

February 23, 1945.

Dear Henry:

This is to thank you for your courtesy in sending me the transcript of the press conference that you and Mr. Blough held in connection with a capital gains tax on speculative transactions in real estate, the stock market, and other capital assets.

I read it over and thought you had handled it excellently, and I wanted you to know that I appreciated it.

Sincerely yours,

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington 25, D. C.

 ET:b

The Secretary of the Treasury

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Federal Reserve Bank of St. Louis

Q Do you have a comment to make on Mr. Eccles' proposal for taxing gains in real estate and the stock market?

H.M.JR: Well, if Mr. Blough will step up here, we will let him start giving an explanation for background. Let's start that way, see.

MR. BLOUGH: They all know what this tax is.

Q I would like to have it.

H.M.JR: Do you all know Blough?

MR. BLOUGH: As I understand Mr. Eccles' proposal, it is that beginning at a certain cutoff date, presumably the date the thing is first announced, which in his case was a couple days ago--but beginning at a certain cutoff date in order to avoid people rushing in and doing things before the bill passes, any purchases thereafter of whatever assets would be included, which, as I understand it, would be stocks and securities, urban real estate and rural real estate, and then that property purchased after that cutoff date--if that property is sold within--I don't know just what the period was, two or three years, the gain on the sale would be taxed at ninety percent. That would be in lieu of the ordinary capital gains

tax. If the property is held longer than that time, there would be a declining rate, say, in three or four years to eighty percent; in five years, say, seventy or sixty percent; and I don't recall just what his specific plan was but then it would get down until it was no higher than ordinary capital gains rate, and there would be no significance thereafter. I think that--

H.M.JR: Didn't this originate in Mr. Vinson's Committee? Isn't that where it started?

MR. BLOUGH: No, I think Mr. Eccles has been tossing this around more or less for a couple of years.

Q He made a suggestion near the beginning of the war along this line, didn't he?

MR. BLOUGH: And then last year Secretary Wickard had a similar idea with respect to--in fact, that same idea with respect to rural real estate. He made some speeches about that.

Q A bill was introduced, too.

MR. BLOUGH: A bill was introduced. I don't think any hearings were held on it, but a bill was introduced, so it isn't a brand new idea, either with Mr. Eccles

or the country as far as that is concerned. The purpose, as I understand it, is to try to hold down speculation in capital assets. The present situation, of course, is always threatening along that line because there is a tremendous volume of free cash available, and goods and services aren't available to purchase with it. Capital assets aren't subject to the Price Control Act. There has been some evidence of increase in the last few months.

Q What is the Treasury's position on that?

H.M.JR: That was for background. What I would like to say is this: Like Mr. Eccles, I am always worried about unhealthy gains in values of capital assets, and we here in the Treasury are studying it with the Joint Committee.

Q Have you got that far?

MR. BLOUGH: No, just here.

H.M.JR: Just here, we are just studying it here as to what can be done, but we haven't gotten beyond the study stage. Is that correct?

MR. BLOUGH: That is correct. And, of course, we are studying the thing from a broader point of view than just one specific proposition.

H.M.JR: Yes, but I have a very distinct memory of the prices that people particularly in the middle west paid for farm land following the last war, and also a very distinct memory of what happened to a great many of these people, because when I was in Farm Credit I got the brunt of it; and if we can stop in any way or discourage speculation in land, I think we will be doing a lot of people a real service.

Q You mean to limit that to land?

H.M.JR: No, I am thinking of it particularly in terms of land because I happen to have gotten the brunt of it, but in Farm Credit--I mean--

Q Well, I mean Farm Credit.

H.M.JR: Yes, but you have got it there, mortgage foreclosures--I mean what is happening in land is happening in a lot of other fields.

Q It will effect the G. I. Bill, too, in the sense that--

H.M.JR: You cited that example on which I happened to have had experience on the Governmental end.

Q I understand that some G.I.'s can't buy because of inflated prices.

MR. BLOUGH: That was Mr. Eccles statement the other day. May I say one thing off the record--not off the record, but for background? There is, of course, another side to this, and that is, will a tax of this kind aimed at--and let us assume it is effective with regard to the speculative aspects. Will it also interfere with not only normal business transactions at this time, but particularly with the reconversion and expansion of business in the immediate post-war period? That is one of the most serious questions in our study of the problem.

Q I wish that could be part of the Treasury comment. Could we make it, sir?

H.M.JR: No, you can write the story for background on the record. I don't know just what I said.

Q Your remarks were on the record?

A My remarks were on the record.

Q And as I understand your remarks you are not

specifically endorsing his proposal; you are expressing approval of the general objective of trying to do something about speculation and capital assets.

* * *

Q I was just wondering if we couldn't return to this other thing for a second. I was wondering how this would interfere with the post-war period. Could you expand on that idea just a second?

H.M.JR: Mr. Blough, do you want to expand yourself?

MR. BLOUGH Well, a lot of capital transactions are necessary in order to get the real estate in the hands of the people who are going to give the jobs after the war. Now, if the effect of this tax should prove to be a sort of freeze in the market so that there wouldn't be very much turnover and to discourage people from being willing to dispose of their assets until after this tax has passed out of the picture, it might make it difficult for those who wanted to go into business or expand their businesses from getting the assets which they would use for giving employment, and

that is one of the things that was giving considerable concern in the study.

Q You say, "Until the tax has passed out of the picture." Would it automatically?

MR. BLOUGH: I would assume that Congress, with the President's assistance, would be inclined to have some anti-inflationary measure, and after the inflationary fright receded they would get rid of the tax. It was never contemplated to have the tax continued indefinitely, as I understand Mr. Eccles.

Q What was the time limit on that, or would it be discretionary?

MR. BLOUGH: I don't know. As far as I know there was no proposal as to time limit. At least I have heard of none.