NEW YORK STOCK EXCHANGE
ELEVEN WALL STREET

NEW YORK 5, N.Y.

January 23, 1964

The President
The White House
Washington 25, D.C.

Dear Mr. President:

I am ever so grateful to you for your recent letter and for the generous hospitality you extended to the members of the Business Council. It was a great pleasure also to have an opportunity to have a little chat with Mrs. Johnson before we went to dinner.

I have been in touch with Mr. Kenneth O'Donnell asking that sometime at your convenience I have the opportunity to bring our Chairman and Vice Chairman down to pay the official respects of the Stock Exchange community. Under the Securities Act of 1934, the President has the power, upon the recommendation of the S.E.C., to close the Exchange, and I would like to tell you at first hand what the Exchange does to try to make it unnecessary that you should ever be called upon to exercise this power. Also we would like to reiterate the confidence in you that has already been expressed not only by us, but also by the mass of the American people, as is evidenced by the upward "Johnson market" since November 26, 1963.

Pursuant to your suggestion that I get in touch with you about any important matters affecting our industry, I would like to call to your attention our deep concern over the recent changes in capital gains and dividend taxation voted by the Senate Finance Committee.

On January 21st, the Committee deleted long overdue relief provided capital gains in the bill passed by the House. This relief would have reduced the inclusion rate for capital gains from 50% to 40%, permitted the carryover of capital losses indefinitely and redefined capital assets eligible for the lower rates. It would have also provided the Treasury with increased revenue. More important, these provisions would have been a first step in eliminating a tax harmful to the creation of capital and liquidity in the capital markets. It would be extremely disappointing to suppliers of capital if the first realistic approach to capital gains taxation since 1942 were forfeited.

The treasury in testifying before the Ways and Means Committee proposed a reduction in the inclusion rate from 50% to 30% and unlimited carryover of losses. The Treasury's proposal was backed up by its concern that:

> “The proposals with respect to capital gains taxation are designed to improve the fairness of the tax system and promote economic growth . . . the comparatively high tax rates on capital gains were intended for an earlier wartime period and are inappropriate today because they tend to retard capital formation and mobility.”

In my testimony before the same committee, I supported these provisions for much the same reasons. It seems illogical to me to disregard the obvious advantages of this provision because death taxes -- a separate and complex consideration -- are not revised simultaneously.

While deleting the capital gains provisions of the House passed bill, the Finance Committee failed to reinstate the 4% credit now permitted dividend recipients. The 4% credit was enacted in 1954 to eliminate in a small way the inequitable double tax on dividends. This relief has been an important factor in the growth of shareowners from 7 1/2 million in 1954 to something over 17 million today, thus increasing the reservoir of funds for new and expanding companies.

I feel strongly that withdrawing lower capital gains taxes and eliminating the 4% credit will retard incentives to investment and economic growth. Moreover, if we are going to reduce the heavy tax burden now carried by capital it must be now. We cannot afford to let another decade lapse before Congress again turns its attention to major tax legislation. Therefore I urge you to encourage the conferees of both houses at least to adopt the capital gains proposals passed by the House.

This reaction expresses the concern felt by the entire securities industry. The disappointment is due primarily to the impeding effect these measures will have on economic growth. At a time when our economy is operating below its full potential and unemployment remains high, it is imperative to provide the maximum stimulus to capital investment. In this regard, the tax changes voted by the Finance Committee would be self-defeating.

Very respectfully yours,

G. Keith Funston