

NATIONAL FOREIGN TRADE COUNCIL, INC.

NATIONAL FOREIGN TRADE ASSOCIATION

26 BEAVER STREET • NEW YORK, N. Y. July 16, 1937

Mr. Marriner S. Eccles, Chairman,
Board of Governors of the Federal Reserve System,
Washington, D.C.

Dear Mr. Eccles:

The members of the National Foreign Trade Council are very much concerned over the report in the New York Times of July 16 to the effect that you favor drastic taxation of nonresident aliens who have investments in this country, such as increasing the 10% tax withheld from dividends and interest derived by such taxpayers to 22 1/2% or 24%, as well as the reimposition of the capital gains tax and surtaxes on them.

Other reports indicate that apparently for other reasons the gold flow to the United States is not only abating but is turning to other countries. In view of this fact, we are writing, in behalf of all Americans with investments or business establishments abroad, to object to any imposition of such discriminatory taxes lest foreign countries retaliate against our own investments and business abroad.

Apart from the unwisdom of using the income tax, which is primarily intended for raising revenue, to accomplish unrelated economic purposes, it is obviously unsound to enact discriminatory taxes to meet a particular situation which are likely to remain in effect long after the situation has changed.

In any event, the suggested tax measures might not accomplish the desired end, because the alien speculator could place his funds in non-dividend-paying shares and the owner of fugitive funds might leave them in the form of bank deposits, whereas such taxes would strike thousands of foreign investors who for years have placed their capital in American shares and bonds and thereby contributed to the upbuilding of the country. The taxes you propose would not only be grossly discriminatory as compared with the taxes imposed on United States citizens but would constitute a far more onerous regime for foreigners than that of any other country. Moreover, the reprisals against the investments and business establishments of Americans abroad might be disastrous to our foreign commerce and destroy to a large extent the gains achieved through the trade promotion policies of the Government.

The members of the Council believe that if no pressure were exerted to increase the withholding rates to stop "hot money", little, if any, justification could be found for modifying the existing provisions regarding aliens in the Revenue Act of 1936. We hope, therefore, that we can count on your support to prevent the imposition of taxes on foreigners which may cause reprisals against our foreign commerce.

Yours faithfully,

E. P. Thomas
President
Cable Address: NAFTR

Telephone: Whitehall 4-5780

COOPERATING ORGANIZATIONS:

FOREIGN TRADE COMMITTEE OF THE BUSINESS ADVISORY COUNCIL, DEPARTMENT OF COMMERCE

AMERICAN EXPORTERS AND IMPORTERS ASSOCIATION

NATIONAL FEDERATION OF FOREIGN TRADE ASSOCIATIONS

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Received in
Chairman's Office
JUL 18 1937
Board of Governors
Federal Reserve System

July 24, 1937

Mr. E. P. Thomas, President
National Foreign Trade Council, Inc.
26 Beaver Street
New York City

My dear Mr. Thomas:

\\ This is to acknowledge receipt of your letter of July 16th in which you oppose both an increase of the so-called withholding tax as well as the reimposition of a capital gains tax on foreign funds.

I note that you make especial point of the argument that the imposition of "such discriminatory taxes" upon foreign investors will lead to retaliatory taxes on Americans with investments or business establishments abroad. My study of this particular problem has convinced me that it is not possible to say whether the taxes proposed by me are discriminatory, since the situation is so different depending upon the particular taxpayer involved. However, I am not prepared to admit that the suggested taxes would subject foreign investors as a class to higher taxes on their American investments than would be paid by American investors of the same class based upon our domestic income tax and capital gains schedules.

The mainspring of my proposals for a tax on foreign capital arises from a consideration of the economic well being of our country regardless of the equities involved. As you are aware, since the inception of the depression these large movements of funds have been a seriously disturbing factor upon the countries losing as well as upon the countries gaining the funds, upon their exchanges, upon their price levels and upon their efforts to stabilize their currencies and hold them in a reasonable equilibrium.

Such movements of capital have no relation to normal trade or to the objectives of the trade agreement program, with which I am in hearty sympathy. That their movements are unconnected with trade is evident from the fact that on the basis of our recent balance of international trade, we should be losing funds, whereas, in fact, we have been gaining gold in great volume.

Mr. E. P. Thomas - (2)

There is not space in a letter to deal with all of the consequences of this inflow of funds. However, it is obvious that we cannot hope to prevent or restrain a dangerous credit inflation unless this inflow is controllable.

