Park Lane
299 Park Avenue
New York 17

March 8, 1945

My dear Mr. Eccles:

Will you be so kind and enlighten a poor amateur who does not understand?

Why are you so very upset about increases in value for securities representing the heart of our industrial set-up?

I have always thought it was a good thing for a country when values were going up. Is that wrong?

If I remember correctly you, yourself, vehemently advocated a high level of everything and you said that all your policies were directed toward that end. Now, you talk exactly the opposite way.

Surely there has been no speculative fever, since the loans against securities are less than 1% of their value. What is it that you fear?

Prices for our leading securities have not advanced anything like, for instance, cotton, wheat, corn and rye. You have instilled a great fear in many people with you panicky state of mind.

Please, dear Mr. Eccles, clear these points up for poor me, who cannot understand your viewpoint.

If your ideas as to taxes were adopted, all enterprise would cease at once. Surely you cannot desire that, as a patriotic citizen.

Awaiting your reply,

Very sincerely yours,

Paul Forester

Paul Forester.

Mr. Marriner S. Eccles, Chairman
Federal Reserve Bank
Washington, D. C.

March 12, 1945.

Mr. Paul Forester,
Park Lane,
299 Park Avenue,
New York 17, New York.

Dear Mr. Forester:

In response to your letter of March 8, I am enclosing a copy of a statement I prepared to explain my reasons for advocating at this time a special war-time capital gains tax. I trust that this will sufficiently clarify my own viewpoint so that it will not continue to puzzle you. You might also be interested in seeing the enclosed copy of an illuminating letter I received from an army sergeant in this connection.

May I add that I appreciate your courteous inquiry, particularly because of the number I have had that lacked that graciousness.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures 2

ET:b

Park Lane
299 Park Avenue
New York 17 ·

March 15, 1945

Mr. Marriner S. Eccles, Chairman
Federal Reserve System
Washington, D. C.

My dear Mr. Eccles:

Thank you for your letter of March 12th and the enclosure. There are still many matters which I do not understand and perhaps you will be kind enought to enlighten me.

In Paragraph I of your Statement, you say that the prices for farms have been steadily increasing since the beginning of the war and that this tendency threatens to undermine the entire price and wage stabilization program. Now what is this steady increase due to? Certainly not to speculation because a farm is the last thing a professional speculator would think of. He does not know a thing about farming and will not tie up his cash in so complicated a type of speculation. The increase in farm prices is due solely to the high prices for commodities such as Wheat, Cotton, Rye, etc., etc. There is no ceiling for such commodities and when speculators bid up the price of cotton, for instance, no protest is heard from any government agency. Yet, there is no difference whatever, in speculation for a rise in securities and commodities, except that an artificial level for such commodities is far more dangerous.

Mr. Baruch said, years ago, that no managed economy can work if ceilings are not placed on <u>everything</u>.

The farmers, themselves, are responsible for the increase in the cost of farm land. They are doing exactly the same thing they did during the first world war. Intoxicated by high prices for wheat, cotton, rye, etc., they acquired more and more farm land, on mortgage, at sky-high prices. When, as an aftermath of the war, commodity prices collapsed, the farmers, who could not pay the interest on farms acquired at fancy prices, yelled to high heaven. Yet, there is no essential difference between such a farmer, whose greed prompted him to buy farm land at exorbitant prices, and a speculator who paid $250 a share for United States Steel, in 1929.

Paragraph II. You talk about the ruinous effects of deficit financing by the government. Yet, long before the war started and long before we spent a cent for national defense, sixty billion dollars were expended by the government for various purposes and this spending led to the inflation boom of 1937. How can you cure the disease without removing the cause? You cannot cure a disease by treating symptoms instead of the real cause.

