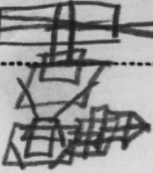
TO: Dr. Currie:

FROM:



REMARKS:

The Chairman asked me to pass this on to you & Mr. Bryan for a reply.

My own reaction is that it would be well to encourage his bringing up before the Executive Council this exemption of funds used for capital expenditures.

Ed.

CHAIRMAN'S OFFICE

RALPH E. FLANDERS
BOX 477
SPRINGFIELD, VERMONT

December 7, 1937

Hon. Marriner S. Eccles, Governor
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

Since my very pleasant luncheon with you I have given much thought to the matters discussed between us at that time.

The first strong impression of the conversation was that in your mind the undistributed profits tax had been considered primarily as a means for inducing velocity of circulation. About this idea two things can be said, it seems to me. First, little public discussion and no general conception of the use of this tax for this purpose has appeared in the past or is now appearing. The second is that the tax in its present form is poorly adapted to this purpose.

If my memory is not completely faulty on the line of public discussion taken when this tax was enacted it was understood to be primarily a means of getting business profits into the hands of personal recipients for the sake, presumably, of increased tax returns. Of course, that increased tax return was doubly assured by taxing business profits twice -- once before distribution and again afterwards in the recipients' hands.

Offhand, it would seem more nearly to fit the need of circulation velocity so far as corporate policies are concerned to remove the limit on tax exemption for corporate capital expenditures, giving full credit above the normal depreciation. This matter has not been discussed in our Tax Committee, because it is a new idea that there was any influence in the administration as important as yours which could be counted upon to be behind it.

I would like further to raise the question as to whether the simple forcing of distribution gives any assurance of increase of velocity. Under what conditions is the recipient of corporate income any more likely to spend his receipts than is the corporation from which the income was derived?

This raises the question which I suggested during our conversation -- namely, as to whether we know what type of deposit

RALPH E. FLANDERS
BOX 477
SPRINGFIELD, VERMONT

it is in which sluggishness of circulation is particularly abnormal. Is it in corporate deposits, the deposits of wealthy individuals, or in the sum total of smaller deposits or in personal checking accounts, or in the balances of life insurance companies and savings banks, or where? With velocity of circulation as the most serious problem facing us, it would seem that an analysis of the problem is called for. Perhaps you have it, although I did not feel assured of that from our conversation.

Further thought rather tends to confirm the conviction which was in my mind before I called on you as to the advisability of still further expanding deposits even during this period of temporarily (we hope) declining employment. I cannot convince myself that the present low rate of turnover for the new conditions is normal. I would expect the normal rate to be more nearly that for banks outside New York City for the period 1926 and 1927. I am not sure that this is high enough. Perhaps it ought to be more nearly 60 than 40. It seems like a dubious process to attempt to maintain business activity and employment by continued further expansion of deposits without making a determined effort to find the location of, causes for and remedies for our present sluggish circulation.

I am particularly anxious to know whether there is anything in this exemption for capital expenditures on which your body and the Business Advisory Council could get together. The next time I am in Washington I will phone you to see if you have any thoughts on this matter, unless you feel moved to write me before that time.

See Currie + Bryan

With many thanks for your kindness and hospitality, I remain

Sincerely yours,

Ralph E. Flanders

REF:M R. E. Flanders

[illegible]