

FORT WORTH STAR-TELEGRAM

MORNING

EVENING

SUNDAY

AMON G. CARTER, PRESIDENT

FORT WORTH, TEXAS

November 29, 1937.

PERSONAL

Vice-President John N. Garner,
Washington Hotel,
Washington, D. C.

Dear Mr. Garner:

It has so often been hailed as a blessing to the nation when Congress goes home, that the spectacle of people looking eagerly to Capitol Hill for rescue and protection from threatened dangers has its elements of humor. But it is a fact that although many (of whom I was one) regretted the call for the special session, thinking at the time that the country would be better for a respite from possibilities of further legislation affecting business, and that the matters stipulated in the call might without loss wait for the regular session in January, these same people are now glad that Congress is in session, thereby affording the opportunity for doing now a few things that need to be done and thus gaining a few vital weeks of time before the regular session opens.

I believe that unless Congress does act to give a little measure of assurance to business and a little release in the matter of certain legislation of the last session, which, however well-intentioned, has become, through force of developments, a drag-weight on business, the recession on which now is so apparent, instead of undergoing improvement, will grow worse, and that instead of making up the lost ground in the Spring, as has been hoped, this recovery and resumption of the march back toward normal prosperity will be delayed until Fall. In short, the longer the situation goes on without something being done to correct it, the worse it will grow and the more difficult will be correction.

When I left Fort Worth some five weeks ago, the effects of the recession had not been felt here. It was only after spending this time in New York and Chicago, and talking to persons from many cities in various lines of business and industry, that I learned what had been happening. It was a surprise to me; but my surprise turned to amazement when I returned home this week to find the effects had already reached this section and our own business. This is entirely contrary to the record of 1929. In that period, as you know, business in Texas continued relatively good for nearly a year after other sections, particularly the East and the Middle West, had

FORT WORTH STAR-TELEGRAM

MORNING

EVENING

SUNDAY

AMON G. CARTER, PRESIDENT

FORT WORTH, TEXAS

- 2 -

been hit badly, and consequently our own business held up proportionately. Now all the reports I have on local business, and the statements of business men with whom I have talked, show a sharp falling-off in trade at the very time it should be increasing. As evidence of the sharpness of the recession as it affects our own business, our national advertising, somewhat of a barometer in itself, for November - advertising placed by national manufacturers and distributors - shows a ~~loss~~ loss of 80,106 lines, while our local display advertising, that of retail merchants and local business institutions, shows a gain of but 3,248 lines. The national advertising carried the highest rates and after all is our chief source of profit. In dollars and cents, the national advertising loss will mean a decrease in our revenue for the month of approximately \$23,000. Expenses, due to higher prices for all materials purchased and increased wages - our scale is 5 percent above that of 1929 - was approximately \$18,000 more in October than in October of 1936 and will be approximately the same for November. From this you can see there isn't likelihood of making money by losing \$23,000 in business and increasing expenses \$18,000. It just doesn't make sense. November and December normally are among the best months in the year from the standpoint of both volume and profit - a drop so sudden and so sharp warrants concern. I fear that unless Congress takes some action or gives some assurance of early action on the things necessary, there will not be the usual Christmas trade.

I don't think I need to protest to you my wish not to appear in opposition to the Administration program, which in general has had my hearty support from the first. I do not doubt that the President and his advisors, you, and the other leaders of Congress, have been keeping an eye on late developments as on developments earlier in the Administration. Any suggestions I offer to you are offered in a spirit of entire friendship to you and to the Administration, and with the thought they may find a value in their coming from an important community of your own State. They are actuated, also, by the President's wise action in calling into conference leaders of business and industry to supplement the political councils. I do not overlook the fact that business, by aggressively absenting itself from the councils of the Administration in the past, must share the responsibility for any mistakes which it now condemns.

I think we will all agree that some mistakes have been made. The new Administration would

FORT WORTH STAR-TELEGRAM

MORNING

EVENING

SUNDAY

AMON G. CARTER, PRESIDENT

FORT WORTH, TEXAS

- 3 -

have had to be all-wise indeed to avoid all mistakes in a situation so critical and so demanding of haste. But, I think it fairly evident now that the point has been reached when the latitude allowed in emergencies must be reduced. The Government can not continue large-scale spending, or "pump-priming", as some are wont to call it, without laying upon the country taxes so heavy as to defeat the purpose of the recovery program and to retard rather than speed the return to normal prosperity. Obviously, to continue the spending without laying taxes adequate to support it would produce a still more serious situation.

The time has come for the recovery effort to be transferred from the Government's shoulders to those of business and industry; for the public spending that supports recovery to be transformed into private spending for production and expansion. Some individuals or elements in business and industry may be actually slacking because of antipathy to the present condition, but all individuals and elements are obviously not engaged in such a foolish and unpatriotic conspiracy, nor is it possible to imagine that all could or would do so. For the most part, it is a case of private business and industry looking eagerly for that reasonable measure of assurance that will balance the scales in favor of the expansion and production programs which they have in mind. They are willing and eager to produce, to build, and to expand, but they need from the Government the removal of handicaps, which came to be so without the intention of the Government, but which stand in the way of private enterprise.

