

P. O. Box 906
Greenwich, Conn.
March 4, 1946

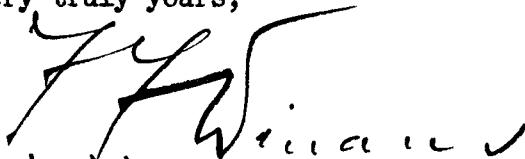
Mr. Marriner S. Eccles
Federal Reserve Board
Washington, D. C.

Dear Sir:

It seems to me that ever since you have held your present office you have kept shooting at the capital gains tax. You have persistently recommended before House and Senate committees that the tax be not only increased but the holding period be materially extended. Your last attack had to do with the rise in the stock market and you took the position that this rise was causing inflation. You know, or you should know, that the rise is the effect and not the cause, of inflation. If you really want to know what is causing inflation I suggest you take a good look at the present Administration policies. If these policies are persisted in (price-wage, etc.) it will be notice to the country that the free enterprise system is on the way out.

Touching again on the capital gains tax I understand you are a successful businessman. There are a number of reasons for this but the most important of which, as I see it, is that you must have a keen mind and in addition, have had the use of considerable capital in the conduct of your business. Every dollar of capital paid in taxes to the Government reduces the available capital of the country just that much and if we are to continue our growth we will need ever-increasing capital funds. Under the British system as you probably know there is no capital gains tax. In 1913 when the Federal Income Tax law was placed on the books the understanding of the country at that time was that it was to be an "income" tax law purely. In my opinion, based on an experience of many years the capital gains tax should be entirely eliminated. This tax together with the raising of margins is largely responsible for the present condition of the stock market.

Very truly yours,



March 11, 1946.

Mr. F. F. Winans,
P. O. Box 906,
Greenwich, Connecticut.

Dear Mr. Winans:

Your letter of March 4 contains a series of inaccuracies. I have held my present office for about twelve years and since I have been advocating a special capital gains tax as an inflation control at this time, you are mistaken in supposing that I have been "shooting at the capital gains tax" ever since I have held this office.

My "last attack", as you put it, had much more to do with the exorbitantly rising prices in farms, homes, business properties, etc., than it did with stocks. I did not take the position that "this rise was causing inflation." The exact reverse of that is true. I not only should but do know and was at pains to emphasize that these rises and the controls to deal with them relate to effects and not causes. I stated exactly what I believe to be the causes of the inflationary pressures, and in case you might be interested to have the facts, I enclose a copy of what I did say in a prepared statement presented before the Banking and Currency Committee of the House.

I am aware that the British have no capital gains tax. I have not been discussing this measure from a standpoint of making it a permanent part of the tax structure. There is no other available and effective instrument, however, at this time to reach the speculative activity that is so potent a factor in driving up capital assets in every field. I would neither make the tax permanent nor make it retroactive, but I would, if I had my way, have it apply to future transactions not merely in the stock market but also on homes, farms, etc. I do not like controls of this character any better than you do but I like inflation less.

If, by your last sentence in your letter, you mean that the present wholly inadequate capital gains tax and the margin requirements are responsible for inflationary conditions in the stock market, I would disagree with you one hundred per cent. I would agree that the condition of the stock market is a reflection of inflationary pressures and an inadequate capital gains tax, and that while the margin requirements are necessarily of only incidental value, since they affect borrowings and do not touch the huge accumulations of cash available for buying stocks, they are justifiable for whatever restraint they do exert. I tried also to put this matter in proper focus at the time the Board increased the margins to 100 per cent, and I enclose a copy of that statement for your information.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures 2