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Feb. 20, 1945.

Governor Marriner Eccles,
Federal Reserve Board,
Washington, D.C.

Dear sir:

I note your remarks today, to the effect that a special tax should be levied on profits on stocks, real estate, etc. Why not a special tax on rugs, jewelry, antiques, and everything else.

I am amazed at your recommendation. Countries abroad have tried the products of frenzied minds, with the result that prices went higher and higher, and nobody would sell stocks.

If I can correctly observe affairs, I would say, should Congress follow your suggestions, thousands of people would sell their Government bonds, and never buy another one.

There is no valid reason at all for your suggestion. I am surprised that the Governor of the Federal Reserve Board of this big country has such silly ideas. Your reasoning is very shallow.

Yours truly,

JDGoodman

February 26, 1945.

Mr. Joseph D. Goodman,
Joseph D. Goodman & Co.,
1500 Walnut Street Building,
Philadelphia 2, Pennsylvania.

Dear Mr. Goodman:

It would seem to me that an investment adviser, as your letterhead designates you, would first ascertain the facts before writing such a vituperative letter as yours of February 20. I would not be disposed to reply, but for the fact that you apparently base your conclusions on fragmentary newspaper accounts of what I discussed in the course of my testimony before the Senate Committee on Banking and Currency.

I had not expected to be questioned on the subject of inflationary dangers in the uncontrolled fields of capital values, and when pressed by Chairman Wagner, Senator Taft and others, I was obliged to express my conviction that a special wartime penalty rate on speculative capital gains was the most effective single weapon for taking some of the inflationary fever out of these markets. I am satisfied that the effect of such a penalty rate would be precisely the opposite of the one that you predict. I can think of no single step that would do more to protect the Government bond market.

With regard to a special tax on rugs, jewelry, antiques, etc., let me say that there is no analogy whatsoever. Price ceilings cover such things. There is no speculative activity in them, and even if diamonds and other luxuries were to be bid up to exorbitant prices, it would be of little economic importance so long as the prices of necessary goods were unaffected. Scarce and necessary goods are, of course, rationed. I think it is of paramount importance that the prices of such essential things of life as homes and farms should be protected from speculative activities that would put them beyond the reach of returning war veterans, among others. My reasoning may, as you say, be very shallow, but I would not care to defend your side of this argument.

Very truly yours,

M. S. Eccles,
Chairman.

ET:b

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Feb. 28, 1945.

Dear Governor Eccles:

I thank you for your letter of Feb. 26th, replying to my "vituperative" letter of the 20th. My letter was mild , compared with what was in my mind. I know you have strong convictions, and that a few words from me will not change them. But having been with the Federal Reserve system during the first five years of its existence, I think I have learned something about the viewpoints of the various governors of the Federal Reserve Board and the reserve banks. Your views reflect the New Deal's mania for regimentation and Communism.

Yes, all I know about your statement to the Committee in the Senate was what I read in the newspapers. You are reported as having said stocks advanced 80 percent since the war started. Well, at the beginning of 1939, the Dow-Jones industrial averages were 150. They are now 159. (After the outbreak of the war in Europe, they declined to the low 90's in the Spring of 1942). Everything else has gone way up, except stocks. In 1937, for instance, U. S. Steel was 126; it is now 63. Stocks such as Consolidated Edison, General Electric, Socony-Vacuum, Standard Oil of New Jersey, Kennecott Copper, Commercial Credit, were much higher - in some cases twice what they now are. When France quit in the Spring of 1940, our market dropped severely, starting from about 145. At its present price of 159, it is only up 10 percent above where it was when that terrible panic occurred in the Spring of 1940. The English market likewise dropped when France quit, from 100 to 61. It is now 141, or 41 percent above where it was when France quit; our market is up 10 percent from the same point.

Inflationary factors have been brought about by the acts of the Government itself, of which you are an important part. Wages and farm prices have gone way up; the politicians are afraid to control the price of wheat, but steel prices are where they were when the war started. You have kept money rates low, with lower rates promised. Bonds have, therefore, gone to the highest prices in history. As the result of government policies, there has been practically no new-money equity financing for years. Since 1937, every broker has been shipping stock certificates to customers, paid for in full. The floating supply is the smallest on record, with brokers' loans practically negligible. As to homes, with the shortage all over the country, what else can you expect but rising prices, with people having so much money to spend?

The way to free-up the Capital markets is to repeal the Capital-gains tax completely, as in England and Canada. People will then be glad to take quick profits, and more stocks will be available. The government will gain in the income tax and stock-transfer tax. Put the tax way up, and nobody will sell, which means, if anyone buys, prices will go higher than ever. For the life of me, I cannot understand the reasons for your argument. Maybe, some of the boys in Washington sold their stocks too soon, and would like to get them back lower. But you don't eat stocks. Nobody has to buy them.

Yours very truly,

J. D. Goodman

March 5, 1945.

Mr. Joseph D. Goodman,
1500 Walnut Street Building,
Philadelphia 2, Pennsylvania.

Dear Mr. Goodman:

In reply to your letter of February 28, I am enclosing a copy of a statement which I have just issued in regard to my proposal for a wartime capital gains tax.

I am not thinking exclusively of the stock market, as you are, and while I do not imagine it would be possible to change your viewpoint at all, nevertheless, I think it quite likely that you have been misinformed about the nature and purpose of my proposal.

Very truly yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b