DONALD B. LITCHARD
SEVENTY STATE STREET
BOSTON 9, MASS.

CAPITOL 4534

March 10, 1945

My dear Mr Eccles,

In view of your testimony in Congress recently, I thought the enclosed clipping might interest you.

As you will quickly observe, it is based entirely upon Yankee common sense (One does not even need a knowledge of Economic I and II to understand it.

Very truly yours,
Donald B. Litchard.

March 13, 1945.

Mr. Donald B. Litchard,
70 State Street,
Boston 9, Massachusetts.

Dear Mr. Litchard:

This is to acknowledge your letter of March 10 enclosing the copy of Mr. Edson B. Smith's column which is, to my mind, a temperate and intelligent discussion, though I do not agree with him that either the special wartime capital gains tax, which I proposed, or the alternative extension of the holding period to two or three years would, as Mr. Smith believes, deter selling more than it would deter buying. The impact would be on the speculative buyer, which is exactly where it is intended to be by such a proposal.

Judging by the outcry from certain financial quarters against closing the capital gains tax loophole, the speculators who are profiting so much because of it would not agree with Mr. Smith that the proposals would increase prices. On the contrary, they complain bitterly because they believe the tax would be all too effective in halting instead of accelerating a further upward trend of prices. If I were a holder of either stocks or real estate who hoped to make a speculative profit and knew that the loophole was not going to be closed, I would hold on, expecting the market to continue upward. On the other hand, if I knew the tax was going to apply, I would be inclined to get out now. So, I think the argument about the selling just isn't so.

We had a so-called "free market" and a very low capital gains tax in the late 20's. If the argument now being made by the opponents of a wartime capital gains tax were valid, it is remarkable that the market of the late 20's kept going on up and up until the bubble finally burst. In fact, historically in every movement of any consequence in the stock market volume and prices have gone up and down together.

Of course, what the brokerage community always wants and lives on is a high rate of activity, whether on the up or down side of the market. As the magazine Fortune so cogently points out in its March issue, "The idea of guaranteed prosperity may not be so good to a man selling stocks . . . . The great majority of Wall Street people live on securities trading. The trading setup depends on volume, volume depends on the prospects of a market rise, and a market rise worth anything must be preceded and followed by a fall. No matter how much Wall Street suffers in depressions, in a sense it also depends on depressions. If the economy can be rigged to eliminate or cushion depressions, there will be less room for securities to fluctuate."

The most that can be said for Mr. Smith's typical Wall Street objections is that if there were only a small volume of buying and selling, the market might be uncertain. However, there could be no dangerous speculative inflationary upswing, and that is precisely what the proposals are intended to prevent. It is, of course, quite understandable why the brokerage community objects, but it is also reassuring to find so much support outside of Wall Street for a protective measure that will make possible holding the line against inflationary forces as long as they threaten the economy. You cannot have capital values going through the ceiling and hope to hold the line on the wage and price front generally.

I enclose a copy of a statement in which you may be interested since it indicates that my purpose is far from being destructive as Mr. Smith assumes, but is intended to be a protection against another disastrous inflation and the inevitable aftermath of ruinous consequences.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b