Hanes made no suggestion as to how this problem should be solved.

With regard to excise taxes they have the virtue of being easily collectible and if low are not burdensome on business, but it should be recognized that they fall upon the poor, a group least able to pay taxes. In answering a question from the floor Mr. Hanes seemed to think that sales taxes do not have the effect of reducing sales. Excise taxes could be done away with if income tax rates on smaller incomes were increased, but Mr. Hanes felt that the latter change was probably not politically feasible.