



Merchants and Newark Trust Company

Newark, New Jersey

J. S. RIPPEL
Chairman of Board
and President

January 21, 1946.

Hon. Marriner S. Eccles,
Chairman - Board of Governors,
Federal Reserve System,
Washington 25, D.C.

Dear Mr. Eccles:

I notice by the Press - if you were quoted correctly - that there is some thought given again to increasing taxation and to raise either the time limit or making a higher rate of profits taken under the Capital Gains Act.

The time limit would not be objectionable if it was not made longer than one year instead of six months, but it certainly would be a hardship on some of us who have had such tremendous losses in 1929 to pay a higher tax on such gains as we might have made on some things to offset these losses.

Needless to say as you are in the banking business yourself - the losses on bank stocks have been tremendous. In Newark they have declined (most of them without exception) to about 10% of their original price.

About three years ago I got under this market for two reasons - one being, my very large holdings had become depreciated to almost the vanishing point; and second, the bad effect it was having on bank depositors who were inquiring about the stability of banks whose stock was only selling at 5, 10, 20 and in most cases not more than \$30 or \$40 per share.

There is a great deal of talk going on about tremendous earnings in bank stocks, but in the case of our bank, we formerly paid 16% and now are only paying 6% and where our earnings used to run \$500,000 to \$600,000, they are now about \$350,000 to \$400,000.

This is due of course to the much lower rates of interest we are receiving on loans and the fact that our bond issues netting 3% or over are being constantly called and there is no opportunity except when one buys a long bond to get much over 1 - 1 1/2% on the money, and in the case of government bonds we have recently put several million dollars in the 7/8% bonds and on February 1st have two million more coming due which we will probably have to invest in the same manner.

I mention this by reason of the fact that our savings banks which are supposed to be mutual institutions are given exemptions which commercial banks



Net profits
1945 390,000
1944 315,000

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do not have. For instance, they don't pay taxes on the income from their bonds, but the biggest advantage has been from the last few drives where they would take their 2½% bonds selling say around 107-109, dispose of them, then buy the new 2 1/2% in the next drive at par.

This as you know cannot be done in a commercial bank - only to the extent of one-half million dollars regardless of its assets.

The effect of this has been to cause all sorts of extravagance in the way of pension funds, salaries, bonuses and leaving the depositor who is really footing the bill high and dry - still receiving only 1% on his money.

It seems this exemption should either be allowed to commercial banks or else taken from the savings banks who are after all mutual in name only.

Being in the heart of the city, our bank has probably withstood the brunt of cashing the E bonds and Treasury checks. It has gotten so it has become quite a burden to have officers having to constantly OK checks simply by the holder's identifying himself by some social security card or card from his place of employment. I have begun to feel this is too much of a risk and we have seriously thought of cashing checks only for our own customers.

On one Saturday morning, which is supposed to be a dull day in banking, we cashed 400 of these small bonds for holders who brought them in.

There should be inaugurated some way by which these holders will be forced to hold them longer than 60 days. With my experience as a banker, I could write a book on what is causing INFLATION, and it is not because people are spending their money for goods as it is the Government paying them three or four times what they formerly earned and forcing employers to pay double time over 40 hours.

This situation has been particularly true with the Colored people who have no idea of the value of money and some of whom have come up from the South where they have only been earning \$10 per week immediately start in at \$30 or \$40 and with overtime earned \$60 to \$80 - and if a second member in the family secured a job - would probably bring in \$120 per week.

If a good part of this money were saved we would not have this inflationary period which is now going on.

As far as real estate is concerned, I myself purchased a piece down on the street on which my office is located at about 10% of what the company originally paid for the property. If this went up to four times what I paid for it, it still would only be less than half what the company originally paid for it, and this could^{not} be called inflation. What is true in this one case I know has occurred in several instances on property in Newark.

(2/1²/46) This letter was written as you notice about two weeks ago, but I have not changed the date on it.

Sincerely yours,



JSR:D

March 5, 1946.

Mr. J. S. Rippel,
Chairman of Board and President,
Merchants and Newark Trust Company,
Newark, New Jersey.

Dear Mr. Rippel:

Let me say, in reply to your letter on the capital gains tax, that it would be my suggestion that the holding period be extended for at least two years, and preferably three, and that the rate also be increased. I cannot see how that would work any hardship in cases such as you mention because it was not my idea to make this special tax retroactive or applicable in any way to past transactions. To the extent that it would tend to hold down prices, you might not gain as much as would otherwise be the case but, of course, the whole purpose of such a tax would be to eliminate the speculative element and thus dampen down prices while at the same time there would be no reason for the investor who is not buying for the quick turnover to be deterred from buying for income and for the long pull or selling investments acquired in the past.

With regard to bank earnings, for member banks as a whole, of course, the earnings are very high. Preliminary figures for member banks in 1945 indicate that net current earnings and net profits, both in dollar amount and as percentages of total capital accounts, are at their highest point in twenty years. These figures are aggregate, of course, and do not disclose the less favorable experiences of individual banks. I realize the heavy burdens that have been placed on many banks in connection with the cashing of "E" bonds and Treasury checks as well as the increased costs in wages, salaries, etc.

