(35)

KHA182 LG PD=NEWYORK NY 29 130P

1945 MAR 29 PM 12 35

HON MARRINER ECCLES=

FIRST SECURITY BANK OGDEN UTAH=

REAL ESTATE REPORTER AND BUILDING NEWS MAGAZINE 1674 BROADWAY NYC READ BY 25000 READERS IN REAL ESTATE BANKING AND CONSTRUCTION FIELDS IN NYC GOES TO PRESS SATURDAY MARCH 31ST. RESPECTFULLY REQUEST 500 WORD STATEMENT WIRE LONGRAM COLLECT REGARDING YOUR PROPOSAL TO ESTABLISH SPECIAL WAR TIME CAPITAL GAINS TAX AND PROVISIONS THEREIN APPLYING TO REAL ESTATE FIELD. TAKING LIBERTY OF RESERVING SPACE PENDING YOUR ADVICE WHETHER YOU WILL FAVOR US WITH THIS STATEMENT BY SATURDAY. DEEPEST APPRECIATION=

A COLEMAN BLUM EDITOR.

A CH

1674 25000 31 500.

FEDERAL RESERVE BANK OF SAN FRANCISCO

TELEGRAM

CHARGES

CLASSIFICATION: ( ) FAST MESSAGE ( ) DAY LETTER ( ) NIGHT LETTER

March 29, 1945

File to Elliott Thurston, Assistant to Chairman
Federal Reserve Board
Washington, D. C.

DISPATCH OVER LEASED WIRE UNLESS OTHERWISE INDICATED

Copy

Just received following wire: "Real Estate Reporter and Building News Magazine, 1674 Broadway, New York, read by 25,000 readers in real estate, banking and construction fields in New York goes to press Saturday, March 31, Respectfully request 500 word statement wire longram collect regarding your proposal to establish special wartime capital gains tax and provisions therein applying to real estate field. Taking liberty of reserving space pending your advice whether you will favor us with this statement by Saturday. Deepest appreciation. Signed A. Coleman Blum, Editor." If you think advisable suggest you prepare 500 word statement from press release previously issued. In any case suggest you contact Blum. Regards.

Eccles

Function and Unit Number

AUTHORIZED:

(THIS MUST BE SIGNED)

Mis. 16L (7-42) 2

Form F.R. 218a

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Longram

~~DAY LETTER~~

March 30, 1945

C O L L E C T

A. Coleman Blum, Editor
Real Estate Reporter and
Building News Magazine
1674 Broadway
New York

As a protective measure, like other inflation controls, I have advocated a special wartime capital gains tax to curb speculative activity in real estate, securities and other capital assets.

It would apply only to the sale of capital assets (as defined under the present law) acquired during a period to be fixed by Congress. My suggestion was that this period be from January 1, 1945 until such time as inflationary dangers have passed, which might be two, or possibly three years after the war. This special wartime capital gains tax would not be superimposed upon the existing tax, but would apply only to assets purchased during this period. It would not apply to real estate, stocks or other assets acquired at any time prior to January 1, 1945. These assets, if sold, would continue to be subject to the existing capital gains tax. The special tax would impose a 90 percent rate on capital gains derived from the sale, within two years, of capital assets acquired during the specified period; thereafter it would diminish by 10 percent, or more, annually until equal to the existing rate. Capital losses incurred on transactions subject to the special rate would be deductible against profits.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FILE COPY

Form F.R. 218a

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Prices of homes, farms, business properties and stocks, have increased sharply since this country entered the war. If unchecked, this trend would undermine the entire price and wage stabilization program, with grave consequences to postwar reconversion. It would make a mirage of the hopes of millions of war veterans who are counting on being able to obtain a home, or a farm, or to get started in business when they return from the front. Congress has encouraged this hope in the so-called G. I. Bill of Rights, and by providing dismissal pay and otherwise. Those on the home front have an inescapable obligation to take whatever steps may be necessary to protect the values of homes, farms and other necessities to that they will not be hopelessly out of reach of the veteran's purse. There are no war profits in that purse.

The most serious gap in the line of defense against inflationary forces is the capital gains loophole in the wartime tax structure. Congress has imposed surtax rates up to 90 percent on individual incomes, and excess profits taxes up to 95 percent on operating profits of corporations. No corresponding curb has been put on capital gains, which continue to be subject to prewar rates, with a 25 percent maximum.

Large speculators -- so-called smart money -- are taking more and more advantage of the loophole, and this is a principal factor in bidding up real estate, stocks and other capital values. The special tax would simultaneously reach and discourage all such speculative transactions, whether in homes, farms, stocks or commodities, and whether based upon credit or cash -- and would do so without interference with normal, nonspeculative transactions. If credit restrictions alone were applied, they would not reach cash transactions for

OFFICIAL BUSINESS
CHARGE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FILE COPY

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

speculative purposes and would interfere with legitimate, nonspeculative credit transactions.

The proposed tax is a wartime expedient, like price, wage and other direct measures of control that deal with effects, not with the causes of inflationary forces resulting from huge deficit financing of the war. Had the public and hence the Congress been willing to deal with inflationary causes, deficit financing would have been held to a minimum by far higher taxes and by far greater economy and efficiency in war expenditures. Since that course has not been followed, the only alternative is to deal with inflationary effects by such expedients as are necessary to hold the line so long as inflationary dangers exist. After reconversion, demand, which has so vastly exceeded supply in wartime, should be met by fully employing our manpower and material resources in peacetime production, and creation of further inflationary forces should be ended by greatly reducing public expenditures and by maintaining such taxes as are necessary to bring about a balanced budget.

This general policy now and after the war would be in the long-run interest of the entire real estate industry of the Nation.

Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System.

ET:b

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FILE COPY