

Mr. Musgrave

Check - What  
do you make of  
this proposal?

ET

GEORGE ESTIN  
LONGWOOD TOWERS  
BROOKLINE 46, MASS.

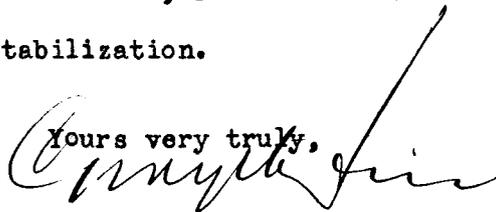
February 18, 1946

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

Sir:-

I am taking herewith the liberty of  
enclosing copy of a letter which I have written  
today to Mr. Chester A. Bowles, Director of the  
Office of Economic Stabilization.

Yours very truly,

A handwritten signature in cursive script, appearing to read "George Estin", written over the typed phrase "Yours very truly,".

March 6, 1946.

Mr. George Estin,  
Longwood Towers,  
Brookline 46, Massachusetts.

Dear Mr. Estin:

Chairman Eccles asked me to thank you for your letter of February 18 and for your courtesy in sending him a copy of the letter you wrote to Mr. Bowles, Director of the Office of Economic Stabilization, on February 18 in regard to the capital gains tax. Mr. Eccles has not proposed so far as he is concerned that the special capital gains tax which he has advocated should be made retroactive for the reasons you mention.

He was interested to note your novel suggestion and has passed it along to our economic staff.

Sincerely yours,

Elliott Thurston,  
Assistant to the Chairman.

ET:b

GE/CMJ 7

February 18, 1946

Mr. Chester A. Bowles, Director  
Office Of Economic Stabilization  
Washington, D. C.

Sir:-

The mail will bring to you daily in times like these so many hundreds of letters that I certainly would not write you if I did not feel that my letter contains a plan which probably could help a little bit in solving the inflation riddle from a certain point. I strongly feel that in a national emergency such as we are passing through right now every faction of economic life should do its utmost in order to help to prevent the inflation danger from becoming a catastrophe.

In that spirit I, as an investment banker, submit my plan after reading the controversy about the stock market in which you and Mr. Schram were involved. Both Mr. Schram and you are right in what you said: it is doubtless true that the rise in the stock market is not causing the inflation but is only a symptom of consequences, but it is in the same degree true -- and I fully agree with you on this point -- that in a country like America the stock market is taken by wide circles as a barometer of public sentiment and continuation of a rise after the last Presidential executive order would spread disastrous implications amongst vast parts of the population.

It is at this point where something has to be done to induce selling in the capital markets, whether stocks, commodities, or real estate, as together with all the actions you probably will be able to perform within the next few critical months it will help to calm down public sentiment.

My plan is simple: the legislators should abolish, for the time being at least, from a certain future date the benefits of the long term capital gain tax so that from this certain future date, whether it would be July 1 or a later date, any income out of capital transactions would be taxed as personal income at the normal income tax rates. The advantage of this plan works in that direction that people would take advantage of the long term capital gain tax through sales until the specific future date and by so doing probably stop the rise which today is based solely on the inflationary feeling. The Treasury would have its tax income in any case unchanged, the Federal Reserve Board would have the advantage that a big part of the outstanding margin position would be liquidated, and people who follow the stock market as a barometer of inflation

Mr. Chester A. Bowles, Director

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sentiment would be calmed down.

The long term capital gain tax was established mainly to help development of the spirit of enterprise; I feel, however, that in times like today where the government takes over more or less the whole economic life again, under a national emergency, it is important to try a certain flexibility in the tax laws too. If the change of the tax law would be made retroactive, it would have no effect at all because people simply would not sell. If they, however, will see that for a while until the specified future date they still have the advantage of the existent tax law, it could possibly break the backbones of the inflationary spirit of the market today.

Whether our legislators have reason not to adopt the plan today, I do not know; I know, however, that my plan is very simple and could achieve what so many measures in the past have not achieved.

May I add that this plan is not submitted out of any selfish reason; it is borne out of the danger through which we all have to pass now and where we all should forego benefits which we may or may not have enjoyed in the past in order to solve the present critical problem.

Whenever the time will be right to free business from all the governmental control which was re-enacted in these last days and to bolster private spirit of enterprise, the legislators are free to return to re-establishing a long term capital gain tax (which, if business really should be helped in normal times, should perhaps be lower than it has been up till now). -It may be that speaking only by an authoritative government or legislative representative of intentions of abolishing the long term capital gain tax in the future may have the same effect to achieve a quieting down of the capital markets, and I strongly feel that this sword of Damocles at least should be used to achieve this purpose.

Copies of this letter are being sent to Mr. Fred M. Vinson, Secretary of the Treasury; to Mr. Marriner S. Eccles, head of the Federal Reserve Board; and to Senator Walter F. George.

Yours very truly,

GEORGE EASTMAN

Received  
Chairman's Office

FEB 10 1946

Board of Governors  
of the  
Federal Reserve System

Form F. R. 511

TO Mr. Conkling

FROM Mr. Thurston

REMARKS:

3/1/46

In accordance with our telephone conversation. You do not need to bother about the capital gains tax argument as I think I can handle that one.



E.T.

CHAIRMAN'S OFFICE

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date March 5, 1946

To Mr. Thurston

Subject: Letter by George Estin

From Richard A. Musgrave R.A.M.

Mr. Estin proposes to stop the upsurge in the stock market by tightening the taxation of capital gains. He would, for the emergency period, discontinue the preferential rate and treat capital gains as other income. The special feature of this plan is that he would not discard the preferential rate immediately, but announce the intention to discard it as of, say, July 1. He thinks that this would induce selling in the interim period (to take advantage of the preferential rate while it lasts), and thus easen the market immediately.

I am attaching draft of a letter for the Chairman's signature if he want to reply personally.

Attachments

*R.A.M.*