The Federal Reserve System, by increasing reserve requirements, has already offset some three billions of gold inflow and thus removed it from the credit base. The Treasury's sterilization program has kept another billion out of the credit base. Nevertheless, all of these funds have added to our bank deposits which are now well above the levels of the peak of 1929. These funds can be shifted out again just as suddenly at the whim of the owners with disruptive effects in the opposite directions, both on our markets and the exchanges of other countries to which the money goes.

The Reserve System has already exhausted its authority to sterilize gold inflow by raising reserve requirements, and the Government may not be permitted to go on indefinitely increasing the public debt for the same general purpose.

I would be interested to know how you think these problems should be met. I am certainly not wedded to any particular device or expedient, but for a considerable period I have been concerned from the standpoint of the banking system as well as the entire economic picture with the disruptive consequences which I have indicated. I am quite aware of the considerations which you raise in your letter and I sympathize with your viewpoint. Nevertheless, I do not see how we can leave such important problems to settle themselves. Nor do I see how it is possible to promote the interests of international trade while such demoralizing influences are permitted to upset the very conditions essential for the restoration and advancement of that trade. I should be glad to have any suggestions which you care to make in your capacity as president of a representative and important group interested in our foreign trade, which I am quite as eager to see restored and expanded as I know you are. //

Sincerely yours,

M. S. Eccles
Chairman


ET:LC/fgf

TWENTY-FOURTH NATIONAL FOREIGN TRADE CONVENTION, CLEVELAND, OHIO, NOVEMBER 3-5, 1937

NATIONAL FOREIGN TRADE COUNCIL, INC.

NATIONAL FOREIGN TRADE ASSOCIATION, INC.

26 BEAVER STREET • NEW YORK, N. Y.

July 28, 1937

Mr. M. S. Eccles, Chairman
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

In the absence of Mr. Thomas, who will return from the Coast on August 6, I acknowledge with thanks receipt today of your letter of July 24, which has been airmailed to him for his attention.

Yours very truly,

Lindsay Crawford
Secretary

LC:HB

COOPERATING ORGANIZATIONS:

INTER-AMERICAN ADVISORY COMMITTEE

PHILIPPINE-AMERICAN ADVISORY COMMITTEE

SOUTH AFRICAN RECIPROCAL TRADE COMMITTEE

FOREIGN TRADE COMMITTEE OF THE BUSINESS ADVISORY COUNCIL, DEPARTMENT OF COMMERCE

EXPORTERS-IMPORTERS ADVISORY COMMITTEE FOR AMERICAN EXPORTERS AND IMPORTERS ASSOCIATION

NATIONAL FEDERATION OF FOREIGN TRADE ASSOCIATIONS

TWENTY-FOURTH NATIONAL FOREIGN TRADE CONVENTION, CLEVELAND, OHIO, NOVEMBER 3-5, 1937

NATIONAL FOREIGN TRADE COUNCIL, INC.

NATIONAL FOREIGN TRADE ASSOCIATION, INC.

26 BEAVER STREET • NEW YORK, N. Y.

August 26, 1937.

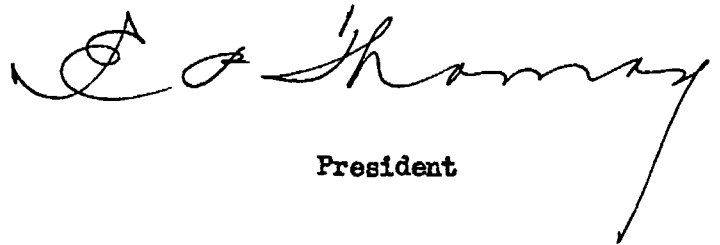
Mr. M. S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington, D.C.

Dear Mr. Eccles:

Referring to your letter of July 24th on the subject of taxing foreign capital, which was received and acknowledged during my absence in California, we have appointed a special committee to investigate this matter and to prepare recommendations. We hope that the researches and discussions of this committee will enable us to submit definite recommendations to you during October.

In the meantime we wish to thank you for your comprehensive discussion of the problem, which we appreciate fully.

Very truly yours,



President

Telephone: WHitehall 4-5780

Cable Address: NAFTRA

COOPERATING ORGANIZATIONS:

INTER-AMERICAN ADVISORY COMMITTEE

PHILIPPINE-AMERICAN ADVISORY COMMITTEE

SOUTH AFRICAN RECIPROCAL TRADE COMMITTEE

FOREIGN TRADE COMMITTEE OF THE BUSINESS ADVISORY COUNCIL, DEPARTMENT OF COMMERCE

REPORTS AND IMPORTERS ADVISORY COMMITTEE FOR

AMERICAN EXPORTERS AND IMPORTERS ASSOCIATION

NATIONAL FEDERATION OF FOREIGN TRADE ASSOCIATIONS

August 27, 1937.

