

LEE F. HEACOCK

196 Lancaster Avenue,

BUFFALO, N. Y.

January 24, 1939

Mr. Marriner S. Eccles,
Chairman, Federal Reserve Board,
Washington, D.C.

Dear Sir:

Your radio address on the necessity of government spending in periods of depression interested me very much; I am persuaded that your position is sound in this matter.

It has occurred to me, however, that you might, to advantage, pursue the idea a little farther, with the same remorseless logic. I mean by this: When private capital is inclined to "hedge" for safety, why not determine the reasons, and seek a means of remedying or offsetting them?

Obviously, capital perpetually seeks the maximum in returns, in safety and in liquidity. When industry and commerce present a tempting combination of these, capital always responds and we have what we call prosperity.

My contention is that through exemptions from the income tax, it is possible to offset unfavorable economic conditions--to offer inducements for the use of surplus income, which will more than offset the present inducements to hoard such surplus. In a word, offer exemption from the income tax for all that portion of income which is consumed or invested in securities of original issue, and it would be more profitable to consume commodities and expand industry than to hoard the liquid buying power, either in the form of bank balances or easily negotiable securities.

The present policy is to invite depression by two bonuses offered the hoarder of buying power--interest on his unused surplus and exemption from the income tax, if it is in the form of government bonds, a form of security which is universally accepted as equivalent to money.

We will have plenty of spending when we stop giving these bonuses to hoarders, and transfer the advantage to the consumer and the investor in securities of industrial expansion. This can be done by provisional tax exemption.

Sincerely yours,

Lee F. Heacock

January 30, 1939

Mr. Lee F. Heacock
196 Lancaster Avenue
Buffalo, New York

My dear Mr. Heacock:

Chairman Eccles has asked me to acknowledge and thank you for your letter of January 24 which he has read with interest. He wishes me to express to you his appreciation of your commendation of his recent radio address before the National Radio Forum.

Your suggestions regarding income tax exemptions are noted, but such matters are outside the official concern of the Federal Reserve System and there would appear to be nothing this office can do in the circumstances.

Yours very truly,

Lawrence Clayton
Assistant to the Chairman

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