

TO Mr. Musgrave

FROM Mr. Thurston

REMARKS:

2/27/45

The Chairman suggested that I pass
the attached along to you. Possibly
you could have someone suggest a reply.

E.T.


CHAIRMAN'S OFFICE

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 19, 1945

To Mr. Thurston

Subject: _____

From Richard A. Musgrave R M M

Attached is a draft of a reply to Mr. Mason for the Chairman's signature. Mr. Mason apparently is a single tax crank and I do not think that the Chairman need reply in person. Perhaps it would be sufficient to send a letter simply recognizing receipt of his communication.

1920 Lake Street.
Feb. 22, 1945.

Honorable M.S. Eccles,
Washington, D.C.,

"Incentive Taxation".

Dear Mr. Eccles:

I read with great interest your suggestions on taxation, as reported in Wall Street Journal, and particularly your proposal to subject unearned increment in land-titles to special taxation.

I agree completely with the end purpose intended by such a tax, but respectfully submit there may be a different and better way to reach the same end.

To help pay Civil War costs, Lincoln approved 12 US St at L 292 which subjected the value of all privately held land to an annual Federal direct tax, which if not paid, became a lien on the land, as distinct from being a personal obligation of the person holding title. It is easier for persons to conceal speculative profits arising from transactions in land-titles, than it is to conceal or move the land. Furthermore, mortgages rank ahead of liens for unpaid Federal taxes. But, tax liens are senior to prior recorded mortgages. (21 Atl(2)586)

Altho 12 St 292 subjected improvements to the same tax as the land, is there any necessity for a new statute to include improvements?

A super tax on profits made in land-title transactions might well operate to discourage holders from selling. If that should happen, it would serve to lessen the supply of land available for production of "guns and butter", and as locations for the returning soldiers.

But, an annual tax upon the value of land, as provided in 12 St 292, and in the California Irrigation District Act (Stats 1931, p. 233; Stats. 1939, p. 17; Selby v Oakdale 140 CalApp 171, 35 Pac(2) 125) applies economic pressure upon the speculative holder of idle land, at the source, and gives him a compelling "incentive" to put the land to its most appropriate use, or step aside for others willing to use the land. See Fallbrook v Cowan, 131 F(2) 513; OroWya v Ford 118 Pac(2) 340. In the notes preceding the opinion in Fallbrook v Bradley, 164 US 112 you will see that Attorney George S. Maxwell (Founder of the National Reclamation Assn) warned the Court that this California law is "communism and confiscation under guise of law." Read the opinion! Then, read the Circuit Court prior opinion in 68 Fed. 948 which went on at great length about how this law "violated our Great Charter" etc. In Maxwell's view, the U.S. Supreme Court went "communist" 50 years ago!

The more land is taxed, the cheaper it is to buy. The more income and the fruit of man's work is taxed, the less of both there will be. This is total war, and to save us from inflation, and socialization of free enterprise by tax confiscation of earned profits, there must be an end made of the temptation to speculate in land titles, which hampers the opportunity for labor and capital to produce guns and butter. It will prove harder to do, each day it is put off. Conscriptioning persons would not be the American way?

Herbert Hoover

March 21, 1945.

Mr. J. Rupert Mason,
1920 Lake Street,
San Francisco, California.

Dear Mr. Mason:

This is to acknowledge your letter of February 22 in connection with my suggestion for a special wartime capital gains tax. It occurs to me that you may not have seen the full text of a statement I issued explaining my advocacy of this expedient, and I am accordingly enclosing a copy. I appreciate your interest and approval.

Your proposal, of course, is a very different matter of long-term taxation, whereas, I am concerned in this instance with trying to prevent further inflation in prices of capital assets.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b