

UNDER SAME OWNERSHIP
ALCONQUIN HOTEL
CUMBERLAND, MARYLAND

HOTEL CAPE FEAR

WILMINGTON, NORTH CAROLINA

86-25 Dongan Avenue,
Elmhurst, Long Island,
New York.

April 17, 1945.

Honorable Marriner Eccles,
Chairman, Federal Reserve Board,
Washington 25, D.C.

Dear Marriner,

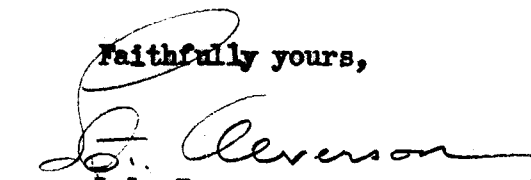
Your testimony before the Senate Banking Committee in February and March, and your statement re proposed tax on speculative profits, were extremely interesting. Come what may, I think we are going to see a great increase in price levels, and that that increase will probably persist at least a generation. Your proposed tax might reach some speculative profits and might reduce Stock Exchange volume, but I do not think it would inhibit the fundamental price rise. Such rise will take place anyhow, it seems to me.

Up-to-date I do not believe stock or real-estate values have really responded to inflationary influences. True, a lot of stocks have gone up, but a lot of them have not. No average shows anything like the 80% you mention. To be sure, prices of small houses have increased 33% to 100%. But apartment houses in New York are still selling, as always, for 6 times gross rents. Rents have not increased due to OPA, but neither has the traditional ratio of capital values to gross income. Hotels can still be purchased at about the same price per furnished bedroom as before the war. Prices of apartments and hotels will undoubtedly increase in response to inflation factors, notwithstanding that gross income is frozen, but the interesting fact is that such prices have not yet increased.

It is too bad someone does not invent a process to produce gold and silver synthetically at about \$1 per ton and thereby stop all this nonsense about metallic reserves. What worries me is that some foreigner may find some such process while we are still buying at high prices.

With kind regards, I am

Faithfully yours,


Lyle T. Alverson.

April 20, 1945.

Mr. Lyle T. Alverson,
86-25 Dongan Avenue,
Elmhurst, Long Island,
New York.

Dear Lyle:

This is to thank you for your letter of April 17. The only purpose, of course, in my proposal, was to put a curb simultaneously on speculation in all kinds of capital assets from homes and farms to stocks. I have not undertaken to say that prices were too high or too low. Insofar as they adjust in an orderly manner to underlying economic factors and prospects, there can be no real objection. What I do object to is the speculative operator who thrives on instability and who contributes nothing to production. The tax I have in mind would rather effectively put him on the sidelines, in my opinion. That is where he certainly belongs in wartime, if not permanently. The legitimate investor, on the other hand, would not be deterred since he is not interested in the relatively quick turnover, but is thinking in terms of income and longer range appreciation.

As I stated in my letter to you of February 27, I had not expected to be questioned on this general subject, and since my suggestion was widely misunderstood, I subsequently issued an explanatory statement, a copy of which I am enclosing in case you might care to take note of it.

You probably have in mind the Dow-Jones index, but the Standard and Poor's, which is based on a far larger and more representative range of industrials and utilities, shows a rise from the low point of 1942 to 88.8 per cent. I know, of course, that the housing picture is spotty, but in any event, the time to prevent an inflation is before it gets too far underway and out of control.

Old fetishes die hard and so I suppose we will continue to have required metallic reserves, though I agree with you that it doesn't make any sense.

With kindest personal regards,

Sincerely yours,

Enclosure