

December 15, 1950.

Mr. Leon H. Keyserling, Chairman,  
Council of Economic Advisers,  
Washington, D. C.

Dear Leon:

I regret the delay in acknowledging receipt of your speech before the Herald Tribune Forum. I have been in the West for some weeks and have only recently returned to Washington.

Everyone will agree, I think, with the general proposition advanced in your speech that the volume and quality of our productive capacity is our greatest hope for peace and in the event of war, of victory over the enemy. I find myself particularly agreeable to the setting-up of goals and a clear outline of the job ahead so that each group will know in what ways its effort is required to insure success.

I suspect that subsequent events which now emphasize more the urgency of the task before us would call for some revisions if the speech were to be given today instead of a month and a half ago. There seems to be little question that our capacity for increasing production is far too limited in the short run to meet increased military requirements without rather severe cut-backs on production of civilian durable goods. In this connection it seems to me that it is unrealistic to hope for anything like the rate of increased production from 1939 to 1944 in the five years to come. Nearly every pertinent factor to increasing the rate of production is different in 1950 from those obtaining in 1939. It is well to remember, too, that the increase in production in these earlier years was measured in tanks, ships, planes and guns rather than consumer durable goods. I think that there is greater danger involved in overestimating our production potential than in underestimating it -- particularly with reference to the effect on the potential supply of civilian goods.

As you know, I have advocated in the past strong doses of fiscal and credit medicine in times like these since any other anti-inflationary action possible deals with effects rather than causes. In a recent article in Fortune magazine I advocated increased taxes now including increases in the normal taxes on corporations as well as

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imposition of a tax on excess profits. I am aware of the economic arguments against excess profits taxes but I am more impressed with the need to get taxes where the money is and the "incentive" to survive in a "life or death" struggle than I am of the "incentive" provided by profits.

I should like to have had your statement that "credit controls to cut back on nonessentials should not shut off funds for the kind of expansion we need" elaborated somewhat. There seems to be a failure to recognize that a dollar created for defense production does not have a string tied to it and can be used many times and for any purpose after it gets into the spending stream. Additional easy and guaranteed credit is not essential for defense production. The credit and working capital being used by businesses under the present conditions of full employment should be transferred to defense production from civilian production as it is cut back.

Very truly yours,

(Signed) M. S. Eccles

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