

TO Mr. Cheadle

FROM Gov. Eccles

Monday, Dec. 4, 1950.

REMARKS:

Upon my return from the West I found that Mr. Keyserling had sent me a copy of his address made before the Herald Tribune Forum on October 23. I wish you would read it over and send me a memorandum of your comments so that I may drop him a letter.

Thanks you.

M.S.E.

GOVERNOR ECCLES' OFFICE



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date \_\_\_\_\_

To Governor Eccles

From Shaw

**MESSAGE:**

I think this is a most  
unfortunate speech as  
you will gather from the  
comments.

Wlh

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Message delivered by \_\_\_\_\_

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date December 12, 1950

To Governor Eccles

Subject: \_\_\_\_\_

From Messrs. Cheadle and Anderson

This speech sets out the problem which confronts America with the growing intensification of the challenge to the free world. In spite of the difficulties which must be overcome, Mr. Keyserling feels we can be optimistic because of the tremendous industrial production potential we possess. To bring this potential to realization, however, a clear outline of the task should be presented so that each group will know how its effort is required to insure success.

The problem which America faces is the necessity of increasing its military preparedness. This could be done by diverting to military uses some of the production now going into consumption. However, Mr. Keyserling believes that much of this can be accomplished by adding to production. In this way, America can enter into a long period of building up our military strength while at the same time maintaining a satisfactory standard of consumption.

The fact that the length of the road to be traveled is uncertain makes inappropriate the World War II approach of a huge immediate conversion from peace to wartime production. "Too much too soon" is likely to hurt the enduring powers of our economy. Imposing all of our wartime controls now would get the military and the economic program out of balance. Although additional controls will be needed, it must be kept in mind that the expansion of production is the goal to which we aspire.

Wage and price controls are cumbersome, complex, and difficult and if other controls are wisely administered, these may not be necessary. The financial aspects of these other controls include substantial tax increases and unstinting support to the Treasury Savings Bond campaign." ... (inflation) is for everybody the worst and most dangerous way of carrying the burden."

But economic controls can go too far. "Economic controls should be used as aids to needed types of production rather than to embarrass such production or in lieu of productive effort. For example, taxation high enough to combat inflation should not lead to taxation which dampens necessary production. Credit controls to cut back on nonessentials should not shut off funds for the kinds of expansion we need."

Mr. Keyserling feels that in spite of the difficulties that will be encountered, we can face the future with optimism because we can be confident that the challenge of increased production will be met, once all segments of the nation clearly realize what is required.

An affirmative goal of increased production will have the following benefits:

(1) It would confront the dictators with the weapons America uses best.

(2) It provides a framework of understanding and cooperation to management, labor, agriculture and government.

(3) It focuses attention on what we can do rather than on what we must do without.

(4) It provides a positive end and thus gives an incentive for the needed effort.

(5) It will have a favorable effect on dissuading aggression.

(6) It will hearten the other free peoples of the world to greater effort.

The critical evaluation of this statement by Mr. Keyserling can well begin with a commendation for the presentation of a basis for optimism. Furthermore, the program which must be undertaken should be clearly outlined to the end that each segment of the economy shall know its own responsibilities and the manner in which these fit into the goals of the economy as a whole.

However, Mr. Keyserling, is, by implication, at least, very nearly complacent with respect to the inflationary dangers confronting the economy. Such statements as "... taxation high enough to combat inflation should not lead to taxation which dampens necessary production" certainly give the wrong impression as to the nature of the problem as it appears to most people. A lack of funds or of reasonable profits in the areas of "necessary production" has never been the problem in times such as these. Furthermore, such statements strengthen the hands of those who, for their own good reasons, greet every proposal for increased taxes with "incentive" arguments. One would suppose that Mr. Keyserling would be more disposed to emphasize the "incentive" of "life or death" as sufficient inducement for all segments of the economy to bear such burdens as appears obvious in the public interest.

To: Governor Eccles

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Statements such as "credit controls to cut back on non-essentials should not shut off funds for the kinds of expansion that we need" further demonstrate the complacency mentioned above. Mr. Keyserling does not appear to understand that almost 15,000 unit banks with probably twice as many lending officers probably have this many different ideas as to what constitutes necessary "expansion". If such lending officers were to read Mr. Keyserling's optimistic statement they would find little "incentive" for restricting credit.

As indicated in the opening paragraphs of this memo the basis for Mr. Keyserling's optimism is our potential for increased production. This potential is roughly measurable, says Mr. Keyserling, by the percentage increase in production between 1939 and 1945. Since the starting points of 1939 and mid-1950 are about as different as two base years could be with regard to all the pertinent conditions there seems little point in dwelling on this unfortunate comparison.

WLL  
PdH