

March 5, 1945.

Honorable A. Willis Robertson,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Robertson:

I am taking the liberty of sending you the enclosed copy of a statement I have given out to clarify a proposal I advanced recently when members of the Senate Banking and Currency Committee, in the course of hearings on the gold reserve requirement bill, unexpectedly questioned me as to what could be done to curb inflation of capital values, particularly of farms and homes. My suggestion, of course, would be one that would have to pass muster with the Ways and Means Committee if it is to be adopted, as I earnestly feel it should be in the form I suggested or in some similar form.

I am also venturing to enclose a copy of a most illuminating letter I received from an army sergeant in this connection.

I know how deeply interested you are in these matters and, therefore, while I am not imposing this statement on members of your Committee generally, I am sending a copy of this to you and to Mr. Cooper.

With kindest personal regards,

Sincerely yours,

M. S. Eccles,  
Chairman.

Enclosures 2

ET:b

Congress of the United States  
House of Representatives

Washington, D. C.

March 7, 1945

Hon. M. S. Eccles, Chairman,  
Board of Governors of the Federal Reserve System,  
Washington 25, D. C.

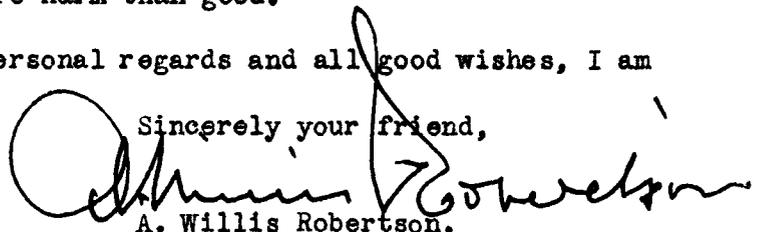
Dear Governor Eccles:

It was indeed good of you to send me the full text of your statement before the Banking and Currency Committee on the subject of a capital gains tax. I intend to fully study your suggestions, but my surface impression is that a ninety percent tax on capital gains would be calculated to dry up venture capital in the postwar era at a time when we are being told if private enterprise does not do the job the Government will.

I note what the sergeant said about the retired individual who made two hundred thousand dollars in the stock market of 1944. My personal feeling is that if that individual will keep up his in-and-out of the market deals for a long enough time he not only will lose the two hundred thousand dollars he made last year but his initial investment as well. The present market is more or less like the market from 1926 to 1929--no one loses when there is a steady upswing. I think you will agree with me, however, that out of the biggest stock market boom in our history very few reached the year of 1930 with any substantial gain. Mr. Baruch was probably one of the shrewdest traders of that period. He told a friend of mine that after the big break in 1929 he figured stocks had reached rock-bottom, he went back into the market and lost millions when the next nose-dive occurred. He, of course, had enough to stand such losses but the average over-the-counter trader does not. Frankly, I have never been able to convince myself that a virtually confiscatory tax on capital gains would not do more harm than good.

With kind personal regards and all good wishes, I am

Sincerely your friend,



A. Willis Robertson.

March 12, 1945.

Honorable A. Willis Robertson,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Robertson:

Your very kind letter of March 7 with regard to a special wartime capital gains tax prompts me to this acknowledgment to express my appreciation of the judicial approach you are making to this difficult and important matter, and to comment briefly on one or two points you mention.

I share to the fullest your concern to make sure that such an inflation-control device shall not interfere with venture capital in the postwar era. And I am confident that this can be taken care of adequately.

As to the retired individual who made \$200,000 in the stock market in 1944, I of course agree with you that if he gets in and out of the market long enough, he will ultimately get caught when the bubble bursts. The trouble is that it is these operations which make for excessive booms and inevitable subsequent depressions. Even if he is lucky enough to get out at the top of the market, as all speculators aim to do, somebody finally gets caught and ruined. What happens to the individual is not of so much concern as the demoralizing effects upon the economy as a whole, particularly the loss of production and the unemployment that inescapably follow the crash.

If things are permitted to get out of hand after this war, the inflation and deflation that were a result of an infinitely less dangerous inflationary potential after the first World War will hardly be a circumstance to the ruin that would be visited upon this country as a result of present and prospective inflationary forces. If prices of homes and farms continue their rapid rise, it will be increasingly difficult and probably impossible to prevent corresponding inflationary increases in all wages and prices.

Mr. Baruch can afford to take losses, as you point out, but it is the rank and file who get hurt and who need to be given protection from the very real dangers in this situation. I am concerned also because it seems to me to be a deception of the public to encourage people to put money into fixed interest-bearing obligations, such as Government bonds, with a comparative low yield and then do

Honorable A. Willis Robertson - (2)

March 12, 1945

nothing to control prices of capital assets or the speculative fortunes that so-called smart money is making out of this situation.

We are confronted with a choice of alternatives and it is my very carefully considered opinion that the suggestion I made, or some similar expedient, is the best protective weapon available, even conceding that it may not be by any means a perfect expedient. In the end it is a matter of judgment, and because of my respect for your knowledge of the situation and your judgment, I have not hesitated to write you on this subject.

I want to reciprocate most heartily your good wishes.

Sincerely yours,

M. S. Eccles,  
Chairman.

 ET:b

A. WILLIS ROBERTSON  
SEVENTH VIRGINIA DISTRICT

COMMITTEES  
WAYS AND MEANS  
CHAIRMAN  
SELECT CONSERVATION  
COMMITTEE

Congress of the United States  
House of Representatives  
Washington, D. C.

March 13, 1945

Hon. M. S. Eccles, Chairman,  
Federal Reserve System,  
Washington 25, D. C.

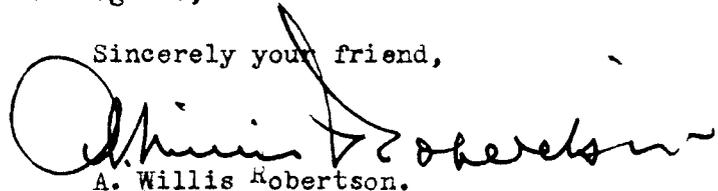
Dear Governor:

Your very cordial letter of the 12th in further regard to your tax proposal is appreciated.

I have requested the Treasury Department to give me figures on short-term and long-term capital gains and losses during the war period and the revenue realized from the present tax. Those figures may throw some light on what our future policy should be.

With kindest regards, I am

Sincerely your friend,

  
A. Willis Robertson.