



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 30, 1936.

Chairman M. S. Eccles,  
c/o Eccles Investment Company,  
Box 667,  
Ogden, Utah.

Dear Governor:

We did not have much opportunity to discuss your change in the timing of the tax. I have, therefore, jotted down some arguments for and against the change that occurred to me. Do the arguments for the proposal state the case fairly and strongly? Personally, I still think I favor my original suggestion which has also been adopted by the House Sub-Committee.

Yours sincerely,

A handwritten signature in cursive script that reads "Lauchlin Currie".

Lauchlin Currie

THE PROPOSAL TO MAKE DIVIDENDS IN ANY YEAR APPLICABLE TO THE EARNINGS OF  
THE PRECEDING YEAR, STARTING WITH 1936 DIVIDENDS BEING APPLICABLE TO 1935

EARNINGS

Arguments for:

Under the present proposal, corporations can delay the payment of dividends until the first quarter of 1937. This would impair the immediate effectiveness of the proposed tax from the point of view of both monetary and revenue considerations. It would retard the circulation of money this year and would not result in additional revenue until March 15, 1938. It cannot be said definitely that corporations will actually do this, but it appears unwise to gamble that they will not. The proposed amendment would not be retroactive in the ordinary sense of the term, since the tax need not be paid if corporations disbursed enough dividends in 1936 to equal their 1935 earnings. Since earnings are expected to increase in 1936 this should not be difficult for corporations to do. The amendment is equitable, since it is a fairly widespread practice to determine upon the dividend policy after the result of the whole year's operations is known.

Arguments against:

It would introduce an undesirable lag. From the monetary point of view it is desirable to have earnings disbursed or taxed as soon as possible after they have been made. On the upswing, when earnings are increasing rapidly, corporations will be able to retain a substantial portion of current earnings even when they are disbursing dividends equal to the previous year's earnings. When a downturn occurs a corporation will have to pay out in

dividends more than current earnings, or pay a heavy tax. In order to be prepared for such a contingency corporations may deem it advisable to hold more cash than they would if they knew they could cut dividends as rapidly as earnings declined. In the present circumstances there would be a strong incentive to retain earnings in excess of dividends in the form of cash, in order to finance the increased dividends necessary next year. If the proposal had been in operation in 1929 the high earnings of that year would have called for heavy dividends in 1930 and heavy personal taxes in 1931. Although a certain amount of stimulation would have been afforded by larger dividend payments in 1930, this consideration is weakened by the fact that they would have gone mainly to wealthy people and remained unspent, particularly in view of the heavy taxes expected to be paid in 1931.

The proposal is politically weak. It will be criticized as being retroactive. Hard cases will be cited of corporations which had good earnings last year and disbursed most of them, and have lower earnings this year. They will have to distribute dividends in excess of current earnings. "Taxes should be known in advance so that corporations and individuals may govern themselves accordingly". "Arbitrary. .", etc.

The objection that if corporations had until March 1, 1937, to disburse income earned in 1936 they would cut present dividends and pay one large single dividend in the first quarter of 1937, does not appear impressive for the reason that it is difficult to see what would be gained thereby.

Even under the proposed amendment they could postpone dividends until December 1936. In any case the tax will not become law until the middle of the year and dividends are being increased steadily. Most individuals do not expect lower tax rates in 1937 or lower capital gains. Hence, there would be no point in keeping their incomes low this year in order to swell them next year.

**March 30, 1936.**