

MAX GORDON
149 WEST 45TH STREET
LYCEUM THEATRE BUILDING
NEW YORK

WISCONSIN 7-4264

CABLE: MAXGORD

March 12, 1945

My dear Mr. Eccles:

I produce plays, and make no pretense at understanding finance.

However, it just seems to me that the "Little Fellow," whom you have been trying to protect, is gradually being put in bondage. Take a man earning \$10,000. a year. After he pays his taxes and his living expenses, he may have something left for investment. If he invests in the stock of a good company or in a piece of real estate and can retain 75% of his profits, there may be some chance for this man to earn some money that will give him something for his old age.

If your plan works out and stocks and real estate can only be bought with cash, those who are now rich will own all the stocks and all the real estate. If you force a man of modest means to put up all the cash for stocks or real estate, you may put him in a position of not having anything left for his necessities.

I see monopolies growing stronger all the time; and I don't see how anybody can ever earn enough money or store up enough money to oppose them.

The next time I produce a play in Washington, I will try to arrange an appointment to see you. I have some definite and concrete examples in the show business to bring home my point about monopolies, etc.

Yours very sincerely,



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

MG:A

March 19, 1945.

Mr. Max Gordon,
1149 West 45th Street,
Lyceum Theatre Building,
New York City.

Dear Mr. Gordon:

In reply to your letter of March 12, I am venturing to enclose a copy of a statement explaining why I proposed a special war-time capital gains tax, and I should be glad to have an opportunity to meet with you and discuss matters you have in mind the next time you have occasion to be in Washington.

As a beneficiary of the private enterprise system, I am all for preserving it, but I recognize that when enterprise was freest and we had very little Federal taxation, the System did not operate to provide security in old age for the great mass of people. To my mind, our Social Security system will mean less, not more, bondage for the little fellow. Aside from its social and humanitarian aspects, it can be a vitally important influence toward economic stability. It was the instability of the so-called free system of enterprise that too often deprived even the most thrifty and prudent of their savings through no fault of their own.

As the enclosed statement will show, I have not proposed putting real estate on a cash basis because it is the unstabilizing influence of speculation in homes, farms, stocks and other capital assets that I would like to see curbed, and I think this particular proposal would do it. It would be highly effective in doing it without interfering with legitimate credit transactions in the real estate field in particular. Nor would the proposal I have in mind prevent the owner of capital assets acquired prior to January 1, 1945, from retaining 75 per cent of his profits. It is aimed at the speculator, not at the bona fide investor.

You will recall that in the Securities and Exchange Act of 1934 the Congress placed upon this Board responsibility for "preventing the excessive use of credit for the purchase or carrying of securities." To this end, the Congress authorized the Board to impose margin requirements and to put the stock market entirely on a cash basis if necessary. It is difficult for me to see any justification for the use of credit in stock market speculation that pro-

*(Subsequent correspondence
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duces no real wealth and contributes nothing to the winning of the war. The use of credit in purchasing a home or a farm is a very different matter.

The relatively "free market" in stocks in the late 20's was accompanied by the greatest monopolistic growth that I suppose this country ever experienced. There were over 1200 mergers involving 4000 companies in the 20's. It was the heyday of holding companies and investment trusts. Of the more than 40 billions of domestic corporate issues floated on the stock market, surprisingly little represented investment in new enterprise. Until the bubble burst, it was wonderful for the Insulls but not very healthy for small business enterprise. Yet we had in those days none of the taxation or other so-called interferences of which we have heard so much complaint.

I appreciate your courtesy in writing, and hope I shall have the opportunity of talking with you at some time in the future.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

 ET:b