

# JAMIESON & COMPANY

MINNEAPOLIS

MEMBERS OF THE NEW YORK STOCK EXCHANGE AND OTHER PRINCIPAL EXCHANGES

ST. PAUL DULUTH FARGO GRAND FORKS SIOUX FALLS

April 11th, 1945

ST. PAUL  
131 ENDICOTT BUILDING  
CEDAR 0721

Honorable Marriner Eccles, Board of Governors  
Federal Reserve System  
Washington 25, D. C.

Dear Sir:

After twenty-five years' experience as an investor, customers' man, manager and, now, partner in a New York Stock Exchange house, I have some ideas on speculating and finance which may be of interest to you.

The chief defect of the capitalistic system is that the people who create capital through saving lose too much of it to others. The violent swings in security prices and the system of marketing, in which salesmen are paid directly or indirectly on a commission basis, tends to centralize security ownership.

The bad features of private ownership of capital could be eliminated if all, or the larger part, of savings went directly into expanding old industries and building new ones, rather than buying over-priced shares from somebody else. This could be quite simply accomplished if every corporation were required to have an unlimited capitalization. Enough stock would be sold directly from the corporation's treasury on the public market; so that the price of the shares could never advance more than 1% in any one month. One-half of the funds so acquired would be available for corporate purposes, while the other half went into a reserve to be used in supporting the shares of that corporation.

With the chance of quick, large, fortuitous profits removed, the public would endeavor to invest their money in those companies and industries useful enough and efficient enough to earn fair returns over a period of years. The security business would devote itself to helping them do that, and the public would be benefited in two ways.

1. Keeping the money they had saved.
2. Putting it to work for the community instead of buying somebody's high-priced shares, who might then build a private yacht with the capital.

A reasonable current income and the chance of 10% or 12% appreciation year after year would be incentive enough for anybody. That, plus the comfort and security of orderly, stable and "safe" markets would, in my opinion, encourage a higher degree of saving and a greater flow of capital into useful industry than ever before.

Under this plan, every corporation whose shares were available to the public would have an unlimited share capitalization authorized and stabilize their own market at all times. The rise in the price would be slow, the decline cushioned

Honorable Marriner Eccles, Board of Governors, Cont'd.

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by the support of the corporation's reserve and investment buying. The S. E. C. could, of course, authorize other share offerings which it considered advisable. Individuals who wished to shoot at larger profits could organize private corporations, whose shares were owned by a small number and were not available to the public. The percentage of rise could be varied as to industries, if the Government found that advisable, or from the 1% per month suggested here.

The great problem of our postwar period will be to attract cash purchasing power into production and away from a scramble for consumer's goods. A rampant bull market would attract the public into securities with disastrous after effects. As one who believes in private capital and free ( but controlled) markets, I think this plan of channeling capital directly into productive enterprises, without a bull market, would be of great long-term benefit to my business and the country.

Yours very truly,

JAMIESON & COMPANY

  
W. G. Kahlert, Resident Partner

WGK/LL

April 19, 1945.

Mr. W. G. Kahlert,  
Resident Partner,  
Jamieson & Company,  
131 Endicott Building,  
St. Paul, Minnesota.

Dear Mr. Kahlert:

Your thoughtful letter of April 11 is particularly appreciated because it reflects a far broader viewpoint and sense of national interest than the great bulk of letters I have received from those in your line of business. I am especially struck with your observations about the desirability of avoiding the violent swings in security prices and the importance of drawing savings into productive enterprise, rather than into bidding up the shares of existing concerns. Likewise, I agree that in the immediate postwar period the problem will be much as you foresee. The various considerations that you mention were in my mind when I first suggested a special wartime capital gains tax as a curb on speculative activity which always has an unstabilizing effect and contributes nothing to productive enterprise. On the contrary, as you are so well aware, it too often leads to disruption of economic progress.

One persistent objection to such a capital gains tax as I have proposed is that it would be a deterrent to venture capital in the postwar period. The more I examine this argument, the more I think it is exactly one hundred per cent wrong. The trouble has been that our tax structure has put a premium on speculation in existing securities and a penalty on investment in productive enterprise. Accordingly, I have contended that it would be far better in the postwar period to reverse this at present upside-down tax structure by:

(1) Reducing the excess profits tax to, say, 75 per cent and giving an exemption of \$25,000 to all concerns. This would mean little to the big established companies, but it would be a tremendous benefit to the smaller enterprises.

(2) Reducing the corporate tax to 25 per cent; that is, eliminating the present 15 per cent surtax and granting an exemption from the 25 per cent tax of all funds paid out in dividends, which would be taxed in the hands of the recipients. This would avoid the highly deterrent effects of double taxation of equity capital.

Mr. W. G. Kahlert (2)

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(3) Retaining a capital gains tax that would deter the speculative element but, on the other hand, would not interfere with the legitimate investor who thinks in terms of income and longer range appreciation.

In my opinion, such a tax structure would be the most effective way of encouraging productive investment and discouraging the kind of speculative operations that occurred in the late 20's, which was the heyday of the holding company, the investment trust, and the other manipulations in stocks of existing companies while at the same time investment funds were discouraged from going into new enterprise.

Again thanking you for your letter, I am

Sincerely yours,

M. S. Eccles,  
Chairman.

ET:b