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THE PENNSYLVANIA COMPANY

FOR INSURANCES ON LIVES AND GRANTING ANNUITIES

MEMBER FEDERAL RESERVE SYSTEM

PHILADELPHIA

WM. FULTON KURTZ
PRESIDENT

May 22, 1945

Mr. M. S. Eccles, Chairman
Board of Governors of the Federal Reserve System
Washington, D. C.

Dear Marriner:

This is a somewhat belated answer to your letter of May 15th, which I have carefully read, together with your statement on the capital gains tax of March 3rd last. What I say here is, of course, purely a matter of personal opinion and represents a general tax philosophy rather than an attempt to formulate a program.

I am not quite in agreement either with you or the Council on the capital gains situation. I do, however, feel very strongly that the present tax structure on capital gains is inadequate and inequitable. Perhaps a few years ago it was necessary to encourage some measure of speculation in order to raise the price level of securities and real estate. That need has certainly passed. I think that both socially and economically it is altogether wrong to have a purely nominal tax on capital gains and a confiscatory tax on earned income. It seems absurd to think that some speculator can make and keep 75% of a completely unproductive profit and end up with more money in the bank than can the head of a great productive business after ten or twenty years of hard, constructive work.

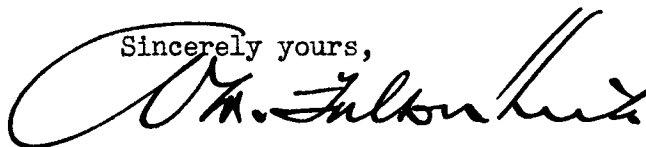
Without really thinking the thing through, I would suggest that the capital gains tax be changed, so that profits arising within twenty-four months would be taxed at at least a 50% rate. I cannot see that this would deter venture capital or new enterprise. Certainly very few people will go into really constructive new enterprise with the idea of any substantial profit for the first two or three years. As you say, the capital gains tax is only one phase of the whole situation. Let the enterpriser, small or large, keep a more reasonable part of his properly earned gains and I think we shall have more business and employment and less speculation. As a banker, I know that broad capital markets are desirable and wholesome. As the same banker, I know that any tax structure designed to favor the speculator is both uneconomic and unwholesome.

I am not close enough to prospective budget needs and other sources of tax revenue to pass judgment upon your corporate tax proposals, but in principle I certainly think you are dead right in your suggestions looking toward the encouragement of risk capital by the reduction of excess profits and surtaxes and by the discouragement of overspeculation through the medium of a more rational capital gains tax.

As this was read back to me, it sounds a bit verbose, but I am sure you can understand my general position on the matter.

With kindest regards, I am

Sincerely yours,



President

May 23, 1945.

Mr. William F. Kurtz, President,
The Pennsylvania Company,
Philadelphia, Pennsylvania.

Dear Bill:

This is just to tell you that I appreciate your taking the trouble to read the letter I sent to the members of the Advisory Council and to give me your views in regard to the capital gains tax. I did not find your letter verbose. It was high statesmanship to me because you come out eventually at the same approximate point that I do.

I think that your suggestion for a 24-month holding period and a tax of at least 50 per cent would probably meet the situation effectively. I purposely suggested the more drastic 90 per cent tax, knowing that Congress would whittle it down if it ever considered it seriously, and likewise I recommended as an alternative a 36-month holding period, being pretty sure that would be pared down to 24 months if it ever got through the Congressional mill.

Most of all, however, I am gratified by the next to your last paragraph since you see this question of venture capital versus speculative operations as I do.

With best regards,

Sincerely yours,

ET:b