Mr. Eugene P. Thomas, President,
National Foreign Trade Council, Inc.,
26 Beaver Street,
New York City.

Dear Mr. Thomas:

In Chairman Eccles' temporary absence from Washington, I wish to acknowledge receipt of your letter of August 26, 1937, and to say that he will, I know, appreciate the action of the National Foreign Trade Council in appointing a special committee to consider this subject and to prepare recommendations.

On his behalf, permit me to thank you for your letter.

Very truly yours,

Elliott Thurston,
Special Assistant
to the Chairman.

ET:b
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For Review:

This has been
acknowledged —
as being held
for your
return.



TWENTY-FOURTH NATIONAL FOREIGN TRADE CONVENTION, CLEVELAND, OHIO, NOVEMBER 3-5, 1937

NATIONAL FOREIGN TRADE COUNCIL, INC.

NATIONAL FOREIGN TRADE ASSOCIATION, INC.

26 BEAVER STREET • NEW YORK, N. Y. September 27, 1937

Mr. Marriner S. Eccles, Chairman,
Board of Governors of the Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

I have given careful consideration to your letter of July 24th, previously acknowledged, and wish to submit to you this brief statement of our first reactions concerning the problems involved, reserving to a later date the communication of other suggestions which require further study. My letter of July 16th was mainly concerned with the wisdom of proposals looking to increased taxation on real income and capital increments of non-resident aliens. I wish, therefore, to make it clear that, in referring to "discriminatory taxation", I had in mind the fact that the levying of the suggested high withholding rates and surtaxes would constitute a much heavier burden upon the average non-resident alien, deriving real income from American sources, than that imposed upon a United States citizen having the same amount of such income. Furthermore, the proposal to tax capital gains of non-resident aliens would have been contrary to the general practice in other countries of not imposing on investors a levy on the realized increment to their capital, and would not have accomplished the intended purpose because of the ease with which the tax could be legally avoided through sales abroad or recourse to foreign markets to the detriment of ours. A capital gains tax is unsound in any event and has proved to be harmful to this country. Since the date of your letter Congress has passed the tax bill, which in this respect should be acceptable and, with clarifying regulations, should provoke neither resentment nor retaliation.

2. It is realized that your proposals have been made with an eye to the broader aspects of the inflow of funds from abroad than taxation per se. If we examine the statistics, however, we find that between January 2, 1935 and March 31, 1937, your Board's figures show a net influx of \$2,929,000,000. The figures reported for net purchases of our securities are \$1,075,000,000.

In other words, a little more than a third, or 36.7% of the net inflow, would be affected by severe taxation of foreign investment here.

3. You will note from the report of the President of the New York Stock Exchange, under date of August 11, 1937, that in the eleven months to April 1, 1937, purchases for foreign account exceeded sales by \$510,000,000, or 2.3% of the money value of share and bond purchases on the Exchange, in a period noted for the small aggregate turnover. This is not a large percentage nor significant in inflationary possibilities.

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INTER-AMERICAN ADVISORY COMMITTEE

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FOREIGN TRADE COMMITTEE OF THE BUSINESS ADVISORY COUNCIL, DEPARTMENT OF COMMERCE

REPORTERS-IMPORTERS ADVISORY COMMITTEE FOR THE FEDERAL RESERVE BANK OF WASHINGTON, D. C.

AMERICAN EXPORTERS AND IMPORTERS ASSOCIATION

NATIONAL FEDERATION OF FOREIGN TRADE ASSOCIATIONS

September 27, 1937

4. It would seem to be indisputable that a policy of "free haven" for money made nervous by uncertain currency values, social disorders or fear of wars, is the sound policy not only from the standpoint of economic values, but would strengthen our position as a creditor nation. Great Britain has achieved and held a paramount position in international finance and trade, in large part, historically, because it has placed no barriers on freedom of movement of funds into and out of her markets. To do otherwise is to adopt an isolationist policy, with all its serious consequences to domestic prosperity as well as world trade.

5. Restrictive provisions applied to capital coming here at a time when not needed, may be regretted later when an influx of capital would be welcome. In the past this capital from abroad has contributed greatly to the upbuilding of the nation, its industries, its trade at home and abroad and, particularly under the present method of taxation on undistributed earnings of our corporations, may be a much needed fund for future capital replenishments of industry.

