

JOHN F. SELLE
1130 S.W. EIGHTH AVENUE
GAINESVILLE, FLORIDA

May 12, 1946.

Senor German Bernacer,
Madrid, Spain.

My dear Senor Bernacer:

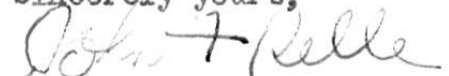
I found your letter most interesting and I am sure that you have analysed correctly the causes of the periodic declines in business activity. Of the several ways which you mention by which we reduce the flow of spending money which creates demand I believe that the most important is the custom of businessmen by which they increase their working capital fund out of profits. You state it concisely when you note that the effect is to produce two units of supply for one unit of demand.

You closed your letter by stating that you had an obvious answer to the problem as you have noted it but did not go into detail further. I would be much more interested in the remedy than in the cause itself. In your case, you apparently do have an answer, but my chief criticism of the economics profession is that they spend too much time in diagnosing economic illness and too little in prescribing the remedy. The doctor who can tell me what is wrong with me but does not tell me how I may be cured has done little to help me.

My own answer to the problem consists of devices which will make correct economic activity more profitable than the disorganized and unplanned set-up we have now. Briefly stated, it consists mainly of making working capital so easy for business to borrow at very low interest rates that businessmen would be better off to supply their working capital needs in this way than to save business profits for this purpose. I would tax demand deposits, pay a rather high rate of interest on time deposits, and require that banks invest all of their surplus savings deposits in Government bonds. I would also require corporations to pay a rather heavy tax on gross income in excess of gross expenditures (including in expenditures bond interest, dividends, etc.) with some credit on the tax when the surplus is invested in Government bonds. This would be in addition to the usual corporate taxes if these are continued. The general effect of my proposals would be to force into Government bonds all income which is not promptly spent or truly invested. The Government would then merely spend enough to keep the Federal balance at some predetermined level.

I believe that Free Enterprise will create its own doom if it continues to resist Government assistance in balancing total spending and investment at the levels necessary to create demand for full employment production. And I believe that Government can discharge its own responsibilities without interfering with the freedom of businessmen to function as producers. I would like very much to know how you approach this question.

Sincerely yours,



P.S.: Prof. Anderson tells me he mailed a second copy of his book by registered mail about two months ago. He will check from this end.

THIS SIDE OF CARD IS FOR ADDRESS



John

*German Bremen
John Fenwick?*

Alcanta

Spain

324 West 86th Street,
New York.

Dear Sir:

Permit me to acknowledge with thanks the receipt of
the publication which you were kind enough to send to me.

Very truly yours,

EDWIN R. A. SELIGMAN.