STANDARD & POOR'S CORPORATION
345 HUDSON STREET NEW YORK 14, N. Y.

CHARLES A. SCHMUTZ
EXECUTIVE VICE PRESIDENT

April 23, 1945

Mr. Marriner Eccles, Chairman
Federal Reserve Board
Washington, D. C.

Dear Mr. Eccles:

I am sorry to have missed you when I was in Washington a few weeks ago, but I had a very pleasant and profitable chat with Mr. Thurston, who outlined your position with respect to a tax on speculation profits.

I am enclosing a copy of todays "Outlook", which contains a condensation of the statement you were kind enough to prepare (page 805). We tried to do your statement as full justice as possible in abbreviating it, and hope that the impression it conveys is the one you intended.

I hope that I may have the pleasure of meeting you the next time I am in Washington.

Sincerely yours,

Lewis Schellbach
Managing Editor,
Stock Advisory Services

Lewis Schellbach
pm

April 25, 1945.

Mr. Lewis Schellbach,
Managing Editor,
Stock Advisory Services,
Standard & Poor's Corporation,
345 Hudson Street,
New York 14, New York.

Dear Mr. Schellbach:

Your letter of April 23 and the copy of the "Outlook" are very much appreciated. I realize that your space was very limited and this highly controversial subject of the capital gains tax cannot be disposed of adequately without taking far more space than most publications have available these days.

I shall look forward to seeing you the next time you come to Washington.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b

(Given to Mr Schellbach on 4/5/45

All the objections so far advanced against putting a curb on speculation in homes, farms and stocks through a wartime capital gains tax narrow down to three: First, that it deals with the effects and not the causes of inflation; second, that it would deter selling and thus cause prices to rise; and third, that it would discourage risk capital in the postwar. These objections emanate almost entirely from the stock brokerage community and are quite understandable since the stock broker thrives on volume and instability in the market.

As to one, all price, rationing and other direct measures of control deal with effects and not with causes. The cause of the vast inflationary forces that confront the economy is the huge deficit financing of the war. The only way to deal with causes would be by far higher taxation and by far greater economy and efficiency in war expenditures. Since we, as a Nation, have failed to deal adequately with the causes, there is no alternative except to deal with the effects by direct measures of control if we are to hold the line so long as inflationary dangers exist. After reconversion, demand, which has so greatly exceeded supply in wartime, can and should be met by fully employing our manpower and material resources in peacetime production, and creation of further inflationary forces should be avoided by greatly reducing public expenditures and by maintaining such taxation as is necessary to bring about a balanced budget.

As to two, the outcry from speculators hardly substantiates their claim that the wartime capital gains tax would make prices go still higher. It would hardly deter those who now own capital assets, since Congress is not likely to make the tax retroactive and it thus would not apply except to future buyers. They are the ones who would be deterred, rather than the sellers, unless they were buying for income or long-range appreciation. The speculator looking for the quick turnover would be put on notice that he would have to pay a stiff tax if his speculative venture yielded the relatively quick profit he seeks. That is exactly what the tax is intended to do -- to curb this speculative activity which never adds anything to real wealth by furnishing employment and production, but leads only to market gyrations and instability. It is the speculator operating on cash rather than credit who is a principal factor in bidding up today the prices of farms, homes and business properties as well as securities. People don't have to buy stocks, but they do have to live in houses. Evidence is rapidly accumulating that the returning war veteran, despite the G.I. Bill of Rights, is being thwarted in his hopes of being able to obtain a home or to set himself up in business, because his purse, in which there are no war profits, cannot match the rising prices.

As to three, the tax, like any other inflation control, can be removed when the inflation danger is past and the need for the control no longer exists. The solicitude for new enterprise seems strange coming from certain financial quarters and publications. If they faced the matter realistically, they would favor putting a premium on venture capital invested in enterprise that furnishes production and employment and a penalty on speculative capital concerned only with the quick turnover and profit, either on the upside or downside of the market. What would really encourage risk capital in the post-war would be to reduce the excess profits tax from the present 95 per cent maximum to, possibly, 65 per cent, and to make the corporation tax 25 per cent instead of 40 per cent as it is now. I would then exempt from the 25 per cent corporate tax all profits paid out in dividends, which would be taxed in the hands of the recipients. This would avoid the double taxation that is so great a deterrent to the investor in productive enterprise. At the same time, I would give an exemption of $25,000 to all corporations under the excess profits tax. This would not matter much in the case of a large corporation, but it would be of tremendous benefit to the smaller and medium-sized concerns. Today, when interest rates on fixed income bearing obligations are low and security yields relatively high, there is every inducement for the speculator to take advantage of the capital gains loophole, which is the most serious breach in the line of defense against inflation.

In the late 20's, the capital gains tax was relatively low, as were corporate and individual income taxes, while interest rates were high and security yields comparatively low. Yet, in that period venture capital was lured more and more into buying and bidding up the prices of existing securities of established corporations instead of being drawn, as it should have been, into productive new enterprise. In other words, there was a premium on speculation in existing securities instead of a penalty. There was a penalty on real venture capital instead of a premium. The capital gains tax has had an effect exactly the opposite of that alleged by the speculative community. I have not undertaken to say whether stocks or other capital values were too high or too low. So long as they reflect underlying economic conditions and prospects, there can be no objection to prices adjusting accordingly. What I am against is the unproductive, unstabilizing activity of the speculator in any of these markets. And that is exactly what the wartime capital gains tax which I have suggested would curb.

STANDARD & POOR'S CORPORATION
345 HUDSON STREET · NEW YORK 14, N. Y.

March 19, 1945

Hon. Marriner Eccles, Chairman
Federal Reserve Board
Washington, D. C.

Dear Mr. Eccles:

I am enclosing a copy of this week's "Outlook," which includes a discussion of the pros and cons of controls on speculation. Our views may interest you and, certainly, your reactions would interest us. I wonder if it would be possible to discuss this with you on my next trip to Washington, tentatively scheduled for March 29-31.

Sincerely,

Lewis Schellbach

Managing Editor,
Stock Advisory Services

Lewis L. Schellbach
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Thurs + Friday
Friday night