

C
O
P
Y

(See speech of 11/29/37 - file)

December 11, 1937.

Mr. William A. Herin, Secretary
c/o Honorable J. Mark Wilcox's Office
The House of Representatives
Washington, D. C.

Dear Sir:

Thank you very much for your exceedingly nice letter. I want you to know that I appreciate it and am happy to have you say that you liked the talk.

The bill introduced by Mr. Wilcox to exempt from Federal taxation a maximum of 50 per cent of all individual and corporate incomes spent on new construction is most interesting. You will understand, of course, that I can comment only confidentially.

From the standpoint of residential construction, I suppose a most important object of Government assistance would be to help small people in attaining home ownership or lower rentals. It is true, of course, that a substantial volume of new construction would probably assist in lowering rents. But it seems to me that a tax exemption of the sort proposed would chiefly benefit better-placed individuals simply for the purpose of permitting them to use income, tax free, for the purpose of constructing rental property, which they would thereafter hold as owners. It might be more desirable to leave in effect the present taxes and, if the Government wants to subsidize housing construction, to apply some form of direct subsidy designed to assist less well-placed individuals in the attainment of home ownership. This would have social advantages, I think, and, at the same time, it would not relinquish the desirable progressive features of our present tax system.

As for industrial construction, I am inclined to question whether a tax exemption should be applied to those elements of the business tax structure that are in a sense normal, that are a usual deduction from business profits, and that, in any plan of taxation not resting with extreme severity on consumers' purchases, must be utilized in securing a revenue sufficient to meet modern Government costs. In the long run, such a tax relief would simply serve to concentrate the already highly concentrated ownership of industrial facilities. Perhaps it would be preferable to use for the stimulus some temporary relaxation of such a tax as the undistributed profits levy, which is in a sense not a normal tax intended to be paid by business but is in part simply a penalty against those owners of corporate securities who are permitted to avoid individual income taxes by retaining earnings in the business. We would then be in a position of saying: If you will, for this period in which construction stimulus is needed in the economy, actually spend funds for that purpose, we will in turn permit you to avoid a penalty assessment on retained earnings.

Mr. William A. Herin - 2

I am a little puzzled to know just how a tax relief program would work out on the permanent basis apparently provided for in the bill. It seems to me quite possible that a permanent stimulus of this size might in the course of time result in excessive capital expenditures for construction and a consequent dislocation of the economy. In addition, it seems to be the intention of the bill to limit the applicability of the proposed exemption to funds spent for construction; and I am wondering, if a tax program of this kind is to be developed, whether it might not be well to consider the inclusion of plant equipment and perhaps other items that would actually increase the productive capacity of our industrial establishment.

From the fiscal standpoint, I should also want to examine carefully from what sources governmental revenues of the magnitude that would probably be lost by this proposal could be made up without at the same time levying taxes that would have an equal or greater adverse effect on our economic operations.

These are simply questions that have occurred to me as I have read your letter and the inclosed bill. Let me thank you again for writing me as you did and for giving me the opportunity of seeing the bill that Mr. Wilcox has introduced.

Cordially yours,

M. S. Eccles,
Chairman.