

My personal view of the Board's decision to increase margin requirements to 100 per cent may be summed up as follows:

This exhausts the Board's authority to prevent any more borrowed money from being used to buy listed stocks. In addition, if anyone who now has an account margined at less than 100 percent wishes to trade further in the account, he must apply the proceeds of any sales to bringing his account up to the 100 per cent margin. To whatever extent these requirements tend to dampen speculative activity, they are desirable, as preventive steps, at this time of strong inflationary pressures and until such time as inflationary dangers are passed.

While the authority to stop new credit from flowing into the stock market and to prevent existing credit from being used further in stock transactions has thus been exhausted, the Board has not at this time taken the only possible remaining step; namely, that of eliminating credit altogether, by requiring all existing margin accounts to be put on a cash basis.

As I have repeatedly emphasized in the past, the primary source of the inflation danger which overhangs the domestic economy on all fronts is the vast accumulation of cash or its equivalent at the disposal of the public as a result of the way in which the war has been financed. Credit for stock market as well as other purposes has been curbed all along, but it is a minor and not the major factor in the inflation picture. While credit curbs are justified for such restraint as they may impose on speculative activities in a time of inflationary danger, they cannot reach the real source of danger, which is the huge amount of currency and bank deposits. Neither can price controls, rationing, allocations, etc., vital as they are and will continue to be in holding the line until the danger

is past, stop this money hoard from flowing into the still unprotected sector of capital assets, such as homes, farms, business properties, as well as stocks.

The most effective way that I know of to curb speculation, based on cash, in capital assets is to increase the capital gains tax substantially. For more than a year I have urged this as a temporary protective measure applicable to all future purchases. This would not deter the selling of assets held at the time the measure was introduced in Congress, but it would greatly deter the buying for the rise after that date. It would not affect the purchase of capital assets for strictly long-term investment.

In addition, it is important to point out that so long as the public debt continues to be monetized through the purchase of Government securities by the banking system, the long-term interest rate will tend downward and the supply of money will continue to increase. The resultant pressure of lower interest rates and an increasing supply of money are bound to have a further inflationary effect upon all capital assets. It is, therefore, imperative that the long-term interest rate be stabilized.

Only by a vigorous, comprehensive attack along the entire economic front can the battle be successfully waged against inflationary pressures. Credit curbs are at best supplementary and not basic measures for reaching the underlying causes of these pressures.

1/16/46

ET:b

Pres. Truman