

Washington, D.C.

April 6 1945

Hon. Marriner S. Eccles,
Chairman Board Of Governors,
Federal Reserve System,
Washington, D.C.

Sir:

Recently I read with intense interest the comments in your letter to the editor of the Washington Post (published in the March 15th issue of the post) replying to his discussion of your proposal to curb speculation in stocks and real estate. Like you interpreted the editor's remarks as typifying the old familiar wall street argument.

No substantial rise in stock prices ever occurs from investment buying exclusively. Even the professional wall street speculator will admit privately that it takes concerted sponsorship to produce a "bull market". In order for the wall street operators to cash their profits it is necessary for them to unload their holdings on the "suckers" eventually and the larger the public participation the more successful will be this phase of the operation. The usual technique is to stimulate public interest some time before the objective is reached so as to facilitate the unloading process.

For several months past it has been observed from the propaganda emanating from wall street that the professional operators are employing all the tricks of the trade to stimulate public participation in the stock market and in view of the substantial rise in stock prices together with the increasing volume of trading it is evident that they are succeeding. Of the many reasons given in support in support of higher prices inflation and the huge amount of idle cash available for investment are most frequently mentioned. Such publicity is not conducive to the administration's efforts to control prices nor can the employment of the additional personnel necessary to handle the increased volume of trading and the large attendance of customers in the hundreds of board rooms throughout the country be justified during the present emergency.

In an effort to counteract the psychological effect that the proposed curb in speculation might have upon the public and perhaps to forestall such action wall street operators argue that trading in stocks is virtually on a cash basis already. Although it is conceded that loans on stocks may appear small in comparison with the total value of the securities involved I believe the prohibition of margin trading would restrict speculation sufficiently to effect the desired control over the market. This opinion is predicated on the belief that the general public would not enter the market to any considerable extent on a one hundred percent cash basis. Without the assurance of extensive public participation in the market sufficient to enable the wall street operators to unload their stocks it is not likely that they would attempt to bid prices up and run the risk of being unable to cash their profits. I am, however, in favor of any action necessary to curb speculation.

The purchase of stocks for the sole purpose of selling them later at a profit even though the transaction may be on a cash basis is in my opinion gambling just as much as rolling dice or engaging in any other game of chance - the only difference being that the former is not unlawful. In the case of

margin trading not even the guise of investment buying is present. A few months ago it was observed that more than one hundred thousand shares of Graham Paige Motor stock was traded in one day. It certainly can not be successfully argued that this was buying for investment.

In conclusion I desire to state that in my opinion we are fortunate indeed in having a chairman of the board who has courage enough to oppose the wall street speculators.

Yours respectfully

G. B. Vandiver
2025 Eye St. N. W.

April 9, 1945.

Mr. G. B. Vandiver,
2025 Eye Street, Northwest,
Washington, D. C.

Dear Mr. Vandiver:

On behalf of Mr. Eccles who is temporarily out of the city, I wish to thank you for your thoughtful letter of April 6 with regard to the capital gains tax.

It is reassuring and encouraging to have your understanding comment, and I know Mr. Eccles will appreciate seeing it on his return.

Sincerely yours,

Elliott Thurston,
Assistant to the Chairman.

ET:b