

March 21, 1945.

Honorable Harry Flood Byrd,  
United States Senate,  
Washington 25, D. C.

Dear Senator:

I was glad to have the chance to talk with you the other day, and knowing of your interest in the matter, I am venturing to enclose a copy of my statement on the capital gains tax.

The objections, coming chiefly from the financial district, which I have so far seen, narrow down to two points: One, that the tax would tend to freeze the market, and the other that it would deter risk capital in postwar. Neither of these arguments seems valid when compared to the help this tax would be in holding the economic stabilization line. As I stressed in point 6, this is frankly an expedient and, of course, I do not like these direct controls any more than the next fellow. They should be taken off just as soon as inflationary dangers pass.

It is understandable that the brokers who thrive on volume and instability of the market should not like the proposal. I think there is nothing in their argument that it would have the opposite effect from the one intended; that is, that it would tend to freeze the selling of stocks. It would, I hope, chill the speculative fever. If stock and other prices of capital assets were to continue going up with this tax in effect, it is hard to imagine to what levels they would go to without it. So long as the stock market or real estate reflects underlying values and longer-range prospects and prices move upward in an orderly way, there can be no objection. It is the speculative manipulations and gyrations that ought to be stopped, and I think this tax would effectively do it. I have not undertaken to say whether values are too high or too low. The point is that speculative whipping up of prices, such as is invited by the capital gains tax loophole, should be nipped in the bud. It is too bad that this action was not taken sooner. It is too late once the speculators have driven the prices up to the point where the bubble is bound to break, with disastrous consequences to the entire economy. In any case, there could not be any dangerous speculative inflation of capital values if this tax were in effect.

Honorable Harry Flood Byrd - (2)

March 21, 1945

The other objection is that such a tax would deter private enterprise in the postwar. This argument against the capital gains tax in peacetime has been overworked, in my judgment. Anyway, nothing would so help to draw risk capital into new enterprise as to encourage investment in equities, which is preferable to debt forms. This encouragement, in turn, can best be provided (1) by reducing the double taxation of equity capital. I would give a credit to corporations for dividend disbursements, the credit to be 25 per cent or the full amount of the normal corporation tax. As the dividends thus received would be subject to the individual income tax, double taxation should be avoided by giving the 25 per cent credit or exemption to the corporation disbursing the dividends. Such a credit would, on the one hand, be an inducement to the corporation to disburse earnings, and, on the other hand, an inducement to the investor to put his money into equities for the income; (2) by providing an exemption of \$25,000 from the excess profits tax. While this would not matter much so far as the large corporation is concerned, it would be a great boon to the smaller and medium sized concerns.

Instead of having a very low capital gains tax or none at all, it would be far better to retain the tax in such a form as to penalize the speculator, who is thinking in terms of a relatively quick turnover, and thus to encourage the real investor, who is thinking in terms of income or longer-range appreciation, to put his money into equities. The low capital gains tax of the late 20's, far from encouraging venture capital to go into new production, provided a strong incentive to turn instead to making money the easy way in stock market speculation that furnished neither employment nor new wealth. It is upside down now. We have necessarily high wartime surtaxes and excess profits taxes which discourage investment, but a low capital gains tax that encourages the speculator.

If the wartime capital gains tax proposal should be put up to the Congress, I hope you would give it very careful consideration in order to form your own opinion after weighing all of the pros and cons.

With kindest personal regards,

Sincerely yours,

M. S. Eccles,  
Chairman.

Enclosure

ET:b

HARRY FLOOD BYRD, VA., CHAIRMAN  
KENNETH MCKELLAR, TENN.      ARTHUR H. VANDENBERG, MICH.  
CHARLES O. ANDREWS, FLA.      WALLACE H. WHITE, JR., MAINE  
SCOTT W. LUCAS, ILL.            ALEXANDER WILEY, WIS.  
JOHN H. BANKHEAD, ALA.        HENRIK SHIPSTEAD, MINN.  
BURNET R. MAYBANK, S. C.      HARLAN J. BUSHFIELD, S. DAK.  
PETER G. GERRY, R. I.  
THEODORE G. BILBO, MISS.

M. J. MENEFEE, CLERK

# United States Senate

COMMITTEE ON RULES

March 22, 1945 h

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

My dear Marriner:

I have just received and noted with  
the greatest interest your letter, with  
enclosure.

Thanks so much for giving me your  
views respecting this very vital matter.

I am always glad to see or hear from  
you.

With kind regards, I am

Faithfully yours,

A handwritten signature in black ink, appearing to read "Harry Flood Byrd". The signature is fluid and cursive, with a large initial "H" and "B".