6. At times, also, the direction of investment changes when the problem seems most serious. A mistake in policy would naturally, under such developments, merely add impetus to the disruptive forces already in play, which might not have been discernible at the moment of decision.

7. Referring to the figures quoted earlier in this letter, it would appear that the sterilized gold, and gold in the stabilization fund, exceed the figures of what is currently termed "hot money". Under such circumstances the hazard seems to disappear. A net investment out of all Stock Exchange purchases of only 2.3% by foreigners in an eleven months' period, is not now nor prospectively a serious matter nor indicative of a dangerous trend.

8. Your letter refers to the disruptive effects of a movement in the opposite direction, but there is plenty of gold here which is available for any outward movement and we are in agreement that we have more than we need. It is easily available from the two sources referred to, i.e., the sterilized gold fund and the stabilization fund, without recourse to revision of reserve requirements. However, if the securities markets should be allowed to remain as illiquid as they have been and are, it is believed there virtually would be no market on which to absorb a mass of selling, incident to such an outward movement as the recent market breaks would seem to indicate, which in themselves did not come from foreign selling. Obviously the thinness of the market would be increased by large withdrawals of foreigners from the market by reason of taxes such as those proposed and it is hard to foresee how extensive might be the prejudicial effects upon our domestic economic stability. On the other hand, if no such obstructions are placed in their way, foreigners with a better perspective of conditions here may rush in to buy, as I hear they did during the recent breaks, and thus furnish a cushion which helps to stabilize the market.

9. In respect, however, to the direct questions between ourselves and other countries, rather than to our own domestic regulatory factors, it would seem that, if the movement in the opposite direction arises from more stabilized conditions in foreign countries, the benefit to our own economy and our world trade will be at least an offset and the effect on the securities markets need not be disastrous, nor even harmful.

10. On the other hand, if the movement out should arise from apprehension about the fiscal situation of this country, the consequences would be very grave. Under such developments values would be seriously affected and buyers in the domestic area few. It would seem that the only effective measure of prevention would be a sound budgetary

September 27, 1937

policy. In this connection it is noted with satisfaction that you have been vigorous in your utterances.

11. You will agree, no doubt, that the inflow of gold has been, until now, due primarily to two factors: the fixed United States price for gold, and a mixture of confidence in values here and in the safety of this country as a haven. That the quest of a safe haven has been a primary incentive would seem to have been shown by the fact that the preponderating amount of the influx has not been invested in marketable securities. An additional factor, latterly coming into play, has been due to war activities and armaments, and has nothing to do with purchase of our securities.

12. Obviously, the present price for gold has stimulated the output of mines. It has also encouraged dehoarding. But current reports indicate that remaining hoards are not unmanageable in amounts. It is not easy to suggest a method of eliminating financing of unwanted gold imports, at the same time that financing of Government deficits has to be faced. There are many diverse views as to the problem, but our Council is not ready at the present moment to sponsor any one of them, although I believe that the best results should come from international cooperation which is not yet probable. In any event, we shall continue to give our attention to various suggestions that have been made, and would be glad of further opportunity to give you our views upon any proposal which you believe deserves consideration.

When a problem of the kind arises we realize that no ready or easy control is at hand, but in any event, it would seem that more important than the gold influx is the necessity of reducing Government expenditures to a figure equal to or less than income. This would reduce the new issuance of United States securities and remove one inflationary factor which is of more urgent importance than the question of the foreign influx of gold. It is evident that taxation of a punitive sort does not go to the heart of the problem, leaves a large part of the problem untouched and might well have the effect of accentuating the disruptive forces which are inherent in the situation.

In closing, I may state that we are firmly convinced that a waiting policy is far safer than putting into force taxation rules or regulations whose repercussions may prove to be destructive in character.

Thanking you for your frank exposition of these problems and for the opportunity afforded of presenting these views thereon.

Yours very truly,



President.

October 15, 1937.

Mr. E. P. Thomas, President,
National Foreign Trade Council, Inc.,
26 Beaver Street,
New York City.

Dear Mr. Thomas:

This acknowledgment of your letter of September 27th addressed to Chairman Eccles is somewhat belated because I was uncertain as to just when he would return to Washington and have an opportunity to give it the careful attention which it merits.

I had expected him sooner, but in the meantime, I wish to express to you on his behalf appreciation of the time and attention which you have given to this matter and to say that it will be laid before him at the earliest opportunity next week.

Very truly yours,

Elliott Thurston,
Special Assistant
to the Chairman.

ET:b