

TO..... **Mr. Bryan**

FROM..... **Miss Egbert**

REMARKS:

12/2/37

**Mr. Eccles would like you to draft
a reply to the attached for his signature.**

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Congress of the United States
House of Representatives
Washington, D.C.

November 30, 1937

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

PERSONAL

Dear Mr. Eccles:

Your splendid talk last evening was, to me, a liberal education in present-day economics. Frankly, it is most inspiring to those of us who are serving political apprenticeship to see men of wide experience and unusual ability assume such a responsible part in public affairs.

Usually, during these forum meetings, a few written questions are submitted from the audience, but last night the Senators and Congressmen made so many demands on your time that there was no opportunity for such questions. I had hoped to ask you the following question and, if you can find the time to consider it, I shall appreciate it very much, for I value your opinion very highly.

As an inducement to private capital to finance new construction, what do you think of a proposal to exempt from Federal taxation up to fifty percent of individual or corporate income, provided this percentage of income is expended on new construction during the year in which it is received?

Such a proposal is embodied in the enclosed bill which Mr. Wilcox has recently introduced, in an effort to assist in the President's new construction program. Naturally, since our forum was entirely "off the record", any answer you may give will be treated confidentially, unless you indicate otherwise.

Whatever attention you may be able to give to this question will be deeply appreciated, for I know that you are very busy.

With kindest regards, I am

Sincerely yours,


William A. Herin
Secretary

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

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Mr. William A. Herin - 2

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.

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,

H. S. Eccles,
Chairman.

JWB,
MHB/nb

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Congress of the United States
House of Representatives
Washington, D.C.

December 14, 1937

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

Dear Sir:

This is to thank you very much indeed for your most helpful letter of December 11th in which you so kindly give me the benefit of your views on the subject of partial tax exemption as an inducement to new construction.

In the midst of all of your heavy responsibilities, it was most considerate of you to study the proposal as thoroughly as you did. You may be sure that your suggestions are much appreciated, and that your observations as to the probable effect of such legislation are indeed helpful. I understand that your expressions of opinion on this subject are entirely confidential, and you may rely on my treating them as such.

With kindest regards, I am

Sincerely yours,



William A. Herin
Secretary