The instance you cite with regard to real estate is certainly not typical of what is happening in the real estate field all over the country, though there doubtless are some exceptional cases where former prices were inflated or other conditions have made the property far less valuable than it once was.

Because of your interest in the subject, I am venturing to enclose a copy of my statement before the House Banking and Currency Committee on the importance of maintaining price controls for at least

Mr. J. S. Rippel - (2)

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another year. This is not, by any means, a book on the subject of inflation, but at least it states in brief my own views on inflation, the causes and the cures.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b

File



Merchants and Newark Trust Company

Newark, New Jersey

J. S. RIPPEL
Chairman of Board
and President

March 27, 1946.

Hon. M. C. Eccles, Chairman,
Board of Governors,
Federal Reserve System,
Washington 25, D.C.

Dear Mr. Eccles:

I have your favor of the 5th instant in answer to my letter of January 21st and will say I was glad to hear that you had no intention of applying the Capital Gains Tax on past transactions but would have it take effect as of the day of the passage of the Act.

I was very much surprised at the statement you made in regard to Current Earnings and Net Profits of banks throughout the country which you stated were the highest in the past twenty years.

In Newark we have two banks that have made rather large profits principally on their trading in Government Bonds. In our institution we have done little or nothing in this line but have held all our bonds as permanent investments.

I read with interest your statement before the Banking and Currency Committee of the House of Representatives and would say I think you bring out very clearly the dangers of inflation.

Frankly, it is very discouraging in the bank to have millions of dollars laying around idle which cannot be used except to purchase Government Bonds - and those at a very low rate.

Of course we are suffering from the effects of high wages paid to certain workers who previously had never earned more than \$20 or \$25 a week and with overtime some of them had made the high scale which I quoted in my letter to you.

I feel a good deal of concern regarding the position of the colored people in particular who have no idea of the value of money and who have received such large sums each week and in a great many cases spent most of their earnings. In time this will cause some dissatisfaction to them as they will have to come down to lower wages.



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I wish we could get back to the 44 or 48 hour a week with no overtime until after 48 hours. I feel, as far as Newark is concerned and which is probably true throughout the country, that a great deal of the dissatisfaction by the workers has been caused by the difference in pay which they had received including overtime and what they are now offered. This has led to a great many strikes throughout the country, retarded business, particularly in industrial centers such as we have in New Jersey.

It is still very difficult in this section to obtain sufficient help in some lines of business in spite of the fact that a great many have left the war plants.

Yours very truly,



JSR:D

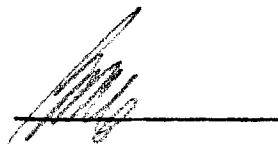
March 4, 1946

To: Mr. Thurston

From: Gerald M. Conkling

I couldn't believe the fifth paragraph, and he must be referring to ancient days because I've looked up the bank's figures back to 1938. Its highest net profits in the last eight years were \$340,000 in 1945 and its net current earnings have been running around \$260,000 in the past three years. Incidentally, this bank hasn't done as well (in terms of ratios to total capital accounts) in recent years as the average of country banks in the New York District; the reason is that its capital structure is higher than the average in relation to total assets. It has been paying 6 per cent on the par value of its capital stock since 1938, but these dividends have been only around $3\frac{1}{3}$ per cent of total capital accounts. In the circumstances, I would gloss over the earnings discussion somewhat as follows:

Although preliminary figures for for member banks in 1945 indicate that net current earnings and net profits, both in dollar amount and as percentages of total capital accounts, are at their highest point in twenty years, it is realized, that these are aggregate figures, and may fail to disclose less favorable experiences of a number of individual banks.



Earnings Data for Merchants and Newark Trust Company

	1938	1939	1940	1941	1942	1943	1944	1945
Net current earnings (in thousands of dollars)	223	259	272	224	231	263	259	262
Net profits	270	252	292	204	197	263	315	340
Dividends paid	150	150	150	150	150	150	150	150
Total capital accounts - end of year	⁴³²⁴ 4434	⁴⁰⁸¹ 4136	⁴²⁰¹ 4278	⁴⁰⁴⁵ 4332	⁴³⁶¹ 4379	4492	4657	⁴⁷⁷⁰ 4847
Common capital stock - "	2500	2500	2500	2500	2500	2500	2500	2500
^{Average} Ratios to Total Capital Accounts (in percent)								
Net current earnings	5.1	6.1	6.5	5.2	^{7.3} 5.5	^{8.4} 5.9	^{9.7} 5.7	^{11.9} 5.5
Net profits	6.1	6.1	6.9	4.7	^{10.9} 4.5	^{12.7} 5.9	^{10.0} 6.9	^{11.2} 7.2
Dividends paid	3.4	3.7	3.6	3.5	3.4	3.4	3.3	3.2
Ratio of dividends to common capital stock	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

^{Average} as shown by call reports during year + end of previous year