

March 3, 1945.

Honorable Walter F. George,
United States Senate,
Washington 25, D. C.

Dear Senator:

When I testified last week before the Senate Banking and Currency Committee in regard to the gold reserve requirement bill, I was unexpectedly questioned about the very serious inflationary danger that threatens now unprotected sectors of the economy, that is, homes, farms, stocks and other capital assets. My suggestion of a special wartime capital gains tax, which I feel is essential to protect these areas, was very much misunderstood and, in some cases, misrepresented and, accordingly, I thought it necessary to prepare a statement which would clarify the matter. I am taking the liberty of sending a copy to you as I have noted your comment on the suggestion and, more particularly, because the matter is one in which you have, I know, a great interest as well as a responsibility and you are thoroughly familiar with the tax structure.

As I have sought to emphasize, this proposal is an expedient necessarily dealing with the effects and not with the causes of the inflationary problem. I have long since concluded that it is a necessary expedient, much as I instinctively dislike direct controls of this sort. It clearly is a question today of a choice of alternatives and I feel very much concerned about a situation that seems to me cannot be reached effectively without this measure.

I am not venturing to send copies of this statement to members of your Committee generally, but I am sending one to Senator Taft as a member of the Banking and Currency Committee, since his questions in regard to this matter indicated his interest and concern.

Enclosed also is a copy of a rather extraordinary letter I received from an army sergeant who sums the matter up in a most illuminating way.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures 2

BT:b

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United States Senate

COMMITTEE ON FINANCE

March 5, 1945

Hon. M. S. Eccles, Chairman
Board of Governors
Federal Reserve System
Washington 25, D. C.

My dear Chairman Eccles:

Thank you for your letter of March 3rd with enclosures with reference to the proposal advanced by you before the Banking and Currency Committee of the Senate.

When my attention was drawn to your statement before the Committee I cautioned the reporter that I had not seen your statement and that it was difficult to offer any comment on any tax proposal without a careful study of the proposal as made. I am very glad to have your exact views and statement. I can, of course, see the full force and effect of your suggestion but at first view of the matter I fear the adverse effect on postwar business expansion would outweigh the benefits which your proposal undoubtedly would tend to promote.

With great respect, I am

Sincerely yours,

Walter F. George