Park Lane
299 PARK AVENUE
NEW YORK 17

Mr. Marriner S. Eccles
March 15, 1945



Paragraph III. Surely there hs been no inordinate gambling in securities since the start of the war. Admittedly, some stocks have advanced considerably, but look at the level they started from. Let us take the securities mentioned in the letter of the war veteran, George Smith, a copy of which you sent me. He says International Telephone went up, from 1 1/2, to 27. That is quite true, but what of it? It sold at 1 1/2 because a lot of people lost faith in the company and sold out. Can you blame far-sighted people for buying such a bargain and holding on to it? Is there anything fundamentally wrong with such a purchase? How about all the people who lost their money in the stock? The same applies to Willys-Overland and Studebaker. Would the veteran prefer to see these companies go bankrupt?

Surely there has been no overspeculation in stocks and if Americans chose to invest in our standard stocks, who shall blame them? I am sure you will not. Take the case of United States Steel. It barely earns its dividend of $4.00. Surely there are no excessive war profits there after meeting the enormous taxes and increased wage scale. Just compare the United States Steel earnings with those of Mr. Kayser who made a profit of over seventeen million dollars on an investment of $100,000.00. What do you call that?

Our stock market struck a low of 92 1/2 (Dow Jones) and advanced to 161 1/2. Now, let us look at the London market. It struck a low at 60 1/2 and advanced to 142 1/a. Yet, no one seems to think that extraordinary.

Paragraph IV. It is almost impossible to differentiate between what you call a bona fide investor and a speculator. Every farmer who buys additional land because the price of commodities is high becomes, at once, a speculator.

In my opinion, putting the stock market on a cash basis would have disastrous results for every one. A flood of government bonds would come in the market because people will not be told that they must sell their stocks. A black market of fantastic proportions would be a further result.

Sincerely yours,

Paul Forester

Paul Forester.

March 17, 1945.

Mr. Paul Forester,
Park Lane,
299 Park Avenue,
New York 17, New York.

Dear Mr. Forester:

In regard to your letter of March 15, permit me to point out that you have been misinformed, as there are price ceilings on all farm products, including, of course, wheat, cotton and rye which you mention. What is worrying the farmer today is not the question of ceilings but of floors, since his magnificent production in the war will enormously exceed probable peacetime requirements. Many farmers have added to their holdings, of course, and much of this has been for cash. There are, however, many well authenticated cases of speculators, not farmers at all, operating in farm lands to take advantage of the speculative opportunities and the capital gains tax loophole. What I meant was that if you let prices of farms and homes and rentals go up and up, labor is going to demand increased pay to meet these increased costs and the whole stabilization line cracks.

As to your second point, it was one thing to have deficit spending in a period of deflation -- quite another to have it in a period of inflation. Since the Congress did not choose to remove the cause of the present inflationary potential by greatly reducing the huge deficit, there is no alternative left except to deal with the effects if the line is to be held.

I have not attempted to say whether stock market prices are too high or too low. There can be no objection to their rising to adjust to underlying values and prospects. What I do object to is the speculative leverage that results in instability, on which the brokers thrive. Hence, they are all for that and against any tax that will take the speculative gyrations out of the market so that it can reflect in an orderly way a gradual increase if that is justified by underlying factors. The time to stop speculative activity is before it gets out of hand. Nothing would bankrupt the industries mentioned by the veteran quicker than to have an inflation and then another deflation, which this time would make the aftermath of 1929 look insignificant because the inflation potential now is four or five times greater than it was then. You apparently miss the point entirely when you cite Mr. Kaiser's profits because they are subject to the high wartime individual and corporate income tax rates, whereas we still have a prewar capital gains tax.

I am not trying to define the difference between the bona fide investor and the speculator, but the tax I suggested would pretty effectively do it. There is certainly a world of difference between speculative investment, which employs people and produces real wealth, and the quick turnover speculation, which does neither.

As for your final conclusion, mine, as I think I told you previously, is exactly the opposite. I think the sergeant pretty well disposed of the question of whether the tax would lead people to invest in Government bonds or in speculation. There is not much comparability between the British stock market and ours. However, their market is on a cash basis.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b