One of these obstacles, of course, is the capital gains tax, which, by penalizing successful investment, operates in times such as these to discourage the very enterprise the country needs for recovery. Investors naturally and wisely hesitate to put out their money when, to the heightened risks attending all business, is attached the determination of the Government to seize most of the profits should a venture prove successful. Since this tax, by bringing up its twin - deduction for capital losses - operates at other times to cost the government much revenue, it seems that the Treasury would be better off for dropping the whole business. It works a loss one way to business and industry, the other way to the Government; both ways it is detrimental to the country's best interests.

FORT WORTH STAR-TELEGRAM

MORNING

EVENING

SUNDAY

AMON G. CARTER, PRESIDENT

FORT WORTH, TEXAS

- 4 -

Another obstacle, and of even more vital present importance, is the penalty tax on undivided profits. This tax throttles business enterprise because it penalizes the sound practice of plowing profits back into business, a practice which has made American business management effective. It penalizes the use of profits for paying off debt, and therefore is a tax on prudent management. The burden of these provisions is especially onerous on the smaller firms, which form the mudsill of American business and industry. This tax, I believe, should be repealed in toto, or at least it should be amended to allow exemption of profits used to fortify the business - for the discharge of debts in existence before the enactment of the tax and of debts created afterward for the purpose of improvement and expansion to increase production and thus aid in recovery.

I believe this law of the last session has actually retarded recovery. I know that in our own case it has prevented us from undertaking a program of extension and replacement involving construction of an annex to our building, and new presses and new equipment, the whole amounting to about \$750,000. We were ready to undertake this program. Last Spring we felt we had gone as far as we could and that we should get it under way this Fall or early in the new year. But, then, we ran up against this new tax law, and found that if we borrowed the money on a 10-year basis, in addition to the normal interest, we should be required to pay an additional penalty of ten to twenty-five percent on the sum repaid on the debt each year. That made it prohibitive. You can't operate on borrowed money at any such figure; and under the law you can't accumulate money of your own to obviate borrowing. Ours is only an isolated case. It is not a large one, but the \$750,000 spent would have been of some benefit.

Fort Worth's electric utility company in normal years spent about \$2,000,000 annually in replacements and extensions; It will spend less than a million this year and even less next year. I am informed. It is operating at capacity. The rapid growth of air-conditioning has demanded large scale additions to its facilities; but the company can not get the money, because no one will invest in utility bonds under present conditions, and under this tax law utility companies can not move to save themselves. I am not interested in the utility company; don't own a share

FORT WORTH STAR-TELEGRAM

MORNING

EVENING

SUNDAY

AMON G. CARTER, PRESIDENT

FORT WORTH, TEXAS

- 5 -

of any utility stock. I appreciate fully the abuses of utility financing in the boom period, and am in entire sympathy with the President's idea of establishing a fair and equitable basis of value for them and for their rates. I cite this case merely as another evidence of pent-up demand that, if released, would at least be a stimulant to local conditions. I feel that what to my own knowledge is true in this case is true in the case of other industries throughout the nation, probably to a total extent of a billion dollars.

It is my belief that there can not be lasting recovery except through restored activity of the business and industry of the country, and that the shortest route to recovery is to remove from the path of business and industry those obstacles that prevent it from expanding. To adventure in business demands confidence; the owners must have confidence to justify them in putting back their own money into it; the independent investor must have confidence before he will lend his money. Reform, economic or social, may proceed over a long term; recovery from a depression is a nearer thing, if it is to be achieved at all. At this stage of the game, again I am frank to say I believe a pound of recovery is worth a ton of reform.

I am in thorough sympathy with the principle of old-age payments and unemployment benefits in the Social Security Act, and have willingly paid the taxes involved in our own case, as I have all other taxes. But there is a doubt in my mind, which I am persuaded is a reasonable doubt, as to the wisdom of the progressively increasing tax rate, and of the thing it leads to and supports - the unbelievably enormous reserve finally to be created. I have a feeling that a much smaller sum, which would not necessitate eventual doubling of the national debt in order to furnish securities for its investment, would do all that we will have necessity to call on it for, and that, accordingly, it is not necessary to continue to step up the tax rate to the 6 and 3 percent figures.

I

I still think the country is all right; I have every confidence in the Administration; I am sympathetic with its great objectives. But, I do believe that too much has been attempted in too short a time - so much, indeed, that no matter how sound the economic management or how ultimately beneficial the reform

FORT WORTH STAR-TELEGRAM

MORNING

EVENING

SUNDAY

AMON G. CARTER, PRESIDENT

FORT WORTH, TEXAS

- 6 -

might be, it simply could not be absorbed as fast as it was dished out. I believe that a more gradual but consistent restoration of prices, in the long run, will be more beneficial than a rapid rise followed by a recession, as has been the case in the past few months. In short, I believe we should still put our pants on one leg at a time, so as to be less likely to trip ourselves before we get dressed.

I observe that your toothache has attained national prominence. I hope all the publicity drove it quickly from the stage and that you are again your customary cheery self.

I am taking the liberty of sending copies of this letter to Sam Rayburn, Senators Sheppard and Connally, and Fritz Lanham, which I trust will be agreeable with you.

My sincere best wishes to Mrs. Garner and yourself, I am

Affectionately yours,

AGC.KD

P. S. The corporations of the country paid out many billions of dollars more in dividends than earned since the depression started. This was a life saver. Under the present laws this accumulation of surplusses has been killed and if the present recession continues this surplus cushion will not be available. There will be nothing left except for the Government to step in and absorb the deficits which will appear on the scene. The answer is so simple, even a child should understand it.